



THE TRUE COST OF HEALTHCARE: WHERE EVERY DOLLAR GOES

By Jason Shenefield, President and CEO, Phelps Health

If you've ever looked at a hospital bill and wondered, "Why does healthcare cost so much?"—you're not alone. It's one of the questions I hear most often from our community, and I understand why. Healthcare costs are confusing, and the way hospitals are reimbursed can seem like a mystery.

The truth is, there's no single reason why healthcare is expensive. Instead, it's the result of many moving parts—some we can control, and many we can't. But what I can do is help explain where those dollars go, and what Phelps Health is doing to make care as affordable and sustainable as possible.

HEALTHCARE IS PEOPLE

At the heart of every dollar we spend is one simple fact: healthcare is built on people.

About 60–65% of a hospital's total expenses go toward salaries, wages and benefits. That's because the most essential part of care isn't equipment or technology—it's the doctors, nurses, technicians, therapists, environmental services staff and others who make up our care teams.

When you receive care at Phelps Health, you're being cared for by highly trained professionals who have dedicated their lives to helping others. Recruiting and retaining these skilled individuals, especially in rural areas, requires competitive pay and benefits. It's an investment in people—and ultimately, in the safety and quality of your care.

RISING COSTS BEYOND OUR WALLS

Like every business and household, hospitals face rising costs. Over the past decade, the price of medical supplies, pharmaceuticals and technology has increased dramatically. A single piece of diagnostic or surgical equipment can cost hundreds of thousands of dollars—and keeping up with new technology is essential to providing safe, modern care.

We also absorb costs that aren't always visible:

- **Uncompensated care:** Every year, hospitals like ours provide millions of dollars in free care—whether it's through charity care, unpaid bills or services provided to patients who don't have insurance.
- **Regulatory compliance:** Meeting hundreds of state and federal requirements—from documentation to data security—takes significant time, staff and systems.
- **Infrastructure:** Maintaining 24/7 facilities—lighting, heating, cooling and emergency readiness—is costly, even when beds aren't full.

Each of these areas adds to the cost of care, but they also ensure safety, access and reliability for our patients.



WHY HOSPITAL CHARGES AND PAYMENTS DON'T ALWAYS MATCH

Another point of confusion comes from how hospitals are paid. Many assume the amount billed to an insurance company or patient is what the hospital receives. In reality, that's rarely the case.

Here's a simple example:

If a hospital bills \$1,000 for a service, the insurance company may pay only \$600, based on pre-negotiated rates. For Medicare or Medicaid patients, that payment might be even less—sometimes not enough to cover the actual cost of providing the service.

Across the country, Medicare and Medicaid reimburse hospitals below the actual cost of care. Private insurance payments help offset some of that shortfall, but not all. When you add in the cost of uncompensated care, the financial picture becomes even tighter.

That's why it's crucial for hospitals to operate efficiently and carefully manage every resource. At Phelps Health, we take that responsibility seriously. Every dollar we earn goes right back into improving patient care, upgrading facilities, expanding services and supporting our staff.

WE'RE WORKING HARD TO KEEP CARE AFFORDABLE

While some cost pressures are outside our control, we're constantly finding ways to be good stewards of our resources and to directly impact affordability.

One major initiative we've launched is Phelps Health Preferred—a direct-to-employer health insurance product designed to make care more affordable for local businesses and their employees.

Through Phelps Health Preferred, we partner directly with employers to provide high-quality care at better pricing by removing traditional insurance companies from the middle. This approach allows us to:

- Offer lower premiums and overall savings to employers on their healthcare costs
- Provide employees with low or no co-pays and deductibles, making care more accessible
- Work directly with employers to create wellness programs that help improve employee health and reduce long-term costs

By keeping care local and simplifying the relationship between the hospital, employer and patient, we can focus more on prevention, early treatment and long-term health—all of which reduce costs over time.

Phelps Health Preferred is a great example of how we're thinking differently—finding new ways to serve our community, strengthen local businesses and make healthcare more sustainable for everyone.

Beyond that, we continue to:

- Invest in preventive and outpatient care to reduce hospitalizations and keep patients healthier
- Use technology wisely to improve efficiency and reduce duplication of services
- Collaborate with other health systems and community partners to share expertise and reduce waste



- Support local access so patients don't need to travel far for high-quality care, which can increase costs in other ways

We know healthcare is one of the biggest expenses families face, and we never take that lightly. Our mission is to provide high-quality care at the best possible value—not to maximize profit.

A SHARED RESPONSIBILITY

The cost of healthcare is ultimately something we all share—patients, hospitals, insurers, employers and policymakers. None of us can fix it alone. But by understanding how the system works, we can have better conversations about how to make it stronger and more fair.

At Phelps Health, our focus remains on you—our patients and our community. We will continue to push for innovation, efficiency and transparency while maintaining the quality and compassion you deserve.

A FINAL THOUGHT

Healthcare costs are complicated, but our commitment is simple: to use every dollar wisely in service to your health.

When you walk through our doors, we want you to know that every member of our team—and every resource we have—is dedicated to one goal: providing exceptional care for our community, both today and for generations to come.

About This Series

At Phelps Health, we know that while healthcare touches everyone in our region, the system behind it can feel complicated and confusing.

“Understanding the Realities of Healthcare” is a series of articles and podcasts that goes behind the scenes at Phelps Health to explain the pressures, decisions and changes shaping care today.

Created by Jason Shenefield, president and CEO of Phelps Health, this series explores topics like staffing, costs, regulations and innovation—and how they impact the patients and communities we serve.

We invite you to follow along, learn with us and help us build a future that delivers the care and compassion you've come to expect from Phelps Health.

Learn more at phelpshealth.org/realities-of-healthcare.