

HEALTH CARE

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Health Care: News and Information is a service of the Healthcare Leadership Council (HLC) to help our readers stay fully informed about the latest health care issues as we work to advance a high-quality health care system.

Jim Edwards, Editor

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Health Costs to Continue Falling in 2009

PricewaterhouseCoopers says the growth rate in health care costs should dip further next year.

- This well-regarded consulting firm analyzed the trends of and the factors behind health costs. The PricewaterhouseCoopers report is called “Behind the Numbers.”
- In 2009, national medical insurance premiums are expected to rise by 9.6 percent. That’s slightly lower than the 9.9 percent average of 2008.

The good news for employers and workers is that health care inflation will slow a bit more next year. But the trend is leveling off.

- Employers report they’re relying less on worker co-pay increases and other cost-sharing strategies next year. Three-fifths of employers won’t make their workers bear more costs through changes in health plan design.
- Employer health premium increases hit bottom in 1996. Costs remained flat that year, then rose until 2003. Since 2003, employers have seen health inflation move downward.
- Over the longer term, the firm’s Health Research Institute expects medical inflation to level off. The next five years could see a flat trend line or the beginning of another period of rising health costs, as often has happened around previous economic recessions.

Several factors contribute to slower growth in health spending. They represent how changes in the market affect purchaser behavior. They also show how health care progress is made.

- Employers lose productivity when workers with chronic diseases miss work. It costs employers as much as four times more, when chronically ill patients are absent, as the cost of putting disease management programs in place. These have cut down on hospitalization days.
- Two-thirds of employers now offer wellness programs. They’re “almost equally effective at engaging employees and boosting productivity, corporate responsibility, and corporate image.”

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- Drug spending has slowed. Medicine formularies and generic drug options have been

incorporated into health plan design. This helps keep insurance benefits more affordable for employers. More than two-thirds of workers were enrolled in three-tier drug plans in 2007.

What's causing the medical inflation rate's fall to flatten? The study identified several things.

- Government payers like Medicare and Medicaid don't pay what treatment actually costs. These underpayments, coupled with uncompensated care, force cost shifting to the privately insured. Some 36 percent of health spending by providers is shifted onto the private sector.
- Hospitals are renovating or building new facilities. Many hospitals were built 40 or more years ago. With the new health care construction boom, the average hospital age has now fallen (to 9.7 years in 2006) from a steadily rising average age.
- New medical technology has an impact. New technology and greater utilization, including for outpatient services, initially adds to the cost increase side of the ledger even as it saves money later through prolonged good health and better patient outcomes.

Any easing of medical inflation is always welcome. Every change within the market causes changes in response, so you see both decelerators and accelerators affecting health spending trends. The good news is good, especially for insured employees. But more troubling is the pressure that artificially low payments from government-run programs places on the private insurance side. This seems the greatest danger. Construction is cyclical and construction costs get spread over a number of years. And technology costs may be offset by savings from more expensive treatments avoided down the road. But government underpayments and rising numbers of patients coming from entitlement programs could severely affect health care's future.

The Healthcare Leadership Council, representing the innovators in each sector of the health care industry, is committed to advancing a market-based health care system that values innovation and provides affordable, high-quality care.

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