# Health Care Costs 101

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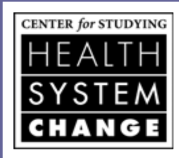
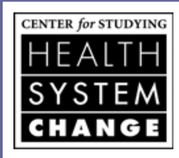
Presentation to Association of Health Care Journalists, March 28, 2008



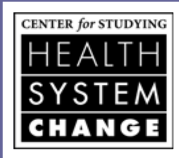

# Center for Studying Health System Change (HSC)

- Analyzing local and national changes in financing and delivery of health care
  - Surveys of households, physicians
  - Site visits to 12 representative metropolitan areas
- Active dissemination program
  - Following in policy world, media, industry, researchers, educators
  - www.hschange.org
- Funding from foundations and government agencies
  - Longtime support from Robert Wood Johnson Foundation



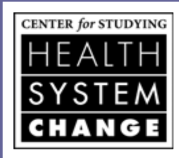

# Why We Need to Focus on Costs

- Rising costs undermining mechanisms to finance health care
  - Private insurance
    - Premiums growing faster than earnings
      - Affordability problem moving into middle class
  - Public insurance
    - Increasing share of state and federal budgets
    - Revenue growth in rough proportion to income
      - But costs of Medicare and Medicaid rising appreciably faster
      - Results: crowd-out, higher taxes, deficits
- Continuation of current trends will lead to more uneven access to care



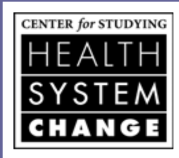

# Different Measures of Costs

- National health expenditures (NHE)
  - By payer and payee
  - Comprehensive
- Health insurance premiums
  - Employer and employee contributions
  - Differences between premiums and NHE
    - Privately insured vs. entire population
    - Benefit buy downs
    - Underwriting cycle



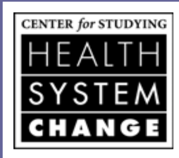

# High Costs and Rising Costs

- Evidence for costs being high comes from international comparisons
  - U.S. 15.3% of GDP in 2005
    - Switzerland 11.6%
    - France 11.1%
    - Germany 10.7%
    - Canada 9.8%
  - MGI: Adjusting for income, U.S. spends extra $477 billion
- Problem with rising costs comes from comparison of cost trends and income trends



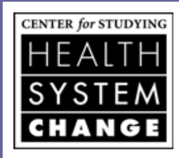

# Gap Between Premium and Earnings Trends: 1999-2007

- Premiums increased 114%
  - 10% average annual increase
  - Would be higher if not for benefit buy downs
- Earnings increased only 27%
  - 3% average annual increase
- For 1960-2006, gap between health care spending and GDP of 2.5 percentage points per year
- Gap explains three-quarters of long-term decline in coverage (Kronick)



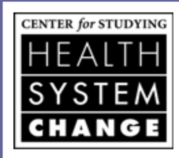

# Drivers of the Cost Trend

- Rising population incomes
- Developments in medical technology
- Less healthy lifestyles
- Only small productivity gains in delivery of services
- New patterns of competition in health care
- Aging of the population
- Not on the list: medical malpractice, benefit mandates




# Technology and Spending

- More effective treatments
  - Accomplish more
  - Involve less risk and disability
  - Tendency to overuse to point of limited or negative results
- Marginally effective, ineffective or harmful treatments
  - Little funding for effectiveness research
- Half to two-thirds of spending trend from advancing technology

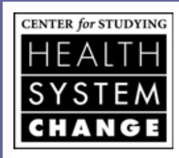



# Less Healthy Lifestyles

- Obesity playing significant role in spending growth
  - Higher impact in future expected
    - Continuing increase in obesity
    - Higher relative spending than in past
- Declining smoking has held down cost trend
  - But still contributes to costs being high

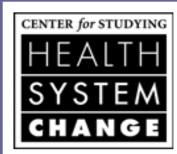
# Limited Productivity Gains

- Prosperity of American economy comes from substantial gains in productivity
  - Trend came late to services but now substantial
  - Much less in health care
- Lack of the right incentives for health care providers
  - Only incentives on costs per unit
  - Few incentives to
    - Produce episodes of treatment more efficiently
    - Produce better health efficiently
- Evidence of wide variation in efficiency of medical care



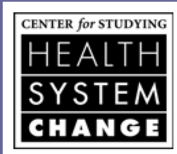

# Role of Aging Often Overstated

- Aging contributes about a half percentage point per year to spending
  - The most sophisticated studies get even lower numbers
- Distinct from the *financing* challenge
  - Sharp increase in Medicare spending begins in 2011
- Contradiction between consistent research findings and popular opinion
  - Many would like us to believe that rising spending mostly from aging
    - Implication that we must accept it



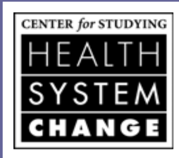

# Why Containing Costs is Hard

- Role of influentials
  - Rising costs not a threat to their access
  - Cost containment might be a threat
  - For employers, retention of skilled workers trumps health care cost savings
- All spending is someone's income
  - Increasingly effective lobbying to protect incomes
- Fragmented delivery system
  - Barrier to shifting from piecework industry to one that takes responsibility for patients/populations



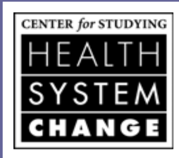

# Political Leaders Afraid to Lead

- "Costs can be contained without sacrifice"
  - Claims of large savings through reducing waste
  - Today's painless solutions:
    - Quality reporting and P4P
    - Health IT
    - Effectiveness research
  - All emphasize quality improvement over cost containment
- Containing costs will include pain
  - Getting less care—some of value
  - Less income for providers




# Issues in Devising Cost-Containment Strategies

- Importance of equity
  - Services available to low-income persons
  - Degree of variation by ability to pay
- Public's tolerance of administrative controls
  - By governments
  - By insurers or providers
- Confidence in potential of markets in health care




# How Much Can the U.S. Afford?

- Near term/intermediate term
  - Threat of financing systems failing—slowly
- Long term
  - Even lower growth rates in relation to GDP lead to implausible results
    - Smaller spending/GDP gap will be achieved
      - Some combination of more efficient delivery and more difficult access to care
      - Success on the former will determine magnitude of the latter