

## **Introduction: Hidden Costs**

**By David Belk MD**

Most people will tell you that healthcare in the U.S. is expensive. We Americans spend more money per person on healthcare than anyone, anywhere else. But people don't agree on why our healthcare is so expensive. Is it because of all the new technology we use in healthcare? Or is it because too many lawyers are suing doctors? Do we over-utilize our resources? Do we have too many government regulations? or maybe too few? Is our healthcare "market" too free or not free enough? Or, is it just because we have the best healthcare in the world and that's the price we pay for being so healthy?

Contradictory though they are, each of these arguments seems to have passionate champions with copious amount of their own "evidence." So, who's right? About seven years ago I decided to see what I could do to find out.

My approach to the problem was unusual. Most people studying health care are external experts who look from the outside in. Since I'm a practicing physician, I could go from the inside out. Instead of trying to address any of the above arguments, I decided I would try answer what I thought was an obvious question that no one else appeared to be asking: What do all the products of healthcare actually cost? How much does an x-ray really cost? A CT scan or an MRI? Are all prescription medications really expensive? How much do they really cost?

Even though these might seem like obvious questions, very few people appear to know the answers. Almost no one, including most doctors, has the slightest idea what much of what we do actually costs. So I started looking at the problem privately: myself, my patients, the other physicians in my area.

Why don't we know these costs? To start with, unlike any other business in America, almost all of the financial transactions in healthcare are hidden from the providers as well as the patients. We doctors order tests, procedures and medications to manage our patients, but very few of us have any idea how much any of those things cost. Patients rarely pay directly for these services and the payment for any service varies substantially from different payers. Billing charges for a medical service typically have little relation to the actual cost of the service or even to the expected reimbursement rate for that service.

Hospitals have separate billing departments that are far removed from anyone ordering or performing tests or procedures. No one directly involved with patient care has any notion of the charge or reimbursement for their service. Most private doctors' offices don't even bill their own patients—they contract billing companies, who just send them a check each month from the total amount collected, leaving them no notion of the actual charge or payment for any individual service they provided.

So for years we've been discussing the total cost of a system where almost all of the individual costs of that system are completely hidden from us. Is it any wonder the cost of health care in the U.S. has mystified so many?

My research started rather modestly. I collected bills my patients brought me from hospitals and diagnostic labs, and examined how much was charged for various medical services and what insurance companies actually paid for these services. I called pharmacies to ask how much medications cost my patients, and occasionally the pharmacist would also tell me what the pharmacy itself paid for them. I also called imaging centers and asked them how much they charged for different scans. To address the cost of litigation, I looked at malpractice premiums: mine and those of several of my colleagues.

As limited as my initial research was, it provided a lot of information I couldn't obtain from other sources. But in the years since, the scope of my research has broadened considerably. I've borrowed the computer skills of my brother (a medical scientist and software analyst) to examine and analyze years of financial records from hundreds of hospitals, as well as those of most major pharmacies, insurance companies and pharmaceutical companies. I've acquired weekly lists showing the average all pharmacies pay for every medication they buy, state by state statistics on medical malpractice costs going back more than two decades and much more.

The goal of this website is to provide the results of all of my research as well as to untangle and explain as much about the U.S. healthcare system as I can. The website itself contains many different sections that deal with the cost of different aspects of healthcare: medications, office visits, hospitalizations, tests, procedures and insurance. There are also sections that provide an extensive financial analysis of some of the industries in health care and several reference sections that provide hundreds of links to all of the sources and data I use.

I promise that each section on each type of medical cost will have a lot of information that seems bizarre. It seems bizarre because it is. When people talk about the "U.S. healthcare system," they often like to point to it as being a "free market system." What's bizarre is that nothing I'm going to describe looks very much like a market at all; either free or regulated. As I said, no one appears to know what anything costs—not the people buying (the patient), not the people selling (the doctors and hospitals). The cost of a product is a central feature to any market system. If no one knows what these costs are, how can this "market" be "free"?