Health Care Cost Drivers

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Health Care Affordability: How to Control Costs in California

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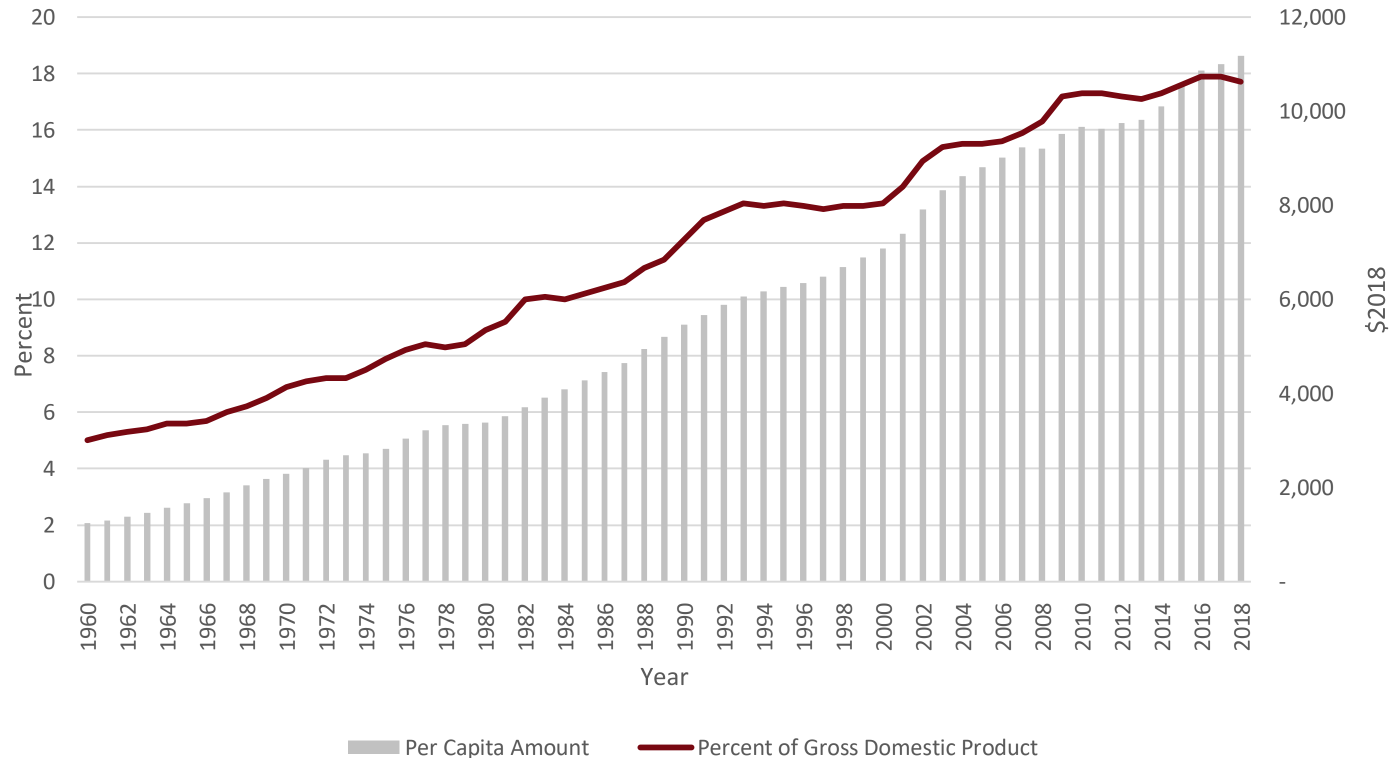
U.S. Health Care Spending in 2018

- $3.6 trillion
- 17.7% of Gross Domestic Product
- $11,172 per person

Source: Centers for Medicare & Medicaid Services, NHE Summary, including share of GDP, CY 1960-2018.

National Health Expenditures: 1960-2018



Source: Centers for Medicare & Medicaid Services, NHE Summary, including share of GDP, CY 1960-2018.

Two Problems

- Value
  - Does the benefit we gain from health care exceed the cost of producing those services?
  - Lots of evidence of providing "low-value" care and not providing "high-value" care in the U.S. health care system.

- Affordability
  - Our current health care system is simply not affordable for many people in the U.S.

What is Value?

	Not Effective	Effective
Cheap	Low Value Example: Annual exam for healthy people	High Value Example: Fecal-based screening test for colon cancer
Expensive	Low Value Example: -Percutaneous coronary intervention (PCI) for people with stable coronary artery disease	High Value (?) Example: Sovaldi and Harvoni, new drugs for the treatment of hepatitis C

What Drives Growth in Health Care Spending?

Table 1. Estimated Contributions of Selected Factors to Growth in Real Health Care Spending Per Capita, 1940–1990

Drivers of Cost Trend	Studies Estimating Contributions of Selected Drivers		
	Smith, Heffler and Freeland (2000)	**Cutler (1995)**	**Newhouse (1992)**
* Aging of the Population	2%	2%	2%[a]
Changes in Third-Party Payment	10	13	10[b]
Personal Income Growth	11–18	5	<23
* Prices in the Health Care Sector	11–22	19	*
Administrative Costs	3–10	13	*
Defensive Medicine and Supplier-Induced Demand	0	*	0
Technology-Related Changes in Medical Practice	38–62	49	>65

Notes: Amounts in the table represent the estimated percentage share of long-term growth that each factor accounts for.

* = not estimated.

[a] Represents data for 1950–1987

[b] Represents data for 1950–1980.

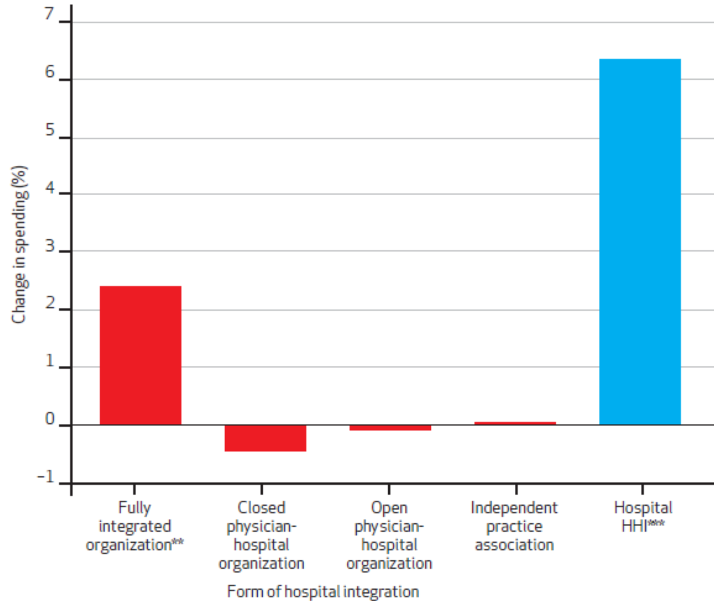
Source: Congressional Budget Office, 2008 (17) based on Smith (79), Cutler (19) and Newhouse (59)

Source: Ginsburg, "High and rising health care costs: Demystifying U.S. health care spending" Research Synthesis Report No. 16, October 2008. Robert Wood Johnson Foundation

Market Consolidation and Hospital Spending

EXHIBIT 3

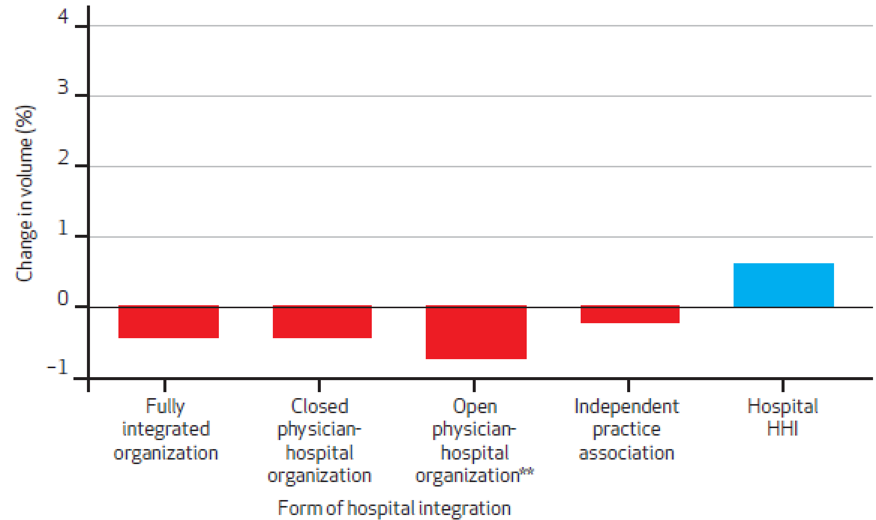
Effect Of Hospital Integration And Market Competitiveness On Hospital Spending



SOURCE Authors' analysis of American Hospital Association, Medicare, and Truven Analytics MarketScan data. **NOTES** The bars represent the estimated effect on hospital spending associated with a one-standard-deviation increase in market share of each of the four forms of vertical integration. County and year fixed effects and the hospital market and county characteristics listed in Appendix Table 1 (see Note 19 in text) were held constant. Selected parameter estimates and standard errors from the regressions underlying the exhibit are available in Appendix Table 2. HHI is Herfindahl-Hirschman index, which is a measure of market competitiveness. $^{**}p < 0.05$ $^{***}p < 0.01$

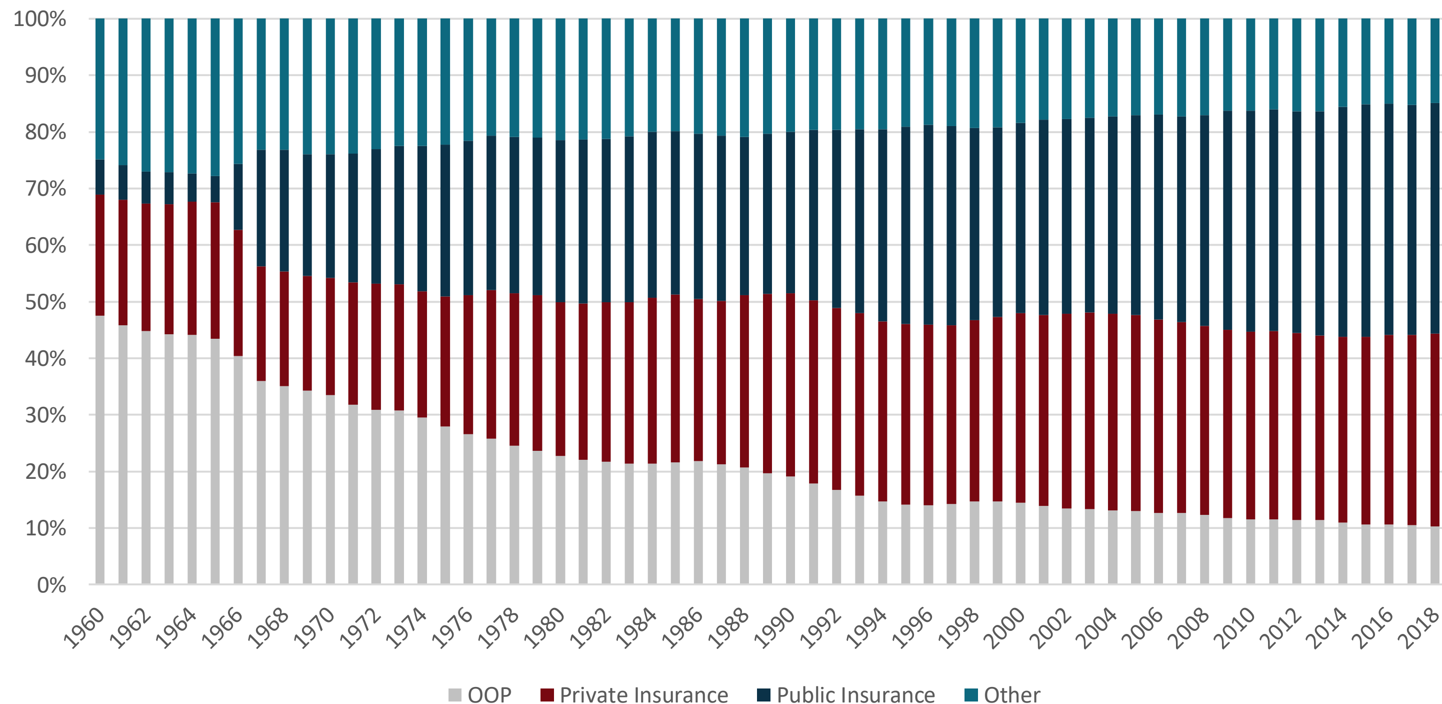
EXHIBIT 4

Effect Of Hospital Integration And Market Competitiveness On Hospital Volume



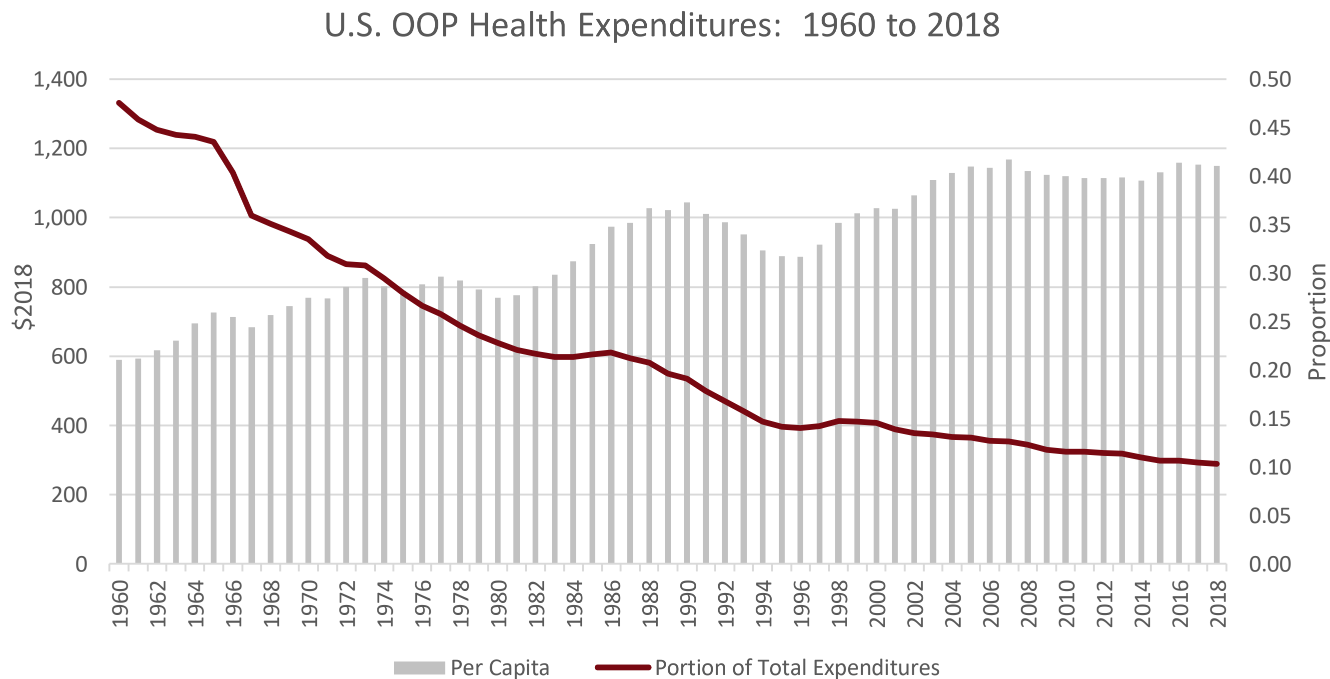
SOURCE Authors' analysis of American Hospital Association, Medicare, and Truven Analytics MarketScan data. **NOTES** The bars represent the estimated effect on hospital volume associated with a one-standard-deviation increase in market share of each of the four forms of vertical integration. County and year fixed effects and the hospital market and county characteristics listed in Appendix Table 1 (see Note 19 in text) were held constant. Selected parameter estimates and standard errors from the regressions underlying the exhibit are available in Appendix Table 2. HHI is Herfindahl-Hirschman index, which is a measure of market competitiveness. $^{**}p < 0.05$

Distribution of National Health Expenditures by Funding Source: 1960-2018



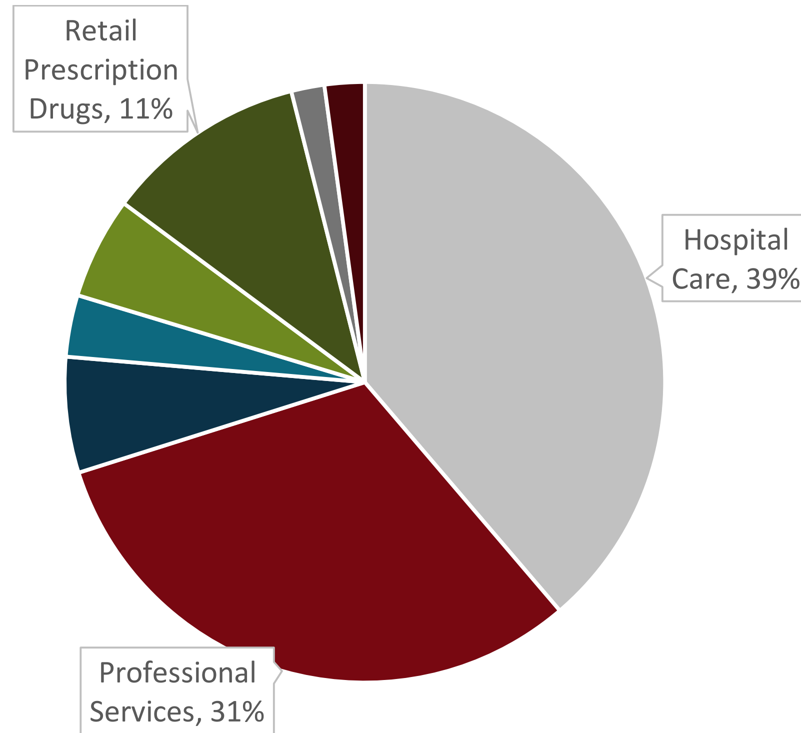
Source: Centers for Medicare & Medicaid Services, National Health Expenditures by type of service and source of funds, CY 1960-2018.

Trends in Out-of-Pocket Spending: 1960-2018



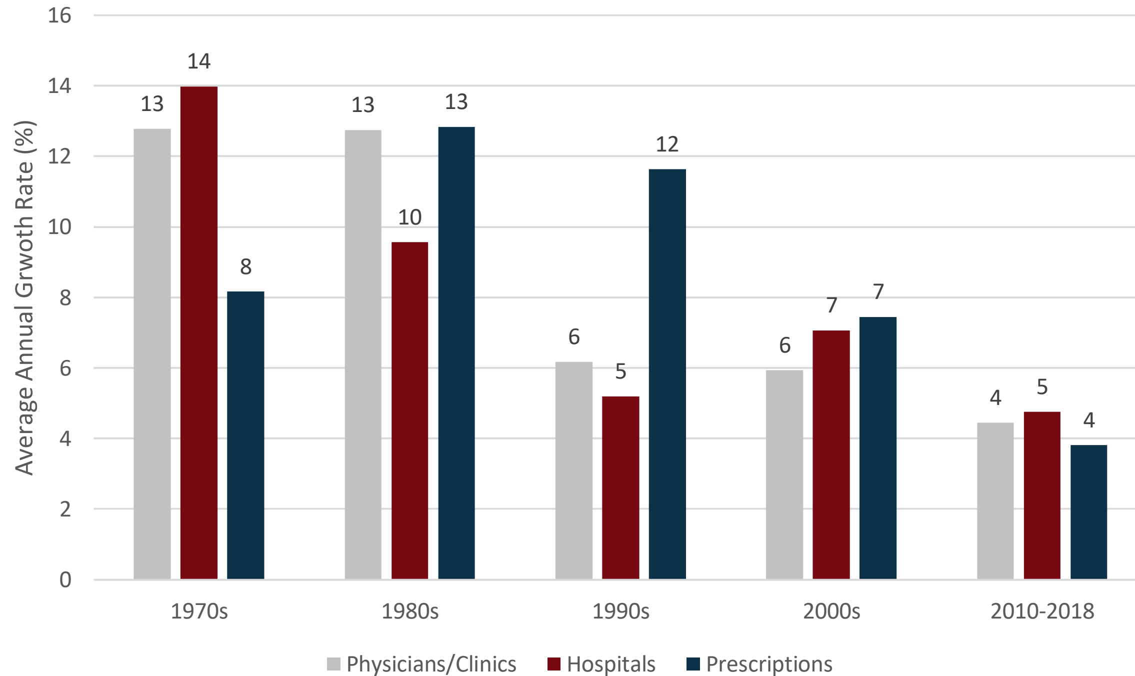
Source: Centers for Medicare & Medicaid Services, National Health Expenditures by type of service and source of funds, CY 1960-2018.

Distribution of Spending by Sector: 2018



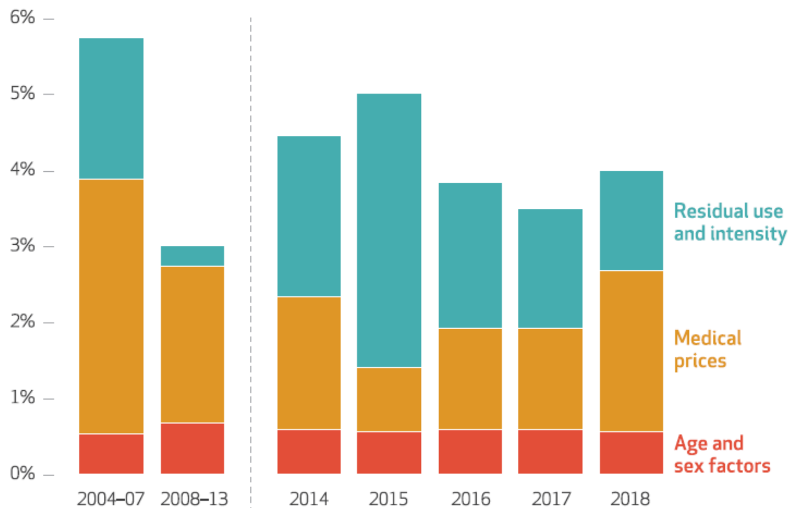
Source: Author's figure based on data from Hartman et al. (2020), "National Health Care Spending in 2018: Growth Driven by Accelerations in Medicare Private Insurance Spending", Health Affairs, 39:1.

Average Annual Growth Rate by Sector

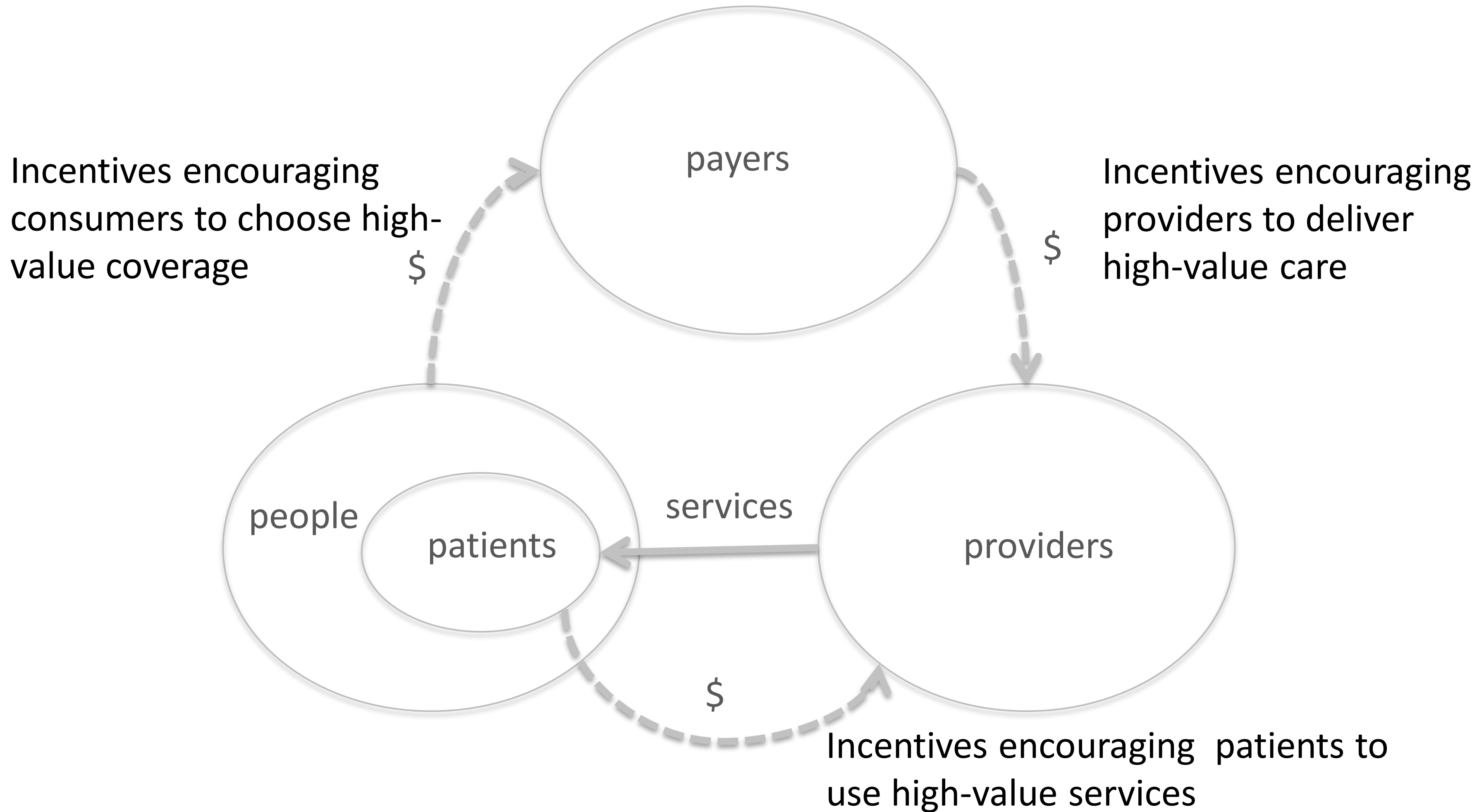


Source: Peterson-KFF Health System Tracker, "How has U.S. spending on healthcare changed over time?", December 2019

The Roles of Price and Quantity in Spending Growth



Source: Hartman et al., "National Health Care Spending in 2018: Growth Driven by Accelerations in Medicare and Private Insurance Spending", Health Affairs, January 2020.


payers
Incentives encouraging consumers to choose high-value coverage
$
Incentives encouraging providers to deliver high-value care
$
people
patients
services
providers
$
Incentives encouraging patients to use high-value services

Implications for Policy Development

- Policy Goals:
  - Incentivize high-value care; dis-incentivize low-value care.
  - Ensure that high-value services are affordable to consumers.

- Moving toward value requires changing incentives facing insurers, providers and/or consumers.
  - Rising market concentration is a barrier to making these types of changes.

- Subsidies to make health care affordable should support the goal of promoting high-value care.