Data Bulletin

Results from HSC Research

TRACKING HEALTH CARE COSTS: *Hospital Care Key Cost Driver in 2000*

This Data Bulletin is based on data from the Milliman USA Health Cost Index ($0 deductible), which is designed to reflect claims increases faced by private insurers; the Kaiser Family Foundation/Health Research and Educational Trust survey of employer-based health plans for 1999-2001; the KPMG survey of employer-based plans for 1991-98; the U.S. Bureau of Labor Statistics Employment, Hours and Earnings series to track payroll costs; and Center for Studying Health System Change 2000-01 site visits (see www.hschange.org*). The bulletin is adapted from "Tracking Health Care Costs," by Bradley C. Strunk, Paul B. Ginsburg and Jon R. Gabel,* Health Affairs*, Web-exclusive publication, Sept. 26, 2001,* www.healthaffairs.org.

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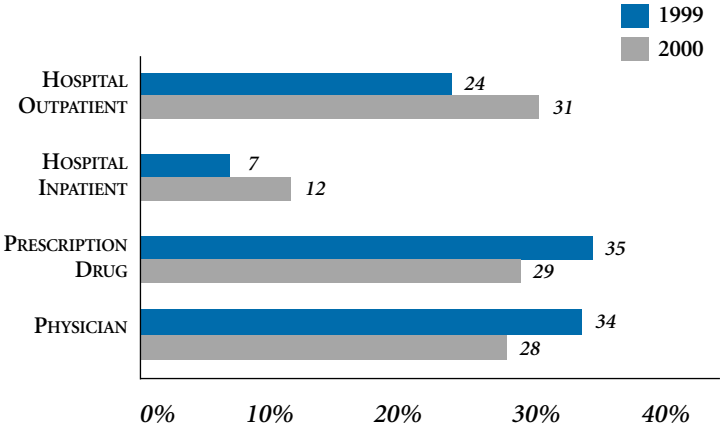
CENTER *for* STUDYING HEALTH SYSTEM CHANGE

FIGURE 1

SOURCES OF COST INCREASE, 1999 AND 2000



Note: 1999 sources of cost increase reflect August 2001 revision in spending data by Milliman USA.

Source: Milliman USA Health Cost Index ($0 deductible)

Hospital spending accounted for the largest portion—43 percent—of medical cost increases in 2000 (see Figure 1). Overall, health care spending growth per privately insured person increased 7.2 percent in 2000—the largest year-to-year increase since 1990 (see Table 1).

Rapid rises in underlying medical costs, double-digit premium increases and the slowing economy could create a volatile combination that may increase consumers' out-of-pocket costs and the ranks of the uninsured.

Underlying Cost Trends

In 2000, health care spending reflected significant shifts in growth of underlying cost components, particularly for hospital services (see Figure 1).

- Spending for outpatient care increased 11.2 percent in 2000, accounting for 31 percent of the overall increase. The 2000 outpatient spending increase was the largest since 1992.
- Spending for inpatient care increased 2.8 percent in 2000, accounting for 12 percent of the overall increase. The inpatient increase signals a dramatic departure from the 1994-98 trend, when inpatient spending actually declined year-to-year by as much as 5.3 percent.

Consumer demand for broad networks of hospitals and physicians and the retreat from tightly managed care—coupled with hospital consolidation and reduction in excess capacity—have increased some hospitals' bargaining leverage with health plans. Growing numbers of contract showdowns between providers and health plans are occurring as providers use their clout to gain higher payments.

Health care payroll growth also is a key driver of overall costs. Payroll costs for all health services increased 4.7 percent in 2000, compared to 3.1 percent in 1999, while hospital payroll costs increased 3.7 percent in 2000, compared to 2.6 percent in 1999. The higher payroll growth in 2000 is largely accounted for by increased growth in hours worked rather than faster-growing average hourly wages. But during the first five months of 2001, average hourly wage growth increased sharply, particularly for hospitals, perhaps because of nursing and other staff shortages.

Other underlying cost trends include:

- Spending growth for prescription drugs—while still very high—slowed, dropping to 14.5 percent and accounting for 29 percent of the overall increase in 2000. Two factors likely caused the reduction: a lack of new "blockbuster" drugs and the shift to three-tier pharmacy benefits.
- Spending growth for physician services slowed in 2000 to 4.8 percent, accounting for 28 percent of the overall increase.

Implications for Consumers

In 2001, employer-based insurance premiums increased 11 percent—the fifth straight year of rising premiums and the highest increase since 1993.

The large difference between the 2001 premium increase and the underlying cost increase in 2000—11 percent vs. 7.2 percent—reflects both expectations of higher costs and the health insurance underwriting cycle, or the pattern of premium trends diverging from expected costs. The expectation of higher costs is reflected in the 9.5 percent premium increase for self-insured plans in 2001. The underwriting cycle is reflected by the much higher premium increase of 12.3 percent for fully insured plans in 2001, signaling insurers' willingness to sacrifice market share to restore profit margins.

Insured consumers generally have been sheltered from cost increases in recent years because employers have paid a disproportionate share of higher premiums in past years. In 2001, the employee share of premiums remained stable at 15 percent for single coverage and 27 percent for family coverage. But, with a slowing economy, this could change. Indeed, employers have increased patient cost sharing already for pharmaceuticals and are expected to do the same for hospital and physician services. In contrast to the last time cost trends were this high—in the early 1990s—the cost-containment strategies of managed care are now in retreat, leaving few ways to stem the rising cost tide. ●

TABLE 1

ANNUAL SPENDING AND PREMIUM TRENDS, 1991-2001

	Annual Change per Capita in Health Care Spending, by Component					Annual Increase in Employer-Based Insurance Premiums	
YEAR	HOSPITAL INPATIENT	HOSPITAL OUTPATIENT	PHYSICIAN	PRESCRIPTION DRUGS	ALL SERVICES	LARGE FIRMS[b]	ALL FIRMS
1991	*3.5%*	*16.8%*	*5.4%*	*12.4%*	*6.9%*	*11.5%*	[c]
1992	*2.8*	*13.9*	*5.9*	*11.7*	*6.6*	*10.9*	[c]
1993	*4.8*	*8.9*	*3.3*	*7.1*	*5.0*	*8.0*	*8.5%*
1994	*-2.0*	*8.7*	*1.7*	*5.2*	*2.1*	*4.8*	[c]
1995	*-3.5*	*7.9*	*1.9*	*10.6*	*2.2*	*2.1*	*2.3*
1996	*-4.4*	*7.7*	*1.6*	*11.0*	*2.0*	*0.5*	*0.8*
1997	*-5.3*	*9.5*	*3.4*	*11.5*	*3.3*	*2.1*	[c]
1998	*-0.6*	*7.9*	*4.8*	*14.1*	*5.3*	*3.3*	*3.7*
1999	*1.6*	*8.9*	*5.7*	*18.4*	*7.1*	*4.1*	*4.8*
2000	*2.8*	*11.2*	*4.8*	*14.5*	*7.2*	*7.5*	*8.3*
2001	*3.5*[a]	*12.5*[a]	*4.8*[a]	*15.2*[a]	*7.7*[a]	*10.2*	*11.0*

[a] Data through March 2001, change from corresponding months in 2000. [b] Firms with 200 or more workers. [c] Not available.

Note: Spending data for 1998 and 1999 reflect August 2001 revision by Milliman USA.

Source: Milliman USA Health Cost Index ($0 deductible), Kaiser/HRET survey of employer-based health plans for 1999-2001 and KPMG survey for 1991-98

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