



Health Policy Snapshot

Health Care Costs

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What are the biggest drivers of cost in U.S. health care?

Takeaways:

- U.S. health care costs continue to rise, with per capita costs already the highest in the world.
- Higher prices, worse efficiency and the cost of insurance administration are the leading reasons U.S. costs are higher.
- Significant factors driving growth in spending are medical technology, obesity and low productivity gains in health care.

Overview

The United States spent an estimated \$2.5 trillion on health care in 2009, according to the federal government's National Health Expenditure Accounts. This translated to 17.6 percent of the country's gross domestic product and per capita costs of \$8,086. Between 1985 and 2006, health care spending rose by an average of 7.7 percent each year, while GDP rose only 5.6 percent per year. High costs in health care strain state and federal governments and make it difficult for people to afford health insurance.

COSTS ARE HIGHER IN UNITED STATES

Health care costs in the United States are substantially higher than in other developed countries. This is true even though the United States

does not provide objectively better access to care or quality of care. The chief factors behind these high costs are higher prices, worse efficiency and higher cost of insurance administration.

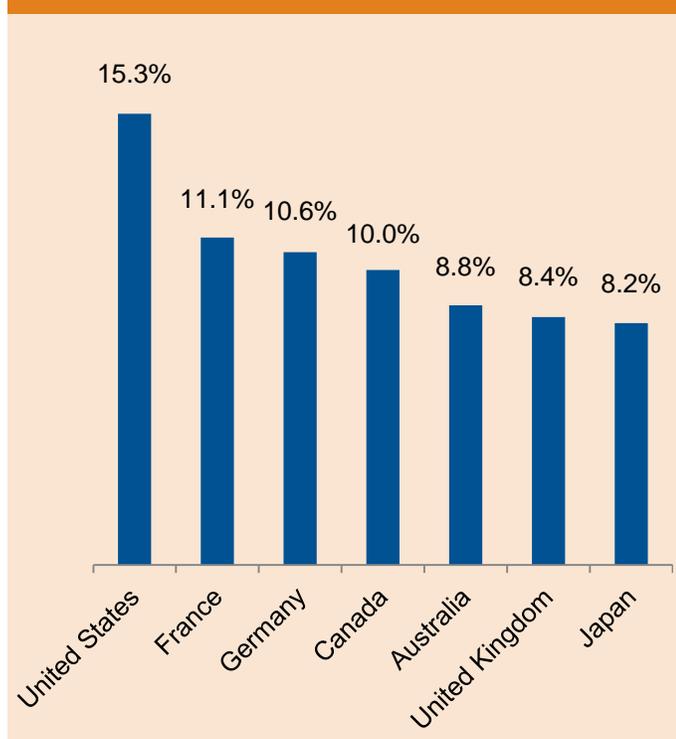
- **Higher Prices:** A study by the McKinsey Global Institute (MGI) estimated that U.S. drug prices are 70 percent higher than the average in the member countries of the Organization for Economic Cooperation and Development (OECD). Compensation for U.S. physicians is 6.6 times per capita GDP for specialists and 4.2 times for primary care physicians. OECD countries have lower ratios of 4 and 3.2, respectively.
- **Less Efficiency:** Costs at U.S. outpatient facilities are higher, often because of excess capacity. For example, facilities will maintain more CT scanners than they need and conduct relatively few scans per scanner.
- **Higher Cost of Insurance Administration:** The MGI study estimated that the administrative costs of insurance—marketing and sales, underwriting, claims processing, utilization review and profits—are six times higher in the United States than the OECD average.

FACTORS DRIVING SPENDING GROWTH

- **Medical Technology:** Medical technology is the number one force behind higher health care expenditures, accounting for an estimated 38 percent to more than 65 percent of spending increases. Technology drives spending through the

substitution of higher-cost services for lower-cost options and the expansion of available treatments.

Health Expenditures as a Share of GDP (2006)



Many technologies that have very high value for some patients – meaning, improved outcomes in relation to costs – are applied too broadly, with little benefit for many patients.

- **Obesity:** Obesity is a significant factor in health spending, accounting for an estimated 12 percent of the growth in recent years. Reducing obesity or improving overall health status can save money in the short and intermediate term, although some savings will be offset by increased longevity and the cost of diseases that are most prevalent among older Americans.
- **Low Productivity Gains:** Productivity gains in the health care sector probably have been lower than in other industries. In part this may result from little price competition among providers because of extensive third-party payment. It may also result from payment policies that reward

providers based on volume of services rather than the value of care.

LESS IMPORTANT FACTORS IN SPENDING

- **Access to Insurance:** People with health insurance are more likely to use health care. Although the number of Americans with health coverage has risen over the past several decades – a trend that accounted for about 10 percent to 13 percent of the historical growth in health care spending – the expanding ranks of uninsured since the late 1990s have meant insurance coverage has not contributed to the recent growth in health spending.
- **Demographics:** Demographics account for a very small percentage of the growth in spending. Notwithstanding differences in methodologies, studies consistently conclude that aging has not been a major factor in driving health care spending and will not become one despite the aging baby boomers.
- **Malpractice Claims:** Premiums for liability coverage and defensive medicine do contribute to health spending at any particular moment, but they are not a significant factor in the overall growth of health care spending.

Adapted from the Synthesis Project Report No. 16, “High and rising health care costs: Demystifying U.S. health care spending,” October 2008.

WANT TO KNOW MORE?

- [*High and rising health care costs: Demystifying U.S. health care spending \(RWJF\)*](#)
- [*Accounting for the Cost of Health Care in the United States \(McKinsey Global Institute\)*](#)
- [*Historical National Health Expenditure Data \(Centers for Medicare and Medicaid Service\)*](#)