
Center for Studying Health System Change Identifies Hospital Prices as a Key Cost Driver; Prescription Drug Spending Slowing

Health Cost Trends have Moderated, but Still Outpace Economic Growth

According to new data from the *Center for Studying Health System Change*, health cost trends have moderated. However, costs are still growing faster than overall economic growth, which means the number of uninsured will probably continue to rise.

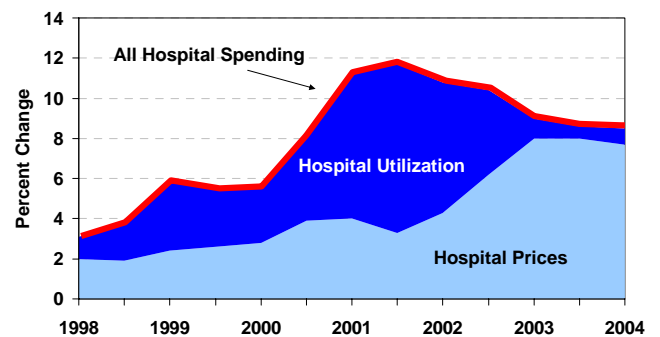
Health insurance plans have helped consumers and employers get a handle on prescription drug costs, but the primary engine of spending trends remains hospital costs. Health insurance plans are working to help patients avoid unnecessary hospitalizations, but **hospital prices** have picked up dramatically over the last two years.

Underlying Trends in Health Spending

Health care costs per privately insured American have grown at an annual rate of about 7.5 percent since 2003. This trend is down from a recent peak of 10 percent in the second half of 2001.

However, health care costs still are growing faster than the overall economy. Nominal GDP grew by at a rate of nearly 6 percent per capita in the first six months of this year.

Figure 1. Factors Driving Increases in Hospital Spending



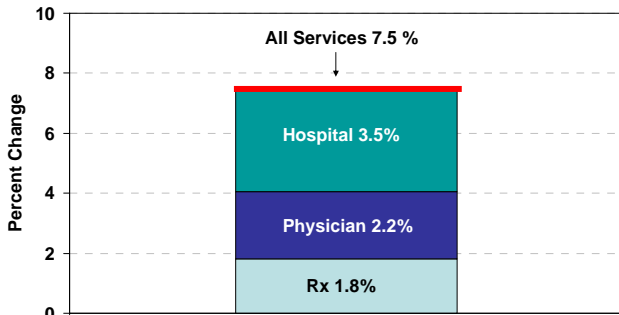
Source: Center for Studying Health System Change (December 2004).

Hospital Prices are the Major Cost Driver

In the first half of 2004, spending on hospital services grew by 8.6 percent, down from a peak of 12 percent in the second half of 2001, but well above the 3 percent rate last achieved in 1998 (see Figure 1). Hospital prices are currently driving health care cost increases. Figure 1 illustrates that hospital utilization has grown by less than 1 percent a year since 2003, while prices have increased at an annual rate of about 8 percent during the same period.

Hospital costs contributed about half of the overall increase in insured health costs in the first half of 2004 (see Figure 2).

Figure 2. Elements of Health Cost Growth, 2004

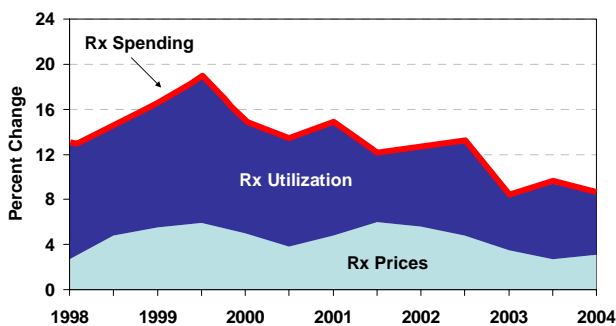


Sources: Center for Studying Health System Change (December 2004) and America's Health Insurance Plans.

Prescription Drug Spending Has Moderated Significantly.

Growth in prescription drug spending fell to 8.8 percent in the first half of 2004, down from almost 20 percent in the second half of 1999 (see Figure 3).

Figure 3. Factors Driving Growth in Rx Drug Spending



Source: Center for Studying Health System Change (December 2004).

Underlying the 2004 growth in prescription drug spending were price increases of just over 3 percent, and volume growth of 5.5 percent. The 3 percent price growth in 2004 is down from nearly 6 percent in the second half of 1999.

Health Insurance Plans' Tools to Keep Costs Affordable

The slowdown in prescription drug spending stems in part from new benefit designs. In 2004, 49 percent of all employers (64 percent of large employers) with prescription drug plans had a three-tier benefit design, up from 32 percent three years ago. Likewise, hospital utilization has fallen as health plans have expanded programs for disease management and coordination of care. However, as the *Center for Studying Health System Change* has found in its site visits to 12 nationally representative communities in the past several years, independent hospitals have merged to form large, multi-hospital systems with the bargaining power to drive up prices substantially.

References

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