

Health Care Spending Growth Stays In High-Altitude Holding Pattern In 2005

Health Affairs Study Pegs 2005 Health Care Spending Growth At 7.4 Percent, Much Faster Than Growth In The Economy And Workers' Wages

Bethesda, MD -- Health care spending growth stayed in a high-altitude holding pattern in 2005 as costs per privately insured American grew 7.4 percent -- virtually the same rate of increase as the previous two years, according to a study by the Center for Studying Health System Change (HSC) published today as a Web Exclusive in *Health Affairs*.

Health spending growth continued to outpace overall economic growth in 2005, despite a robust 5.4 percent increase in the overall U.S. economy as measured by per capita gross domestic product (GDP), the study found. After peaking at 10.4 percent in 2001, health care spending growth slowed to 7.8 percent in 2003, followed by a 7.5 percent increase in 2004. Spending data for the first quarter of 2006 suggest continued stability -- albeit at a relatively high rate of growth (7.7 percent).

"Health care spending continues to grow at a much faster rate than workers' income, making health insurance less affordable to more and more people, especially low-to-moderate wage workers and their employers," said Paul B. Ginsburg, Ph.D., president of HSC, a nonpartisan policy research organization funded principally by the Robert Wood Johnson Foundation.

"We're already seeing evidence of the growing health insurance affordability problem as more Americans become uninsured," said Ginsburg, coauthor of the *Health Affairs* article, "Tracking Health Care Costs: Continued Stability but at High Rates in 2005," with Bradley C. Strunk and Michelle I. Banker of HSC and John P. Cookson of Milliman Inc.

Despite the stability in spending growth, the slowdown in employer-sponsored health insurance premium growth continued in 2006 as average premiums increased 7.7 percent, compared with 9.2 percent in 2005, according to the recently released Kaiser Family Foundation/Health Research and Educational Trust 2006 employer health benefits survey. The continued slowdown in premium trend likely reflects the lagged relationship between underlying cost trends and premium trends.

For the fifth year in a row, employers in 2006 increased patient cost sharing, through higher deductibles, copayments, and coinsurance, as a way to cope with high premium increases. Without this so-called benefit buy-down, or change in benefit structures, the premium trend would have been higher in recent years.

"Over time, premium increases cannot be lower than underlying cost trends, without benefits shrinking," Ginsburg said. "So major relief from the financial burden of rapidly rising premiums does not appear to be on the horizon, and the premium trend is unlikely to continue to decline in the coming years."

Trends in three of the five spending categories for health services -- inpatient hospital care, physician services, and other services -- accelerated in 2005, while prescription drug spending grew at a slower rate for the sixth year in a row and hospital outpatient care spending growth slowed slightly. Key findings include the following:

-- **Prescription drugs.** For the sixth year in a row, prescription drug spending per privately insured person increased at a slower pace, growing 4.8 percent in 2005 -- compared with 8.3 percent in 2004 and almost less than a quarter of the 1999 peak increase of 18.4 percent. The slowdown in 2005 was

largely a result of slower growth in drug utilization rather than changes in the growth of drug prices. Declining use of COX-2 inhibitors and higher patient cost sharing were likely the key factors. The sharp slowdown in drug spending is showing signs of reversing, as first-quarter 2006 data peg the increase at 7.2 percent.

-- **Hospital spending.** Spending on inpatient services increased 7.1 percent in 2005, up from 5.3 percent in 2004. Spending on outpatient care increased 10.4 percent, down slightly from 11.2 percent in 2004. The outpatient hospital category includes spending for services provided in freestanding facilities, such as surgery centers and imaging centers. After slowing sharply in previous years, the hospital utilization trend -- for inpatient and outpatient care combined -- increased 4.5 percent in 2005, up sharply from 1.3 percent in 2004, while hospital price growth slowed sharply to 4.3 percent in 2005, down from 7.1 percent in 2004.

-- **Physician care and other services.** Spending on physician care increased 7.1 percent in 2005, up from 6.0 percent in 2004, primarily reflecting growth in the use of physician services. Spending on other types of services, most notably home health care and ambulance services, grew 12 percent in 2005, up from 6.3 percent in 2004.

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