



# KITCHEN TABLE ECONOMICS

## How Much Do We Really Pay for Health Care?

If somebody asked you to explain how much you pay for healthcare, what would you say?

Most of us would calculate our answer based on what we pay out of pocket. The majority of us have a premium deducted from our monthly check, and then there's office visit co-pays, prescriptions, annual deductibles for hospitalizations, and so forth. That's what we think we pay for healthcare. Some think it's a lot.

It's really a very tiny fraction of the cost we are all personally paying, yet never realize it.

David Goldhill, CEO of Game Show Network, is the author of "Catastrophic Care: How American Health Care Killed My Father - And How We Can Fix It." He calculated the real cost of health care for a typical healthy American lifespan and came up with a shocking number.

First, understand that health insurance is just another way your employer compensates you for the work you do. For tax reasons, it is better for you that the employer buys the health insurance: Your health care is bought with untaxed money. But to the employer, there is no difference: \$6,000 is \$6,000, whether spent on giving you a raise or buying health coverage for you.

Either way, every nickel comes from your own pocket.

So imagine you are an entry-level employee: Salary \$35,000 (before taxes), and receiving a health plan that costs \$7,500. The employer pays \$6,000 of that plan and charges you a \$1,500 annual premium.

You may think of yourself as a \$35,000 worker with \$1,500 in medical premium bills, but your employer sees you as a \$41,000 employee (\$35,000 + \$6,000.) Already, that's \$6,000 of the \$7,500 hidden from you, and it will cost more as you grow older and raise a family. Family policies can easily cost double: \$15,000.

It gets worse. Goldhill explains that annual paycheck deductions for Medicare (\$508) also need to be added to your tab. Your employer also pays Medicare taxes for you (\$508) that you don't see. And there's the taxes you pay to state and federal governments: Medicaid and other government health spending chews up 10 percent of state taxes and 20 percent of federal taxes.

And so forth. Just in your first year, you'll really pay more than \$10,000 for health care, despite your \$35,000 salary.

Assume a 4 percent raise each year, retirement at 65, and death at 80. Your lifetime earnings will be \$3.85 million, and Goldhill calculates you will pay \$1.9 million of it for health care!

In previous Kitchen Table Economics lessons we explained how the hidden cost of the medical care you buy contributes to the huge increases in health care spending. This is the flip side: The hidden personal bottom line for a runaway system with no price controls.

We need a real health reform law that puts patients in charge of their \$1.9 million.