Soaring prices, not demand, behind massive hike in US health spending

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Major survey of U.S. health care trends yields surprises.

(HealthDay)—Contrary to popular belief, the biggest reason for the rise in U.S. health care spending is not an aging population or patient demand but rather the increasing costs of drugs, procedures and hospital care, a new study finds.

Researchers found that since 2000, those yearly price increases have accounted for 91 percent of the rise in national health care spending, which totaled $2.7 trillion in 2011.

"That was surprising," said lead researcher Dr. Hamilton Moses, of the Johns Hopkins University School of Medicine, in Baltimore. Often, he noted, people point to the aging population, or doctors ordering too many tests and treatments, as the main drivers of soaring health care spending.

"I think the origin of that misperception comes from the politicizing of the issue," said Moses, who is also chairman of Alerion Institute, a

Virginia-based consulting firm.

The new study, reported in the Nov. 13 issue of the *Journal of the American Medical Association*, is an attempt to add more actual data to the debate.

In the current political climate, Moses said, "rational discussions based on valid information" are hard to come by.

"But the fact is," he said, "we spend more on health care than other developed countries, and the U.S. still lags behind in outcomes."

Life expectancy is a case in point, Moses said. It's improving in the United States, but not as fast as it is in other developed countries.

The reasons for the poorer outcomes are not completely clear, and probably complicated, Moses noted. But, he said, the bottom line is, "U.S. patients should be demanding a much higher degree of service than they're getting."

For the study, Moses's team analyzed a range of public data sources to look at trends in health care spending since 1980.

What they found counters some conventional beliefs. First, price increases have driven the increase in health care costs since 2000. The price of drugs and devices has risen by about 4 percent a year, on average. Hospital charges have shown a similar increase. Meanwhile, administrative costs—what doctors and hospitals expend getting payments from insurers and patients—have gone up by nearly 6 percent each year.

And "market forces" don't come into play. "Patients never see 90 percent of these costs," Moses said, and even doctors may not know how

much a treatment costs. With medical devices, like implantable heart devices, for example, hospitals sign confidentiality agreements with manufacturers that prevent them from sharing price information—and knowing whether they are getting a good deal or not.

Another finding that may surprise many patients: Americans have been paying for an increasingly smaller share of their medical care over time.

In 2011, consumers footed the bill for 11 percent of national health care costs (in the form of insurance premiums, co-pays and other spending). That was down from 23 percent in 1980.

And while there is a lot of worry about the aging baby boomers straining the health care system, right now it's not the elderly breaking the bank. Chronic conditions among people younger than 65—from heart disease to high blood pressure to back pain—account for two-thirds of health care costs, the study found.

"Chronic illness is a problem for everyone, not just the elderly," Moses said. For the general public, he added, that's another reminder to follow a healthy lifestyle to reduce your chances of developing common health problems like high blood pressure, high cholesterol and diabetes.

But no one is saying that healthy diets and exercise are going to fix the U.S. health care problem. Whether the Affordable Care Act will make a dent remains to be seen, Moses said.

Dr. Joshua Sharfstein, the secretary of Maryland's health department, said it might. The law gives more flexibility to states to find "innovative ways" to cut costs, according to Sharfstein, who co-wrote an editorial published with the study.

In Maryland, Sharfstein said, an independent commission has been

setting hospital prices since the 1970s. And now his state is working on a plan that would keep hospital spending from growing faster than the economy. It's also supposed to decrease incentives for hospitals to perform more procedures, and instead reward them for better quality of care.

"We need to move toward incentives for efficiency," Sharfstein said.

Capping health care costs to grow no more quickly than the economy should be a national goal, according to Dr. Ezekiel Emanuel, chair of medical ethics and health policy at the University of Pennsylvania, in Philadelphia.

"It would require us to stretch. It would require us to rethink the current system," said Emanuel, who also wrote a commentary in the same journal issue. But, he added, it would be "feasible" to ensure that per-person health care spending rose no faster than the gross domestic product.

Along with Maryland, Emanuel said, Massachusetts and Arkansas have adopted cost-cutting plans with a goal like that in mind. For it to happen on a national level, he noted, "first people have to agree that it's a worthy goal."

How would it happen? Emanuel said that one way would be to reduce how much care is performed in hospitals, and move it to much less costly settings—including people's homes.

There is a precedent to such a goal. For a few years in the 1990s, Emanuel noted, U.S. health care spending did grow at roughly the rate of the economy. That was when managed care plans briefly reined in spending. But doctors' and patients' dissatisfaction with managed care's restrictions—like prior authorization for tests and treatments—led to a

"backlash," Emanuel said.

Still, he said he thinks lessons have been learned since that time, and more is known now about where the key cost controls need to be made. "I don't think we'd have the same kind of backlash," Emanuel said.

More information: The Kaiser Family Foundation has more on U.S. health care costs.

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