

## The Rising Costs of Health Care

With the new administration's failed initiative to repeal the Affordable Care Act, we have seen a renewed focus on the rising costs of health care. Health insurance premiums have risen 213% from 1999 to 2016 for family coverage purchased through an employer.<sup>1</sup> Wages have risen 60% in that time<sup>2</sup> with inflation rising 44%.<sup>3</sup> While many consumers are aware that medical costs have risen, it is also helpful to examine the underlying trends which contribute to the rise.

Health economists point to several reasons for the rising cost in health care including an aging population, rising pharmaceutical costs, behavioral and lifestyle choices and costs associated with medical malpractice.<sup>4</sup> Rising pharmaceutical costs are driven by increased utilization and newer, higher priced drugs replacing older less expensive drugs. Poor behavioral and lifestyle choices lead to chronic health conditions such as diabetes, cancer and heart disease. Health care providers incur higher costs for malpractice insurance and may order more tests than necessary to avoid litigation. Other factors include technological advances and service provider consolidation.<sup>5</sup> New technologies may offer incremental improvements but carry a much higher price tag. The consolidation of hospitals and physician practices also drives up prices as consumers have less choice in providers.

In addition to these factors, one of the biggest challenges to consumers is price transparency. The cost for a test or procedure can vary greatly depending on the provider and insurer. One study completed by an economist at the University of Notre Dame illustrated the variance in the cost of a mammogram across nine providers in the same geographic area among three insurers. The cost of the mammogram ranged from \$202 to \$882.<sup>6</sup> It is difficult to shop around as the agreed upon reimbursement rate between insurers and providers is not disclosed.

Adding to the problem of rising costs are the difficulties faced by insurers since the enactment of the Affordable Care Act in 2010. Health insurance companies are losing money on policies sold on state exchanges due in part to the combination of the lack of young healthy insureds enrolled and the underestimation of costs associated with those enrollees with pre-existing health conditions. Those who would not qualify for coverage previously are now getting care. As a result, United Health Care and Aetna announced last year they are pulling out of many state health care exchanges.

With all of the uncertainty, Carmichael Hill has compiled a list of suggestions to aid in reducing health care costs:

**Review your plan and stay In Network.** While many patients check to see if their primary doctor is "In Network", they may not be aware that the lab where bloodwork is sent or the other professionals involved in their care (i.e., anesthesiologists and radiologists) are "Out of Network". Additionally, if you are hospitalized, it is important to understand the terms of your stay in the hospital. Find out if you are being admitted or held on observation status. If you are held in the hospital overnight on "observation

1 Kaiser Family Foundation - Employer Benefits Health Survey, September 14<sup>th</sup>, 2016

2 Associated Press, "Why Health Care Eats More Of Your Paycheck Every Year, November 4th, 2016

3 Bureau of Labor Statistics – [www.bls.gov](http://www.bls.gov)

4 National Association of Health Underwriters – Healthcare Cost Drivers White Paper, June 2015

5 Government Finance Review, "What Drives Rising Health Care Costs?" August, 2016

6 American Economic Association "Would price transparency lower health care costs?" February 17, 2017

status”, you will be considered an outpatient and responsible for copays and deductibles, which may be higher than for an inpatient stay. To further control costs, consider indicating in the admitting documents that you will accept financial responsibility for health care providers who are “In Network”. This will lower costs and may give you some leverage when negotiating the bill in the future.<sup>7</sup>

**Compare costs of services for both the mundane and more complex medical procedures.** Obtain the CPT code (current procedural code) for a particular procedure. The CPT code is a five digit billing code used to bill the procedure. Using this code, you can contact multiple medical centers to compare prices for the procedure. While it may take some persistence, contact a facility’s billing department to ask what the doctor’s rates are. Check state sponsored hospital web sites for pricing information on common procedures as well as insurance company sites. If you are paying cash, Medibid.com and HealthcareBlueBook.com help compare the prices for services in your area. While not publicized, some providers offer a prompt pay discount.<sup>8</sup>

**Take advantage of Health Savings Accounts (HSA’s) offered by your employer or on your own if you qualify.** HSA’s can be used for immediate medical needs but can also be utilized for additional retirement savings. Earnings on assets are tax deferred and HSA owners can access their account tax and penalty free to pay for qualified medical expenses at any time, including after they retire and are no longer making contributions. While health insurance premiums are not considered qualified medical expenses, after age 65 and enrolled in Medicare, certain types of Medicare premiums can be paid with HSA distributions tax free. While there is a 20% penalty for funds not taken for Qualified Medical Expenses up to age 65, distributions from HSA accounts for individuals age 65 or over may be taken for any reason penalty free. Note that there are special rules regarding contributions to the HSA at 65 and their integration with Social Security benefits.

**Contact your state’s health insurance assistance program (SHIP).** These programs offer retirees one on one help free of charge in evaluating Medicare options. You can find information about your state’s health Insurance assistance program at [www.seniorsresourceguide.com](http://www.seniorsresourceguide.com).

**Become familiar with the Medicare system and the deadline for enrollment.** If you sign up late, you may face lifetime penalties including higher premiums for life on both medical care and drugs. Determine if the original Medicare Part A, B, D and a supplemental Medigap policy would suit your needs and if you can save money by opting to go with a Medicare Advantage Network. Medicare gives you the option to change both health and drug plans each year during open enrollment from October 15<sup>th</sup> to December 7<sup>th</sup>. Premium costs and covered drugs often change from year to year. Review your plan during open enrollment to see if you are still in the most optimal plan for your needs. Check to see if drugs you utilize are still on the plan’s list of covered drugs as well as whether your preferred pharmacy network has changed.<sup>9</sup>

Carmichael Hill recommends incorporating an analysis of insurance and long term care costs into your financial plan. Please contact us if you would like assistance with this process.

Susan Victory, CFP®

7 Market Watch: “5 ways to protect yourself from outrageous hospital bills”, April 15<sup>th</sup> 2017

8 Bankrate.com - 10 ways to save on health care costs

9 Money - Master the Medicare Maze, September 2016