Health Costs Study Shows Wasted Costs

A study by Allen Sager, Ph.D., and Deborah Socolar, MPH, directors of Health Reform Program, Boston University School of Public Health, showed that health care costs in this country are increasing at an unsustainable level and will consume nearly one-third of the nation's projected growth. If health care spending in the last five years grew only as fast as the nation as a whole, the U.S. would have saved $280 billion in 2005, and $1 trillion in five years.

The study concluded that doctors are the key to cutting costs because their decisions control 87% of personal health spending. One-half of health spending goes to clinical and administrative waste, excess prices and theft.

In 2002, U.S. health spending per person was 2.1 times the average in Canada, France, Germany, Italy, Japan, and the United Kingdom, all of which nations have greater elderly shares which cover their people much better than in the U.S. Health care quality seems to be higher in most industrialized nations.

The fastest rising category spending in 2003 was "program administration and net cost of private insurance." This means that the most egregious elements of the health care bill are insurance industry profits along with the cost of administering public and private coverage. These costs increased to 119.7 billion in 2003, a rise of 13.2% from 2002, while spending on personal health care rose by 7.3%. Expenditures for insurance administration and profit thus rose 80% faster in 2003 than spending on actual care. Further, over the decade from 1993 to 2003, while personal health care spending rose by 86%, program administration and the net cost of private insurance rose by 125 percent. This spending has now surpassed annual spending on nursing home care.

It seems as though a major element of unsustainable health care costs are insurance company profits. It is interesting that while most states have cut back on the rights that injured people have, notwithstanding the report of the Institute of Medicine concerning the catastrophic number of preventable medical errors, and while there have been some stirrings about patient safety, there has been virtually no insurance reform in this country.

The spending on retail prescription drugs alone reached 10.7% of national health expenditures, up from 10.3% a year earlier, 7.6% in 1998 and 5.8% in 1993. The total U.S. prescription drug spending, including drug costs in hospitals and nursing homes has quadrupled between 1994 and 2004. Prescription drug spending will double in seven years. Total drug spending would then reach $500 billion in 2011, the year the first baby boomers pass age 65. Total drug spending would then reach 17% of health spending.

According to the Boston University Report, it is very realistic to expect that health spending in 2005 will be about $1.9 trillion. This amounts to $6,477.00 per person.

Dr. Sager and Ms. Socolar contend that one-half of current health spending is wasted, that traditional wholesale costs controls have failed, and that the current crop of market-oriented efforts to de-insure patients and make them pay more out-of-pocket will also fail to squeeze out meaningful shares of this waste." The four most important types of waste in health care are clinical waste, administrative waste, excessive prices, and theft. An example will suffice. If the United States paid Canadian prices for brand name prescription drugs in 2004, some $60 billion would have been saved. The $60 billion would have been recycled to buy brand name drugs for the 70 million Americans that highly lack prescription drug coverage, or the dozens of millions of others with an adequate coverage.

Waste in the form of unnecessary or incompetent clinical service is the most costly type, according to the authors. "It stems from lack of evidence about what care works to diagnose or treat an illness, uneven use of existing evidence, dissemination of inaccurate or misleading information by self-interested parties, incompetence or impairment of a relatively small share of caregivers…"

The report also attacks personal health care accounts, at least implicitly. It is not that the patients are rarely consumers, and forcing them to pay more out-of-pocket constitutes a regressive tax on being sick. The reason why patients are not consumers is that they depend upon doctors for information, inevitably. There is not a free market in exchange of health care consumer services. People go to doctors and hospitals because they are sick, and the ability to shop services is virtually non-existent.

The Boston University study noted that physicians' own incomes represent approximately 21% of personal health care spending. Nevertheless, physician decisions control most of the rest of health care costs. In conclusion, the Boston University study suggests that the goal should be "medical security," which offers to each patient well-justified confidence that he or she will receive needed and effective and competent medical care in a timely manner without having to worry about the bill.

This goal will prove quite elusive.

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