

# Why Are Health Care Costs Rising?

Leading Experts/Real-World Data Identify  
Multiple Factors Across the System

March 2010



# Multiple Factors Driving The Cost Of Health Care

- **There is no single cause of the escalating cost of health care in America — significant cost drivers are embedded throughout the system.**
- Studies from government and academic experts as well as data from UnitedHealth Group illustrate a complex mix of factors responsible for the continuing rise in health care costs. These analyses come from:
  - Congressional Budget Office (CBO)
  - Department of Health and Human Services (HHS)
  - Centers for Medicare and Medicaid Services (CMS)
  - Massachusetts Office of the Attorney General
  - Academic institutions including Dartmouth College, Emory University, and the Center for Studying Health System Change (HSC)



# What The Experts Are Saying



**"If you want to keep costs under control, it's not about managing health care premiums...it's about managing the underlying health care costs."**  
- *Sandy Praeger, Kansas Insurance Commissioner*

Kaiser Health News: *State Regulators Criticize Obama Plan To Create Federal Authority Over Health Insurance Rates, 02/22/10*



**"Insurance is not the problem. The problem is incentives. We have payment for procedures, not for results."** - *Warren Buffet, CEO, Berkshire Hathaway*

CNBC, 03/01/10



**"And 'the elephant in the room that no one has focused on is providers' power to get higher rates from insurers."** - *Paul Ginsburg, Center for Studying Health System Change*

USA Today: *Impact of Bipartisan Summit To Be Felt Beyond Health Care, 02/24/10*



**"Health insurers have been squarely in the crosshairs and blamed for the high cost of private insurance, while the role of growing hospital and physician market power has escaped scrutiny."** - *Robert Berenson, M.D., Senior Researcher, Urban Institute*

HSC News Release, Feb. 2010

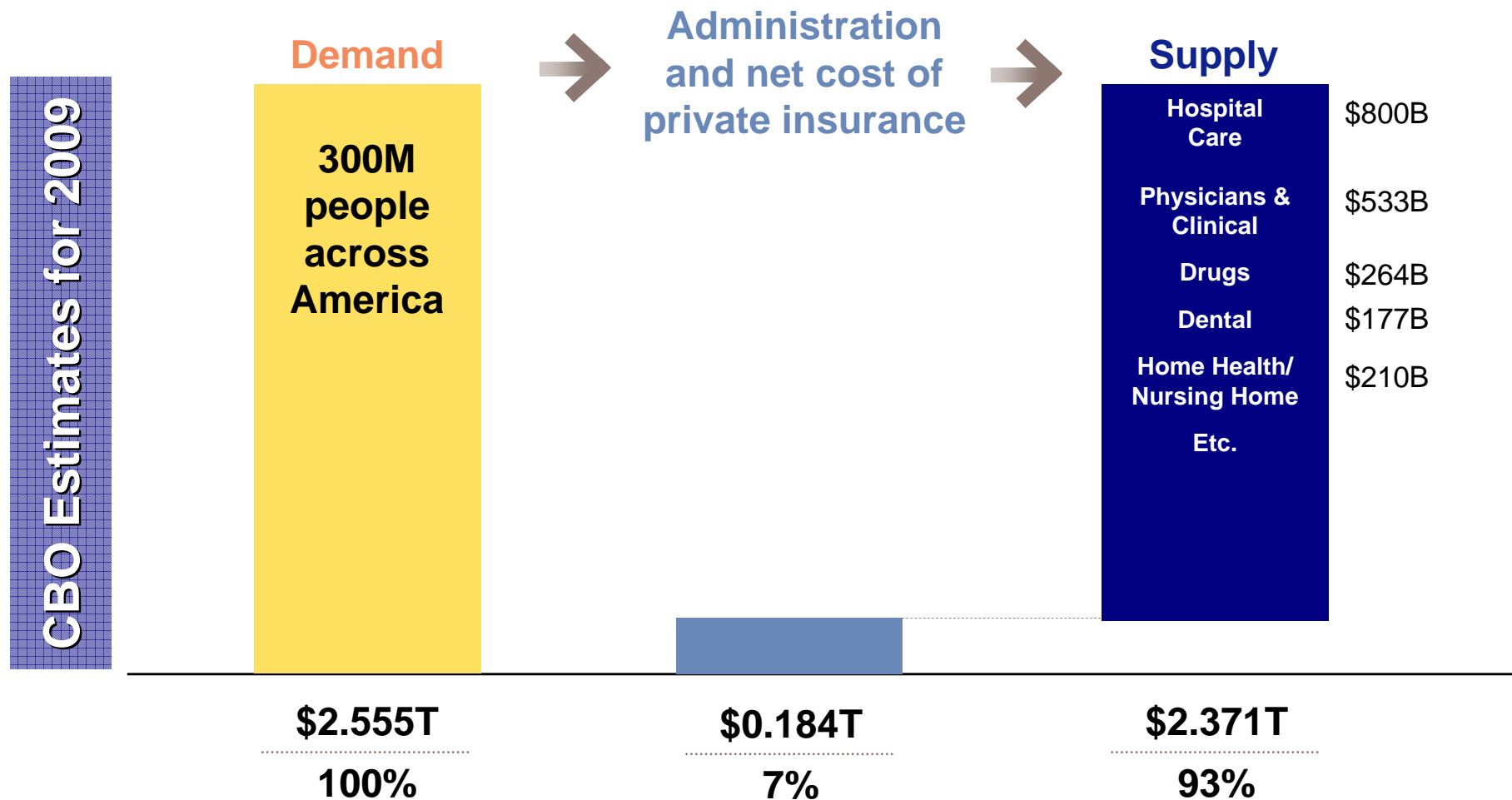


**"Everyone is beating up on the insurance companies, but you may be shooting at the wrong target..."** - *Uwe Reinhardt, Economist, Princeton University*

AOL News: *Who's the Bad Guy in Insurance Premium Hikes?, 02/21/10*



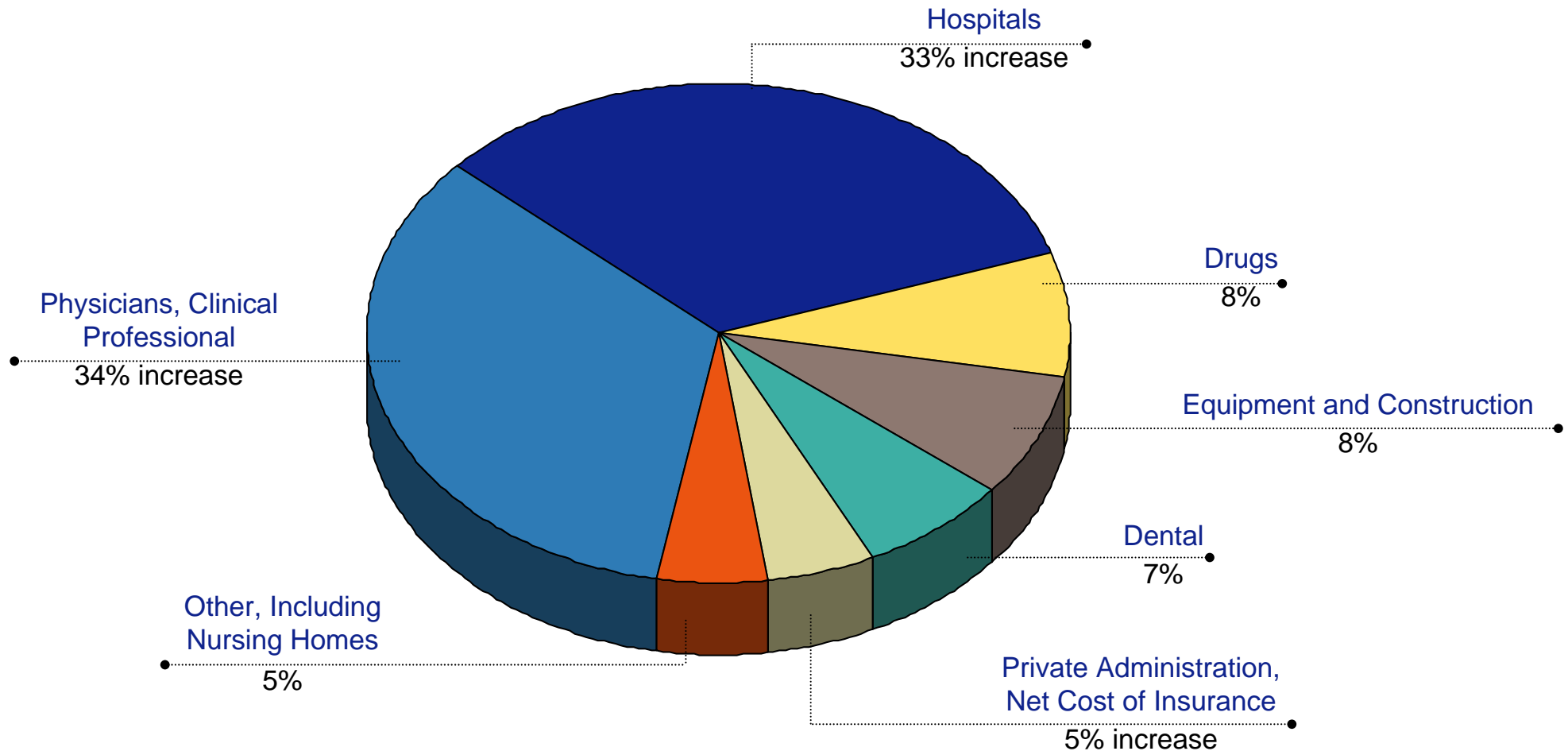
# CBO: Largest Costs In Health Care Today



Source: Congressional Budget Office: Key Issues in Analyzing Major Health Insurance Proposals, December 2008



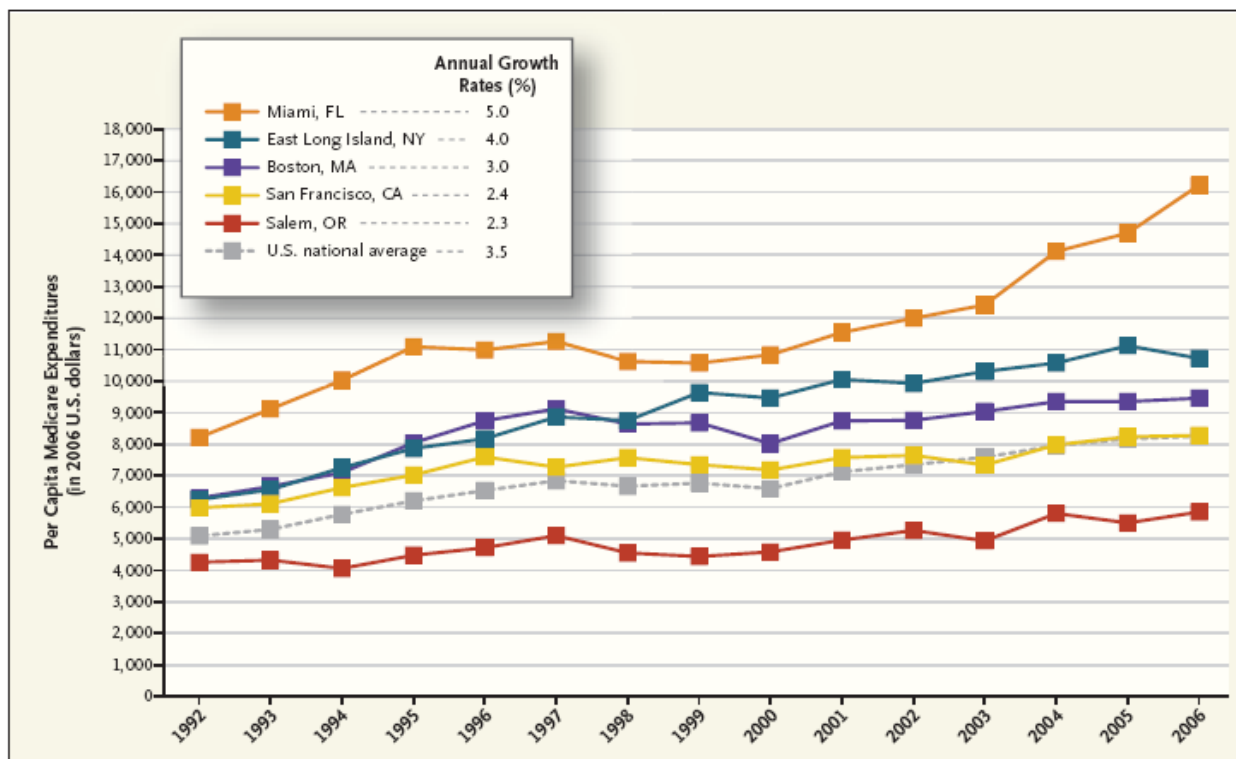
# CMS: Hospitals And Physicians Account For Majority Of Cost Increases



Source: Average annual increases in private expenditures 2003-2008. From National Health Expenditure Accounts, Centers for Medicare and Medicaid Services, HHS.



# Dartmouth: Widespread Regional Variations In Medicare Cost Increases



Annual Growth Rates of per Capita Medicare Spending in Five U.S. Hospital-Referral Regions, 1992–2006.

Data are in 2006 dollars and were adjusted with the use of the gross domestic product implicit price deflator (from the Economic Report of the President, 2008) and for age, sex, and race. Data are from the Dartmouth Atlas Project.

Despite this regional cost gap, Dartmouth researchers found that:

- “Quality of care and health outcomes are better in lower spending regions.”
- “There have been no gains in survival in regions with greater spending growth.”



# MA Attorney General: Higher Provider Prices Are Responsible For Cost Increases



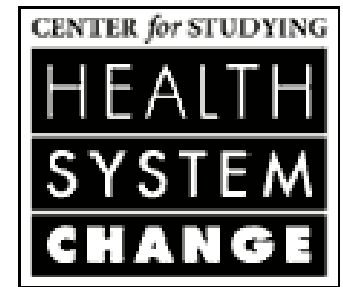
1. “Price increases, *not* increases in utilization, caused most of the increases in healthcare costs during the past few years in Massachusetts.”
2. “Hospital and physician group **prices vary significantly** within the same geographic area and amongst providers offering similar levels of service.”
3. “Price variations are not correlated to:
  - quality of care;
  - the sickness or complexity of the population being served;
  - the extent to which a provider is responsible for caring for a large portion of patients on Medicare or Medicaid; or
  - whether a provider is an academic teaching or research facility.
4. “Price variations are not adequately explained by differences in hospital costs of delivering similar services at similar facilities.”
5. “Price variations are correlated to market leverage, as measured by the relative market position of the hospital or provider group compared with other hospitals or provider groups within a geographic region or within a group of academic medical centers.”

Source: Massachusetts Attorney General's Office: “Investigation of Health Care Cost Trends and Cost Drivers, Preliminary Report”, January 29, 2010



# HSC: Provider Consolidation Pushing Payment Rates, Premiums Higher

Researchers from *The Center for Studying Health System Change* cite “a definite shift in negotiating strength toward providers, resulting in higher payment rates and premiums.”



“Evidence from two decades of hospital mergers and acquisitions nationally demonstrates that consolidating hospital markets drives up prices, with disagreement only over the magnitude of the increases.”

“Hospital and physician payment rates are nearly 30 percent and 20 percent higher, respectively, than Medicare rates...In some cases, payment rates to hospitals and powerful physicians groups approach and exceed 200 percent of what Medicare pays.”

“As one medical group executive said, ‘We are making out hand over fist.’”





# Impact Of Provider Price Inflation

***FACT: 67% of the increase in National Health Expenditure is accounted for by price inflation -- CMS Office of the Actuary, January 2010***

## **REAL-WORLD EXAMPLES**

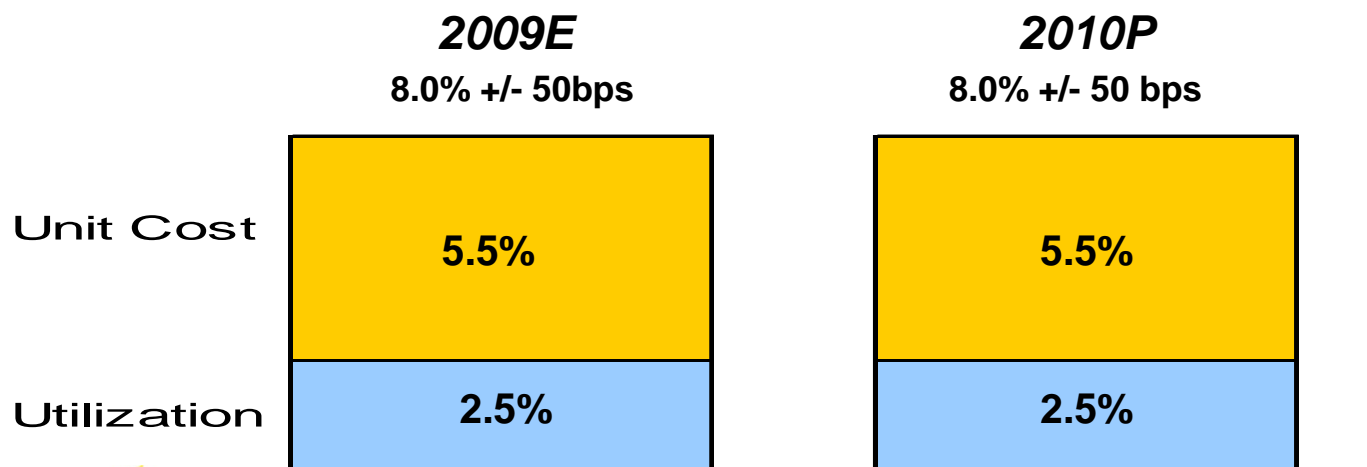
- A large multi-specialty physician group in Washington, D.C., charges all competing health plans 8% more than what it charges the Blues due to a 'most favored nation' clause.
- A hospital in suburban New Jersey — the only hospital in its community — is demanding that health plans pay an extra 15-16% to compensate them for Medicaid and Medicare payments that are rising by 4-5% less than the hospital's own costs.
- A hospital in the Northeast charges health plans 50% more than what it charges the plan owned by its own hospital system.



# UHG: Provider Charges Driving Cost Increases

***Sharply rising hospital inpatient and outpatient costs are the main cause of rising medical costs for employers and consumers.***

<b>Physician</b>	4.0%-5.0%	Increased fee schedules. Office visits similar to 2009.
<b>Inpatient</b>	11.5%-12.5%	Continued unit cost pressure. Similar utilization trends as 2009.
<b>Outpatient</b>	8.0%-9.0%	Continued unit cost pressure. Utilization trends remain in the mid-single digits.
<b>Pharmacy</b>	6.0%-7.0%	Largest driver is unit cost particularly brand-name drugs



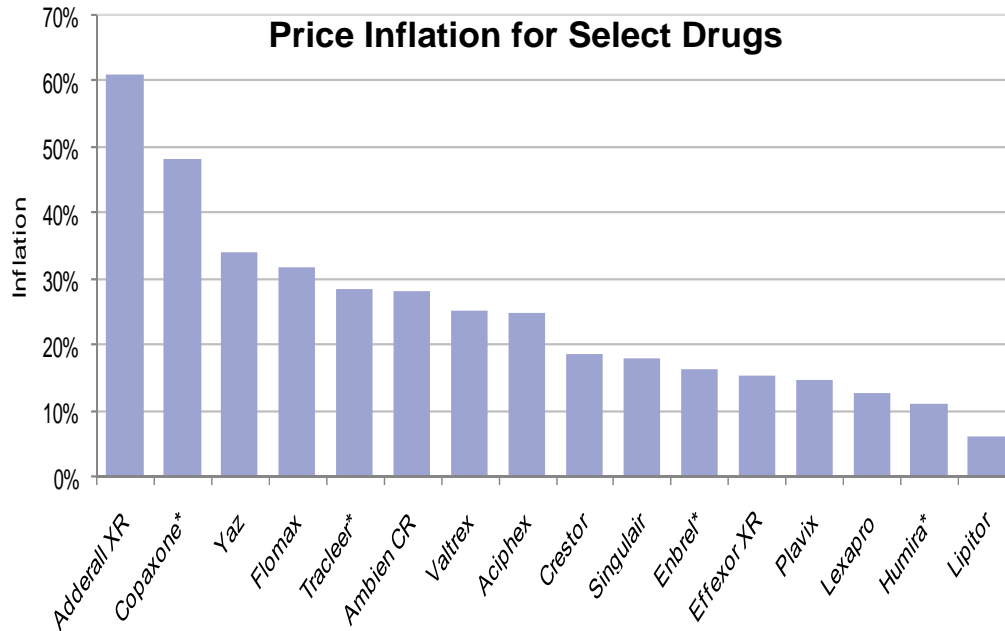
# Brand-Name Drug Price Increases

**FACT: 416 brand-name drugs had extraordinary price increases -- GAO, Dec. 2009**

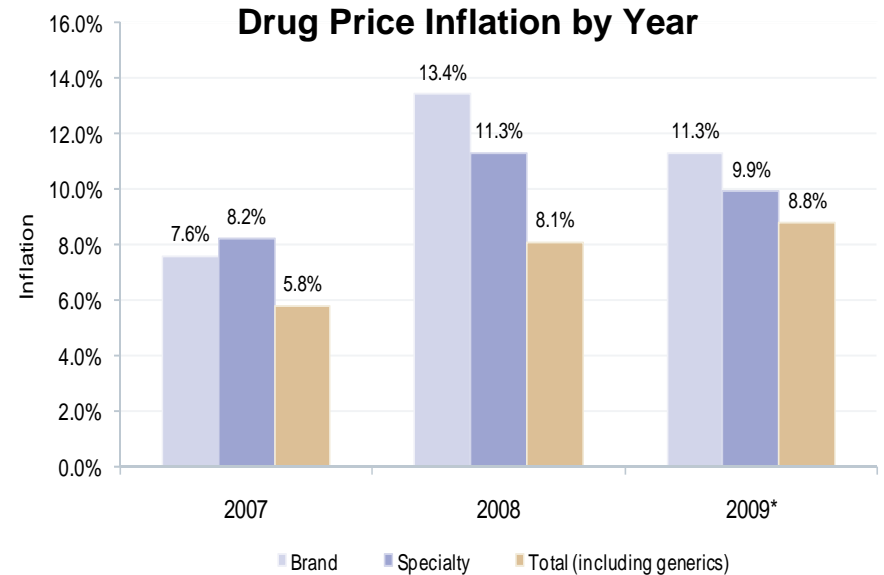
## UHC Prices of Some Popular Drugs Have Also Jumped Dramatically...

Adderall XR Up 60%, Flomax Up Over 30%, Crestor Up Nearly 20%

## Brand-Name Drug Price Inflation Reached 11.3% for UHC in 2009



\*Specialty drug  
Source: UHC data. AWP per unit January 2008 compared to AWP per unit ending September 26, 2009



\*Source: Sample of UHC data based on AWP per days supply for actual utilization January 2009— September 26, 2009



# HHS: Treatment Volumes Are Rising

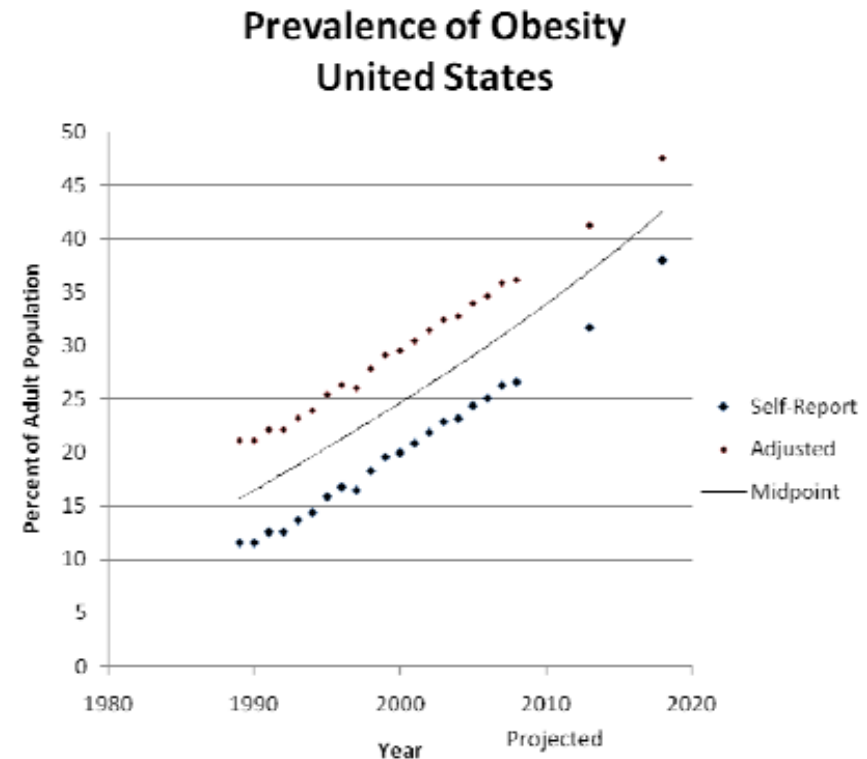
Over the past decade:

- MRI / CT / PET scans tripled
- Hip replacements up by a third
- Knee replacements up by 70%
- Kidney transplant rates up by 31%
- Liver transplant rates up by 42%
- Statin drug usage up nearly tenfold



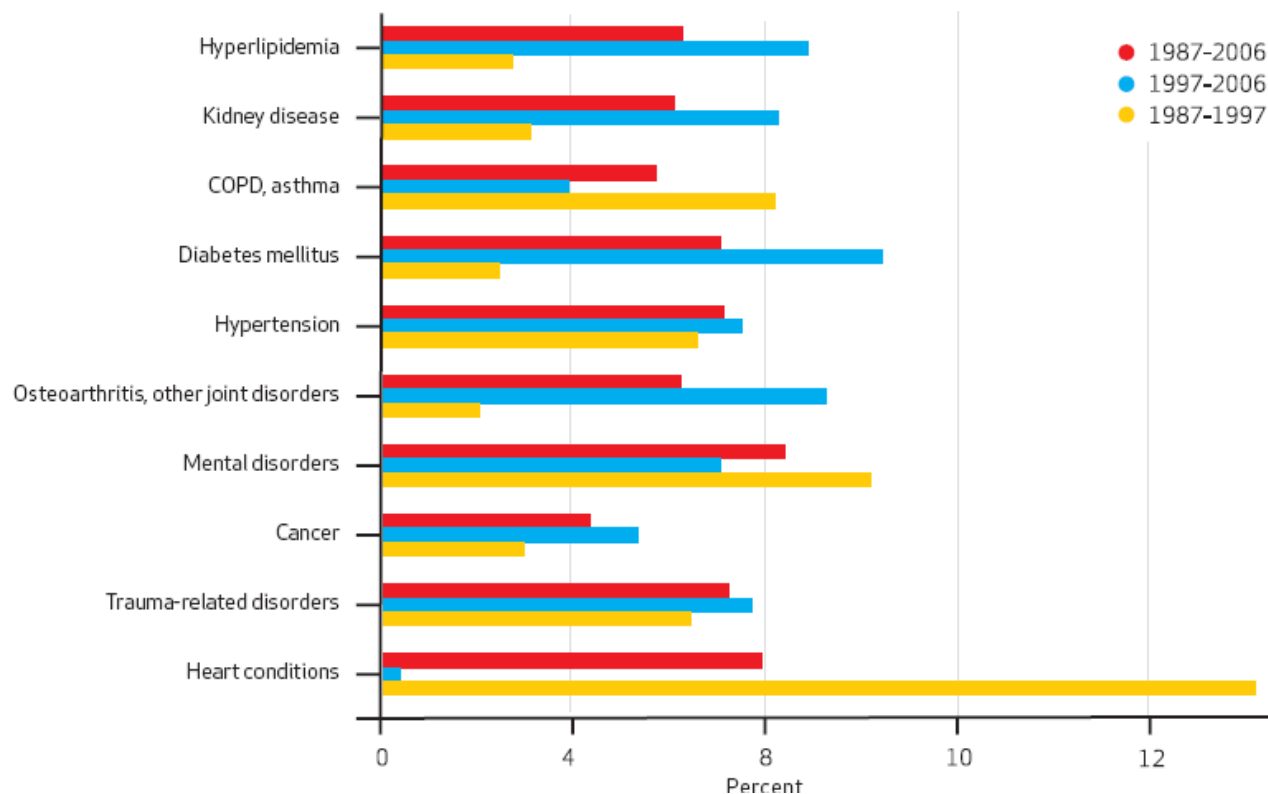
# Emory University: Obesity A Leading Cost Driver

- **Obesity is growing faster than any previous public health issue** America has faced. If current trends continue, 103 million American adults will be considered obese by 2018.
- **The U.S. is expected to spend \$344 billion on health care costs attributable to obesity in 2018** if rates continue to increase at their current levels. Obesity-related direct expenditures are expected to account for more than 21 percent of the nation's direct health care spending in 2018.
- If obesity levels were held at their current rates, the U.S. **could save an estimated \$820 per adult** in health care costs by 2018 — a saving of almost \$200 billion dollars.



# Emory University: Chronic Conditions Driving Medicare Spending

Contribution Of Key Medical Conditions To Inflation-Adjusted Health Care Spending Growth Among Medicare Beneficiaries, 1987-1997, 1997-2006, And 1987-2006



“Much of the recent growth in spending among Medicare beneficiaries is attributable to rising spending on chronic conditions — specifically diabetes and hypertension.”



# The Bottom Line

***There is no single factor responsible for rising health care costs. Our system is complex and the cost drivers are numerous.***

- 95 cents of every \$1 cost increase is driven by health care providers and related services.
- Hospitals, physicians and prescription drugs cause 75% of the increase in spending.
- 67% of the increase in national health spending is accounted for by rising prices charged by providers, not increased use of health care.
- But treatment volumes are increasing too – partly because of the rise of chronic conditions and obesity.

