Why private insurance is our greatest health care problem

Samuel Metz, MD, Mad As Hell Doctors, 8 February 2012
(for those readers in a hurry, please skip to the summary)

Why does the US spend twice what other developed nations spend on health care, yet millions of Americans lack the health care they need and our public health is the worst among developed nations?

Too much of our health care funds don't provide cost-effective health care. Where do these funds go instead?

Here are answers from the Physician's Lounge. These answers represent common answers even among non-physicians:

- End of life care
- Patient demand for unnecessary procedures
- Fee-for-service payment
- Unreimbursed immigrant care
- Defensive medicine
- Fraud and abuse
- Drug company profits
- Insurance company profits

All these issues drain billions of dollars from our health care system. But as much money as they consume, they are dwarfed by the single biggest expense in American health.

By financing health care with private insurance premiums, Americans lose $350 billion annually to administrative costs that would be unnecessary with a single payer system. [*Woolhandler S, Himmelstein DU. Costs of health care administration in the United States and Canada, New England Journal of Medicine. 2003;349:768-772. http://www.nejm.org/doi/full/10.1056/NEJMsa022033, http://www.pnhp.org/publications/nejmadmin.pdf*]. This estimate from 2003 has been revised to reflect the 2010 population.

Other estimates of administrative losses from private insurance financing range from $204 billion [*http://www.calnurses.org/research/pdfs/ihsp_sp_economic_study_2009.pdf*], $230 billion [*J.G. Kahn, the Institute for Health Policy Studies Health Affairs 2005;24(6):1629-39 http://www.sciencedaily.com/releases/2005/11/051110215547.htm*], $350

billion [*Leonard Rodberg, Professor at the City University of New York http://www.pnhp.org/news/2007/july/_health_insurance_fo.php*], to $400 to $500 billion [*Kuttner R. NEJM 2008; 358;549-51 http://www.nejm.org/doi/full/10.1056/NEJMp0800265*]. I use $350 because it is the best documented and most easily defensible figure.

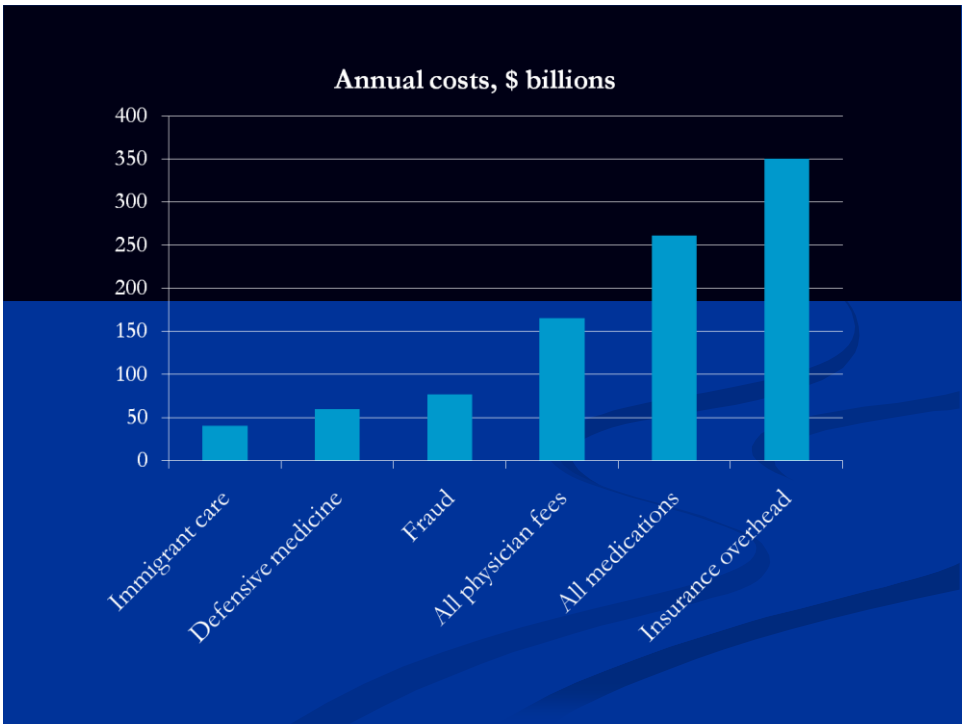
This $350 billion represents 15% of the $2.4 trillion spent on American health care in 2010 [*Truffer CJ, Keehan S, Smith S, Cylus J, Sisko A, Poisal JA, Lizonitz J, Clemens MK. Health Spending Projections Through 2019: The Recession's Impact Continues. Health Aff (Millwood). 2010;29:522-529. http://content.healthaffairs.org/content/29/3/522.full*]. However, this $350 billion is not generated by funds flowing through government or out of pocket payments. It is only generated by the $875 billion that is handled by private insurance. That means 40% of our premium dollars paid to private insurance companies never goes to health care.

This loss breaks down into administrative losses to the insurance company itself ($146 billion), losses from providers spending money to collect payment from the insurance companies ($187 billion), and losses to employers paying money to managers to administer benefits ($17 billion). [*Woolhandler 2003*]

Put another way, insurance companies keep one dollar out of every five we pay in premiums for their own administrative fees. Of the four dollars passes on to providers, they spend another dollar trying to collect their money from the insurance company. Only three of five premium dollars ever gets to health care.

There is little perceptible difference between for-profit and not-for-profit insurance companies, suggesting that only a small portion of premium dollars go to marketing, lobbying, or profit. The 8% profit reported from the insurance industry [*http://www.bloomberg.com/news/2012-01-05/health-insurer-profit-rises-as-obama-s-health-law-supplies-revenue-boost.html.Insurers Profit From Health Law They Fought Against.* By Sarah Frier - J*an 5, 2012 Bloomberg*] probably represents 8% of the 20% they retain, or less than 2% of the money they handle.

How does this $350 loss to private insurance financing compare to other health care expenses? Here are examples.



Immigrant health care costs the US $40 billion. This study included all immigrants, legal and illegal. Because of the difficulty in getting immigrants to answer whether they are illegal, this distinction was not made. [*Mohanty SA, Woolhandler S, Himmelstein DU, Pati S, Carrasquillo O. Health care expenditures of immigrants in the United States: A nationally representative analysis. American Journal of Public Health, 2005, Vol. 95, No. 8. http://ajph.aphapublications.org/cgi/reprint/95/8/1431*]

Defensive medicine (that is, care delivered to improve the provider's legal outcome, not to improve the patient's medical outcome) is estimated at $56 billion [*Michelle M. Mello, Amitabh Chandra, Atul A. Gawande and David M. Studdert. National Costs Of The Medical Liability System. Health Affairs, 29, no.9 (2010):1569-1577. http://content.healthaffairs.org/content/29/9/1569.full.pdf+html?sid=c8f7991d-4edf-4abf-8a62-8691f573a273*]

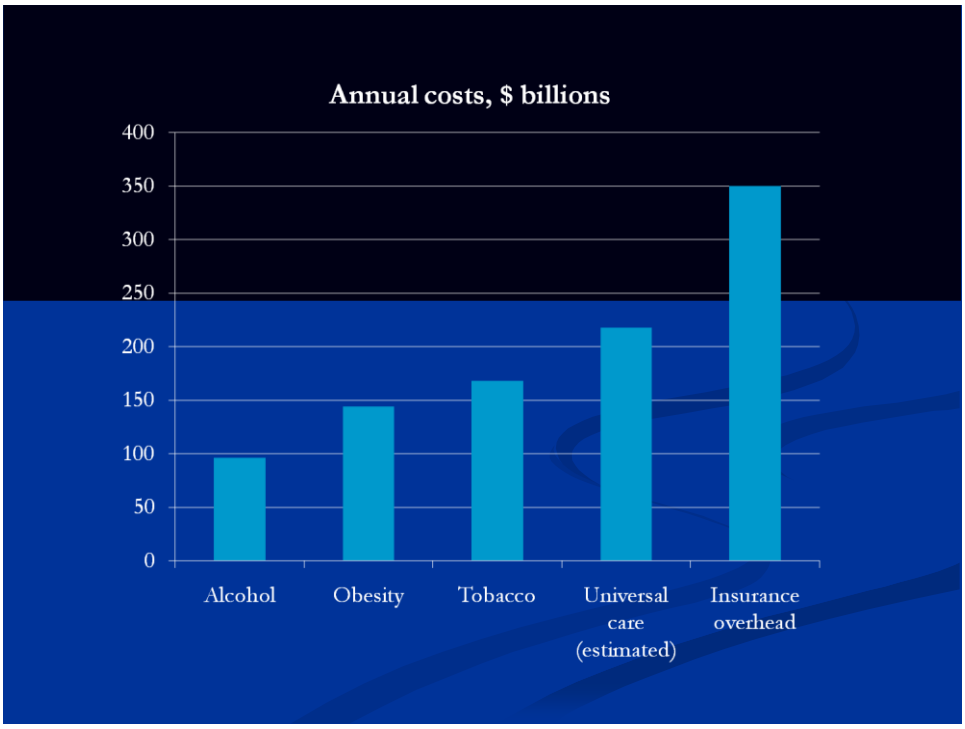
Fraud is estimated to cost $75 billion [*Inglehart JK. Finding Money for Health Care Reform — Rooting Out Waste, Fraud, and Abuse. New Engl J Med 2009, website 10.1056/nejmp0904854*]. This likely reflect only private insurance. Medicare and Medicaid fraud is probably comparable.

If we estimate that average income for practicing physicians as $250,000 annually (I could find no figures for the average physician, only specialty physicians, so I estimated). With 660,000 clinically active physicians, their

estimated total income is $165 billion [*American Association of Medical Colleges. 2009 State Physician Workforce Data Book, Center for Workforce Studies, November 2009. http://www.aamc.org/workforce/statedatabook/statedata2009.pdf http://www.statehealthfacts.org/profileind.jsp?ind=429&cat=8&rgn=39*].

One national study estimated Americans spent $220 billion on all medications [*Institute for Health and Socio-Economic Policy. Single Payer/Medicare for All: An economic stimulus plan for the nation. 2009. from the California Nurses Association. http://www.calnurses.org/research/pdfs/ihsp_sp_economic_study_2009.pdf*]

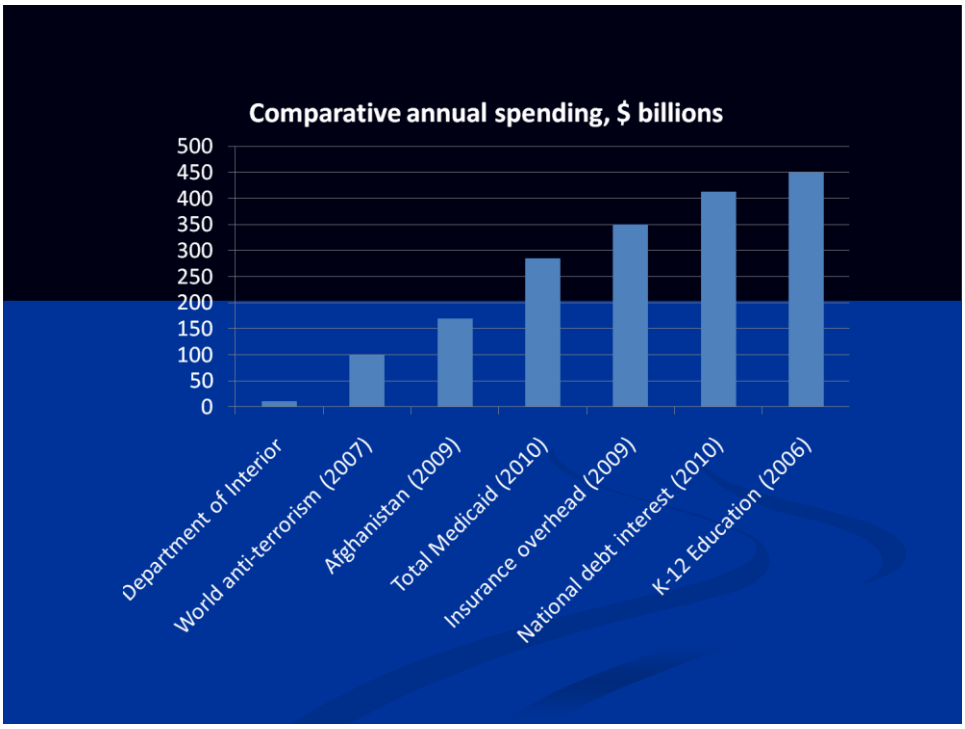
What about the contribution of alcohol, obesity, and tobacco?



The alcohol, obesity, and tobacco figures come a study by the Lewin Group [*Simon CJ, Wolcott J, Hogan P, The Lewin Group. Can we reduce health care spending? Searching for low-hanging fruit in the garden of health system reform, October 26, 2009. http://www.lewin.com/content/publications/LewinReport-CostDrivers.pdf*]

The IHSP study quoted in the previous slide is the source of the estimated $225 billion in additional dollars needs to expand comprehensive health care to all Americans, with no co-pays or deductibles. [*Institute for Health and Socio-Economic Policy. Single Payer/Medicare for All: An economic stimulus plan for the nation. 2009. from the California Nurses Association. http://www.calnurses.org/research/pdfs/ihsp_sp_economic_study_2009.pdf*]

How does administrative waste in private insurance financing compare to government expenses?



The Department of Interior annual budget was $18 billion [*US Federal Budget, http://www.whitehouse.gov/omb/budget/fy2010/assets/hist04z1.xls*]

World expenditures fighting terrorism, including the US, was estimated at $100 billion [*Dan Gardner. "Risk." Virgin Books 2009. Page 344*].

The $180 billion spent in Afghanistan in 2010 comes from the Center for Defense Information [*quoted at http://www.infoplease.com/ipa/A0933935.html*]

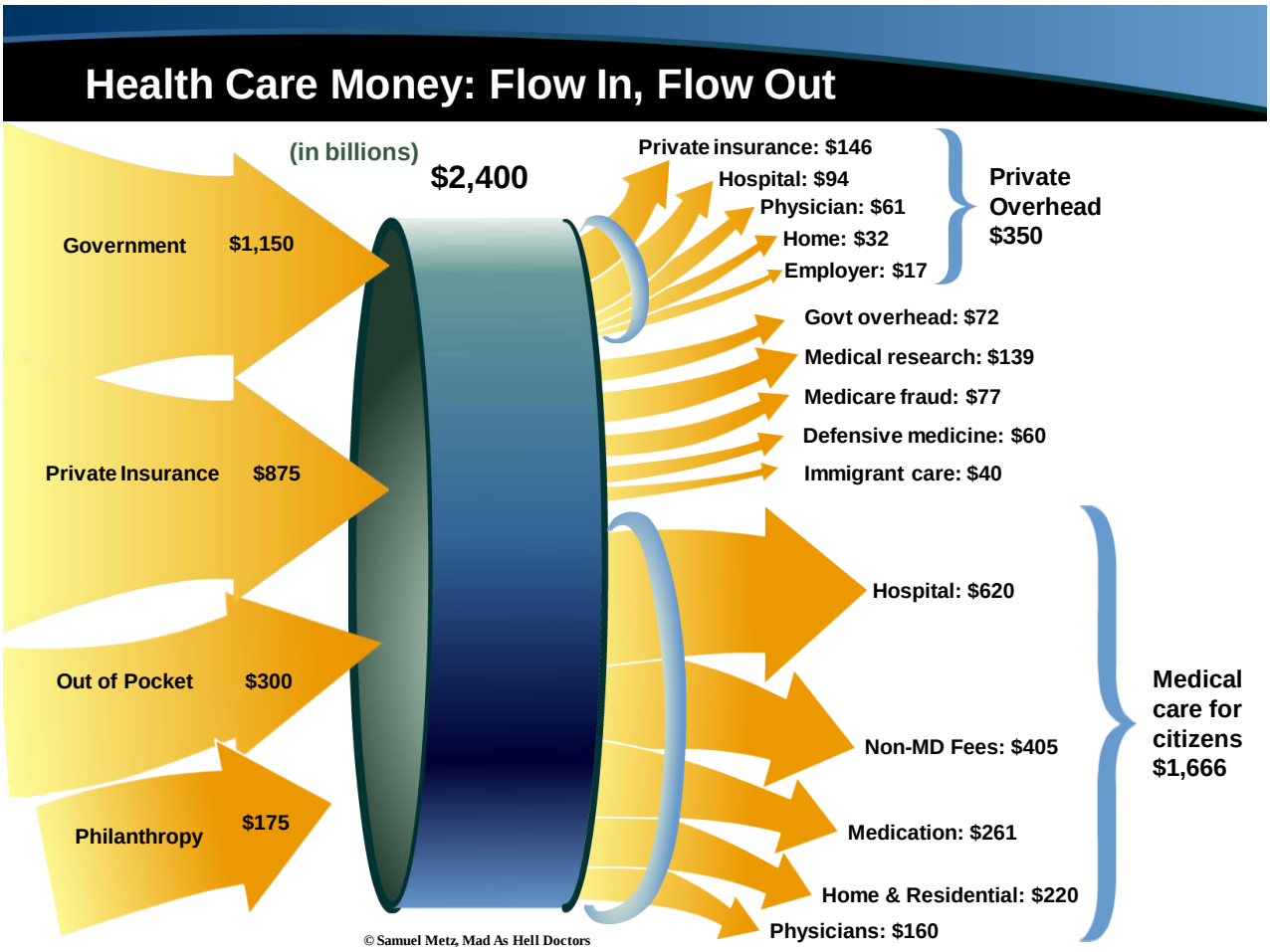
Total US Medicare of $468 billion Medicaid plus $285 billion Medicaid and SCHIP in 2010 comes from the US Federal Budget [*http://www.whitehouse.gov/omb/budget/fy2010/assets/hist04z1.xls. See*

also http://www.cbpp.org/cms/index.cfm?fa=view&id=1258, Kaiser Family Foundation, StateHealthFacts.org http://www.statehealthfacts.org/comparemaptable.jsp?ind=177&cat=4]

The $410 billion spent on interest for the national debt also comes from US Federal Budget
[*http://www.whitehouse.gov/omb/budget/fy2010/assets/hist04z1.xls*]

It is difficult to find any government spending that exceeds the administrative losses of private insurance. For comparison only, the $450 billion spent on all US K-12 education comes from U.S. Department of Education, National Center for Education Statistics. *[(2009). Digest of Education Statistics, 2008; (NCES 2009-020) http://nces.ed.gov/fastfacts/display.asp?id=66*]

A graphic summary of 2010 health care spending.



Summary:

Many factors reduce the number of health care dollars that actually are spent on needed health care. The largest single loss is that of using private health insurance to finance health care.

It is not the profit, marketing, or lobbying that makes private health insurance model so wasteful, though each makes a small contribution. It is the business model itself which requires pre-payment from patients and employers but motivates the business to spend as little as possible on health care.

Many countries allow a profit to be made delivering health care. We are the only developed country that allows a profit to be made financing health care.

We are the only developed country that allows insurance companies to practice price discrimination on the basis of health – the healthy get good benefits at low prices while the sick (and unemployed) get poor benefits at high prices, or no benefits at all.

We are the only developed country that allows insurance companies to sell policies that still allow patients to lose their limbs, homes, or lives if they get the wrong disease at the wrong time.

No health care system has succeeded in providing cost-effective health care to every citizen using our private insurance model

Before we improve how we *deliver* health care, we must improve how we *finance* health care.