

A composite image featuring a stethoscope, a stack of US dollar bills, and a spilled pillbox. The stethoscope is positioned on the left, with its chest piece resting on a white surface. A stack of US dollar bills is in the center, with a \$20 bill prominently displayed. A pillbox is tipped over on the right, spilling various pills (white, red, blue, and yellow) onto the surface. The text "The Real Cost of Health Care" is overlaid in white on a dark semi-transparent background across the middle of the image.

# The Real Cost of Health Care

By Delia Scales

# Price varies according to the power of the purchaser

## The Health Funding Paradox

Why do health experts around the world get so upset about proposals to privatised healthcare? Wouldn't small private companies be more efficient at managing health services than the big, bureaucratic, government-run services?

It's called the Health Funding Paradox.

In a nutshell, the financial power of the buyer controls the prices charged by the seller. Across the world, completely different prices are being charged for exactly the same health goods and services. The most powerful purchaser, that gets the best price, is usually a large and independent government. The weakest purchaser is often smaller private insurance companies or a weak government.

Australia is currently paying fourteen times more for pharmaceutical drugs than British and New Zealand governments. Excess influence from industry lobbyists is being raised as a possible cause.

Americans have laws that ban their government from buying health goods in bulk, and on-selling them to consumers. They also pay more than other nations with government-run health services.

For example, Americans are paying an average of \$215 for each script for a common drug for reflux called Nexium. However the Dutch government gets it's population the same drug for \$23. A hip replacement in America is three times more expensive than the same procedure in Spain. Delivering a baby in Australia costs \$3,500 less than it does in America.

# The prices affect people's health

The same drugs, the same surgical procedures, all sold at completely different prices. Depending on the power of the countries purchaser.

Access to affordable health goods and services depending on which country people happen to live. Reducing access to health services due to excessive costs, simply leads worsening health outcomes. Poorly controlled diabetes can become kidney disease, amputated toes and blindness. Lack of maternal care can become childhood infections like rheumatic fever.

Most people don't even know this enormous variation in health care pricing even exists. The commercial contracts for health goods and services are kept hidden from the tax payers. Closed contracts, secret tendering and commercial in confidence laws are common. People are paying different prices for health services depending on where they happen to live. They have no idea what they are actually paying for their health goods. Or what their neighbours are paying.

How much money are we talking about? Western countries are currently paying between 10% and 20% of their Gross Domestic Product on healthcare. That's \$150 billion (Aus) a year in Australia. \$211 billion (Can) in Canada. And 3.8 trillion (USA) a year in America. Every year.

And the costs just keep on going up. Australian government health funding grew by 74% over the past decade. By comparison Gross Domestic Product grew by 46% above Consumer Price Index.

# The power of health industry lobbyists

Healthcare is quite possibly the most powerful industry in the Western world.

1 in 6 dollars in the American economy currently flows through the health industry. Healthcare is the largest employer in Australia. The pharmaceutical industry made profit margins of between 10% and 42% in 2013. 75% of political lobbyists in America represent the health care sector.

However, there is no direct relationship between increased health spending and better health outcomes. Political groups may try to paint governments who want to control health funding as 'granny killers'. In the same vein, companies who want to challenge traditional roles and experiment with new models of health care can be cast as in the role of 'killing Bambi'. In fact, the less countries actually spend on healthcare, the better off their citizens may be.

For example, Americans see a Doctor less often, die younger and have higher infant mortality rates than people living in countries with government health systems. Yet they pay twice the amount of money. This is partly because Americans are paying so much more for their health goods and services. But there is another factor at play.

That is the rising cost of unnecessary tests and treatments prescribe by Doctors. It is driven by factors like fear of litigation and a push for profits by the hospitals that employ Doctors. In the health care industry, doing more 'stuff' to a patient means earning more money. But it doesn't necessarily mean better patient outcomes. It's another Health Funding Paradox.

# What you get doesn't necessarily do you any good

A third of western countries health spending is estimated to be wasted on unnecessary tests and treatments. This is referred to as 'over servicing'.

The cost is potentially \$50 billion (Aus) a year, or 1.2.5 trillion (USA) a year. Every year. And the cost keeps rising.

Health reform groups want to the current health funding model of 'fee for service' to be replaced with a 'whole of treatment' fee. They also want funding of avoidable hospital errors to be stopped completely.

This may result in lower costs and higher standards. Some medical, nursing and industry lobbyists oppose this funding model. It would probably result in substantially lower industry profits. It may also result in some Doctors and Nursing being made redundant.

So the Health Funding Paradox doesn't just refers to different prices being charged for exactly the same product across the world. It also refers to excessive health costs being paid for little or no impact on actual health outcomes.

This makes the health funding debate more complex than mainstream media and political stunts suggest. It also make the industry more difficult to reform.

Difficult. But not impossible.

# The future

Obamacare has begun to bring health insurance to ordinary Americans. But many Americans are discovering that their newly found health plans come with massive out of pocket 'co-payments'.

This would sound familiar to Australians.

Australians are forced into private health insurance by a series of government fines placed on tax payers. But as governments are not prepared to deal with the Health Funding Paradox, privately insured Australians have found themselves saddled with large medical debt, just like their American cousins.

Australia had a Senate Enquiry into out of pocket medical costs in 2014. Among many things it revealed that we are now third highest country in the world for out of pocket medical costs, behind Switzerland and America. Stories of private patients being \$50,000 or more out of pocket after medical treatments, with private cover, feature in Australian media outlets. Going into a public hospital with or without private cover is free. Going into a private hospital with private cover can cost you thousands.

Americans are beginning to buy health services directly, in cash, without the paperwork of private insurers. This is called 'pay as you go'.

It is my belief that 'pay as you go' is the future of health reform. It is the only way to beat the Health Funding Paradox. It means treating health care like any other commercial service. If you want it, shop around for the best price. If you don't want it, don't buy it. Rate all the services. Compare their outcomes. Take control. It's your body. Your budget. And your future.

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