

National Health Care Expenditure Growth

C. Eugene Steuerle
The Urban Institute

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Briefing

OUTLINE

■ Major Factors Affecting Growth Projections

- Basic sources of pressure: Patients and providers bargain over what everyone else will pay
- Flip side of coin—system is unsustainable
- Pressure from “non-health” part of economy
- “Market prices” set by copy-cat behavior (public & private insurance look at what each other does)

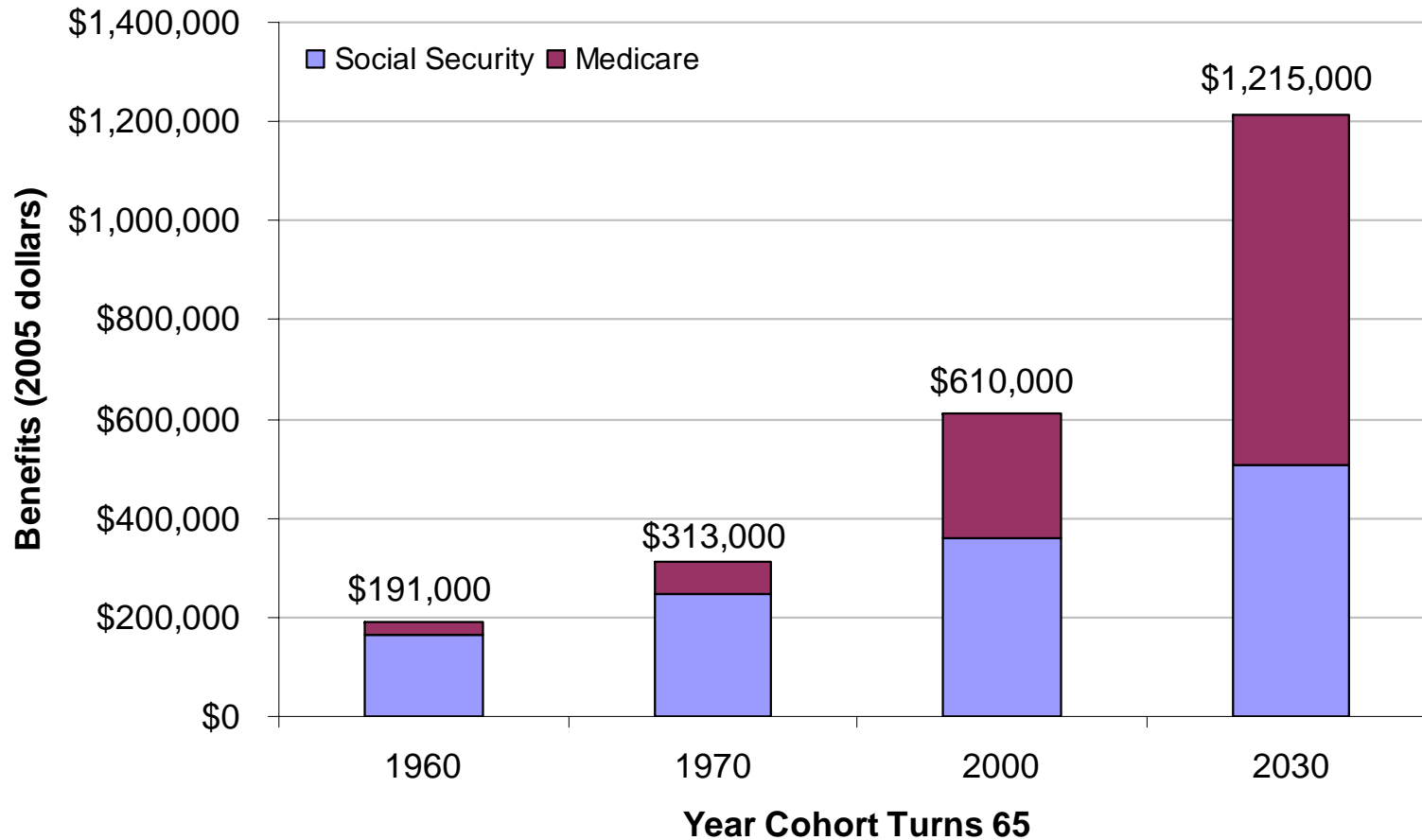
■ Refining the Estimates

- Projecting who will supply & at what labor cost
- Projecting increases in number of uninsured with cost growth
- Distinguishing between cost and price growth (more difficult)

The Dilemma

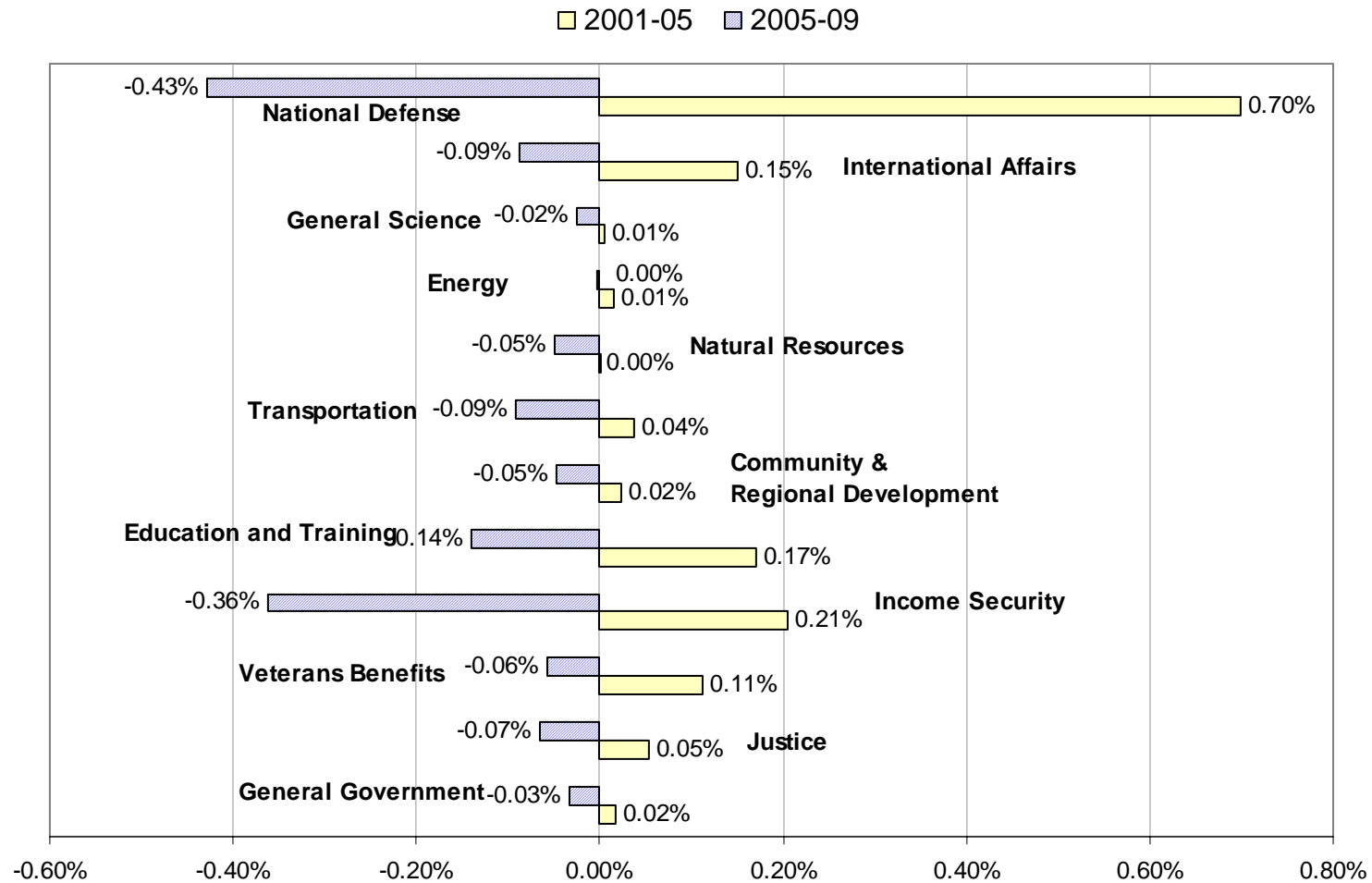
- At zero price, demand is infinite
- Society afraid to let anyone control costs:
 - ◆ Individual—too much inequity
 - ◆ Intermediaries—untrustworthy
 - ◆ Government—no way to decide future without some market
- But system is unsustainable
 - ◆ So we project on past history, knowing it cannot continually repeat itself

Social Security and Expected* Medicare Benefits for a Two-Earner Couple: Average Wage/Low Wage (\$35k/\$15k)



* Expected rather than realized benefits. Notes: The “high” and “average” wage profiles are those hypothetical profiles routinely employed by the Social Security Administration in its analyses. Lifetime amounts – rounded to the nearest \$5,000 – are discounted to present value at age 65 using a 2 percent real interest rate and adjusted for mortality. Projections based on intermediate assumptions of the 2004 OASDI and HI/SMI Trustees Reports. Includes Medicare Part D. Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2004.

The President's Proposed Solution: Reversing Policy

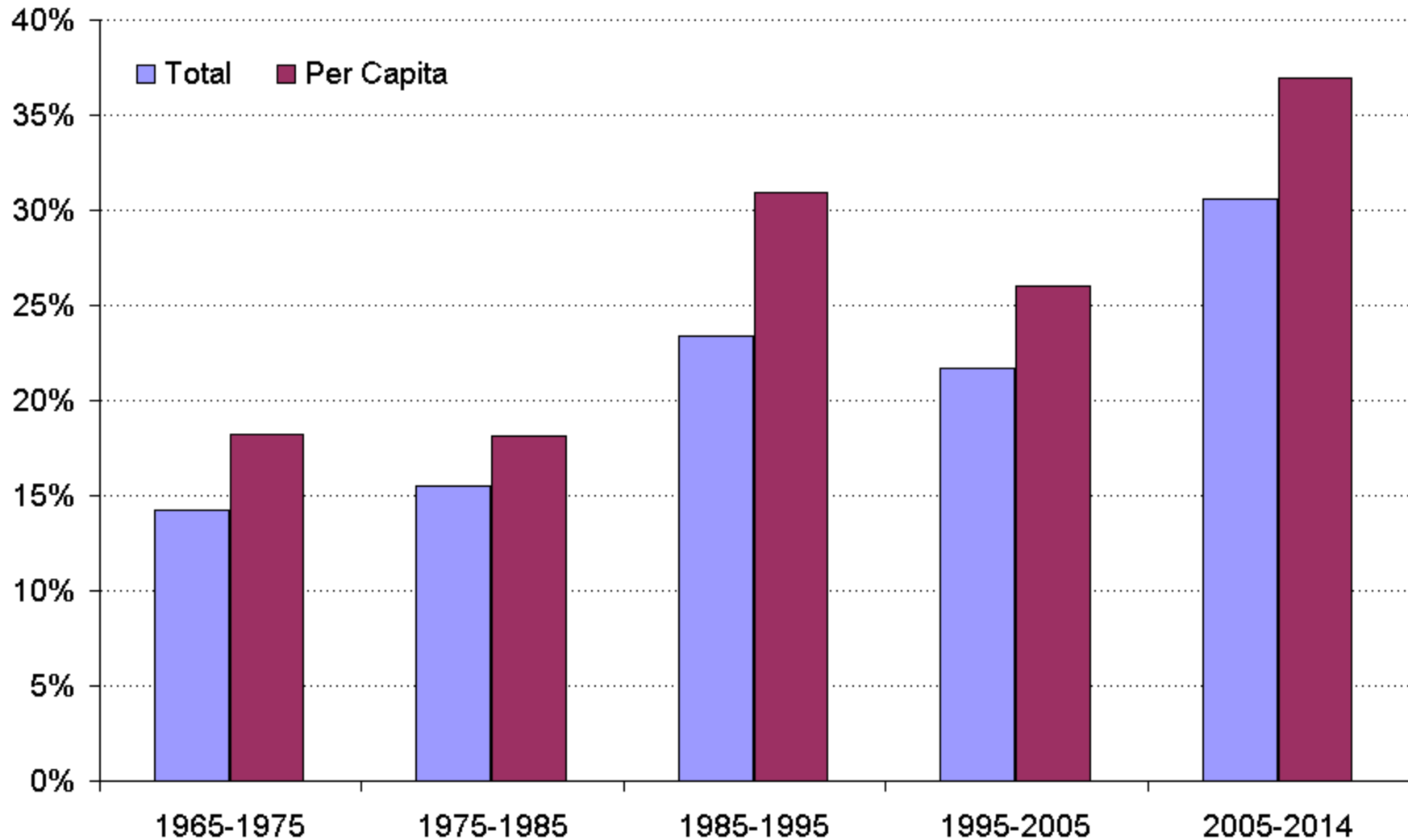


Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2004. Data based on the U.S. Budget FY 2005, Historical Tables, Table 3.1. Excludes allowances and undistributed offsetting receipts.

Health versus Everything Else

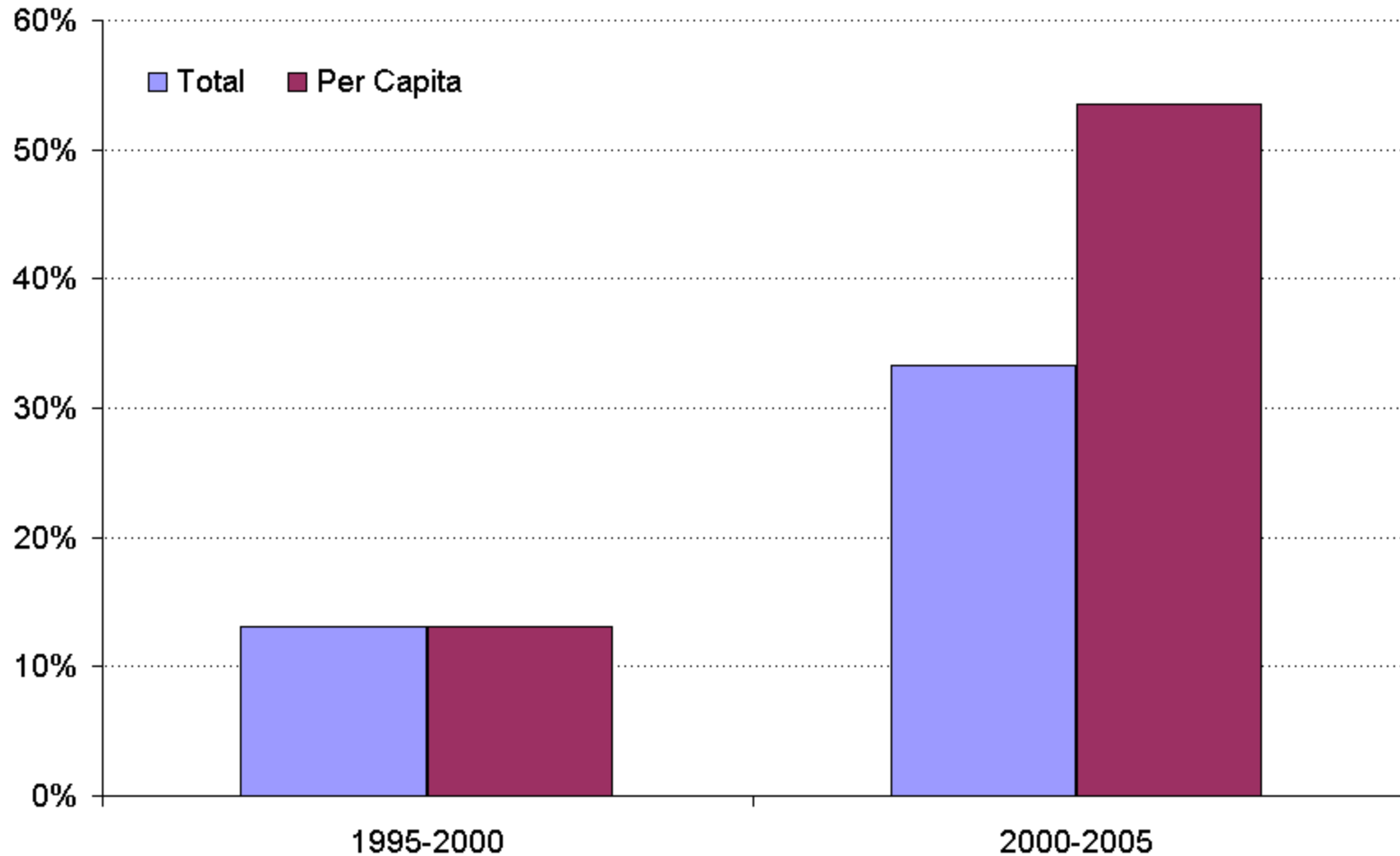
- Single sector projections generally do not take into account pressures from all sectors taken together
- Can play out indirectly
 - ◆ Labor-management bargains over cash wage increases
 - ◆ Increases in number of uninsured

Health Spending Growth as a Share of Total Growth, 1965-2014



Source: The Urban Institute, 2005. Based on data from the Office of the Actuary, Centers for Medicare and Medicaid Services, the Bureau of Economic Analysis and the Bureau of the Census.

Health Spending Growth as a Share of Total Growth, 1995-2005



Source: The Urban Institute, 2005. Based on data from the Office of the Actuary, Centers for Medicare and Medicaid Services, the Bureau of Economic Analysis and the Bureau of the Census.

Copy-cat behavior

- Public and private sectors often copy each other:
 - ◆ Price setting
 - ◆ Insurable events, products & services
- But often with lags & differentials
- Some Factors
 - ◆ Medicare drug benefit=greater price control
 - ◆ Private drop in insurance=increase in Medicaid demand=state pressures to control costs

Refining the Estimating Process

- Projections of inputs, not outputs. Crudely,
 - ◆ Sum of wages x health workers =
 - ◆ Sum of health goods/services x prices
 - ◆ (assumes costs of drugs, etc. are primarily wages)

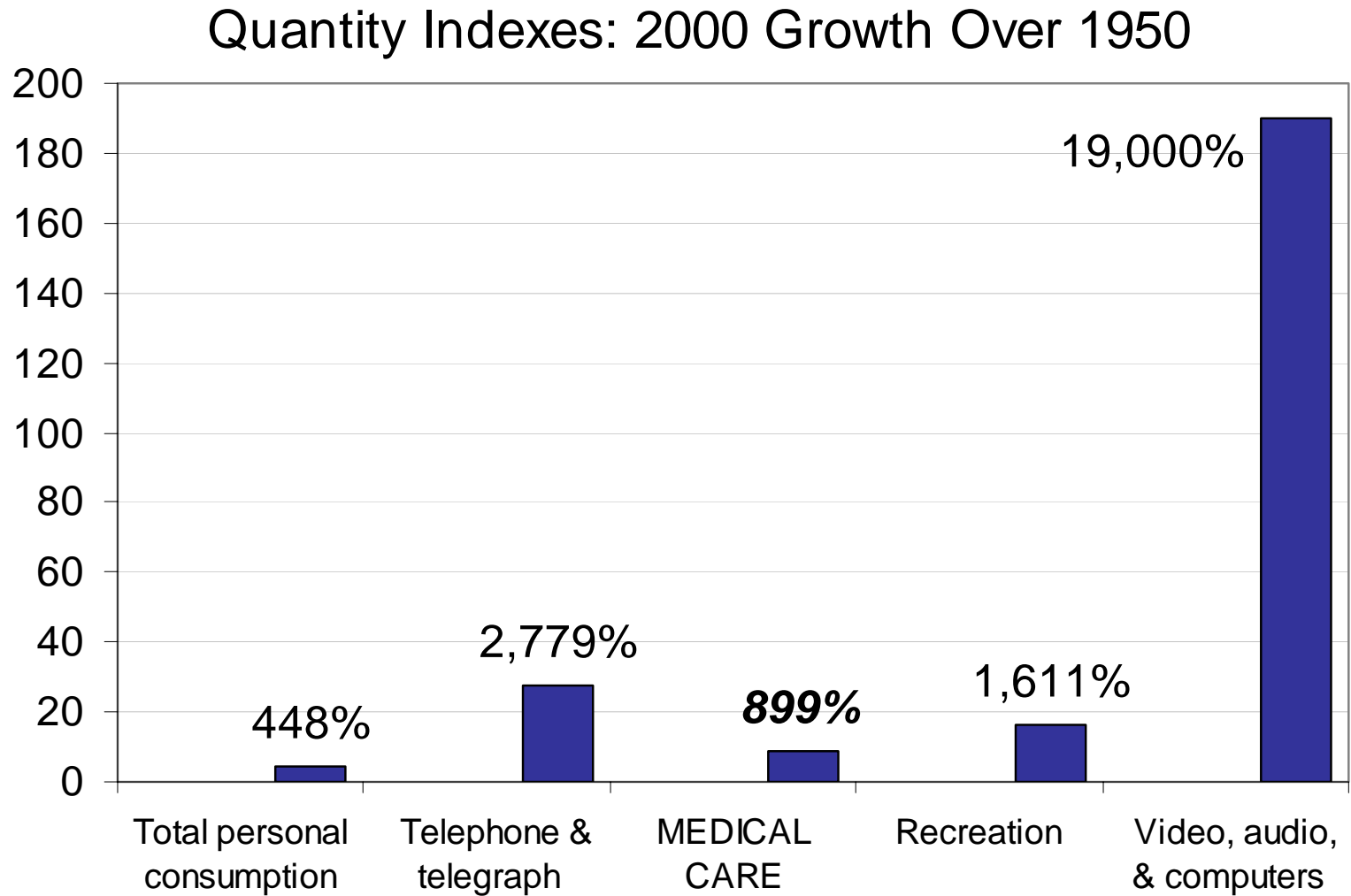
Relating Costs to # of Uninsured

- Projections should make explicit relationship between:
 - ◆ Cost growth
 - ◆ Percent insured

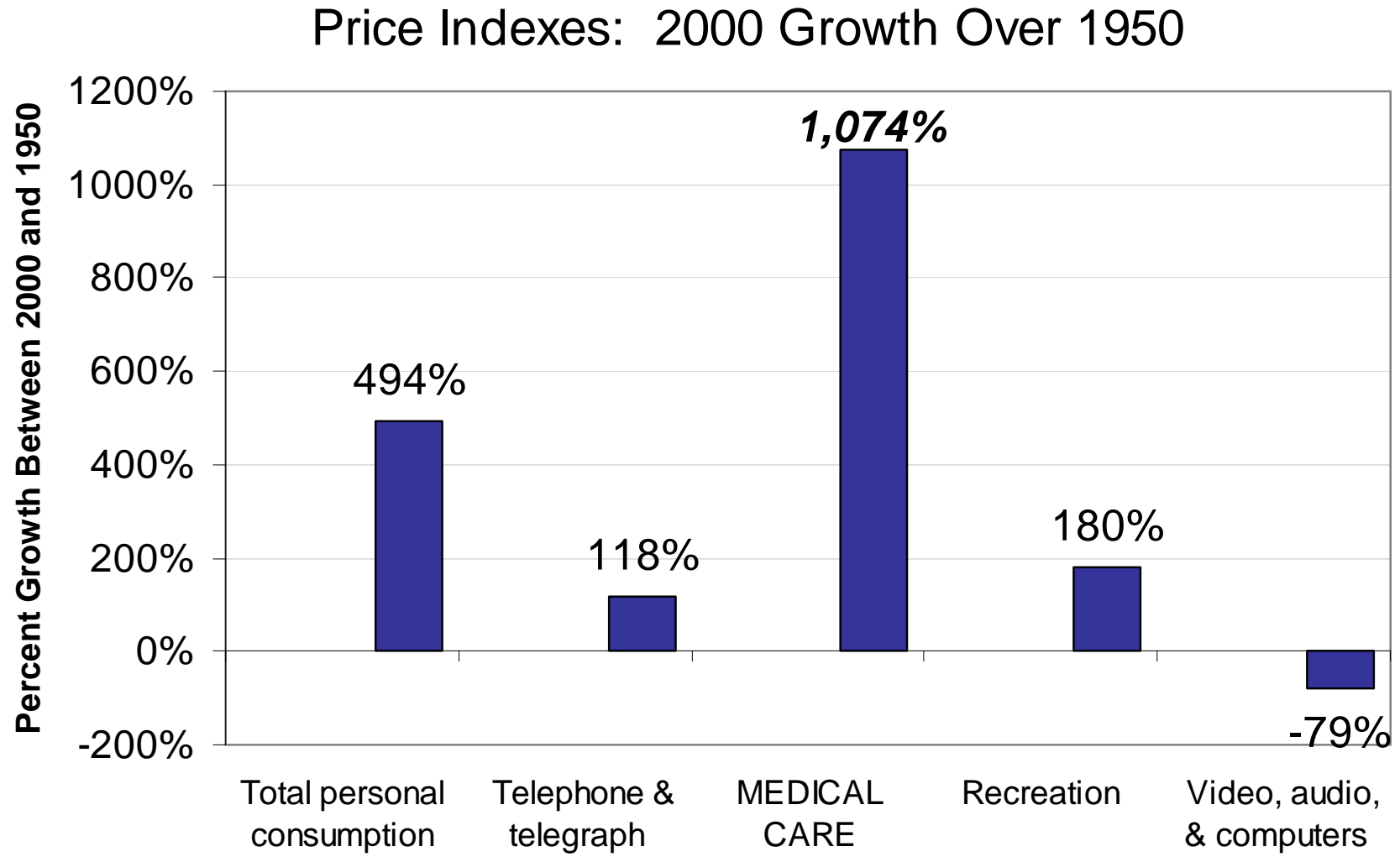
Distinguishing Costs & Prices

- Although very difficult, we also need to at least trace price versus cost growth
 - ◆ Health is the only growth sector of the U.S. economy with
 - ◆ Above-average price growth
 - ◆ Above average quantity growth

Quantity Indices Over Time: Medical Care vs. Other Consumption Categories



Price Indices Over Time: Medical Care vs. Other Consumption Categories



CONCLUSION

- Hard to fault actuarial projections
- Many trends not sustainable
- But governmental policy must be assumed “constant” to see its implications
- Health pressures on public and private sector are already extraordinary
- Refinements could help:
 - (1) Figure out who is getting paid
 - (2) Make explicit effects on uninsured
 - (3) Give attention to real growth in health output and outcomes