



Factors impacting the cost of health care

Our system of employer-sponsored health care and the tax treatment of health care.

We get tax breaks on buying health insurance, which incentivizes benefit plans that drive costs up. Most people with insurance get it through their jobs. The amount employers pay toward coverage is tax deductible for the company and tax exempt to the worker, thus encouraging more expensive health plans with richer benefits. Rich plans mean higher utilization of services, which means higher cost.

Third-party payment, which incentivizes people to consume more care.

Low deductibles or small co-payments can encourage people to use health care services at a higher rate, driving up costs. For this reason, many private sector employers are moving toward high-deductible coverage to slow premium growth, but the public sector lags behind.

Fee-for-service system, which rewards volume of procedures, incentivizing overtreatment.

We pay our doctors, hospitals and other medical providers in ways that reward doing more, rather than being efficient. Most insurers (including Medicare) pay providers separately for each test, service, or treatment. This incentivizes volume of service, rather than outcomes. Under a fee-for-service system, the economic incentives of providers and payers are not aligned.

High cost of prescription drugs, and federal policies which constrain normal market forces.

Pharmaceuticals are one of the fastest growing components of health care costs. This aspect of the health insurance system can be addressed through smart, market-based reforms.

New medical technology, and our high use of new medical technology.

We use medical technology (such as CT scans and MRIs, etc.) at a much higher rate than the rest of the industrialized world. Patients and doctors often demand the newest treatments, but these often cost more than older technology or services they replace.

Higher provider rates than other industrialized nations.

Provider rates are generally higher in the United States than in other industrialized and more heavily regulated countries. Generalizations about rates, however, are difficult. As an example, primary care physicians are paid much less than specialists, so it isn't accurate to generalize about "physician salaries."

Aging population.

As we get older we need more medical care. With the baby boomer generation aging into Medicare, costs are rising.



Unhealthy lifestyles and social determinants of health (see chart below).

Americans have high rates of obesity and almost half of Americans have one chronic condition. We all pay for unhealthy behaviors, through premiums and taxes.

High administrative and regulatory costs.

CMS issued over 24,000 pages of regulations in 2016 alone. For a 160-bed hospital, the average cost of regulatory compliance and administrative burden, according to a recent AHA report, is \$7.5 million a year, adding \$1,200 to each inpatient admission.

Culture and expectations.

We have expectations of health care that make our system more expensive. We expect to not have to wait for care, while in other countries waiting lists are not uncommon and care is sometimes denied. Much of our health spending is in the last months of life. Too often, interventions add to suffering, prolonging life but at a terrible cost. Our choices as a society impact our health care costs.

Unhealthy lifestyles and social determinants of health:



Source: [County Health Rankings: What Works for Health](#)