

Controlling Healthcare Costs: The Key to Making Coverage Affordable

Robert J. Greczyn, Jr.

Never before in our history have Americans enjoyed such a wealth of healthcare options. The diagnosis, treatment, and cure of illness and disease have rapidly improved in recent history, thanks to groundbreaking research, blockbuster drugs, and technological innovations.

But the seemingly unlimited care and treatment options we have grown to rely on come at a price—to us individually and as a society. For those with health insurance, it takes an increasingly large chunk of each paycheck to cover insurance premiums and medical care. For those without insurance, the cost of their care is left to taxpayers and paying customers, and that burden is growing larger every year.

We're at a point in time in which we can no longer continue business as usual in our healthcare system. As health costs continue their upward march, attention is squarely—and rightly—focused on what can be done to expand access to medical care. The health insurance industry is actively engaged in developing solutions to the growing problem of the uninsured, both in North Carolina and across the nation.

The Root Cause

The collective cost of medical procedures, drugs, and devices has risen to the point that the United States now spends 16% of gross domestic product (GDP) on healthcare,¹ which is more than ever before. One reason is demographic: our population is older, with a vast cohort of baby boomers reaching 60 this year. Perhaps more important from a public health standpoint, our society continues to engage in unhealthy living. Poor diet, lack of physical activity, and tobacco use are driving up healthcare costs.

The price we pay for this lifestyle is increased rates of costly chronic illnesses, such as heart disease, cancer, and diabetes. Obesity rates have skyrocketed in adults and in children, with frightening consequences. Once a rarity among children, Type II diabetes (in a simpler era called “adult onset diabetes”) is occurring more frequently and condemning children to a life of

poor health and increased healthcare costs. We all share in the cost of treating an unhealthy society.

For Blue Cross and Blue Shield of North Carolina (BCBSNC), the unhealthy segment of our membership has a greater impact on our total costs. Our data show that 80% of our costs are driven by only 18% of our members.² This puts tremendous pressure on the insurance system, driving premiums up at a

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faster rate than earnings for employers or their workers. This cost crunch inevitably shrinks the percentage of businesses that offer insurance benefits to their employees. In the end, we cannot broaden access to health insurance without a solid plan for addressing underlying cost pressures in healthcare.

Some say that higher healthcare costs are a good trade-off for getting the best and most up-to-date medical care. We pay more because medical care is so much better, so what's the problem? One of the most frustrating aspects of the United States' cost spiral is that, although we spend more per person on healthcare than any other nation, we are far from the healthiest nation. By various measures, including data from the World Health Organization, the United States ranks about 30th in the world for the health of its people. We don't seem to be getting value from all the additional dollars pouring into healthcare.

Insurers' Response

To address the uninsured problem, the question we must ultimately ask is, “What can we do to stem the tide of rising healthcare costs to make coverage affordable for more people?”

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There is no simple answer, and progress clearly depends on individuals, families, insurers, employers, providers, government, public health—all healthcare stakeholders—working together. It will also require a sea change in how we value preventive medicine in relation to more reactive care.

Insurers grapple with how to be involved in this long-term process while still delivering cost-effective insurance products that meet customer needs today. We have to balance investment in new approaches with the likelihood that our customers will see a reasonable return on these investments. Some health promotion efforts accrue benefits to our members immediately. Others take time to realize. Efforts to educate patients with diabetes or asthma, for example, on how to take better care of themselves provide a quicker return by reducing the need for emergency room visits and hospital stays. The payback on heart disease, meanwhile, is more long-term.

One new trend among insurers is the movement to consumer-directed health plans. These plans offer coverage at lower premiums but with higher deductibles, giving consumers more choices in designing and paying for a health plan. One of the most promising aspects of consumer-directed healthcare is Health Savings Accounts (HSAs) that pair health coverage with tax-advantaged savings accounts to pay for medical care. HSAs can also be designed to cover limited preventive health services at no charge.

For the consumer-directed model to succeed, patients will need to not only engage in purchasing decisions—based on information from their physicians, insurers, and other sources—but they'll also need to change their behavior. In our current model, consumers tend to act on what their doctors recommend, with the understanding that their insurer will pick up the tab. The consumer-driven approach says that patients are more in charge of their own care since they have a greater financial stake through higher deductibles, health savings accounts, and other methods of paying for the services provided.

In another change, insurers have found success in helping consumers reduce their costs by promoting the use of generic prescription drugs. Generics are equal to brand-name drugs in active ingredients, yet cost 30% to 70% less.³ Blue Cross and Blue Shield of North Carolina instituted programs waiving co-payments on generic prescriptions for our members in late 2004 and early 2006, encouraging them to make the switch from brand-name drugs to more cost-effective generic substitutes. Over a three-month period in 2004, BCBSNC members collectively saved approximately \$17.6 million in out-of-pocket costs.³ But there are also long-term benefits: about 22% of members stayed with generics,³ leading to significant savings in coming years. Our challenge now is to show physicians the value of generics when appropriate for their patients so that the cost advantages can be spread to all patients, not just BCBSNC members.

Additional efforts in North Carolina show promise for a long-term payoff. As the largest health insurer in the state, BCBSNC in 2000 established a foundation to address health needs in North Carolina. Two years ago the Blue Cross and Blue Shield of North Carolina Foundation entered into a five-

year, \$10 million partnership with the North Carolina Association of Free Clinics to sustain and expand the free health clinic model throughout North Carolina. Funds from the Foundation already have allowed six new clinics to open. By the end of the five-year period, the capacity of free health clinics to serve the uninsured in North Carolina is expected to double.

In another partnership, the BCBSNC Foundation is contributing to the expansion of the Community Practitioner Program run by the North Carolina Medical Society Foundation. The goal of this \$10 million grant by the BCBSNC Foundation—which triggered \$5 million in matching funds from the Medical Society Foundation—is to help place primary care physicians and nurse practitioners in underserved areas of North Carolina, such as rural areas and inner cities with few medical providers, and keep them there.

Consumer Awareness

One of our challenges is to help make consumers more aware of the true costs of healthcare in today's world. For many, healthcare costs begin with the insurance premium and end with a small co-payment or deductible. This means there is little understanding of the actual costs of physician services, hospital care, or drug treatments.

This disconnect between costs and services undermines market forces that exist in other sectors of our economy. The result is that medical services may be overutilized, or at the very least, that care is not delivered in the most cost-effective way. For example, doctors and patients alike are focused on treating diseases and conditions after they emerge. But there's much less focus on preventive health, counseling, and lifestyle changes that could head off serious health problems before they ever develop.

Enabling consumers to connect costs to medical care could go a long way to helping individuals determine the wisest use of their money. Online services offered by many health insurers, including BCBSNC, let consumers see the costs of various medical services and treatments.

Another method is to measure and present data on the quality of healthcare, which serves dual goals of providing incentives for physicians and hospitals to deliver high-quality care and allowing consumers to see which providers do the best job. As employer-led quality initiatives such as Bridges to Excellence (for physicians) and Leapfrog (for hospitals) gain acceptance, the thinking is that quality incentives will help mitigate rising healthcare costs by shifting the focus to preventive care and reducing the likelihood of costly medical errors and complications.

Beyond educating consumers on the wise use of healthcare benefits, it also must be a primary goal to build awareness of how personal lifestyle choices drive costs in the system. While many Americans understand that an unhealthy lifestyle can lead to obesity, heart disease, and diabetes, few make the leap to connecting increased costs to those lifestyle choices.

North Carolina is facing a growing crisis when it comes to obesity. Obesity-related problems cost North Carolina employers

an estimated \$3,000 per employee in rising healthcare costs and absenteeism.³ There is ample evidence in BCBSNC data that overweight individuals have significantly higher medical costs. Still, few individuals seem to make the connection that unhealthy lifestyles cause premiums—including the employee-contributed portion—to rise. While Americans expect the best available care, wide freedom of choice, and access to cutting-edge technology, we often do not take ownership of our own lifestyles.

When it comes to car insurance, the safest vehicle—as judged by accident data—is the least expensive to insure. With homeowners insurance, smoke detectors, burglar alarms, and other preventive devices can help lower your premium. Shouldn't we encourage individuals to show the same respect toward our bodies and our families as we do our possessions?

Collaboration Is Key

While it will be extremely difficult to reduce overall health-care expenditures and thus increase access to healthcare, by working together we can help slow the rate at which healthcare costs are rising. Although no easy task, this is the key to keeping health coverage affordable.

Insurers can work with providers to develop incentives for preventive care, for example. Employers can work with public officials to design workplaces and communities that encourage physical activity. Health plans can respond to consumer needs by offering coverage designed to fit an individual's specific needs. The list of steps that can make a difference is a long one.

In the end, our challenge goes beyond financial. Reducing cost is a big part of the picture, but it's only a means to an end. The ultimate goal is a healthier North Carolina, one whose residents enjoy longer, happier and more productive lives. By reducing costs—especially for costly chronic diseases—we can also ensure the long-term availability of affordable coverage.

A healthy North Carolina is what it's all about. After all, it's our home. **NCMedJ**

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