High and Rising Health Care Costs: Demystifying U.S. Health Care Spending

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Synthesis Report and Brief Available at www.policysynthesis.org
The Synthesis Focuses on These Questions:

- What are the historical data on health care spending?
- Are health care costs too high?
- How does U.S. health care spending compare with that of other nations?
- What are the primary drivers of the growth of U.S. health spending?
- What options do policy-makers have for restraining the growth?
High and Rising Spending

- Spending is high
  - In relation to income and to other countries

- Spending is rising rapidly
  - Gap between NHE growth and GDP growth exceeds 2 percentage points per year

- Distinction important to understanding drivers
What are the Historical Data on Health Spending?

Percent Change

- National health expenditure
- GDP

Year: 1985, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 00, 01, 02, 03, 04, 05, 06
Long Range Projections of Spending

- Extrapolations produce impossible results
- Recent projections start from what growth is acceptable
  - CBO: No declines in non-health spending
  - Implication: Gap for 2018-2082 needs to be brought down to 1 percentage point (falling to 0.4 pp by 2082)
Are Health Costs Too High? (1)

- Role of third-party payment
- Perspective of value
  - Some care applied beyond where value is high
  - Vioxx
  - Geographic variation
- Increasing problems of affordability
Are Health Costs Too High? (2)

- Insurance premiums outpacing earnings
  - Increasingly a middle-class challenge
  - Does it burden employers as well as employees?
- Huge burden for governments
  - Crowd-out and higher taxes
- Spur to economy?
  - In select circumstances, but not nationally
Are Health Costs Too High? (3)

Issue of Affordability

- Health Insurance premiums
- Average weekly earnings

Year:
- 1988
- 89
- 90
- 91
- 92
- 93
- 94
- 95
- 96
- 97
- 98
- 99
- 00
- 01
- 02
- 03
- 04
- 05
- 06
- 07

Percentage:
- 18.0%
- 14.0%
- 12.0%
- 8.5%
- 0.8%
- 5.3%
- 8.0%
- 12.9%
- 13.9%
- 11.2%
- 9.2%
- 7.7%
- 6.1%
- 3.8%
Key Factors Behind International Differences

- Higher prices in U.S.
  - Drug and device prices
  - Physician compensation
- Excess outpatient capacity
- Insurance administration
  - U.S. spending is 6 times that of other OECD countries
What is Driving the Growth in Health Care Spending?

- Advancing technology
- Declining health status
- Only small productivity gains in delivery

*Not*

- Demographics
- Medical malpractice
Technology

- Technology accounts for between one-third and two-thirds of the growth in health spending
- Technology drives spending through both substitution and expansion
  - Much technology welcomed
  - But some does not provide sufficient value
    - Applied too broadly
Health Status

- Increasing rates of obesity a major driver of health care spending
  - Explains approximately 12 percent of growth in health spending (CBO)
- Will continue as driver until obesity trend is reversed
Productivity

- Productivity in the health care sector likely increasing at low rate
  - Little competition on the basis of price
    - Benefit structures offer little reward for choosing low-cost providers
    - FFS payment penalizes rather than rewards reengineering care to increase efficiency
Myths About Cost Drivers

- Demographic trends (aging baby boomers) explain little of growth in health care spending
  - Research literature versus the myths
- Medical malpractice is neither a large factor in health care costs being high nor a major driver of spending growth
Options for Policymakers (1)

- Better target medical technology to patients likely to obtain high value
  - Effectiveness research
  - Provider payment reform
  - Consumer incentives and support
- Reduce obesity and improve wellness
- Improve efficiency through provider payment reform
Options for Policymakers (2)

- Address supply side drivers
  - Provider payment reform
  - Regulation of physician self-referral
  - Direct regulation of capacity

- Increase efficiency of insurance distribution to small groups and individuals
Project Information

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