Is the Health Care Cost Slowdown Structural?

David M. Cutler
Department of Economics
Harvard University
david_cutler@harvard.edu
Medical care is going to ruin the economy

Projection of the Federal Budget as a Share of GDP

Alternative Fiscal Scenario

Total Primary Spending

Revenues

Actual

Projected

Other Noninterest Spending

Medicare, Medicaid, CHIP, and Exchange Subsidies

Social Security

Source: Congressional Budget Office.
Medical spending increases have been very low in recent years

Annual real, per capita medical spending growth

Percent

Source: Authors’ calculations based on data from the Bureau of Economic Analysis and the Centers for Medicare and Medicaid Services
Cumulative slowdown

Real, per capita medical spending
In 2005 dollars

Source: Authors’ calculations based on data from the Bureau of Economic Analysis and the Centers for Medicare and Medicaid Services
What are your thoughts?

Medical spending growth has slowed in recent years. Real per capita medical spending growth was 5.7 percent annually from 2000-03, but 1.2 percent annually from 2009-12. Excess growth (medical spending growth relative to GDP growth) fell from 4.9 percent to -0.2 percent. Based on your knowledge of the data and relevant research, which of the following best describes your view?

a) The recent slowdown is temporary; spending trends are likely to return to long-run excess growth annually within the next few years, or even exceed that amount. (For reference, the CMS Actuaries and CBO predict long-run excess growth of 1.0 to 1.5 percentage points above GDP annually).

b) Spending increases will pick up, but not to their historical level; a reasonable guess is that excess spending growth will return to about half of its historic level within the next few years.

c) The recent slowdown is structural. Growth in excess spending will stay at this level or be even lower for some period of time.

d) None of these describe my views.
Medical spending growth has slowed in recent years. Real per capita medical spending growth was 5.7 percent annually from 2000-03, but 1.2 percent annually from 2009-12. Excess growth (medical spending growth relative to GDP growth) fell from 4.9 percent to -0.2 percent. Based on your knowledge of the data and relevant research, which of the following best describes your view?

* Generally pick up partly or structural.
The recession is only about one-third of the slowdown

Real, per capita medical spending
In 2005 dollars

Source: Authors’ calculations based on data from the Bureau of Economic Analysis and the Centers for Medicare and Medicaid Services
Can you see the future through the rear view mirror?
Structural factors 1: Slowing of technology

By David W. Lee and Frank Levy

The Sharp Slowdown In Growth Of Medical Imaging: An Early Analysis Suggests Combination Of Policies Was The Cause

Failure to launch

A slew of disappointing product launches suggests biotech companies are ill prepared to navigate an increasingly parsimonious reimbursement environment.

In 2012, both the per capita use and cost of medicines declined. The “cost curve” for medicines – if not for other elements of the U.S. healthcare system – was bent.
**Structural factors 2:**
**Higher cost sharing**

**Covered Workers Enrolled in Plan with Deductible ≥$1,000**

<table>
<thead>
<tr>
<th>Percent</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Small Firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Large Firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Kaiser Family Foundation 2012 Employer Health Benefits Survey
Structural factors 3: Greater provider efficiency

Acute Care Hospital Readmission Rates

Source: Centers for Medicare and Medicaid Services, Office of Enterprise Management
Greater provider efficiency
Forecasts have incorporated these trends, but only for the next few years

National Health Expenditures Per Capita
CAGR, Percent

- 1970-2003: 2.5%
- 2003-2012: 1.3%
- 2012-2018: 0.6%
- 2018-2021: 1.8%

Medicare Per Beneficiary
CAGR, Percent

- 1970-2003: 2.8%
- 2003-2012: 2.0%
- 2012-2018: 2.9%
- 2018-2021: 0.7%

1 Growth rate for 2011–12 was estimated using BEA National Income and Product Accounts (NIPA) tables
2 Part D was removed by holding the 2005–06 growth rate constant at the 2004–05 growth rate
3 Growth rate for 2011–12 was estimated using monthly Treasury statements
4 The Sustainable Growth Rate cut for 2013 was removed from the forecast

Source: Authors’ calculations based on data from the Bureau of Economic Analysis, Centers for Medicare and Medicaid Services, and Department of the Treasury
If these trends continue, savings will be large.
“The evidence thus suggests at least as strong a case for structural changes as for cyclical factors.”
- Cutler & Sahni

“All of these factors taken together suggest that a return to a high historic growth rates in health care spending may not materialize. To sum up, we …are cautiously optimistic.”
- Holahan & McMorrow
Conclusions I – What is going on?

“Our analysis suggests that the vast majority (77%) of the recent decline in the health spending trend can be attributed to broader changes in the economy. At the same time, however, there are also indications that structural changes in the health system may be playing a modest role as well.”

- Altarum & KFF

“Our findings suggest cautious optimism that the slowdown in the growth of health spending may persist.”

- Ryu et al.
Looking Forward: State Policies to Reduce The Growth of Medical Spending

Health Care Payment Improvement Initiative
Building a Healthier Future for all Arkansans
It’s worse when borrowing is not an option

MASSACHUSETTS STATE BUDGET, FY2001 VS. FY2011

STATE SPENDING (BILLIONS OF DOLLARS)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2001</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care Coverage (State Employees/GIC; Medicaid/Health Reform)</td>
<td>$5.1 B (+59%)</td>
<td>$4.0 B (-20%)</td>
</tr>
<tr>
<td>Public Health</td>
<td>-38%</td>
<td>-15%</td>
</tr>
<tr>
<td>Mental Health</td>
<td>-33%</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>-23%</td>
<td>-13%</td>
</tr>
<tr>
<td>Infrastructure/Housing</td>
<td></td>
<td>-11%</td>
</tr>
<tr>
<td>Human Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Aid</td>
<td>-50%</td>
<td></td>
</tr>
<tr>
<td>Public Safety</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. Consumer engagement

Insurance choice

- Well functioning insurance exchange
- Limited/tiered network products (most rapidly growing products in MA)

Care decision

- Requirement that insurers provide real-time price and quality information
2. Payment reform

- Move to ‘alternative payment systems’
- Primary care, specialty care, and fully integrated care

**Current Fee-for-Service Payment System**

- Hospital
- Specialist
- Primary Care
- Home Health

**Patient-Centered Global Payment System**

- Primary Care
- Hospital
- Specialist
- Home Health
Other reforms

3. Data sharing
   ➢ Feedback on patient use
   ➢ Real-time data for management

4. Medical malpractice: less litigation
   ➢ The Michigan model – cooling off period, exclude apology

5. Administrative simplification
   ➢ Simplified referral forms (much more can be done nationally)
## The Target

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Approximate magnitude</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>8.0%</td>
</tr>
<tr>
<td>Forecast medical spending per capita</td>
<td>5.5% - 6.0%</td>
</tr>
<tr>
<td>Forecast GSP per capita</td>
<td>4.0%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

**Target:**

- **2014-2017**
  - Potential GSP
- **2018-2022**
  - Potential GSP - .5%
- 2023-
  - Potential GSP
Conclusions - 2

Policy has/will contributed to this, and may continue to do so.