Bending the Health Cost Curve
Let’s Not Declare Victory Yet

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Stable relationship or statistical noise?

The chart shows the comparison between NHE/capita and GDP/capita from 2001 to 2011. The data points are as follows:

- **2001**: NHE/capita 7.5, GDP/capita 1.7
- **2002**: NHE/capita 8.3, GDP/capita 2.7
- **2003**: NHE/capita 7.2, GDP/capita 3.8
- **2004**: NHE/capita 5.9, GDP/capita 5.6
- **2005**: NHE/capita 5.8, GDP/capita 5.4
- **2006**: NHE/capita 5.6, GDP/capita 5.1
- **2007**: NHE/capita 5.1, GDP/capita 3.8
- **2008**: NHE/capita 3.7, GDP/capita 0.9
- **2009**: NHE/capita 3.0, GDP/capita -3.1
- **2010**: NHE/capita 3.1, GDP/capita 2.9
- **2011**: NHE/capita 3.1, GDP/capita 3.2

The shaded area indicates a period of significant change in both indicators.
What DO growth rates tell us?

<table>
<thead>
<tr>
<th>Year</th>
<th>NHE/GDP</th>
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<tbody>
<tr>
<td>1960</td>
<td>5.2%</td>
</tr>
<tr>
<td>1970</td>
<td>7.2%</td>
</tr>
<tr>
<td>1980</td>
<td>9.2%</td>
</tr>
<tr>
<td>1990</td>
<td>12.5%</td>
</tr>
<tr>
<td>2000</td>
<td>13.8%</td>
</tr>
<tr>
<td>2010</td>
<td>17.9%</td>
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</tbody>
</table>
Cyclical or structural?

- Some structural changes do not last
  - Early 1990s – Managed care “miracle”
  - Late 1990s – Strong economy erases the miracle
- How much is cyclical?
  - Cutler and Sahni: 37% for 2003–12
  - KFF and Altarum: 77% for 2008–12
- Observation period, modeling assumptions drive results
- The residual does not tell us \textit{why} the decline occurred or \textit{how much} of the decline will persist
- Impact on access, quality, medical innovation?
Have we been here before?

Chart 2: Excess Health Spending Growth Adjusted for GDP and Inflation

Source: Analysis by the Kaiser Family Foundation and the Altarum Center for Sustainable Health Spending. Figure for 2012 is estimated.
This time might be different...

- Changes in provider attitudes
  - If change is inevitable, providers want to lead it
- Changes in the way providers work
  - More women physicians
  - New physicians going to hospitals, large organizations
  - HIT
- New types of delivery organizations
  - ACOs, medical homes, minute clinics
- New marketplaces
  - Exchanges
- New financial incentives
  - Bundling, Cadillac tax, CDHP
...but don’t bet on it

- Providers still respond to incentives
  - We’ll lead change to protect our market position
- New work patterns do not guarantee savings
  - HIT only as good as the managers who use it
- Market consolidation likely to raise cost
  - If there are efficiencies, who gains?
- ACA increases demand
  - +25 M insured (2019), minimal increase in supply
- ESI, FFS Medicare unreformed
  - Too soon to tell if payment changes work as advertised
- Medical technology and expectations
  - If someone else is paying, bring it on!
Don’t just sit there

- Waiting is not a solution
- Employers have taken bolder steps
  - Trade–off between health benefits and wages
  - Spending slowdown after 2002 not due to government policy
- Plenty of room for better policy
  - Restructure subsidies
  - Replace unrealistic regulations
  - Reform Medicare