Why The US Spends So Much On Health Care Transcript

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Introduction: Why U.S. Healthcare Costs So Much

Healthcare is expensive, both nationally and for us as individuals. $5,000 deductibles, $189,000 outpatient surgery bill. We also spend a lot more than other countries and our health outcomes are just average or below average.

What's going on? Let's find out. Welcome everyone to episode 46. Why the U S spends so much on healthcare. Well, I always begin with why now? Well, friends, family, you, my listeners have shared with me how expensive health insurance has become and how much it costs when you go to see a specialist or you get tests done.

I've had a personal experience with this with a family member who had outpatient cancer surgery and got a bill for $189,000 from the hospital and their monthly therapy for cancer, one of the drugs alone is $12,000 per month.

Well, it turns out for this patient, they have Medicare, the doctor turns out gets paid quite little, and the patient fortunately didn't have to pay very much, but there was sticker shock nonetheless.

How do costs like this occur? Well, let's walk through this in today's episode. But before we dive in, just a little bit about me. My career and my skill set is exactly in this area.

Why This Topic Matters: National, Employer, and Personal Costs

I focused for decades on the evidence for what works, what doesn't work, what does it cost, is it worth the cost? And as I've shared with you, I've published 180 or so peer-reviewed papers on topics like this, on the appropriateness of care, the value of care.

And so I have wrestled with this for a long time. Well, we can't discuss all aspects of healthcare expenditures today. I'm going to touch on a few topics.

Specifically, I want to dive into what are the drivers of spending. And we'll talk about the simple equation, which is it's price times volume. And then we consider administrative overhead.

And I'll explain this a lot. We'll return another episode and talk about drugs, pharmaceuticals and why they seem to be so expensive and whether there's justification for that.

Also, let me know if there are areas that have interest to you in the cost realm. Got a comment from a listener recently who made the point that His YMCA membership, Jerry said, seems like a great value to avoid these costly expenses.

You know, at $800 a year for YMCA and tenfold more for that, for healthcare in general in the United States, it does seem like prevention, like getting exercise through a YMCA, may be a good value.

Well, I know why I'm interested in this topic. It's just been an important part of my career. But why should you care about this topic? And I'll give you sort of three perspectives of why it's important.

On a national level, we spend about $5 trillion on healthcare and that amounts to about 18% of our GDP. So almost one in five dollars of everything we do or spend in the United States goes to healthcare.

And what's perhaps more worrisome than this number is that that amount of expenditures is growing rapidly at about five to eight percent per year. So far faster than our GDP is growing and far faster than inflation.

Now obviously you can't continue to spend more and more and more forever. Now, some would argue, well, yeah, it's a lot of money to spend on healthcare, but that's what wealthy countries do.

They've solved the food problem, they've solved other things related to the cost of clothes or other things. So, of course, we spend more on healthcare because we're a richer country.

U.S. Spending Compared With Other Countries

Well, I don't think that is a complete way out here. We are spending a lot of money. And one of the reasons on a national level, it's really critical that we think about this, is that the Medicare Trust Fund, which will pay for healthcare for most of us when we get to be 65 or older, that trust fund is proposed to go bankrupt in less than 10 years, in about 2033. What does that mean?

Well, if there's no more money in the Medicare Trust Fund, We either have to stop paying for Medicare or paying less benefits, or we have to raise taxes.

And I'm not sure that's necessarily something we want to do. So on a national level, spending this amount of money can be and will be problematic. Okay, let's bring this a little closer to home for your employer.

for a typical family coverage by an employer. So what the employer pays, what the employee pays is about $25,000. As always, I'll give you the links to some of these key studies in the show notes.

And why that $25,000 amount by your employer and yourself is so important because it's a big chunk of your compensation. If healthcare costs continue to go up, your compensation won't go up as much.

If we didn't have to pay quite so much on healthcare costs, then maybe your compensation would be more. Okay, on an individual level, our health insurance costs for us as individuals is going up.

If you're on Obamacare or exchanges in this upcoming year, they're planning on the rising cost of insurance by 15 to 20%. So 15 to 20% more than the year before.

For some, this may be as high as 30%. Well, as many of you know, your deductibles, the amount you have to pay before insurance starts to pay anything has grown over the years and now typically is three to $5,000 before any payments by the insurance company.

It also turns out that the number one cause of bankruptcy in the United States, personal bankruptcy, is healthcare and healthcare expenditures. So we spend a lot, we spend a lot at the national level, we spend a lot at the employer level, and we spend a lot at the individual level.

The Price Problem: High Costs for Services and Providers

Well, let's put this spending in perspective. We in the United States spend more on healthcare per person than any country in the world. On average, we spend about $12,000 per person on the US.

And this is about three times higher than the OECD average, which is about $4,700. Well, OECD is 38 developed countries, big democratic countries around the world.

So it's a good average for what others spend in the world. Our number two competitor, so we spend the most at 12,000 per person. The number two here is Switzerland.

They're at about $7,500. So we spend three times as much as these average in these other countries and our health outcomes aren't so good. Our infant mortality, we're number 33 out of 38. The lower the number, the worse you are.

Of course, you want to be number one. We're number 33. Life expectancy in the US is 32nd out of 38. Our overall life expectancy is about 76 years. In other countries, it's 80. So we are spending a lot more and our health outcomes are not so good for some of these areas.

All right, well, this is the end of part one. I hope I've convinced you we do spend an awful lot on healthcare. Well, part two, why is healthcare so expensive in the United States?

As I mentioned earlier, there's an equation, price times volume. So prices may be too high, or we're doing too much, meaning too much volume or a combination of our prices are high in the United States relative to elsewhere and our volume is high.

But there's one more piece of the puzzle and that's the administrative overhead to run our really complicated convoluted healthcare system. So I want to walk through each of these three, give you some insights there.

All right, so let's just first talk about, is it a price problem? So do we spend so much on healthcare because our prices are high? Well, let me walk through a few examples.

First, CT scans or MRI scans cost a lot more here than in other major countries. One study showed that in the US, a CT scan typically is about $900. In comparison in the Netherlands, it's $279. And in Canada, it's $97. So unbelievable differences in what we spend on some of these imaging studies than elsewhere.

And MRI scans typically cost two to three times in the US what it is elsewhere. All right, second piece of this puzzle, we pay our healthcare professionals a lot more than other countries.

And it's not just doctors, it's doctors and nurses and health executives, primary care doctors, specialists. Let me give you some data because I really believe the price issue is really important to what's going on.

Well, in the United States, a primary care doctor on average makes about $240,000. In the UK, it's half that, $122,000. In Italy, it's $70,000. In Spain, it's $55,000, almost one-fifth of what primary care doctors make in the United States, Mexico.

It's even lower than that. Not just primary care doctors, take a cardiologist. Cardiologists in the U. S., earnings are about 500,000 per year. In the U. K., it's about 140,000, so a three-fold difference.

But it isn't just doctors. We pay our nurses twice as much in the US as in the UK. In the UK, they're paid on average about $38,000. In the US, it's $75,000. But it's not just healthcare professionals that are caring for you.

It's also the hospital CEOs, the insurance company executives, everybody throughout the healthcare system. As an example, hospital CEOs in the US make about $470,000 a year.

The Volume Problem: Overuse, Defensive Medicine, and Patient Demand

In the UK, it's about $130,000. So prices are high in the US. I've given you a couple of reasons why that might be the case. What are the solutions? Well, let me just walk through a couple of them, and they may not necessarily be the solutions you think are the best.

Okay, there in the US is the Medicare Medicaid solution to this problem and that is they pay less. The government essentially sets prices that are paid to doctors and hospitals as part of the Medicare and Medicaid programs.

Let me give you some examples here. Medicare typically pays doctors about 30% less than your Blue Cross commercial insurance. Medicaid pays 30% less than Medicare.

So if you compare Medicaid to commercial insurance, it's a huge reduction. Not just doctors, hospitals, Medicare pays hospitals about half of what insurance companies would typically get in the commercial market for employers or the type of insurance you might have.

Well, that's how the government does it. Well, the saying goes, if you push in a balloon in one area, it's gonna pop out in another. Part of the reason why private insurance is so expensive is that the prices and the private insurance side kind of have to make up for the fact that the government, Medicare and Medicaid, pays doctors and hospitals

so much less.

Now you may have wondered why it is your doctor doesn't have enough time to see you in the office for a visit. On average it's about 17 minutes per office visit.

In part this is because the price paid, the amount paid to the doctor for an office visit is really constrained. As I showed you, Medicare and Medicaid pay a lot less and there are limits to how much a doctor can charge for regular private insurance for an office visit.

Now, in years past, primary care doctors wouldn't just get paid based on office visits, they would also do EKGs, blood tests, maybe x-rays, and they would get money from each of these services that were done in the office.

But nowadays, the doctor really pretty much gets paid based upon the number of patients he or she sees and that's limited based on how many minutes they have to see you.

So our system has been created in such a fashion that oftentimes doctors have to have a lot of visits per day because that's how they're paid and you don't have as much time with your doctor as you might Okay, so our price is high for each service.

And as I mentioned earlier, we pay our doctors and nurses and our healthcare executives more here than other countries. Now you might say that's bad news.

If we only paid half of what we did to nurses or a third of what we do to doctors, we would spend less. But maybe it isn't bad news on that front. because we want the best people to go into healthcare and paying them more is a way of recognizing value.

So maybe paying higher amounts, although it leads to higher expenditures overall, may not be all bad news. Okay, so that's the price side of the equation.

So the way you spend a lot of money is the unit price is high for your MRI scan, your office visit, your surgery, or you're doing too much. So maybe part of our problem is that we do too much.

We're doing too many MRIs, too many people end up in the hospital, too much surgery, too many specialist visits. Well, when researchers have looked at this, the number of hospitalizations in the US is not more than other countries.

Yeah, we may have somewhat more MRI scanners than other countries, but those differences are not huge. So we can't explain why we in the US spend so much simply by we do so much more than other countries.

But there is a piece of the puzzle about doing too much. And a lot of my papers, a lot of my research focused on this. And that is the issue of overuse.

It's been estimated that 25% or more of a test or procedures that we have done on us as patients may be unnecessary. Well, it turns out that number is also true in other countries.

So yes, overuse is an important issue of spending too much in the US, but it doesn't explain the comparison between us and elsewhere. Well, why is there overuse?

Why are there perhaps more tests, more procedures, more visits than are needed? Well, there are a number of important reasons this has been studied a lot by researchers.

First is what's called defensive medicine. We as doctors worry about malpractice. We are really concerned about missing something. And so if you come in with a headache or low back pain, we might be tending to order that scan because we don't want to miss something.

Or if you have chest pain and I'm a primary care doctor, we might feel more comfortable from a malpractice standpoint by having you see the cardiologist.

Secondly, we do too much often because patients expect it. Oh, doctor, I've had this headache. Oh, doctor, I've had this back pain. Can we do a CT or MRI scan?

In episode 12, I talked about to test or not to test, and I get into some of the reasons why we want these tests and why that leads to more of them. As I said, patients demand this.

Now in maybe 20, 30 years ago, the doctor would sit back and say, yeah, I know you would like that, but it's not needed, so we will not order it. Nowadays, Yelp ratings matter.

Other types of ratings of doctors matter. Their bonuses are often partly dependent upon these ratings.

Administrative Overhead and System Complexity

So we don't want to upset patients. So if it seems somewhat reasonable to order some of these tests or do a referral to a specialist, we'll do that rather than say no to the patient and potentially get ratings that aren't good.

The last piece of why we often do too much is there's a saying, if you walk around with a hammer, a whole lot of things begin to look like nails. So if you're somebody that does bypass surgery or does knee arthroscopy, we tend to believe this is a really good thing for patients oftentimes.

And so because we get paid to do more of these, all of a sudden when opportunities arise, we might suggest that to the patient. All right, so we do a lot.

Is there any way to solve the problem, the volume problem? Challenge here is there's no easy way. What do other countries do? Well, some other countries, they have queues.

You wait. In the US, if you want to see your doctor or see a specialist or get an MRI scan or elective surgery, yes, you might have a bit of a wait, but it's not a huge wait.

In Canada's example, it may take three, four, five, six months to have cataract removed, to have knee or hip replacement. It's much less of a weight in the U S.

So that's one solution. Have weights cues. So you don't do quite as much as might be needed or desired. Whereas in the U S that weight is much less. Secondly, we ask our patients to pay more.

I mentioned earlier about the deductibles, $1,000, $3,000, $5,000, which means every time you go to the doctor, get that test, get a procedure, you're paying that first amount of money before the insurance begins to kick in.

Well, back in the 1970s, the Rand Corporation did a huge study, probably the largest social experiment ever done called the health insurance experiment.

What they asked was, if we have different types of insurance, in some cases, care is free for the patient. In some cases, they have to pay a little bit more or a lot more.

And they asked the question, what happens when patients have to pay more? Well, what do they find? They found not surprisingly, when patients had to pay more for each time they went to the doctor or got a drug or got a service that led to lower use, they had to pay more.

They chose not to pay more by not having as much care from their doctor or the healthcare system. The wrinkle here is when patients reduce what they got, they reduce both things that were unnecessary, so that's the good news, but also things that were appropriate for them.

So it was a very blunt way to solve the problem. Well, another way that the healthcare system attempts to reduce the utilization, reduce the volume, is what HMOs sometimes do.

When you go to the doctor, you pay a certain amount, the doctor gets paid for the office visit. That's the typical system. HMOs sometimes do it differently.

Rather than paying the doctor each time you go to see him or her, they pay the doctor a fixed amount per month. So for you as a patient, the doctor might get 15 to $20 a month.

Whether you see the doctor or not, they get the 15 to $20 a month. If you see the doctor three times during the month, they still get that same monthly.

So it changes the incentive from doing more, more, more, to perhaps doing less, less, less, which can lead to a problem of not enough. So this is another way that insurance companies, in this case, the HMOs, may reduce the volume of services.

Fourth one, prior authorization. For those of you who wanted to get an MRI scan or wanted to get surgery, Often your doctor or doctor's office has to get prior authorization, get approval from the insurance company, which takes time.

It's a hassle for lots of different people. Okay. Summing up this section. There are many reasons why utilization is higher, but there doesn't appear to be an easy solution.

So we've talked about price, we've talked about volume. The other piece of the puzzle, and this is really important and helps to explain why we spend more than other countries.

That's the administrative cost. The administrative cost is what is the cost to run our system? So yes, I've talked about the price of an MRI. I've talked about the price that's paid when you go to the doctor or have surgery, but there's also the friction, the amount that we spend to pull everything together.

And I'll explain to you in just a moment what that entails. So we spend, it's been estimated maybe 25% of all healthcare dollars on administrative costs.

That's probably four times what other countries spend on administrative. As you may know in other countries, there's one set of doctors, one set of hospitals.

Those are the only doctors and hospitals that you can see. They predetermined what the payments are. They determine how much drugs are. It's all done without a lot of negotiation.

Maybe there's some negotiation, but the The governments in these other countries define most everything. Well, in the US, that's not what happens. We have choice.

So we get to choose what doctors we want to see. Some of them are within the network, some are not within the network. We have a broad array of medications to choose from and a broad array of hospitals.

Wrap-Up: Key Takeaways and Next Steps

So part of the administrative cost is to set up these networks, which doctors and hospitals are in network and not network. And then the ones that have agreed to be part of the network means that they've accepted the prices that the insurance company will pay them.

In the US, we have a lot of quality assessment and assurance requirements. So there's a lot of paperwork for hospitals and others to monitor aspects of care.

There's the prior authorization I mentioned, there's claims payment, there's marketing. It is the cost of having

choice in our system. Am I saying that the 25% is the right number?

No. But if we want to have choice, be able to choose this insurance company versus another, this plan versus another, that comes with an administrative cost.

Okay, time to wrap up. Another day, we will talk about drugs. And if you have some questions or examples, by all means, let me know. Healthcare is expensive in the US.

We spend more here because we pay our healthcare folks more and we do more than might be necessary. It's also expensive here because we pay to have choice rather than sort of a one size fits all situation and system.

Action item for you. Do you have any spending topics or any topics in general? Action item next. Do tell your friends about the podcast. I love it when I hear new people joining us in the family.

Until next time, I hope we all live long and well, and I hope we can find a way perhaps not to spend quite so much.