AMERICAN HEALTH CARE: WHY SO COSTLY?

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EXECUTIVE SUMMARY

Rising health care costs are of concern to policymakers, employers, health care leaders, and insured and uninsured Americans alike. The U.S. has relied on a mixed public–private system of insurance, managed care, and market competition to shape the health care system. Yet, the U.S. has the highest health care spending per capita in the world, and during the 1990s health spending in the U.S. rose faster than in other industrialized nations.

The key to containing costs—as well as getting higher value for what we spend—may well lie in fundamental changes in the supply side of the market. We need to shift our attention to reducing errors, eliminating waste and duplication in clinical care, modernizing and streamlining administration, promoting transparency and accountability for performance, and aligning financial incentives for physicians, hospitals, and other health care providers to reward high-quality and efficient care.

- Health insurance premiums are rising 10 to 15 percent a year. Insurance companies are increasing profits and reserves and recouping losses incurred in the mid-1990s. The underlying rate of increase in health care costs is slower, but nonetheless troubling.
- In 2001, the U.S. spent more than $1.4 trillion for health care, or 14.1 percent of the gross domestic product (GDP)—a major jump from 13.3 percent of GDP in 2000.
- In 2001, health care costs per capita increased by 8.7 percent—considerably faster than inflation in the economy as a whole. While projected to slow somewhat, the U.S. can expect 7 percent annual increases for the next decade.
- Prescription drugs remain the fastest growing health care item, but acceleration in hospital costs is a troubling development.
- Utilization of health care services, after being relatively flat in the mid-1990s, is rising—more use of hospital outpatient services, more prescription drugs, more physician visits, more emergency room use.
- The rapid increase in specialized physician services under Medicare—specialist consultations, ambulatory surgeries, brain MRIs, pacemaker insertions, heart echography—raise the possibility of "physician-induced" demand.
- Specialist incomes averaged $219,000 in 1999, compared with $138,000 for primary care physicians. Both declined in real terms from 1995 to1999 with constraints on fees from managed care and public programs, perhaps stimulating increased generation of services in the 2000–02 period to recoup lost income.
- Administrative expenses are increasing 11.2 percent a year. Currently at $111 billion, they are projected to rise to $223 billion in 2012. Administrative expenses for private insurance are two-and-one-half times as high as for public programs.
- Private insurance health care outlays per enrollee have been rising more rapidly than Medicare outlays per beneficiary in the last 30 years. In 2003, Federal

Employees Health Benefits Plan spending per participant is rising 15 percent, compared with 4.1 percent for Medicare.

- The U.S. spent $4,631 per capita on health care in 2000, 69 percent more than in Germany, 83 percent more than in Canada, and 134 percent more than the average of all industrialized nations.
- Between 1990 and 2000, health spending in the U.S. adjusted for inflation increased by 3.2 percent a year, compared with the industrialized nation average of 3.1 percent.
- The U.S. has a higher share of private spending (56%) than industrialized nations (average of 26%). Out-of-pocket health care spending per capita was $707 in the U.S. in 2000, more than twice the industrialized nation average ($328).
- Americans receive fewer days of hospital care than other industrialized nations, and about the same number of visits to physicians.
- Health care spending in the U.S. is higher because we pay higher prices for the same services, have higher administrative costs, and perform more complex specialized procedures.
- Sick adults in the U.S. report higher rates of medical errors, are more likely to go for duplicate tests, and are less likely to have their medical records available when they go for care compared with similar adults in other major English-speaking countries.
- The U.S. is the only major industrialized nation not to provide health coverage for all.

Achieving a high-performance health care system—high-quality, safe, efficient, and accessible to all—will require a major change in the U.S. system of delivering health services. Steps that could be taken include:

- Public reporting of cost and quality data on physicians, hospitals, nursing homes, other health care providers, and health plans.
- Broad-scale demonstrations of new approaches to health insurance coverage, science-based benefits, use of modern information technology, and high-quality care.
- Investment in health information technology.
- Development and promulgation of clinical guidelines and quality standards.
- Paying for high performance in the delivery of health services under Medicare, Medicaid, and private insurance.
- Investment in research to gain evidence on what works to improve care, eliminate waste and ineffective care, and promote greater efficiency, including use of modern information technology, team work, and improved processes of care.

These steps would take us a long way toward ensuring that the U.S. is a high-performing health system worthy of the 21st century.