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Health Care Spending Increases for 6th Year

Two Reports Depict Nearly Unbridled Growth

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Health care spending in the United States grew by 9.3 percent in 2002 over the previous year, driven by rising costs for hospitalization, physician services, home health care and especially prescription drugs.

The increase in 2002 marked the sixth year of accelerating growth in health care expenditures, which now account for nearly 15 percent of the nation's gross domestic product. This is double the size of health care's share of the American economy 30 years ago.

Two reports released yesterday by government economists sketched a picture of a health care sector -- fueled by medical innovation and the backlash against managed care -- growing virtually unchecked. In the United States, health care spending now averages \$5,440 per person, roughly double the amount spent in European countries.

"This report is distressing but not surprising. The pressure from the last round [of cost containment] is off, and we haven't replaced it with anything," said Gail R. Wilensky, an economist who headed the federal government's Medicare program a decade ago and is now at the Project Hope research organization.

Her assessment was shared by Edward F. Howard of the Alliance for Health Reform, a nonprofit educational group. "This is in some ways appalling but not very surprising. There is an inexorability to it that is very hard to be optimistic about," he said.

Drew E. Altman, president of the Kaiser Family Foundation, a nonprofit research firm, said that unlike in the late 1980s -- a time when health care expenses were also rising fast -- "now there is a sense that we have no answers."

People have soured on the market-driven strategies of managed care, and direct government regulation of medical expenses imposed by European countries is anathema, Altman said. For the immediate future, the only available strategies will be ones with marginal effects, such as making patients pay more and seeking savings through better management of expensive chronic diseases such as congestive heart failure.

"Nobody has any idea what the new paradigm is going to be" for holding down costs, he said.

The two reports appear in the journal *Health Affairs* and were written by researchers at the Centers for Medicare & Medicaid Services, an agency within the Department of Health and Human Services. The researchers charted health spending trends through 2002, the latest year for which complete data are available.

Both per capita spending on health care and the portion of the U.S. economy that health care makes up have grown almost without interruption for 40 years. In general, efforts to control costs over that time have at best succeeded in slowing the year-to-year increases in spending. Efforts have not stopped the increases or cut spending.

The last time the brakes were applied was in the early 1990s, when various practices that came to be known as "managed care" forced doctors and hospitals to accept lower payments, and wrested from patients much of their ability to get whatever care they wanted and that their doctors thought they needed.

As a result of the managed care revolution, health care spending grew by only 5 percent in 1996, 5.1 percent in 1997 and 5.3 percent in 1998.

Annual growth began to accelerate, however, as patients, doctors and hospitals successfully rebelled against what they viewed as strong-arm tactics by insurance companies and interference in clinical decisions by medical "auditors." In 2001, health care spending rose 8.5 percent over that in 2000; in 2002, it grew an additional 9.3 percent. By contrast, the GDP rose by 3.6 percent in 2002 over the previous year.

In five years -- 1997 to 2002 -- the share of the total U.S. economy devoted to health care grew substantially, from 13.1 percent to 14.9 percent. That increase reflects more medical care and the recent slower growth of the economy, said Katharine Levit, lead author of one of the articles.

Spending on prescription drugs taken outside the hospital rose about 15 percent in 2002 and "far outpaces the spending growth for other health services," said Cynthia Smith of the Centers for Medicare & Medicaid Services. Most of the increase was the result of patients getting more prescriptions and switching from old, cheap drugs to new, expensive ones, rather than the product of simple inflation in prices. Those first two trends were caused by the increase in the number of health plans offering prescription drug coverage, which is giving patients access to many medicines they could not or would not have paid for on their own.

Recent changes to the Medicare program that will offer elderly and disabled Americans the opportunity to buy inexpensive prescription drug coverage

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are likely to continue those trends. In offering that coverage, the government will not negotiate with drug companies directly on drug prices, but will leave that up to various private companies managing the new benefit.

Joseph P. Newhouse, a Harvard University health economist, said he believes that policy will eventually be changed, as policymakers seek new ways to rein in medical expenses. He speculated the government will especially want to gain leverage in situations in which a single company makes a drug for which there are no alternatives.

"The government cannot be put in the place of paying any price a manufacturer wants for its product," he said at a news conference here yesterday where the data were presented.

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