



Growth Rates in Health Care Costs Are High and Stable

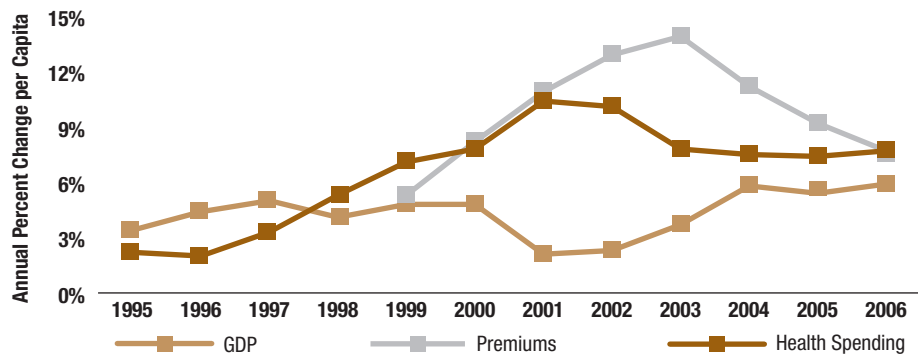
POLICY PERSPECTIVE

AS HEALTH INSURANCE BECOMES INCREASINGLY UNAFFORDABLE, PRESSURE FOR GOVERNMENT ACTION WILL BUILD. POLICY-MAKERS COULD CONSIDER MEASURES TO ADDRESS THE FACTORS FUELING THE HEALTH CARE COST TREND SUCH AS THE RISE IN OBESITY AND THE RAPID EXPANSION OF SPECIALTY MEDICAL FACILITIES.

The Issue

Over the last decade, the impact of rising U.S. health care costs has been felt by individuals, employers and government budgets. The annual growth rate of health spending per privately insured person reached a peak in 2001 and 2002, at 10 percent. Since then, the rate has stabilized at 7 to 8 percent annually. In recent years, rises in both health spending and health insurance premiums have outpaced economic growth (see graph below).

Health Care Spending per Privately Insured Person and Gross Domestic Product (GDP)¹



These alarming trends prompt concerns about the sustainability of current health care financing. New research conducted by Paul Ginsburg and colleagues at the Center for Studying Health Systems Change examines recent data on health care costs and health insurance premiums.²

The authors note two central factors that are likely to push cost trends higher: the rise in obesity and the rapid expansion of specialty medical facilities. They also note two factors that may put downward pressure on spending trends. First, patents for several high-selling drugs have recently expired or are slated to expire soon. Second, the degree of patient cost-sharing is growing at rising rates, which may lead patients to seek less costly providers or treatment alternatives. The study, "Tracking Health Care Costs: Continued Stability But At High Rates," was funded by the Robert Wood Johnson Foundation.³

Health Insurance Premiums

Growth in health insurance premiums has slowed since its peak at 13.9 percent in 2003. Premiums increased by 9.2 percent in 2005 and by 7.7 percent in 2006. This deceleration may not necessarily be to the advantage of consumers since it coincided with "benefit buy-downs," such as increases in deductibles, coinsurance and copayments. Large employers bought down benefits by 2.3 percent in 2006, smaller employers by 5.9 percent.

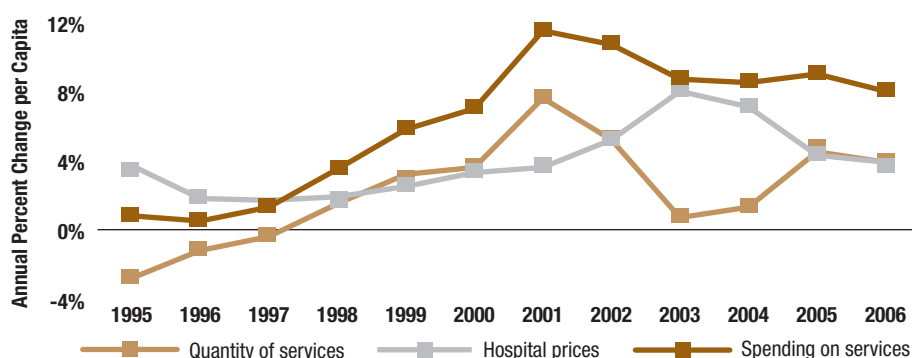
¹ RWJF Research Highlight—Growth Rates in Health Care Costs Are High and Stable

Components of Health Spending

The authors find that while the overall growth rate for health care spending has been consistent in the last few years, the various components of spending have fluctuated.

- **Hospital Spending.** Growth in total hospital spending accelerated slightly from 8.5 percent in 2004 to 9 percent in 2005. Inpatient hospital spending grew at 5.3 percent in 2004, and 7.1 percent in 2005. These positive growth rates appear high when compared to the decreases in inpatient hospital spending that occurred in the late 1990s. Although its growth rate declined slightly in 2005 (to 10.4%), outpatient hospital spending remains the fastest growing category of health spending (after “all other health care services”). The authors also break down hospital spending into price and quantity of services provided (i.e., utilization, length-of-stay and resource intensity per case). In the past decade, hospital prices grew much faster than service quantity, on average. Since 2005, however, growth rates for hospital prices and service quantity have converged around 4 percent (see graph below).

Hospital Spending Trends (Annual Percent Change per Capita)⁴



- **Prescription Drug Spending.** Prescription spending growth slowed for the sixth year in a row in 2005 when it grew by 4.8 percent. Nearly all of the deceleration was due to a slow-down in the rise of prescription drug use. Concerns about the safety of COX-2 inhibitors such as Vioxx played a role in curbing the growth of prescription use.
- **Physician Care Spending.** Spending on physician care increased by 6 percent in 2004 and by 7.1 percent in 2005. This acceleration is attributable to increased utilization of physician services, rather than faster growth in prices.

—Lauren Necochea

Lauren Necochea, M.P.A., is a Princeton-Robert Wood Johnson Foundation Policy Analyst.

1 Adapted from Exhibit 1 in Ginsburg PB, Strunk BC, Banker MI and Cookson JP. “Tracking Health Care Costs: Continued Stability But At High Rates in 2005.” *Health Affairs* Web Exclusive, October 3, 2006. This article is available at: <http://content.healthaffairs.org/cgi/content/abstract/blthaff.25.w486v1>.

2 Data on health care costs per privately insured person are from the Milliman Health Cost Index, Data on health insurance premiums are from the 2006 Henry J. Kaiser Family Foundation/Health Research and Educational Trust Survey.

3 Ginsburg PB, Strunk BC, Banker MI and Cookson JP. “Tracking Health Care Costs: Continued Stability But At High Rates in 2005.” *Health Affairs* Web Exclusive, October 3, 2006. This article is available at: <http://content.healthaffairs.org/cgi/content/abstract/blthaff.25.w486v1>.

4 Adapted from Exhibit 3 in Ginsburg PB, Strunk BC, Banker MI and Cookson JP. “Tracking Health Care Costs: Continued Stability But At High Rates in 2005.” *Health Affairs* Web Exclusive, October 3, 2006. This article is available at: <http://content.healthaffairs.org/cgi/content/abstract/blthaff.25.w486v1>.