Health spending growth exceeds income growth
(per capita, inflation adjusted)

1970s: 2.6%
1980s: 3.2%
1990s: 1.1%
2000s: 2.7%
2010s: 0.3%

Why Does Spending Grow?

- Technology
- Prices
- Aging
Prices and Utilization Drive Spending Growth

CPI Increase (%/YR)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI Increase</td>
<td>2.3</td>
<td>1.3</td>
<td>1.6</td>
<td>0.1</td>
<td>1.3</td>
<td>2.1</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Spending Growth Varies by Payer

Cumulative growth in per enrollee spending by private insurance, Medicare, and Medicaid, 2008 - 2019

Source: KFF analysis of CMS National Health Expenditures Accounts • Peterson-KFF
Technology
(common across sectors)
Types of technology changes

1951 - 1971: little ticket items
- lab tests
- X-Rays

1971 - 1981: big ticket items
- CABG
- C-section
- radiation & chemotherapy for breast cancer

Early and Mid 1990s
- Pharmaceuticals

2000’s
- Imaging
- Biologics
‘Woodwork’ technologies

- Lower patient morbidity/ greater convenience than alternatives

- Often lower cost

- Suitable for large pools of individuals who opt for alternative treatment paths
  - Often managed disease medically or by lifestyle adjustments
Trends in cholecystectomy rates

(cholecystectomies per 1000)
Digital/ Telehealth

What is it

- Video or audio visits
- Web/ e-mail communication w/ traditional providers
- Non-traditional providers
  - Remote
  - AI enabled
- Remote patient monitoring
Promise and Pitfalls of Digital/ Telehealth

**Promise**
- Can improve care
- Can improve access
- Is less costly per unit of service

**Pitfalls**
- Use can expand
  - Digital/ tele service or ancillary services
- Can disrupt the existing brick and mortar system
Commercial Markets
Rapid Growth in Commercial Premiums

Average Annual Worker and Employer Contributions to Premiums and Total Premiums for Family Coverage, 1999-2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer Contribution</th>
<th>Worker Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$4,247*</td>
<td>$1,543</td>
</tr>
<tr>
<td>2000</td>
<td>$4,810*</td>
<td>$1,619*</td>
</tr>
<tr>
<td>2001</td>
<td>$5,274*</td>
<td>$1,792*</td>
</tr>
<tr>
<td>2002</td>
<td>$5,660*</td>
<td>$2,037*</td>
</tr>
<tr>
<td>2003</td>
<td>$6,957*</td>
<td>$2,422*</td>
</tr>
<tr>
<td>2004</td>
<td>$7,285*</td>
<td>$2,661*</td>
</tr>
<tr>
<td>2005</td>
<td>$8,167*</td>
<td>$2,712*</td>
</tr>
<tr>
<td>2006</td>
<td>$8,508*</td>
<td>$2,573*</td>
</tr>
<tr>
<td>2007</td>
<td>$8,824</td>
<td>$3,031*</td>
</tr>
<tr>
<td>2008</td>
<td>$9,325*</td>
<td>$3,504*</td>
</tr>
<tr>
<td>2009</td>
<td>$9,660*</td>
<td>$3,515*</td>
</tr>
<tr>
<td>2010</td>
<td>$9,773</td>
<td>$3,807*</td>
</tr>
<tr>
<td>2011</td>
<td>$10,044*</td>
<td>$4,129*</td>
</tr>
<tr>
<td>2012</td>
<td>$11,429*</td>
<td>$4,316*</td>
</tr>
<tr>
<td>2013</td>
<td>$11,788</td>
<td>$4,505*</td>
</tr>
<tr>
<td>2014</td>
<td>$12,011</td>
<td>$4,565*</td>
</tr>
<tr>
<td>2015</td>
<td>$12,591*</td>
<td>$4,955*</td>
</tr>
<tr>
<td>2016</td>
<td>$12,883</td>
<td>$5,277*</td>
</tr>
<tr>
<td>2017</td>
<td>$13,040</td>
<td>$5,714*</td>
</tr>
<tr>
<td>2018</td>
<td>$14,009*</td>
<td>$5,947*</td>
</tr>
<tr>
<td>2019</td>
<td>$14,561</td>
<td>$6,015*</td>
</tr>
</tbody>
</table>

* Estimate is statistically different from estimate for the previous year shown (p < .05).

Prices Explain Recent Commercial Spending Growth

Figure 4: Cumulative Change in Spending per Person, Utilization, and Average Price by Service Category

Health Care Cost Institute “2019 Health Care Cost and Utilization Report”
More Markets are highly concentrated

\[
\text{% of MSAs with HHI over 2,500}
\]

Physicians are increasingly working for hospital systems

Cost Sharing is Growing

Figure E
Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of $2,000 or More for Single Coverage, by Firm Size, 2009-2021

- All Small Firms
- All Large Firms
- All Firms

* Estimate is statistically different from estimate for the previous year shown (p < .05).

NOTE: Small Firms have 3-100 workers and Large Firms have 200 or more workers. These estimates include workers enrolled in HDHP/SOs and other plan types. Average general annual deductibles are for in-network providers.

Cost Sharing Will Get ‘Smarter’

- Reference pricing
- Tiered networks
- Narrow networks
- Value Based Insurance Design (VBID)
  - Align cost sharing with value
Impact of Price Transparency

Price transparency is not associated with lower spending:
- Limited engagement with price transparency tools/ data even when available
- Benefit design not optimized to leverage transparency
- Patients listen to doctors

Medicare
Decomposition of drivers of forecasted Medicare spending growth (2021-2030)

Due to rounding considerations, components do not add exactly to the total

Source: https://www.cms.gov/files/document/2021-medicare-trustees-report.pdf, Table II.D1
Low Medicare Price Growth

- Medicare physician fees scheduled to rise <1%/ yr (nominal)
- Medicare facility fees adjusted downward by productivity adjustment
- Deficits and aversion to taxes will limit fee growth
Payment Reform in Medicare

- Efficiency requires flexibility in how ‘inputs’ are used
- Health care services are inputs
- Health is the output
- Flexibility to substitute inputs and capture gains from efficiency are important.

→ ACOs/ episode payment
→ Medicare Advantage (Not exactly payment reform)
Medicaid
Medicaid Issues

- Enrollment growth
  - Expansion
- Long term care and social supports
- Behavioral health/substance use disorders
Prediction: More States will Expand Medicaid
Expanding Medicaid

- States pay a share of the budget
  - Can be substantial in $ but not as % of the spending
- Federal government pays a large share of added spending
  - Acts as a stimulus to the economy
- The added economic activity is taxed
- States could actually break even
  - Depends on parameters
  - Depends on state need for stimulus
State vs National Paradox

- States benefit from stimulus of expansion
- Other states pay
- From a state perspective expansion may make sense, but adding up benefit from the state perspective does not equal the national perspective
Some Things to Think About

- Stability of brick and mortar health care providers
  - Maintaining access to needed services
  - Economic impact of spending
- Stability of the insurance pool