$341,000 for back surgery? You've got to be kidding me!

By: David Leo, President of Western Mutual Insurance® & WMI TPA®

As the health care debate heats up, the target on the backs of health insurance companies is getting bigger. Politicians blame insurance companies for failing to make health insurance coverage affordable. Doctors and hospitals blame insurance companies for limiting their reimbursement, making them "jump through hoops" to get paid, and interfering with their right to practice medicine as they see fit. Employers are frustrated with insurance companies because their rates continue to rise by nearly 10% each year and they are continually forced to reduce the benefits they offer their employees. Insureds are upset with insurance companies because their deductibles and the amount they contribute to the premium continues to outpace their earnings.

Before jumping on the "I hate health insurance companies" bandwagon, please take a moment to read this article. I hope it will give you a different perspective on this burgeoning problem in America and that it might focus the debate to where it should be (*i.e.*, making health care affordable). Only then will we be able to work toward a meaningful and long-lasting solution to our country's health care crisis.

To quote a phrase from a *Wall Street Journal* op-ed piece I read a couple months ago, "Health insurance is expensive because health care is expensive."[1] While this may overstate the obvious, it highlights a critical concept that is far too often lost in the anti-insurance company rhetoric we hear daily: it is the cost of health *care* that drives health insurance *premiums*.

Health care costs and health insurance premiums are inextricably linked and directly proportional. Nonetheless, far too many proposed solutions to the health care crisis focus solely on making health insurance more affordable without addressing the underlying factor that is driving the cost of the health insurance. Unless and until the cost of health care is brought under control, health insurance premiums will simply continue to reflect medical costs that are rising at a rate that far exceeds the consumer price index ("CPI"). Ultimately, insurance companies have no choice but to pass this high medical inflation on to employers.

A recent article in the Journal of American Medicine accurately summarized the problem of skyrocketing health insurance premiums by borrowing a catchphrase from political consultant James Carville. That article (which incidentally was written by a medical doctor), pointedly identified the problem with the American health care system as uncontrolled health care costs and it likened efforts to control health insurance premiums without controlling underlying medical costs as treating a fever without addressing the underlying causal infection. The author's conclusion: "It's health care costs, stupid."[2]

To put this into a perspective that is close to home, I would like to offer a few real examples I have come across here at WMI over the past few months. These are either actual claims received at WMI or advanced notifications I have received regarding new

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[1] Sally C. Pipes, *Wall Street Journal.* "Hillary Care – The Preview." October 12, 2007.

[2] Ezekiel J. Emanuel, MD, PhD, *Journal of American Medicine Association*. "The Cost-Coverage Trade-off. "It's Health Care Costs, Stupid." February 27, 2008.

pharmaceutical treatments. They highlight what I believe to be the root of the health care crisis in America: out of control and unregulated medical costs.

- In December 2007, WMI received a bill from a hospital in Las Vegas, Nevada for a back surgery on one of our insureds. This bill included a 3-day hospital stay, after which time our insured was discharged to his own care. The total amount of the hospital bill was $291,000! That amount included $230,000 for "implant charges." We later discovered the actual cost to the hospital for the implanted items was only $34,643 and the nearly $195,000 difference was some sort of "handling fee." As if that wasn't enough, the physician's bill was an additional $50,000.

- In August 2007, Questcor Pharmaceuticals remarketed a <u>1952</u> drug called H.P. Acthar Gel for a new FDA-approved therapy. Overnight, the price of the drug went from $2,063 to $29,086 per dose because the company felt the new price was more in line with the price of similar medications on the market. This overnight price shift increased the anticipated treatment cost for someone who is unfortunate enough to need this medicine from approximately $6,000 to between $80,000 - $100,000.[3]

- In February 2008, one of our insureds was billed $41,976 for an air ambulance transportation of 180 miles. That's $233 per mile! By comparison, a transport from Salt Lake City, Utah to Cedar City, Utah, a distance of 252 miles, would have only cost approximately $10,000, or $39.68 per mile, on a *Life Flight* air ambulance.

- In March 2008, Regeneron Pharmaceuticals launched the drug Arcalyst for the treatment of rare auto-inflammatory conditions in adults and children. The annual cost for this drug is $250,000 per year.[4]

- In January 2008, WMI received a claim on an insured who underwent back surgery with a 7-day hospitalization at a well-known hospital in Texas. The total amount for the hospital and physician charges was in excess of $277,000.

These are only a few examples of the many claims we receive daily that cause me grief, but they highlight the outrageous charges for certain medical procedures and treatments. Frustratingly, when the referenced hospitals were approached about these absurd billing levels, their general response was that they are free to bill whatever they want. Unfortunately, their naïve view of how far they can stretch the health care financing system is creating a perfect storm where unless something is done to bring medical costs more in line with what employees, employers and insurance companies can afford to pay, the current health care system will reach an unsustainable point and it will collapse. In fact, health care spending currently accounts for 16.3% of the gross domestic product ("GDP").[5] If this amount continues to rise, at some point, the United States will have no alternative but to scrap the employer-based health care system and follow in the footsteps of other countries that have moved toward a single payer health care system run by the government.

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[3] *Caremark Specialty Pharmacy Services*. Specialty TrendsRx Availability Alert (H.P. Acthar Gel). September 2007.
[4] *Caremark Specialty Pharmacy Services*. Specialty TrendsRx Availability Alert (Arcalyst). March 2007.
[5] *MedHeadlines.com*. Health Care 16.3% of GDP and Climbing. February 26, 2008.

Without being an apologist for the insurance industry, I feel compelled to respond to those who argue that the world would be a better place if health insurance companies were gone. A recent review of annual financial statements of Utah domestic health insurance companies revealed that in 2007, the insurance companies reported a cumulative underwriting gain of 2.47% of revenue. When investment income is included in this calculation, the amount is increased to a whopping 4.15% of revenue. This data is supported by a recent study by *PriceWaterhouseCoopers* ("PwC") that found that health plan profits represent three cents of the premium dollar.[6] These hardly enviable profit margins help illustrate that the double-digit premium increases that are being passed along to employers year after year are simply a pass through of uncontrolled medical costs.

According to the PwC study, the average overhead load insurance companies charge on top of actual claims costs is 14%. This percentage, which has been relatively stable for years, is used to pay for consumer services, provider support, marketing, and administration. It also includes the 3% profit margin insurers strive to attain. Since medical insurance premiums increased an average of nearly 11% per year from 2001-2006,[7] and insurance company overhead has remained relatively constant during that time period, the premium increases must be going somewhere. That "somewhere" is to cover rising medical costs.

It is my belief that unless we find a way to disinflate the health care system to a level that is more in line with the CPI, we will never find a way to solve the health care crisis in America. All we will do is continue to dance around the financing mechanism of health care without solving the problem. In other words, unless we gain control over double-digit medical inflation, we will never be able to control health insurance premiums and we will continue to treat the fever rather than the underlying infection.

If you have any questions about this article or would like to discuss your company's insurance program, please feel free to contact me. If you would like to learn more about WMI's insurance products or would like to apply for insurance with WMI, please contact our Marketing Department. I would also invite you to visit our website at www.westernmutualinsurance.com for other interesting articles and helpful information about group health insurance.

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[6] *PriceWaterhouseCoopers*. "The Factors Fueling Rising Healthcare Costs." January 2006.
[7] *The Kaiser Family Foundation and Health Research and Educational Trust*. "Employer Health Benefits 2006 Annual Survey." September 2006.