Rising health costs eroding Americans' income gains, study finds

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Fast-rising health costs have eaten nearly all the income gains made by a median-income American family of four over the past decade, leaving them with just $95 per month in extra income, after accounting for taxes and price increases, according to a new RAND Corporation study.

Had health care costs risen only as fast as the cost of other goods and services in the United States from 1999 to 2009, the same family would have an additional $545 per month to spend in 2009, according to findings published in the September edition of the journal *Health Affairs*.

"Accelerating health care costs are a primary reason that the so many American families feel like they are just treading water financially," said David Auerbach, the study's lead author and an economist at the RAND Corporation, a nonprofit research organization. "Unless we reverse the trend, Americans increasingly will notice that health costs compromise their other spending options."

Between 1999 and 2009, total spending on health care in the United States nearly doubled, from $1.3 trillion to $2.5 trillion. During the same period, the percentage of the nation's gross domestic product devoted to health care climbed from 13.8 percent to 17.6 percent. Per person health care spending grew from $4,600 to just over $8,000 annually.

Although the numbers are sobering, they don't easily translate to the daily routine of American families because many health care costs are hidden from view, according to researchers. Auerbach and co-author Dr. Arthur L. Kellermann, director of RAND Health, combined information from many sources to describe the burden that rising health care placed on a median-income family of four with employer-sponsored health insurance from1999 to 2009.

Health care costs are visible to American families in two ways -- through the monthly premium they pay for their share of private insurance and through out-of-pocket spending for copayments, deductibles, medications and other health care items.

But other costs are not so visible, researchers say. One is an employer's share of the family's premium for private health insurance, which in effect reduces an employee's wages and other compensation. The second is the portion of a family's federal and state tax burden that is devoted to government health programs such as Medicare, Medicaid and the military health care system.

While the median-income American family experienced a 30 percent gain in income from 1999 to 2009 (from $76,000 to $99,000 annually), health spending grew much faster. The family's monthly health insurance premium grew by 128 percent (from $490 to $1,115), and out-of-pocket spending rose 78 percent over the period (from $135 to $240).

Government spending on health care grew by 140 percent at the federal level and by 76 percent at the state level. However, the portion of the family's tax bill attributable to health care costs (which grew from $345 to $440) didn't fully reflect this increase because federal tax rates were lower in 2009 than 1999. Instead, the family's share of government spending for health care added $390 per month to the national debt.

Thus, accelerating healthcare costs left families with considerably less cash to spend.

Between 1999 and 2009, the typical family's monthly income grew about $1,910. More than 40 percent of that increase was spent on higher health care costs. Nonhealth care taxes and increases in the cost of consumer goods absorbed another 52 percent. This left the typical median-income family with a $95 increase in disposable income.

"The complex way that the United States pays for health care often obscures the consequences of health care cost growth for most American families," Kellermann said. "This makes the challenge of controlling health care costs that much harder."

The RAND researchers also considered two alternative scenarios. The first assumed health care costs rose 1 percent faster than the GDP. This is the target rate set by the Affordable Care Act. Under the second, health care cost growth was the same as the overall inflation rate.

Under the first alternative, the median-income family would have had $335 per month in increased discretionary income by 2009, instead of $95. Under the second scenario, a family's discretionary income would have risen to $545 per month.

Provided by RAND Corporation