MedicalXpress

Slowdown in health care spending growth could save Americans $770 billion, study finds

May 6 2013

A slowdown in the growth of U.S. health care costs could mean that Americans could save as much as $770 billion on Medicare spending over the next decade, Harvard economists say.

In a May 6 paper published in *Health Affairs*, David Cutler, the Otto Eckstein Professor of Applied Economics, and co-author Nikhil Sahni, a senior researcher in Harvard's Economics Department, point to several factors, including a decline in the development of new drugs and technologies and increased efficiency in the health care system, to explain the recent slowdown.

If those trends continue over the next decade, they say, estimates of health care spending produced by the Congressional Budget Office and Centers for Medicare and Medicaid Services (CMS) Office of the Actuary could be off by hundreds of billions.

"Historically, as far back as 1960, medical care has increased at about one-and-a-half to two percent faster than the economy," Cutler said. "In the last decade, however, medical care has not really grown as a share of the GDP. If you forecast that forward, it translates into a lot of money."

Money, Cutler said, that could have a profound effect not just on government spending, but on average workers as well.

If the growth in costs remains flat, Cutler said, money companies might otherwise spend on health care could be directed back to workers in the form of increased salaries. Reduced health care costs could also help relieve financial strain on other critical government programs at both the state and national level.

"At the federal and state level, we've cut everything but health care," Cutler said. "If we can hold the growth in health care spending down, it would reduce the pressure on government, and would allow us to avoid funding one program at the expense of others, or raising taxes."

While recent forecasts by the CBO and Medicare actuaries have taken the recent slowdown in health care spending into account, those estimates come with a fatal flaw – an assumption that costs have slowed largely due to the 2007 recession.

By comparison, Cutler and Sahni's study suggests that just over a third, about 37 percent, of the decrease could be chalked up to the recession. Instead, they say, the bulk of the decline could be attributed to factors like a decline in the development of new treatments.

"For whatever reason, the technology that's available for treating people seems to be improving at a slower rate than in the past," Cutler said. "In recent years, there have been a number of oncology drugs that have been touted as potential blockbusters, but most haven't sold as well as expected. Other analysts have also noted that while research and development spending by pharmaceutical companies has increased dramatically, the number of new drug approvals has remained flat."

With the passage of the Affordable Care Act, Cutler said, health care providers received new incentives to increase efficiency and reduce costly problems, such as readmitting patients soon after discharge and in-hospital infections.

"There are a variety of different programs where we've said if you're efficient you'll be rewarded, and so that's what a lot of institutions are trying to do," he said.

Steep out-of-pocket costs have also resulted in many people – even those who are insured – choosing to defer some treatments in the interest of saving money.

"A typical insurance policy now has a deductible of over $1,000 for an individual, and maybe $2,000 for a family, and most people don't have that amount of cash in the bank," Cutler said. "It's a big hurdle. People look at their cost-sharing, and they say this is a lot of money, I'm not sure I can afford it, so they're cutting back on discretionary imaging, they're cutting back on elective surgeries, and on referrals to specialists that might not be covered.

"At the same time, insurers have become a lot smarter about directing people to cheaper alternatives when you do seek treatment," Cutler added. "For example, it used to be that everyone took the branded version of a drug. Now, if you're taking the branded version of a drug, you've gone out of your way to do that."

Ultimately, Cutler said, the question of whether earlier estimates of health care costs are correct will depend on whether insurers, providers and the public continue to work to keep costs under control.

"Don't think of this as plate tectonics, where the Earth's crust is moving and we just need to figure out how fast it's moving," Cutler said. "We have a lot of control over this, through policies in the Affordable Care Act and Medicare and Medicaid. It's not easy—no change is ever easy—but if we continue to do the right things, like stressing efficiency and helping people choose less expensive alternatives, then we can make sure this trend continues."

Provided by Harvard University