



Are We Seeing an End to Slow Healthcare Spending?

Eye on Washington: Gail R. Wilensky

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HEALTHCARE SPENDING FOR 2014 IN THE UNITED STATES INCREASED BY 5.3 PERCENT, ACCORDING TO A RECENT REPORT FROM THE CENTERS FOR MEDICARE & MEDICAID SERVICES (CMS) NATIONAL HEALTH EXPENDITURE ACCOUNTS TEAM.

The report, published in the December issue of *Health Affairs*, notes that total spending on health care was \$3 trillion, and per capita spending increased by 4.5 percent. Because the increase in total spending was faster than the growth in the gross domestic product (GDP), the share of GDP spending on health care increased to 17.5 percent, up from 17.3 percent.

Some careful readers might remember that the share of GDP spent on health care for 2013 had previously been reported to be 17.4 percent, but the 17.3 percent figure reflects new, revised data, which show the 2013 growth rate for national health care spending at 2.9 percent, rather than the 3.6 percent reported in December 2013.

Spending Growth Drivers

The increased spending in 2014 primarily reflected faster growth in private healthcare spending and in Medicaid, as well as in prescription drug spending. None of these rapid growth areas should be very surprising, given that 2014 was the first year that the coverage expansion under the Affordable Care Act (ACA) was in effect. Medicaid spending increased by 11 percent, compared with 5.9 percent in 2013; private insurance spending growth increased by 4.4 percent in 2014, compared with 1.6 percent in the previous year.

Regarding prescription drugs, the 12.2 percent increase in spending relative to 2013 was mostly attributed to the introduction of new hepatitis C drugs such as Sovaldi and Harvoni, as well as other new biologics. Although there is a legitimate reason for concern about the increase in spending on new biologics and the purchase and subsequent price hikes on generic drugs with limited markets—such as the purchase of Daraprim by Turing Pharmaceuticals, which initially resulted in a price increase from \$13.50 to \$750 per tablet—it is important to put these developments in some perspective. For each year during the period 2008-14, prescription drug spending increased less than spending on hospital care and less than spending for personal health care overall. In addition, the hepatitis C drugs generally cure the disease, making them cost-effective over the long run, albeit challenging to payers such as Medicaid in the short run.

A Look at Projections



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When the national health expenditure projections for 2014-24 were published in *Health Affairs* in July, the expectation then was that there would be faster growth for the next decade—averaging 5.8 percent growth per year and increasing the share of GDP spent on health care to 19.6 percent in 2024. With the coverage expansions from the ACA apparently increasing at a slower rate than was initially expected, with economic growth projected to be faster in the next 10 years than over the past five, and with a population continuing to age, it's hardly surprising that the growth rate for healthcare spending is projected to accelerate. Whether the projections will prove accurate is another matter.

What readers need to understand is that these projections are based on trends as they appeared in 2013-14. If there is a change from current expectations in terms of how aggressively the government or third-party payers act to slow spending or whether individuals will continue to exhibit the same behavior in deciding what type of insurance to purchase, actual spending over the next decade could be very different from projected spending. I think there is reason to believe healthcare spending will grow at an even faster rate than projected.

Spending for prescription drugs for example, is currently projected to grow only slightly faster than the growth in personal health care overall—5.5 percent in 2018 versus 5.3 percent overall, and 6.6 percent in 2024 versus 6.2 percent overall. Whether that will actually occur is another matter, given not only the political interest being expressed about rising prescription drug spending but also the investment in new biologics and therapeutics stimulated by an aging population and the commercial success of the hepatitis C drugs.

The True Cause of the Spending Slowdown

Debates about how much of the spending slowdown were or should be attributable to the ACA began within months of the legislation's passage. I have been part of the group that thought most of the slowdown in spending was probably due to the recession but that some of the slowdown may have reflected a combination of the different payment reforms being attempted and the increased use of high-deductible plans.

There are other important questions to ask, including whether any of the positive effects of policy changes or innovations that have been attempted in various parts of the country are sustainable, rather than just being "one-off" spending slowdowns or manifestations of the self-selection that can occur with voluntary participation in pilot projects, and whether they will actually be sustained. Nonetheless, the importance of the recession in the slowdown has remained a contentious issue.



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An important perspective on the recession's effect on healthcare spending is presented in an Oct. 19 column in the *Economist*, reporting on a 2015 study of international health spending and financing by the Organization of Economic Cooperation and Development (OECD), a group of 30 of the countries in the developed world. What the OECD found was a dramatic slowdown in real healthcare spending per capita from 2009 to 2014 compared with 2000 and 2009 everywhere and not just in the United States. From 2000 to 2009, healthcare spending grew at an annual rate of 4 percent on average across all OECD countries, whereas between 2009 and 2014, spending growth slowed to 0.3 percent. What is especially interesting is that while the spending slowdown in the United States was at historic lows for a couple of years early in this decade, that spending slowdown was not as great as the OECD average.

The OECD largely attributes the slowdown in healthcare spending to the global financial crisis, the recession, and the sluggish recovery that followed. A more important message is that the slowdown in healthcare spending, being experienced by the entire developed world, may be about to end. The OECD predicts that spending relative to GDP in its group of nations will increase by two percentage points over the next two decades, and it attributes that projected growth to all the usual suspects: technological advances that increase the scope and quality of interventions valued by aging individuals in wealthy countries, especially when third parties (public or private insurers) pay most of the charge.

Such projections suggest that the serious challenges of funding health care in our nation, especially for the aging baby-boomers, still lay ahead of us.

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