

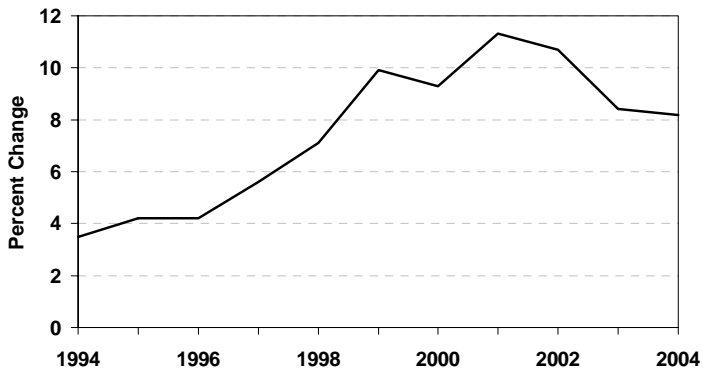
## Health Cost Trend Stabilized at About 8 Percent in 2004

The *Center for Studying Health System Change (HSC)* estimates that growth in prescription drug spending declined to about 7 percent in 2004. Meanwhile, spending for hospital care and outpatient surgical and diagnostic services grew by 10 percent.

**June 24, 2005**

According to newly revised data from the *Center for Studying Health System Change (HSC)*, the growth of health care spending per insured person stabilized at about 8 percent in 2004. This trend is down from a recent peak of 11 percent in 2001 (see Figure 1).

**Figure 1. Growth in Health Costs: All Services**



Source: Center for Studying Health System Change (June 2005).

However, underlying health care costs are still rising 2 or 3 percentage points faster than overall economic growth, which means the number of uninsured may continue to mount.

The new data include revisions for years prior to 2004. But the revisions tell a familiar story: Health insurance plans have helped consumers and employers get a handle on prescription drug costs by offering benefits

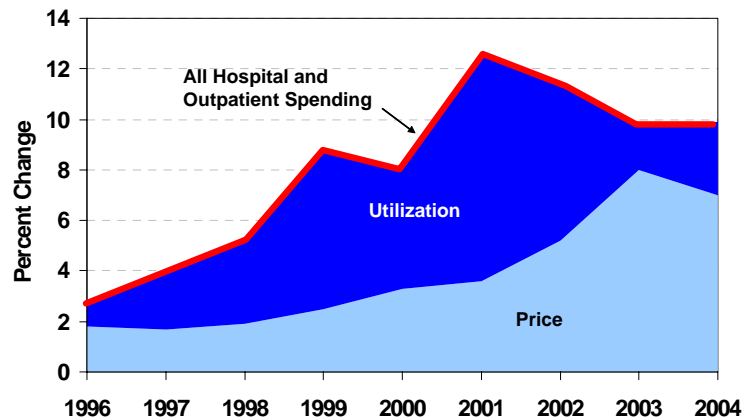
with lower co-payments for generic or preferred drugs, and higher co-pays for non-preferred brand name prescriptions.

On the other hand, costs for hospital care and outpatient surgical and diagnostic services have surged in recent years.

### Hospital Prices are a Major Cost Driver

In 2004, costs for hospital care and facility-based outpatient services (including ambulatory surgical centers, free-standing diagnostic facilities and imaging services) grew by 10.1 percent, down from a peak of 13 percent in 2001, but well above the 3 percent rate achieved in 1996 (see Figure 2).

**Figure 2. Factors Driving Increases in Hospital and Outpatient Spending**



Source: Center for Studying Health System Change (June 2005).

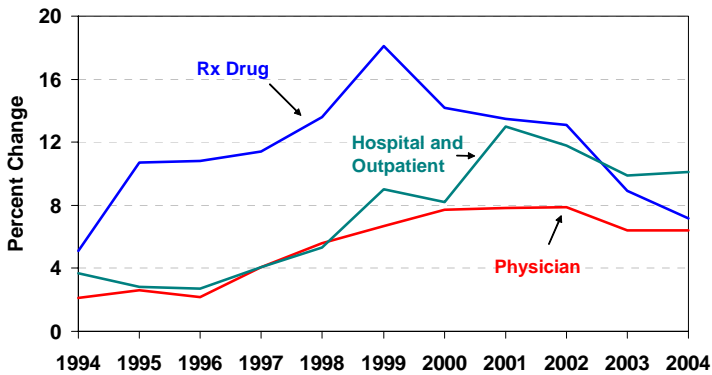
Hospital utilization has tapered off since 2002 as health plans have expanded programs for utilization review, disease management and coordination of care. However, hospital prices rose at an annual rate of about 7-8 percent in 2003 and 2004.

Spending for inpatient hospital care grew at 6 percent, while growth at hospital-based or freestanding outpatient facilities grew by over 11 percent in 2004.

### Prescription Drug Spending Has Moderated Significantly

Growth in prescription drug spending fell to 7 percent in 2004, down from as high as 18 percent in 1999 (see Figure 3).

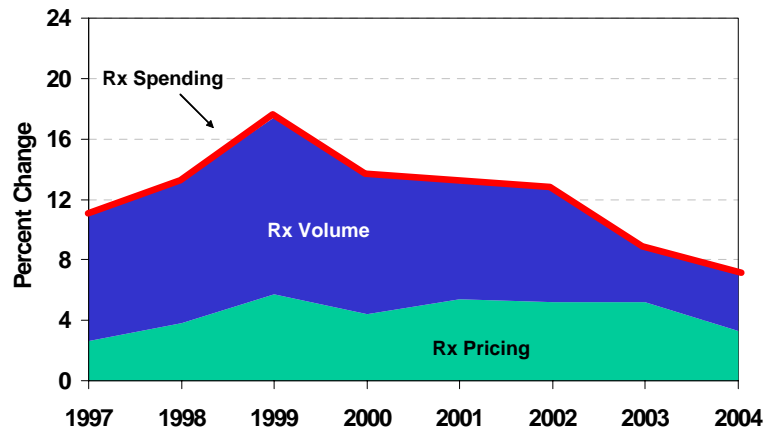
**Figure 3. Growth in Health Costs: By Sector**



Source: Center for Studying Health System Change (June 2005).

The 2004 growth in prescription drug spending was comprised of price increases of just over 3 percent and volume growth of about 4 percent (see Figure 4). The 3 percent price growth in 2004 is down from nearly 6 percent in 1999.

**Figure 4. Factors Driving Growth in Rx Drug Spending**



Source: Center for Studying Health System Change (June 2005).

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.

#### References

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