



Robert Wood Johnson Foundation

THE SYNTHESIS PROJECT
NEW INSIGHTS FROM RESEARCH RESULTS

High and Rising Health Care Costs: Demystifying U.S. Health Care Spending

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Synthesis Report and Brief Available at www.policysynthesis.org



The Synthesis Focuses on These Questions:

- What are the historical data on health care spending?
- Are health care costs too high?
- How does U.S. health care spending compare with that of other nations?
- What are the primary drivers of the growth of U.S. health spending?
- What options do policy-makers have for restraining the growth?



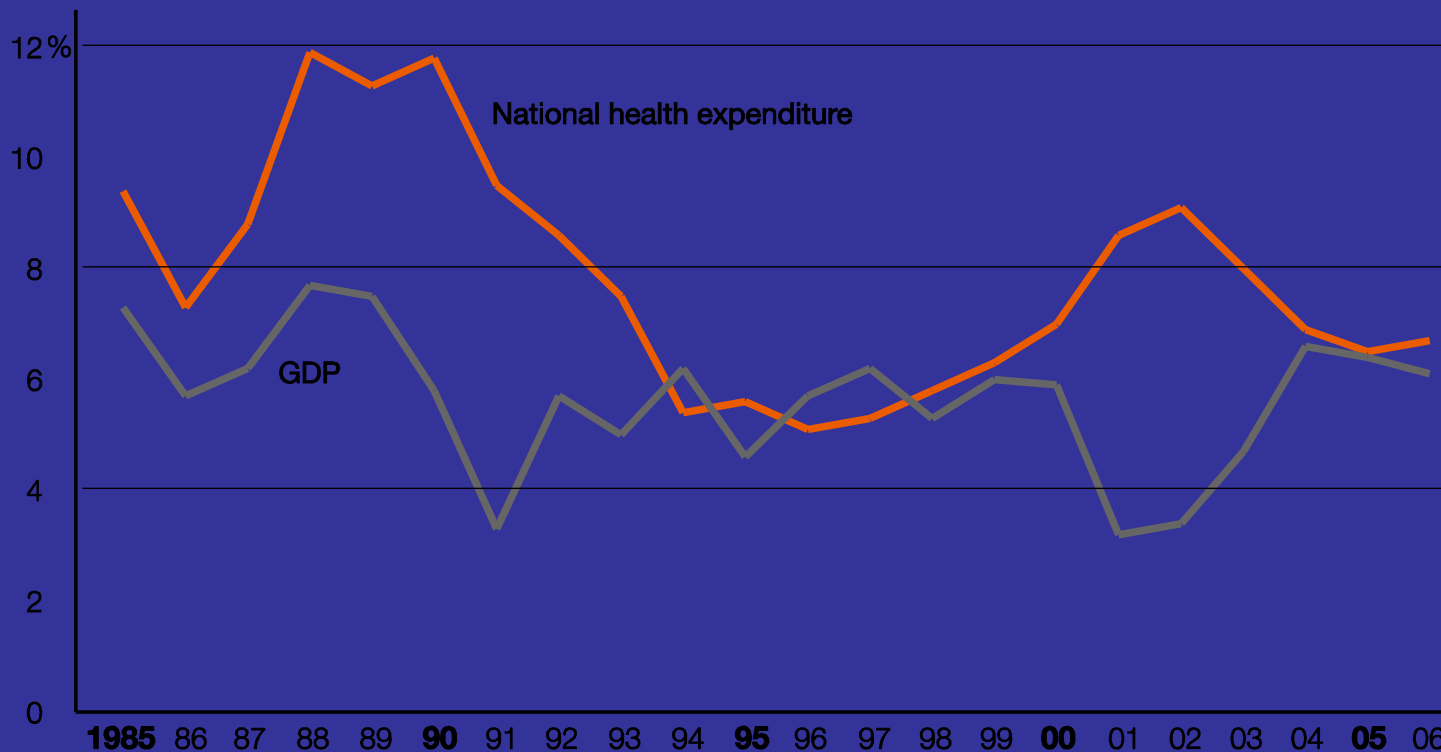
High and Rising Spending

- Spending is high
 - In relation to income and to other countries
- Spending is rising rapidly
 - Gap between NHE growth and GDP growth exceeds 2 percentage points per year
- Distinction important to understanding drivers



What are the Historical Data on Health Spending?

Percent Change





Long Range Projections of Spending

- Extrapolations produce impossible results
- Recent projections start from what growth is acceptable
 - CBO: No declines in non-health spending
 - Implication: Gap for 2018-2082 needs to be brought down to 1 percentage point (falling to 0.4 pp by 2082)



Are Health Costs Too High? (1)

- Role of third-party payment
- Perspective of value
 - Some care applied beyond where value is high
 - Vioxx
 - Geographic variation
- Increasing problems of affordability



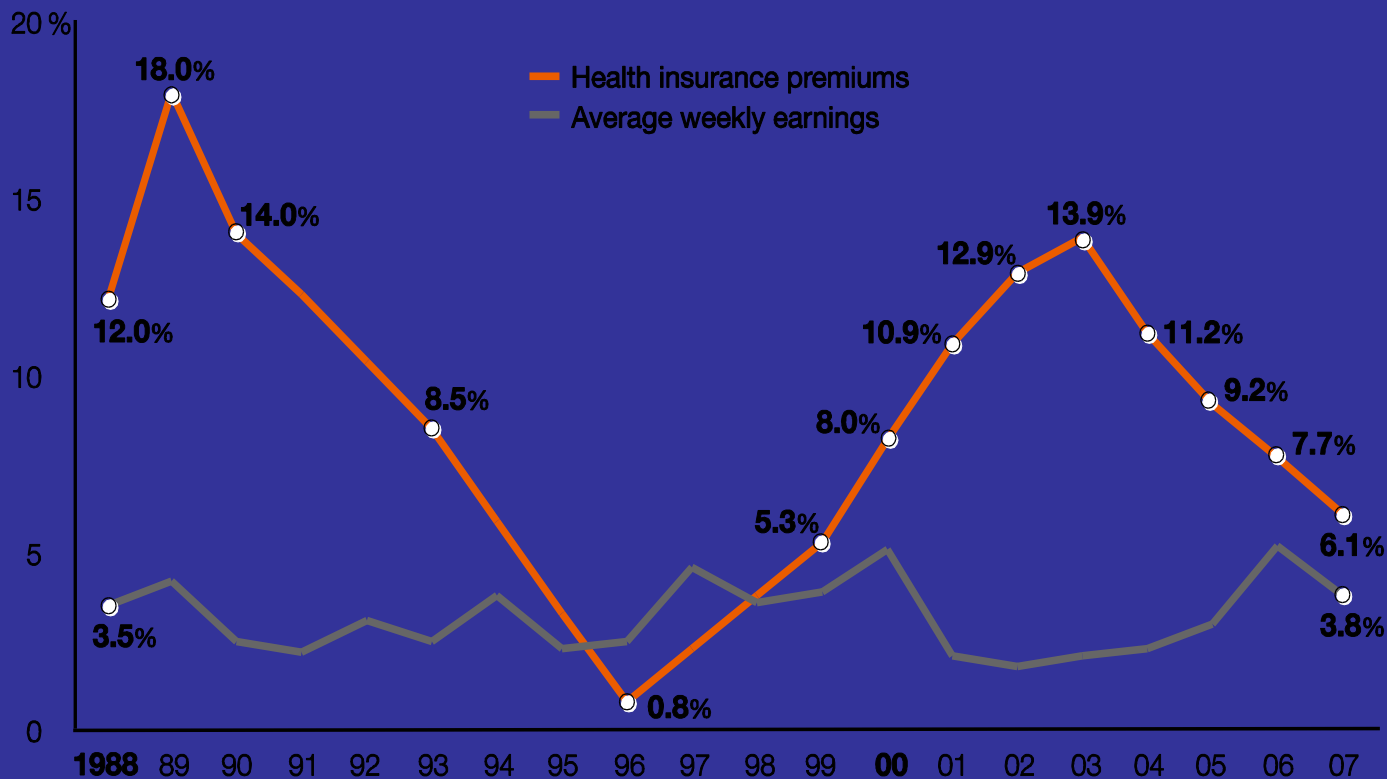
Are Health Costs Too High? (2)

- Insurance premiums outpacing earnings
 - Increasingly a middle-class challenge
 - Does it burden employers as well as employees?
- Huge burden for governments
 - Crowd-out and higher taxes
- Spur to economy?
 - In select circumstances, but not nationally



Are Health Costs Too High? (3)

Issue of Affordability





Key Factors Behind International Differences

- Higher prices in U.S.
 - Drug and device prices
 - Physician compensation
- Excess outpatient capacity
- Insurance administration
 - U.S. spending is 6 times that of other OECD countries



What is Driving the Growth in Health Care Spending?

- Advancing technology
- Declining health status
- Only small productivity gains in delivery

Not

- Demographics
- Medical malpractice



Technology

- Technology accounts for between one-third and two-thirds of the growth in health spending
- Technology drives spending through both *substitution* and *expansion*
 - Much technology welcomed
 - But some does not provide sufficient value
 - Applied too broadly



Health Status

- Increasing rates of obesity a major driver of health care spending
 - Explains approximately 12 percent of growth in health spending (CBO)
- Will continue as driver until obesity trend is reversed



Productivity

- Productivity in the health care sector likely increasing at low rate
 - Little competition on the basis of price
 - Benefit structures offer little reward for choosing low-cost providers
 - FFS payment penalizes rather than rewards reengineering care to increase efficiency



Myths About Cost Drivers

- Demographic trends (aging baby boomers) explain little of growth in health care spending
 - Research literature versus the myths
- Medical malpractice is neither a large factor in health care costs being high nor a major driver of spending growth



Options for Policymakers (1)

- Better target medical technology to patients likely to obtain high value
 - Effectiveness research
 - Provider payment reform
 - Consumer incentives and support
- Reduce obesity and improve wellness
- Improve efficiency through provider payment reform



Options for Policymakers (2)

- Address supply side drivers
 - Provider payment reform
 - Regulation of physician self-referral
 - Direct regulation of capacity
- Increase efficiency of insurance distribution to small groups and individuals



Project Information

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