

# THE KECKLEY REPORT

## May CPI Report shows Healthcare Prices Up 4%, but almost 14% for Health Insurance

June 13, 2022

Yesterday, the price of gas hit an all-time high of \$5.01 per AAA—from \$4.48 in Georgia to \$6.43 in California. In the last 12 months, prices for fuel oil (+106.7%), gas (+48.7%), used cars and trucks (+16.1%), electricity (+12.0%), groceries (+11.9%), transportation (+7.9%) and shelter (+5.5%) hit modern-era highs per the BLS May Report. Inflation hit a 40-year high at 8.6%.

Inflation-driven price increases is the lead story in every news outlet, supplanting gun violence and the January 6 insurrection. As the Fed meets this Wednesday to consider a 50-75 basis point borrowing rate hike intended to slow inflation, its toll on the public's psyche is a major concern:

- Per the Wall Street Journal-NORC Poll of 1071 adults May-May 17, 2022, 83% described the state of the economy as poor or not so good, 38% said their financial situation had gotten worse in the past few years and 35% said they aren't satisfied at all with their financial situation-- the highest level since NORC began asking the question every few years starting in 1972.
- Per the Federal Reserve's latest survey of 12,000 adults, 78% of Americans are confident in their personal financial well-being (up from 74% in 2017), but just 24% are confident in the U.S. financial well-being. (down from 41% in 2017 and 50% peak in 2021).

- Per the Economist and YouGov Poll, 55% believe the US is currently experiencing an economic [recession](#) (including 70% of Republicans and 55% of Independents) vs. 21% who don't believe the country is in a downturn and 24% said they aren't sure.
- Per the Pew Charitable Trust poll of 5,074 adults conducted April 25-May 1, 2022, only 20% say they trust the government in Washington to do the right thing "just about always or most of the time" and 60% say the government should play a do more in terrorism, immigration, the economy, access to health care and protecting the environment.

Comparatively, healthcare has seen relatively constrained price increases while the rest of the economy's price hikes have soared: In the last 12 months, the energy index rose 34.6%--the largest 12-month increase 2005, the food index increased 10.1 %--the first increase of 10% or more since 1981 vs. 4.0% for medical care--notably the lowest 12 month increase of any category in the CPI. The details are even more insightful:

In the last 12 months, per the BLS, prices for prescription drugs increased 1.9%, over the counter and self-care remedies increased 3.2%, medical devices & equipment increased 4.7%, physician services increased 1.1%, dental services increased 2.7%%, eyeglasses & eye care increased 1.4%, services by other medical professionals increased 4.5%, inpatient hospital services increased 3.9%, outpatient services increased 3.5%, nursing home & adult day care services increased 3.4%, care for individuals in the home increased 2.4% and insurance premiums increased 13.8%.

The reality is that these price increases, no matter how small, are passed through to purchasers in wildly variable pricing schemes that bear scant correlation to actual costs. And the industry's aversion to transparency and the enormity of its size (19% of GDP) means even modest price hikes impact utilization and heighten public criticism about access and affordability.

So, what's all this mean for healthcare?

Price sensitivity among consumers will increase in every sector of the economy including healthcare until inflation is controlled. Price sensitivity is significant in a subset of value-conscious consumers. It impacts industries or sectors in which consumers have choices and see little utility-value between high price and low-price options. This concept is widely understood in the travel, retail, and hospitality industries among others, but not so much in healthcare. That's changing. The growing accessibility of comparative performance data about drug efficacy, diagnostic accuracy, avoidable complications, physician competence, hospital administrative costs, user experiences,

total costs of care et al are foundational to price sensitivity in healthcare. Individual accountability for decisions, aided by personal decision-support devices, is next, and they're readily available now. Notable investments by venture capitalists in technology-enabled self-care is the bridge to consumer price sensitivity and price-driven healthcare.

The complicity of health insurers in healthcare price inflation will heighten tensions between providers and payers. The BLS CPI data unveil a startling reality: health insurers are able to define what's covered, raise premiums, reduce reimbursement to providers and pass healthy premium increases through to groups and individuals. They own pharmacy benefits managers who profit from drug price escalation in the supply chain and withhold discounts negotiated with drug makers from retail pharmacies. They have claims data, relationships with employers and significant sway over state insurance commission regulations.

While legitimately alerting their customers to the lack of price transparency, waste and inexplicable variability in the performance of providers, they enjoy tremendous clout. Like hospitals, they keep their secret sauce secret, but increasingly the spotlight has turned to their coverage and denial methods, risk-scoring and premium setting calculus, executive compensation, investment activities, member experiences and more. As provider organizations, particularly hospitals and medical groups, pursue risk sharing arrangements with insurers, tension will mount. Neither trusts the other, and there's lots of money at stake.

The attractiveness of low-price goods and services in healthcare will increase significantly. While hospitals, physicians and traditional providers war with payers over negotiated rates of reimbursement, start-ups not tethered to traditional payment schemes will gain market share. Insurtechs, over-the-counter therapeutics, self-care technologies and price estimator apps will flourish, especially those with access to private equity capital and online operating platforms that equip consumers to compare prices and choose wisely.

Price-driven purchasing in healthcare is here: its focus is outpatient, physician services and high-cost acute hospital services and its detractors are incumbents for whom prices obscure their actual costs and results.

In every sector of the U.S. economy, price sensitivity is increasing. It's driving purchasing decisions by individuals, households and employers. The U.S. healthcare system is not immune to these forces. In our industry, price opacity is SOP: it's what makes us, like education, an industry able to pass thru cost increases routinely, price based on what the market can bear and build reputations impervious to consumer pressure for price controls.

Consumer healthcare price sensitivity has been latent in healthcare. It has not

translated to consumer activism but it will. In some states, in some companies and in many households, healthcare prices are on the radar. Few in the industry are taking it seriously.

The key takeaway from the May BLS CPI report is this: healthcare prices in the last 12 months across the board have gone up and the biggest beneficiary are health insurers. Stay tuned.

### **Resources:**

*US Bureau of Labor Statistics Consumer Price Index May Report June 10, 2022*

[www.bls.gov](http://www.bls.gov)

*Distribution of Household Wealth in the U.S. since 1989 Federal Reserve*

[www.federalreserve.gov](http://www.federalreserve.gov)

*Wall Street Journal NORC*

*“Americans’ Views of Government: Decades of Distrust, Enduring Support for Its Role”*

*Pew Research June 6, 2022*[www.pewresearch.org/politics/2022/06/06/americans-views-of-government-decades-of-distrust-enduring-support-for-its-role](http://www.pewresearch.org/politics/2022/06/06/americans-views-of-government-decades-of-distrust-enduring-support-for-its-role)

*Health Care Cost Institute* [www.healthcostinstitute.org](http://www.healthcostinstitute.org)

*Understanding the Global Price-Sensitive Consumer Boston Consulting Group July 14, 2021* [www.bcg.com](http://www.bcg.com)

*The Role of Prices in Excess US Health Spending Health Affairs June 9, 2022*

[www.healthaffairs.org/doi/10.1377/hpb20220506.381195](http://www.healthaffairs.org/doi/10.1377/hpb20220506.381195)

*Research points to high prices in the private sector as a critical driver of excess health spending and growth in the US. June 9, 2022* [10.1377/hpb20220506.381195](http://10.1377/hpb20220506.381195)

*Consumer Price Index Summary May 2022 BLS June 10, 2022* [www.bls.gov](http://www.bls.gov)