

# Liability, Malpractice Costs Eat 10% of Premiums

BY JOYCE FRIEDEN

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WASHINGTON — The costs of malpractice insurance and defensive medicine account for about 10 cents of every dollar spent on health care premiums, several speakers said at a press briefing sponsored by America's Health Insurance Plans.

Medical liability and defensive medicine represented the "lion's share" of cost increases in the physician and outpatient ar-

reas, Michael Thompson, principal at the New York office of PricewaterhouseCoopers, said at the briefing.

Litigation and defensive medicine also accounted for about a third of the costs associated with poor-quality health care, said Mr. Thompson, noting that the cost of poor-quality care was spread throughout the health care system.

According to AHIP President Karen Iagnagni, efforts must be made to reduce the amount of poor-quality care being given.

"We have a system where 45% of what's being done is not best practice," she said. "No public or private entity could operate at that rate."

Overall, the rate of increase in health care premiums was 8.8% in 2004-2005, down significantly from 13.7% in 2001-2002, noted Jack Rodgers, managing director at PricewaterhouseCoopers. One factor contributing to the slowdown was a decrease in the rate of cost increases for prescription drugs, according to Mr.

Thompson. "It's now trending in line with overall premiums," he said.

Part of the reason for that decrease is employers' increasing use of three-tiered or four-tiered drug programs, in which patients pay a larger share for brand-name drugs, especially if there are generic equivalents. In 2000, only 27% of patients were in drug plans with three or more tiers; in 2004, the figure was 68%, he said.

In addition, cost trends were helped by a drop in the number of state mandates that are being added each year, from 80 in 2000 to less than 40 in 2004, Mr. Thompson said.

Outpatient costs rose significantly last year, Mr. Rodgers said. "Those are the services that are really growing rapidly." The increase in outpatient services accounted for more than a third of the 8.8% increase in premiums, he noted.

Despite these problems, Mr. Thompson said in an interview that he did not expect premium increases to go higher next year. "We're looking at the same number or maybe a little lower," he predicted. ■

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