Why doesn't my insurance company cover alternative medicine therapies? Wouldn't they save a lot of money?

Alternative practitioners have for decades touted the cost effectiveness of naturopathic medicine and alternative therapies but it has only been recently that research has borne this out. It seems logical to many that if insurance companies covered alternative therapies, that in the long run they would make more money. As an example, if an insurance premium costs $5000.00 per year and only half of the services were used (a pretty good estimate as per some of the recent data), then the insurance company would make a $2500.00 profit. Multiplying this by the numerous policies that they sell can add up to a lot of money.

So one would think that alternative medical practices that save money and make people healthy would be embraced by insurance companies wanting to turn higher profits for shareholders. Think again! In a given premium year, that scenario makes sense. But over multiple years of the policy, it does not.

This is simply because the way the system has evolved; the more that medical services are utilized, the more medical services cost, and in the process, the insurance company over the long term makes a greater profit. This is accomplished by what is known as the 80/20 rule.

The 80/20 rule in essence says that 80% of insurance premiums paid in must be put back into health care with the remaining 20% used for insurance company administration, overhead and advertising. So how does this translate to greater profits for insurance companies? The reason is that insurers are essentially cost-plus operators. This means that the more that medical services cost, over the long term, insurance companies will make more money.

Say that an insurance premium costs $3500.00 per year in the first year. The insurance companies take is $700.00. But as utilization rises, so do premiums and when it rises to say $5800.00 per year, the company pockets $1160.00. As time goes on, and premiums rise due to inflation and utilization, a policy that now costs a family $16000.00 per year nets the insurance company $3200.00.

Insurance companies are perversely incentivized in that they benefit from the increase and maintenance of disease because it increases health care costs. Their bottom line here is that when you are trying to make a profit, as well as satisfy shareholders, increasing premiums are in your best interests. In order to increase premiums, medicine becomes disease management rather than preventive care and wellness because you can charge more over the life of the policy.

In essence this means that insurance companies can write their own ticket, sort of like the fox guarding the hen house. This becomes all the more difficult to change because insurance companies are exempt from anti-trust regulation, which means they can do just about anything they please and not be held accountable. They have accomplished this by employing one of the largest groups of lobbyist in Washington, DC.

Not only do insurance companies promote disease maintenance, but they also reward physicians for providing drug therapy and immunizations, a topic we will explore later.

Source: The Integrator Blog – John Weeks

September 2016