

Tracking Health Care Costs: First Half of 2004

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Center for Studying Health System Change

- Independent research on changes in the organization and delivery of care—and their impact on people
 - Funded principally by The Robert Wood Johnson Foundation
- Community Tracking Study (CTS)
- Periodic health care cost tracking
 - Synthesize public and proprietary data series
 - Informed by CTS site visits
 - First half of 2004 analysis funded by EBRI

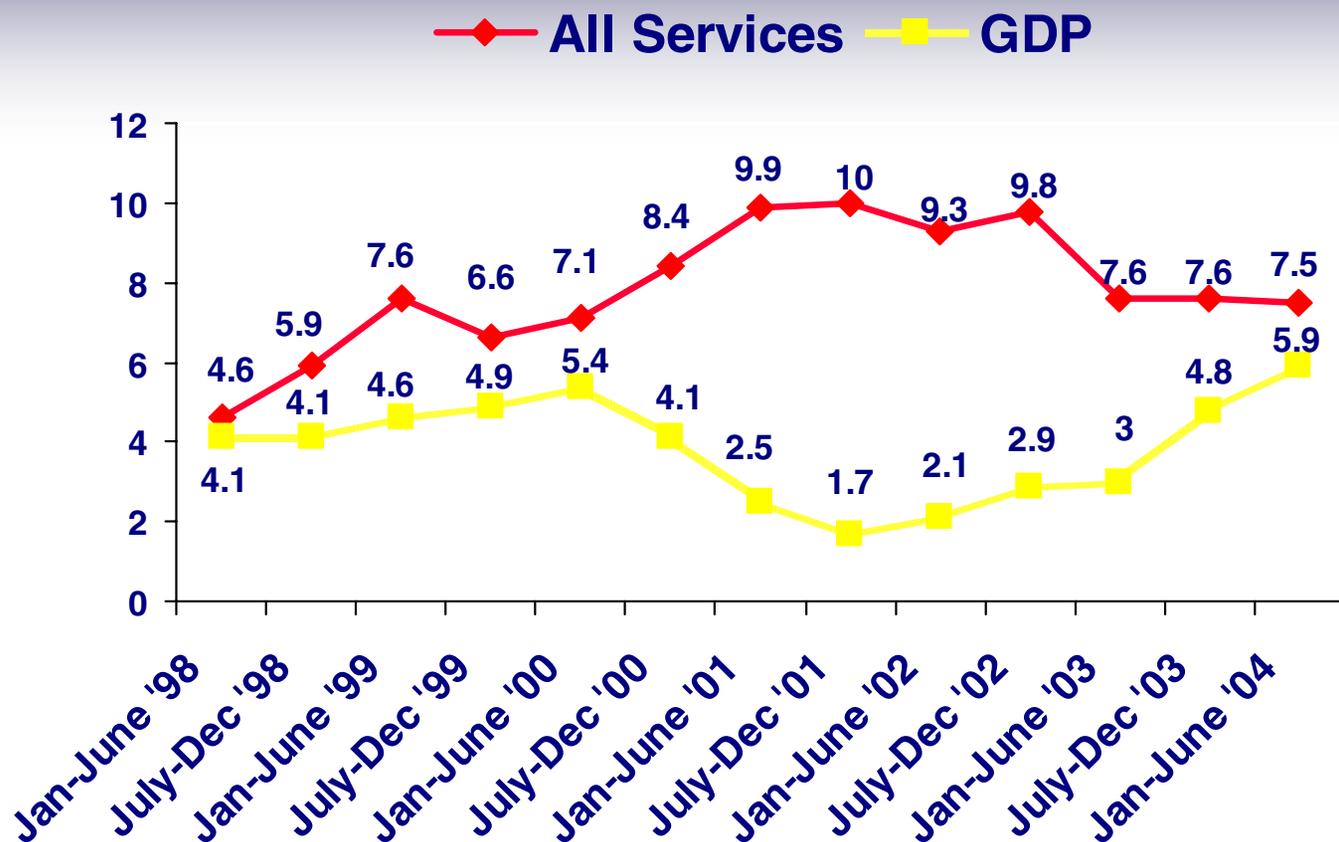
Key Concepts

- Premiums for employment-based health insurance
 - Need to adjust for “buy down”

- Costs (or spending) for services covered by employment-based health insurance
 - Major service categories
 - Price and quantity trends

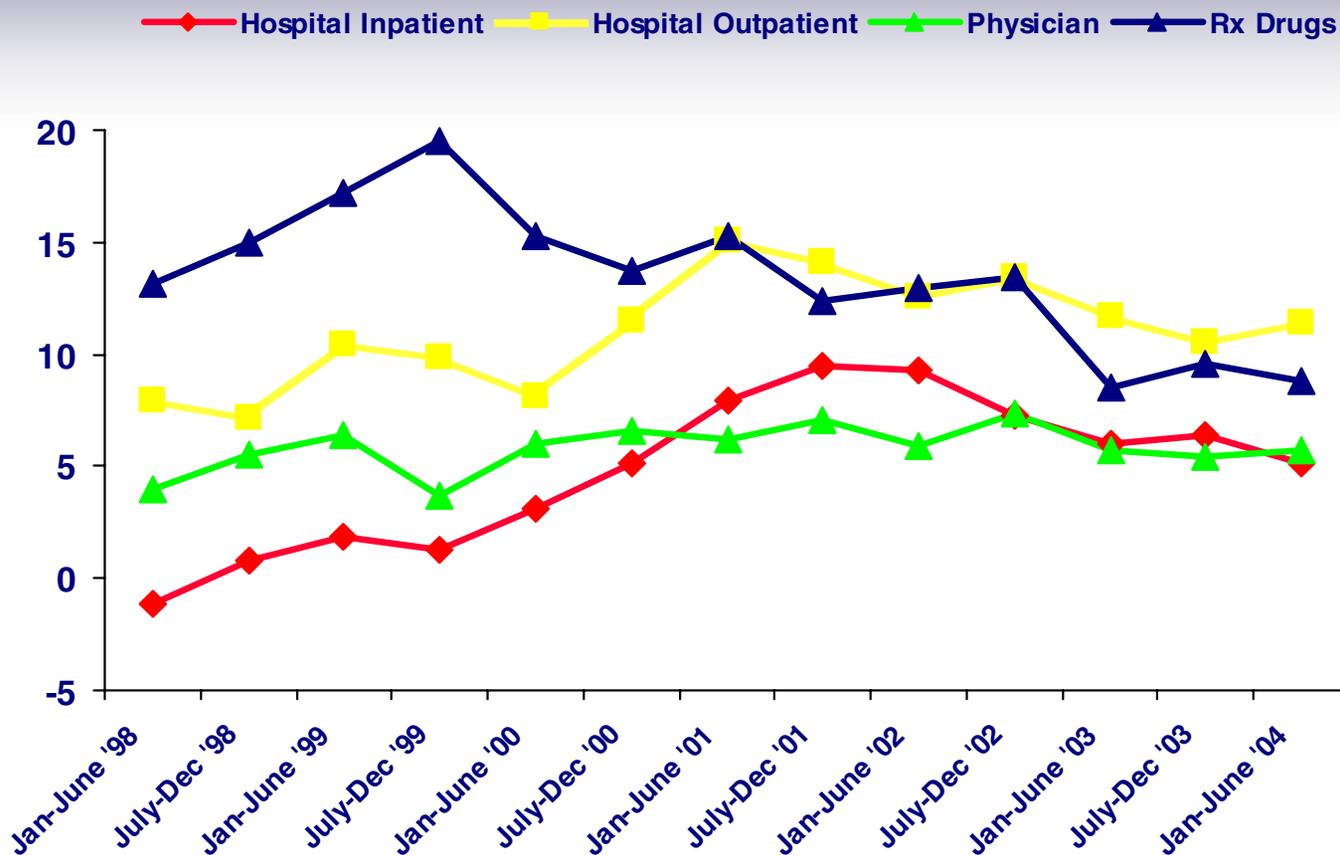
- Six month trends: changes from year ago period

Health Care Spending and GDP Trends



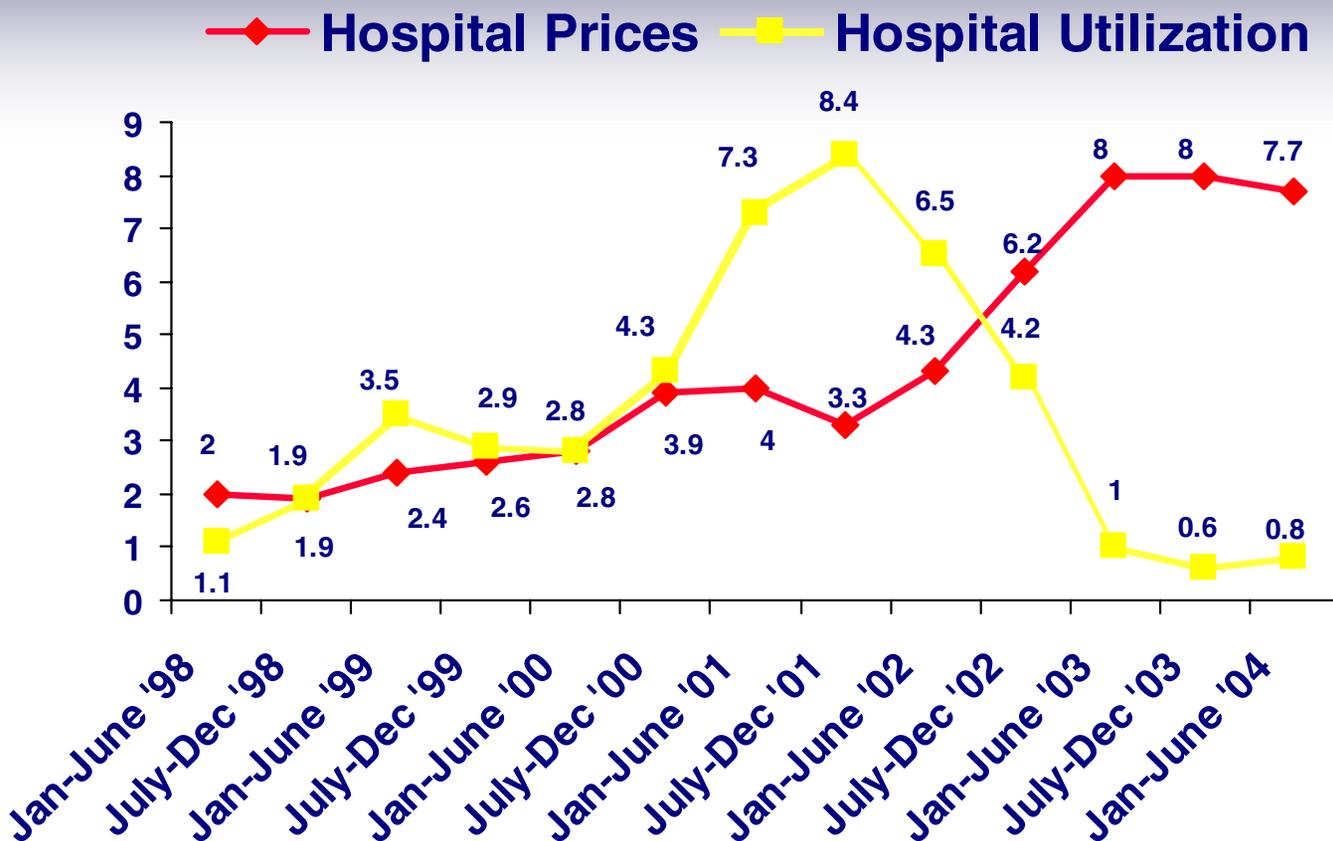
Sources: Data on prescription drug spending are from the Milliman Health Cost Index (\$0 deductible)
 Prescription drug prices are from the Bureau of Labor Statistic's Consumer Price Index (CPI) for prescription drug and medical supplies.
 Data accessed on October 7, 2004.

Spending by Category of Service



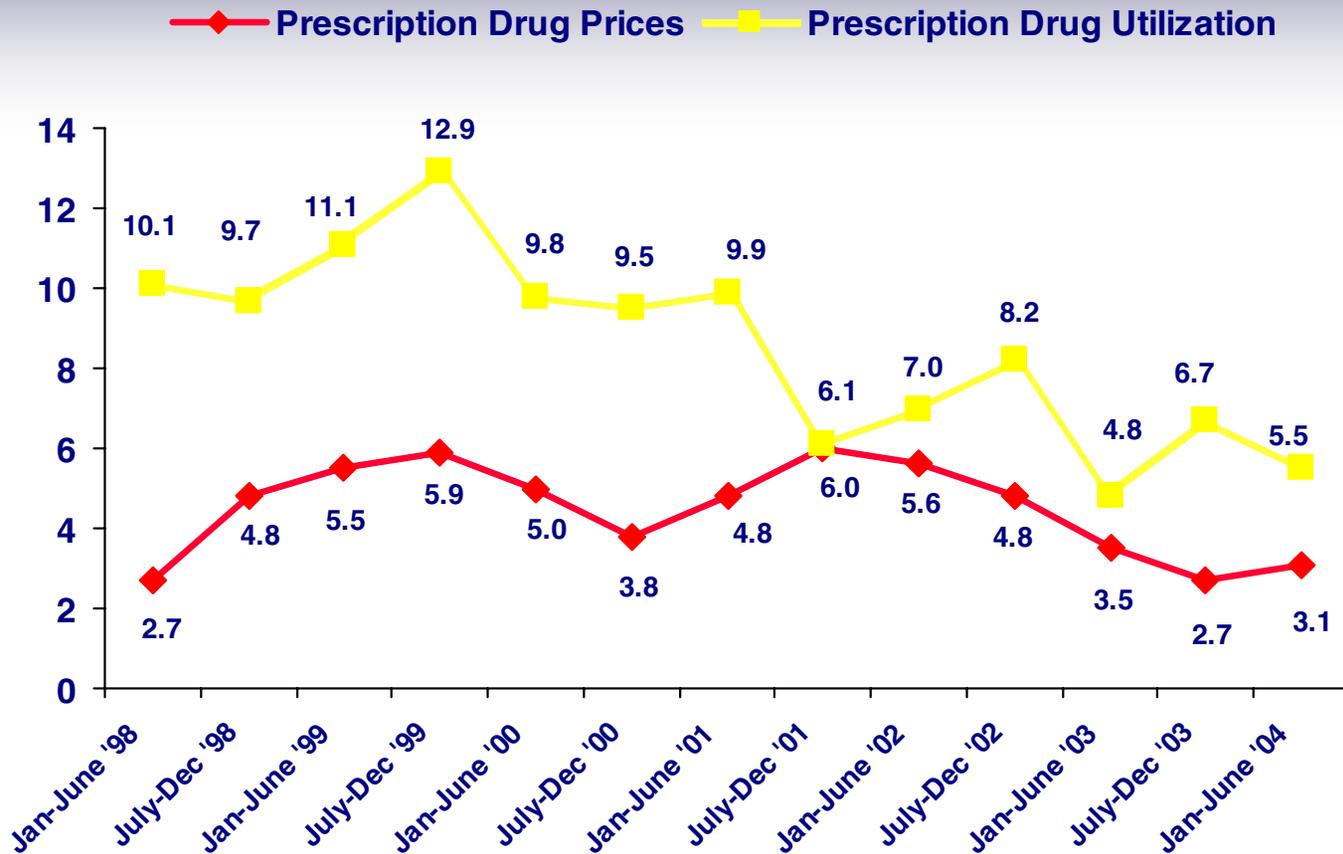
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Hospital Spending: Price and Utilization



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Prescription Drug Spending: Price and Quantity



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Factors Behind Recent Slowing in Trend

- Utilization of services
 - Completion of transition to looser managed care
 - Increased patient cost sharing
 - Selective revival of administrative controls

- Prices of services
 - Continued hospital leverage on prices
 - Expiration of Medicare givebacks
 - Drug prices influenced by increased patient incentives and patent expirations

Short-term Outlook

- Patient cost sharing
 - Most important for drugs
- Potential for Medicare and Medicaid payment cuts
- Potential easing of capacity limits
- Further expansion of administrative controls
- Conclusion: Major change in trend not likely
- Potential turn in insurance underwriting cycle could lead to modest further decline in premiums

Long-term Drivers (1)

- Advances in medical technology
 - Provide better outcomes
 - Same outcomes but less pain or shorter recovery
 - Lower unit costs
- Increased resources in medical care
 - More physician specialists
 - More facilities
- Lifestyle changes
 - Obesity
 - Smoking

Long-term Drivers (2)

- “Oversold” drivers
 - Population aging
 - Professional liability
 - Mandates

- Will information technology have major impact on cost trends?
 - Potential for government support
 - Quality improvement likely the priority
 - Costs and benefits now accrue to different parties

Impact of Rising Costs

- More people will become uninsured
 - Employer offering of coverage
 - Reflection of what potential employees can afford
 - Family coverage now \$5 per hour
 - Employee take up
- Major stress for governments
 - Resistance to raising tax rates
 - Costs of existing commitments
 - Pressure to expand commitments

Basic Strategies for Containing Costs

- Efforts to increase efficiency of health care system
- Increased patient financial incentives
- Change provider financial incentives
- Increased administrative controls on service use
- Economic regulation of care delivery
 - Constrain resources
 - Price controls

Conclusion

- Decline in cost trends appears to be leveling
 - Could have further decline but unlikely a large one
 - More relief on premiums given lags and potential for turn in cycle
- Today's cost trends continue to make insurance less affordable and strain public finances
- Efforts to contain costs emphasizes additional patient cost sharing and hopes for increased efficiency