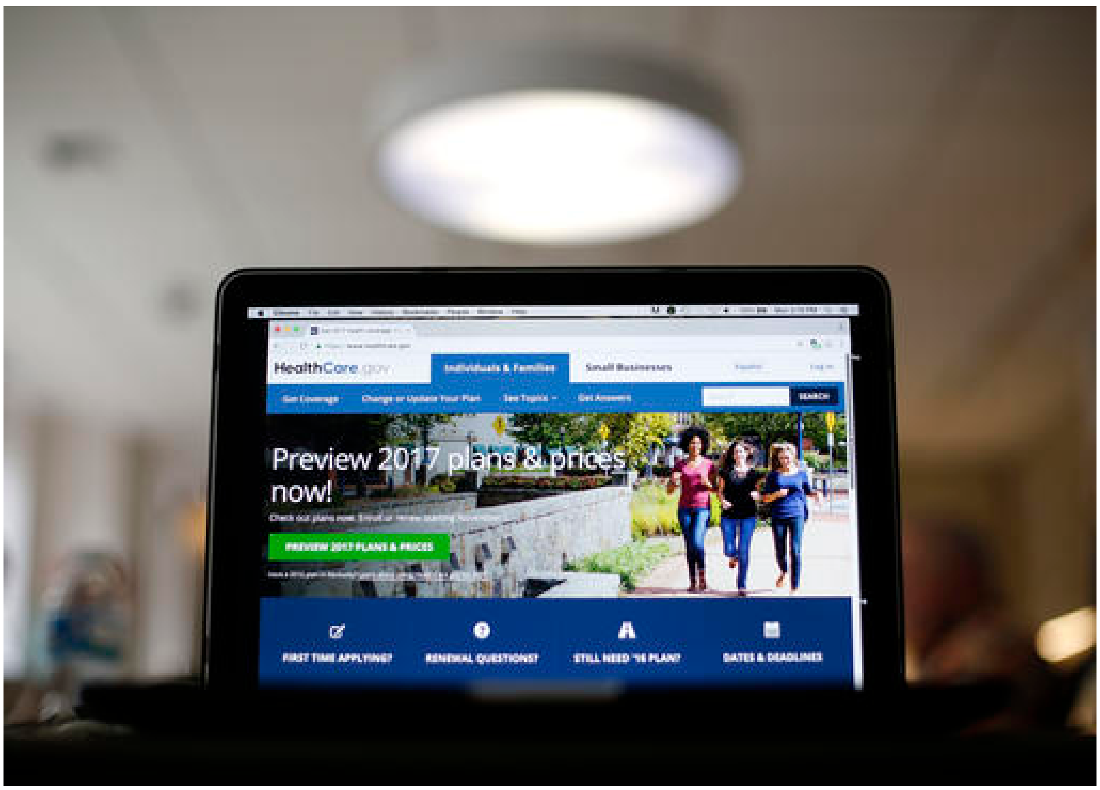
Medical Xpress

# Why health care eats more of your paycheck every year

November 3 2016, by Tom Murphy




This Oct. 24, 2016, file photo, shows the HealthCare.gov 2017 website home page on a laptop in Washington. Health insurance costs will be on the rise again in 2017, just like they have been for several years now. Experts say we should get used to these annual rises, unless we're ready to accept significant changes in how we consume health care. (AP Photo/Pablo Martinez Monsivais, File)

Millions of Americans are finding out this month that the price of their health insurance is going up next year—as it did this year, last year, and most of the years before that.

And it's not just that the price is going up, it's that it goes up faster than wages and inflation, eating away at our ability to pay for other things we want (beer, televisions, vacations) or need (rent, heat, food).

Does it have to be this way? Why does health care grow so much faster than almost any other spending category so consistently? And will it ever stop?

"At some point it's not going to be worth it to have less food, less travel in order to spend money on health care," said Louise Sheiner, a health economist at the Brookings Institution. "That's what really stops it."

Insurance premiums, which reflect spending on medicines, doctor visits, tests and hospital stays, have climbed 213 percent since 1999 for family coverage purchased through an employer, according to the Kaiser Family Foundation, which studies health care. Wages, by comparison, have risen 60 percent, while inflation is up 44 percent.

Here's why the price of health care doesn't grow like, say, the price of dishwashers or blue jeans—and why that's unlikely to change anytime soon.

## IT'S HARD TO SHOP FOR HEALTH CARE

Insurers and employers have been trying for years to make patients better health care shoppers and force doctors and hospitals to compete on price. They've raised deductibles or out-of-pocket costs on coverage and given tools to patients so they can compare prices and quality.

The idea is that patients become more motivated to price shop when they first have to pay several hundred dollars toward the bill due to a high deductible. Many see this push as a key to curbing health care spending, since insurance tends to hide the full cost of care from the patient.

This can work ... for small stuff, said Renya Spak of the benefits consultant Mercer. Patients will shop if they need an MRI exam on their shoulder. But Spak isn't convinced it will do much for things like surgeries, when the insurer or employer will wind up covering much of the bill anyway and the best deal might involve travel away from family.

"It's not human nature to be rational thinkers about health care cost decisions," she added. "It will never be just like buying a lawnmower."

Consumers also prioritize health care purchases over other buying decisions, especially if they have basics like food and shelter covered. You'll have back surgery to alleviate chronic pain before you take that long-awaited trip to Paris.

"What good is a better house if you are too sick to enjoy it?" said Charles Roehrig, an economist and vice president of the nonprofit Altarum Institute's Center for Sustainable Health Spending.

TECHNOLOGY DOESN'T HELP

A carmaker can knock down the cost of making a vehicle by replacing auto workers with robots in parts of the assembly line. Treatment advances in health care are geared more toward making something more effective, not cheaper, noted Paul Fronstin, an economist with the Employee Benefit Research Institute.

A device maker may come up with a new hip that improves a patient's quality of life, but it's likely more expensive and the surgery might require the same number of doctors and nurses or more. A drugmaker might produce a new treatment that dramatically improves a condition but it may come with a bill of more than $50,000 in the meantime.

Device and drugmakers have been producing a steady stream of new products for consumers, and insurers that pay the bills have a limited ability to keep prices for those devices and drugs down.

"Every year, it's kind of like Christmas, they deliver all this new stuff and of course they deliver it at high prices and insurance covers it," said Mark Pauly, a health economist with the University of Pennsylvania's Wharton School.

HOW IT ADDS UP

People with coverage through their employers should expect premium hikes of 5 percent or 6 percent next year, depending on where the employee lives and what adjustments a company makes. That's double the forecast for inflation next year.

And the rising rates may keep them from getting a raise, too. Employers often pay most of the bill for employee coverage, leaving them less money to increase salaries when rates rise.

Customers shopping on the Affordable Care Act's public insurance exchanges will see premium hikes of 20 percent or more in many markets, though those increases aren't just because of rising health care spending. The exchanges have seen wild price swings in part because insurers are still trying to balance out claims they pay in this relatively new coverage.

All told, health care costs, including the insurance bill and money paid out of pocket, made up 7.8 percent of the average consumer's total expenses in 2015, up from 5.7 percent in 2006, according to the Bureau of Labor Statistics.

Meanwhile, much bigger portions of personal budgets like housing, food and transportation all slipped.

WHEN DOES THIS END?

Health care spending now accounts for more than 17 percent of the U.S. economy. In 1980 it was just half that.

Economists and benefits experts say this trend has to slow at some point, or consumers won't have enough money left to spend on things unrelated to health care. Some think big, disruptive changes in how we buy and use care may be needed.

That might mean that more insurers could drastically restrict a patient's doctor choice in order to gain better negotiating leverage over the cost of care, a trend that is growing on the ACA's exchanges.

Mercer's Spak thinks employers need to lead, since they cover so many people. She noted that some companies have started contracting directly with big hospital systems for health care, cutting out the insurance middleman.

Sheiner, the Brookings Institution economist, says health spending may slow if drug and device makers stop developing new technology or drugs as quickly. But she thinks health care will keep climbing until people decide they aren't going to burn any more of their paycheck on it—and we're not there yet.

"You never say never, but I don't think we should expect that any time soon," she said.

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Citation: Why health care eats more of your paycheck every year (2016, November 3) retrieved 27 April 2024 from https://medicalxpress.com/news/2016-11-health-paycheck-year.html

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