

# NCN in 2009

## A Hard Look at Healthcare

JUNE 2009

2009

### Meeting Obama's Healthcare Challenge with Cost-Based Solutions

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Congressional Budget Office (CBO) findings released in February indicate that healthcare costs will account for eighteen percent of our 2009 Gross Domestic Product—roughly \$8,300 in annual health expenditures per capita. Unless reform legislation is passed, that amount is only projected to grow.

#### The Grim Reality

Complaining about healthcare costs has long been a part of our cultural discourse, but charges in recent years have reached the point of a legitimate crisis capable of crippling our national economy. A new study released by Harvard researchers found that medical expenses and related charges contributed to 62 percent of all bankruptcies filed by Americans in 2007—with the caveat that this actually understates the current percentage, as 2007 bankruptcies occurred before the economic recession began. Most shockingly, 78 percent of these filers were insured.<sup>1</sup>

The Administration and Congress are deep in debate over legislative options, but real, long-term solutions must include the cooperation of the industry itself. Last month, President Obama issued an industry directive: find ways to lower the skyrocketing growth of health spending by 1.5 percent each year for the next decade (an estimated \$2 trillion in savings). Shortly thereafter, leaders representing all areas of the healthcare industry met with the President and committed to meeting this challenge.

#### The Individual Burden

Ultimately, lessening the financial burden on individual Americans will require cost-based reforms to healthcare price-setting methods. While the government considers reforms to help the uninsured and those on government assistance programs, cost management measures must also be implemented to protect insured individuals facing insurmountable out-of-network charges.



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<sup>1</sup> Girion, Lisa, "Medical bills play a role in 62% of bankruptcies, study says," June 4, 2009, Los Angeles Times, <http://www.latimes.com/business/la-fi-medical-bankruptcy4-2009jun04,0,4193398.story>



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CBO Director Douglas Elmendorf recently testified that “premiums for employment-based plans are expected to average \$5,000 for single coverage and \$13,000 for family coverage in 2009.” Yet actuarial values for employment-based plans have an average value of 80-85 percent.<sup>2</sup> This variance can result in well-insured consumers with unexpected out-of-network costs owing thousands of dollars out-of-pocket. An April study by Families USA found that between 2000 and 2009 there was a 69.1 percent increase in the number of insured families spending more than 25 percent of their pre-tax income on healthcare.<sup>3</sup>

### The Power to Bargain

Insurers negotiate rates with in-network service providers taking into consideration service costs and any bargaining power afforded by the insurer’s customer base. With out-of-network providers, however, no legal agreement exists to prevent charging patients the full balance of any fee not covered by the insurer. With the help of cost-based data and transparent reporting, out-of-network claims can be negotiated on the individual’s behalf—often resulting in considerable savings. This may prove to be one of the most practical and effective steps toward curbing the unbridled growth of healthcare spending in America.



### The Fair Solution

As an industry, we must be taking steps to implement responsible cost savings measures based on transparency, rationality and financial efficiency. Using a cost-based model to negotiate out-of-pocket expenses could quickly add up to billions of dollars in saved costs nationwide, while still providing appropriate compensation to providers for services rendered. Approaching the issue from a billed charges point of view is irrelevant to today’s discussion; only a cost-based method will truly achieve sustainable savings.

**About NCN**—NCN is the national leader in cost management for out-of-network claims. We use cost-based data and transparent reporting to maximize savings on healthcare claims. At NCN we claim a better way for payers, providers and patients.

<sup>2</sup> Congressional Budget Office. “Expanding Health Insurance Coverage and Controlling Costs for Health Care.” Director Douglas W. Elmendorf. February 10, 2009, [http://www.cbo.gov/ftpdocs/99xx/doc9982/02-09-HealthVolumes\\_Testimony.htm](http://www.cbo.gov/ftpdocs/99xx/doc9982/02-09-HealthVolumes_Testimony.htm)

<sup>3</sup> Families USA. “Too Great a Burden: Americans Face Rising Health Care Costs.” April 2009, <http://www.familiesusa.org/resources/publications/reports/too-great-a-burden-2009.html>



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