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A little known fact about health care dollars: Government is biggest spender

by Daniel Wolak

Who really is paying for health care in the United States? What percentage of health care dollars comes from insurance companies? What part of the expenditures is paid for by the government? Is the administration and, in particular, Hillary Clinton correct in their assessment that insurance companies are at the heart of the problem with the U.S. health care system?

As actuaries, we are all interested in the answers to these questions. To begin, we need to know the breakdown of health expenditures in the United States, split by the public and private sector. The Health Insurance Association of America (HIAA) readily has information on the number of people covered by the private sector, the public sector, and those not insured. The HIAA, however, has not prepared or promoted similar information by health care dollars spent. Instead, in answer to my inquiry, a representative from the HIAA research area provided health care data from its 1992 study.

I developed the chart on this page using the latest HIAA statistics. What does it show? The truth is that federal and state governments spend more dollars for health care than employers and individuals spend for health insurance plans. The insurance industry has not publicized this fact.

I developed this estimated breakdown of the $820.1 billion 1992 U.S. health expenditures from the HIAA data:

- Only 14% ($114.5 billion) of health care expenditures were from insurance plans sold to employers or individuals. This includes coverage provided by Blue Cross and Blue Shield plans.
- 11.4% ($93.1 billion) of health care expenditures were from employers who self-insure their medical plans. (I suspect that an even larger percentage of expenditures is from employers who self-insure, but large plans that have claims administered by Blue Cross organizations are all defined as "insured plans," though they technically operate as self-insured plans.)
- 5.4% of health care expenditures ($44.5 billion) were for those covered by HMOs in the private market.
- 4.3% of health care expenditures ($35.5 billion) were from coverage through other types of private plans.

So, in total, private insurance plans, employers who self-insure, and HMO plans accounted for 35.1% of health care expenditures in 1992.

19% ($155.9 billion) of 1992 health care expenditures were directly from consumers. This is the amount paid by consumers for deductibles and co-pays. This also includes drugs and nursing home care not paid by Medicare or Medicaid.

This means a total of 54% comes directly from consumers and various types of health plans.

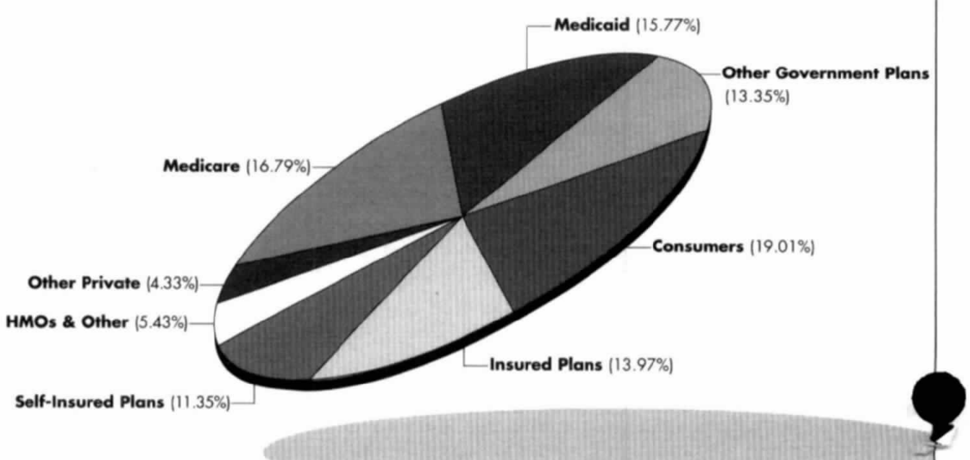
Where does the final 46% of health care expenditures come from? Medicare costs accounted for 16.8% ($137.7 billion) of expenditures, and 15.8% ($129.3 billion) were for Medicaid costs. The rest, 13.4% ($109.5 billion) includes government employee benefit plans for federal employees and for military personnel.

Many people are not aware of the simple fact that the government already controls a significant part of the U.S. health system.

No, we are not the heart of the problem. The insurance industry, however, has become an easy mark for the misinformed because of some industry practices in the individual and small group health markets.

I spoke recently with a health care lobbyist for the self-insurance industry who did not clearly understand the issues in the small (under 25 employee) group market, though he was very

U.S. Health Care Expenditures
Where Do the Dollars Come From?



knowledgeable about health care. Right now in Washington, D.C., congres-sional aides, many without a health background, are grappling with many of the technical intricacies of our system.

We, the actuaries who have a knowl-edge of health practice, should com-municate with our elected officials and participate with the efforts of the Society and the Academy whenever possible. Even providing what we view as relatively simple information to the public on health care could be very enlightening to them. As Rep. Newt Gingrich (R-Ga.) stated during a recent talk, "The only way we can stop the government from creating a new bureau-cracy is for people like us to get involved."

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Executive committees hold joint meeting in Salt Lake City

by Jeff Furnish

The executive committees of the six professional organizations representing actuaries in the United States and Canada held their regular triennial meeting in Salt Lake City on March 21, 1994. In addition to the six — Society of Actuaries, the American Academy of Actuaries, the Conference of Consulting Actuaries, the Canadian Institute of Actuaries, the Casualty Actuarial Society, and American Society of Pension Actuaries — representatives attended from the Colegio Nacional de Actuarios, which represents actuaries in Mexico.

While a portion of the agenda focused on global cooperation, most of the discussion related to inter-organizational issues within North America, particularly the United States. Recent efforts in national health care reform were discussed. Risk loads for property/casualty loss reserves were suggested as one area in which cooperative efforts could be improved.

Reports were given on the recent activity of the Actuarial Standards Board (ASB) and the Actuarial Board for Counseling and Discipline (ABCD). Suggestions were given for increasing each organization's aware-ness of and input into ASB actions.

The results of the profession's public relations effort, known as Forecast 2000, managed by the Academy, were reviewed. The various actuarial bodies look favorably on moving this effort to a three-year planning and budgeting cycle, making it a more permanent and long-term commitment.

The future of actuarial education and certification in the United States and Canada was discussed. The Mexican delegation provided valuable details about the university-based educational system in Mexico and how it has helped actuaries entering positions in Mexico's financial sector.

The presidents of the various organi-zations gave brief reports on their activ-ities, and there was a discussion of the future role of the Council of Presidents.

Participants agreed that the most valuable aspect was meeting their coun-terparts in other organizations. It was interesting to note that each country has many actuarial organizations. Three actuarial organizations exist in Mexico. In Canada, the Canadian Institute of Actuaries is the premier organization representing actuarial practice in that country, but it still relies on the Society of Actuaries and the Casualty Actuarial Society for the educational structure and examinations. The Canadian and Mexican representatives graciously but firmly suggested that the many U.S. organizations with their varying perspec-tives create a certain parochialism in the United States that may impede efforts to move the profession to a more coherent North American or global outlook.

Jeff Furnish is vice president at Godwins Booke & Dickenson, Portland, Oregon, and the current secretary of the Conference of Consulting Actuaries.

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