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THE RISE OF HEALTHCARE COSTS

We have all experienced the upsurge in healthcare costs and corresponding increases in health insurance premiums. The cost of health insurance in New Jersey is already among the highest in the nation yet all states are affected. As a result, it is becoming more and more difficult for employers to maintain a company sponsored health plan, which has quickly developed into one of the biggest expenditures a business can incur. Since providing benefits is critically important to a business' success, many employers pass on some of the premium cost to their employees so they can continue to sponsor a plan. It also is common for employers to reduce the level of benefits to offset the impact of their annual premium increases.

While no one can control the cost of healthcare and the corresponding insurance premium, it may help to understand the key contributing causes. They are:

Advancements in technology. New, more advanced (and expensive) equipment requires more highly trained (and paid) technicians. The cost of capital to purchase new equipment and the additional labor costs are passed on to the consumer making these claims higher for the insurance companies, who in turn pass on the extra cost to the consumer in higher premiums.

Hospital charges. Hospital expenses are by far the largest driver in health care costs. They are also one of the only service providers in America who are not required to give their customers pricing information in advance. Basically, there is little opportunity to be a "smart shopper".

Prescription drugs. Prescription costs have risen more over the past several years than the other major health spending categories. With fierce competition and great financial incentives to develop new drugs, pharmaceutical companies have increased

their research and development budgets. Factor in FDA approval, manufacturing, advertising and distribution, and it takes years for a drug company to recapture the estimated \$800 million investment to bring one drug to market. And ultimately this is passed on to the consumer.

Malpractice lawsuits. Due to the increase number of malpractice lawsuits, doctors are practicing defensive medicine. Doctors are performing more diagnostic tests to protect themselves from lawsuits. Not too long ago, a \$50 x-ray was sufficient. Today, it is often replaced by both an x-ray and a \$1200 MRI. Increased liability and higher malpractice premiums force doctors to increase their fees. This plus additional tests paid for by the insurance companies contribute to increasing premiums.

Fraud. Fraudulent claims cost the health care system billions of dollars annually.

Inefficient administration. The medical care industry has, for the most part, run on a paper based system. While modern medicine advances with tremendous strides, our nation's health care expenses flows through an overwhelmingly inefficient and fragmented system.

Legislatively mandated benefits. When our legislators enact laws that require insurance companies to cover certain treatments that may have been previously excluded, the expected claims are simply factored in to premiums. Thus, this increases the cost of medical insurance to the consumer.

The Patient Protection and Affordable Care Act (PPACA), commonly referred to as Obamacare. When an insurance company is forced to insure people without any pre-existing exclusions, cover children to age 26, pay for preventive care at 100%, pay many new "taxes", among many other things in this massively complex law, they simply pass on the extra cost to the consumer.

Aging population. We are living longer. As a result, we are utilizing our healthcare longer. Consequently, there is a greater tendency of chronic and more serious conditions. Chronic conditions tend to lead to prescription medications, special treatments and home health care. Serious conditions often lead to surgery and

hospitalization. Insurance companies pay the claims and premiums are increased.

Lifestyle Choices. Poor lifestyle choices such as obesity, smoking, excess alcohol intake and poor cardiovascular conditioning contribute to increased usage and consequently higher premiums.

There is no easy solution to this situation but we can all do our part:

- Lifestyle choices dramatically affect people's well being. Poor health habits are costly, not only to the individual but to the country. It is absolutely proven that people who do not smoke, eat low-fat diets, exercise regularly and limit their alcohol intake live healthier lives. Even if you have neglected your health, it is never too late. Improvements to poor lifestyle habits can reverse certain adverse health conditions. A healthier community means less spent on healthcare hence lower medical premiums.
- Use network participating providers when possible.
- Request generic or preferred drugs as opposed to drugs not listed on the insurance company drug formulary.
- Understand your benefits plan to avoid unnecessary out of pocket costs.
- Get pre-authorization when required (hospitalization, surgery, some advanced imaging, certain medications, etc). Call member services when in doubt.
- Get involved with decisions affecting your healthcare.
- Get annual well care exams. Preventive medicine saves lives and money.
- Question expenses. Report fraud.
- Use urgent care facilities, outpatient surgical centers as opposed to emergency rooms and hospitals when possible.

These are just some of the areas in which we as educated consumers can make a difference.

In 1985, Ed Gaelick CLU, ChFC, established PSI Consultants, LLC, where he specializes in company sponsored employee benefits, business planning and personal insurance. Throughout his career, Ed has received many of the highest professional honors awarded in the insurance industry. He is a sought after speaker.

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