

What You Need to Know

Health Care Costs: Continuing to Rise at Unsustainable Rate

To make healthcare coverage more affordable, the nation must address the soaring cost of medical care that continues to increase at an unsustainable rate. There needs to be a much greater focus on the main drivers of medical cost growth: soaring prices for medical services, new costly prescription drugs and medical technologies, unhealthy lifestyles, and an outdated fee-for-service system that pays for volume rather than value.

Higher health care spending is a result of higher health care prices.

- According to an [annual report](#) by Milliman, the typical family of four saw an **increase in healthcare costs by \$1,319, a 7.3% increase** between 2010-2011.
- A [recent study](#) by the Health Care Cost Institute examining health care costs between 2010 and 2011 found that **“Rising prices – not rising utilization – was the primary driver of spending growth... Price increases were driven by changes in fees, not intensity of services.”**
 - According to the report, “Spending growth for outpatient facilities outstripped all other major health service categories. Prices grew fastest for outpatient care—double the rate of inflation.”
- An issue brief from the National Institute for Health Care Management, [Understanding U.S. Health Care Spending](#), found that **“rising prices per unit of service have played a larger role than rising utilization rates as a determinant of recent expenditure growth.”**
- In 2010, Massachusetts Attorney General Martha Coakley released an updated report, [Examination of Health Care Cost Trends and Cost Drivers](#), which found that **“price increases, not increases in utilization, caused most of the increases in health care costs during the past few years in Massachusetts.”**

Provider consolidation drives up prices.

- James Robinson, a professor of health economics at UC Berkeley, [says](#) **“hospitals in concentrated markets were able to charge higher prices to commercial insurers than otherwise-similar hospitals in competitive markets...”**
- Paul Ginsburg and Robert Berenson, in [an article](#) in the February 2010 edition of *Health Affairs*, stated that **“providers’ growing market power to negotiate higher payment rates from private insurers is the ‘elephant in the room’ that is rarely mentioned.”**

Other examples of higher health care costs:

- Express Scripts’ [Drug Trend Report](#), an annual look at prescription drug price and utilization trends, found that **“overall drug inflation climbed 5.4%,” “record inflation**

of branded drugs at 9.4% exceeded generic inflation by a wide margin,” and “specialty drug trend was 17.4% in 2010, fueled by unit cost growth of 11.5%.”

- A [study](#) from Commonwealth Fund compared health care spending, supply, utilization, prices, and quality in 13 industrialized countries. The United States’ median spending of nearly \$8,000 per person in 2009 far surpassed the median of all other countries (\$3,000 per person). The study concludes that “higher spending is largely due to higher prices and perhaps because of more readily accessible technology and greater rates of obesity.”
- The International Federation of Health Plans, a global insurance trade association of more than 100 insurers in 25 countries, conducted a [survey](#) of its members on the prices of 23 medical services and products in different countries. In nearly all cases (22 of 23), Americans were paying higher prices than residents of other developed countries.

Rising medical costs are driving up premiums for employees with self-funded and fully-insured coverage.

- A Kaiser Family Foundation [survey](#) on employer health benefits found that “annual premiums for employer-sponsored family health coverage increased to \$15,073 this year, up 9 percent from last year.”
- One overlooked aspect of the Kaiser report is that this survey includes data on both fully-insured and self-funded employer plans. According to the new survey, [60 percent of covered workers](#) are in partially or completely self-funded plans in 2011 – a trend that has been increasing for many years. **The fact that premiums are increasing for both fully-insured and self-funded employer plans is further evidence that these increases are being driven by rising claims costs.**

Health plans are [leading the way](#) in delivery system reform and deploying the next generation of medical management tools to promote a high-value health care system.

Additional Resources on Health Care Costs:

- [Health Care Cost Institute: 2011 Health Care Cost and Utilization Report](#)
- [National Institute for Healthcare Management: Understanding U.S. Healthcare Spending](#)
- [National Health Expenditure Data](#)
- [NEHI: Waste and Inefficiency in Health Care](#)
- [Milliman Medical Index 2011](#)