UNDERSTANDING THE HEALTHCARE COST CONUNDRUM
The Facts

- Healthcare in the US – 18% GDP
- One of every three new jobs, 2007-2017
- US spends two times what other wealthy countries spend
What’s Driving Spending?

~30% of healthcare spending is wasteful

Price and intensity have been the primary drivers of U.S. spending growth.

Factors
- Population size
- Population age
- Disease prevalence or incidence
- Service utilization
- Service price and intensity
- Total change

Change in Spending Associated With Each Factor, 1996-2013, $ Billions

Source: Factors Associated With Increases in US Health Care Spending, 1996-2013
Health care consolidation trends

- 1,629 hospital mergers from 1993-2017
- 90% of hospital markets are highly concentrated

% of markets that are highly concentrated:

65% of specialty physician markets

57% of insurer markets

39% of primary care markets

Hospital Consolidation ➔ Higher Prices

Hospital consolidation leads to significantly higher prices in concentrated markets.

Estimated price increases: 20-40%

<table>
<thead>
<tr>
<th>Author/Year</th>
<th>Result</th>
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<tbody>
<tr>
<td>Dafny (2009)</td>
<td>Merging hospitals had 40% higher prices than non-merging</td>
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<tr>
<td>Haas-Wilson, Garmon (2011)</td>
<td>Post-merger, Evanston NW hospital had 20% higher prices than controls</td>
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<td>Tenn (2011)</td>
<td>Summit/Sutter prices increased 28% - 44% compared to controls</td>
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Consolidation and Quality

- Patient outcomes are worse in more concentrated markets, where hospitals or physicians face less competition (Gaynor et al. 2013, Koch et al. 2018)
- Hospital ownership of physician practices led to higher readmission rates and no better quality measures (McWilliams et al. 2013, Neprash et al. 2015)

Against the mounting evidence that consolidation raises prices, there is a noted lack of evidence that consolidation improves quality or reliably generates cost savings through reduced utilization or improved efficiency.
Prices for inpatient hospital stays have grown faster for private insurance than for Medicare or Medicaid

Note: The average payment rates were computed as if each primary payer paid for all non-maternity adult stays in a given year. Payments were adjusted for inflation and standardized across payers in terms of patient’s age, sex, race/ethnicity, geography, household income as a percentage of the federal poverty level, conditions, charges, length-of-stay, and whether or not a surgical procedure was performed. They were not standardized for changes over time in the bundles of treatments and services provided during inpatient stays.

The Cost Shifting Challenge

• Underpayment by Medicare & Medicaid
  - Cost shift to other payers
  - Community Benefit

• Would equalizing public & private payment rates reduce cost shift?
  - One recent study* found hospitals receiving an unexpected 10% increase in Medicare payment rates...
    - Added new technology
    - Increased nursing staff
    - Increased payroll by 1/3rd

Drug spending has grown rapidly recently, but most of the health dollar is spent on hospitals and physicians.
The share of household budgets devoted to health expenses has been increasing.

### Average portion of household budget devoted to health (nonelderly families), 2002-2012

- **Total health expenses:** 5.2%
- **Insurance premiums:** 3.1%
- **Out-of-pocket costs:** 2.1%

**Source:** Kaiser Family Foundation analysis of Consumer Expenditure Survey
Spending on deductibles and coinsurance have far outpaced wages, while copayments have fallen.

Cumulative increases in health costs, amounts paid by insurance, amounts paid for cost sharing and workers’ wages, 2005-2015

Health care costs is the top health care issue voters want 2018 candidates to talk about

While this year’s election is still a long way off, what health care issue do you most want to hear candidates talk about during their upcoming campaigns? (open-end)

Among Registered Voters:

- Health care costs: 22%
- Medicare/senior concerns: 8%
- Repealing/opposition to the Affordable Care Act: 7%
- Improve how health care is delivered: 7%
- Increase access/decrease number of uninsured: 6%
- Single-payer system: 5%

NOTE: Only top six responses listed.
SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted February 15-20, 2018)