

Recent Trends in Health Care Costs

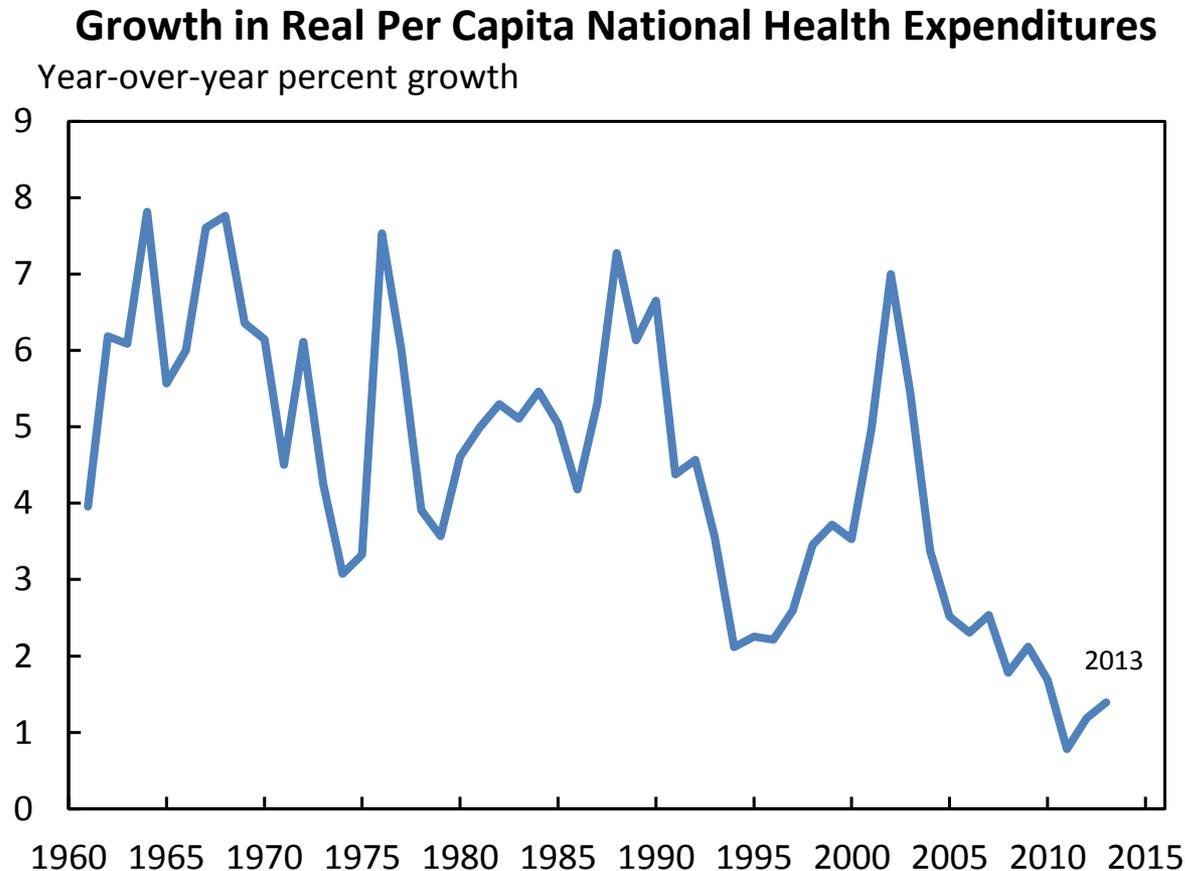
Council of Economic Advisers



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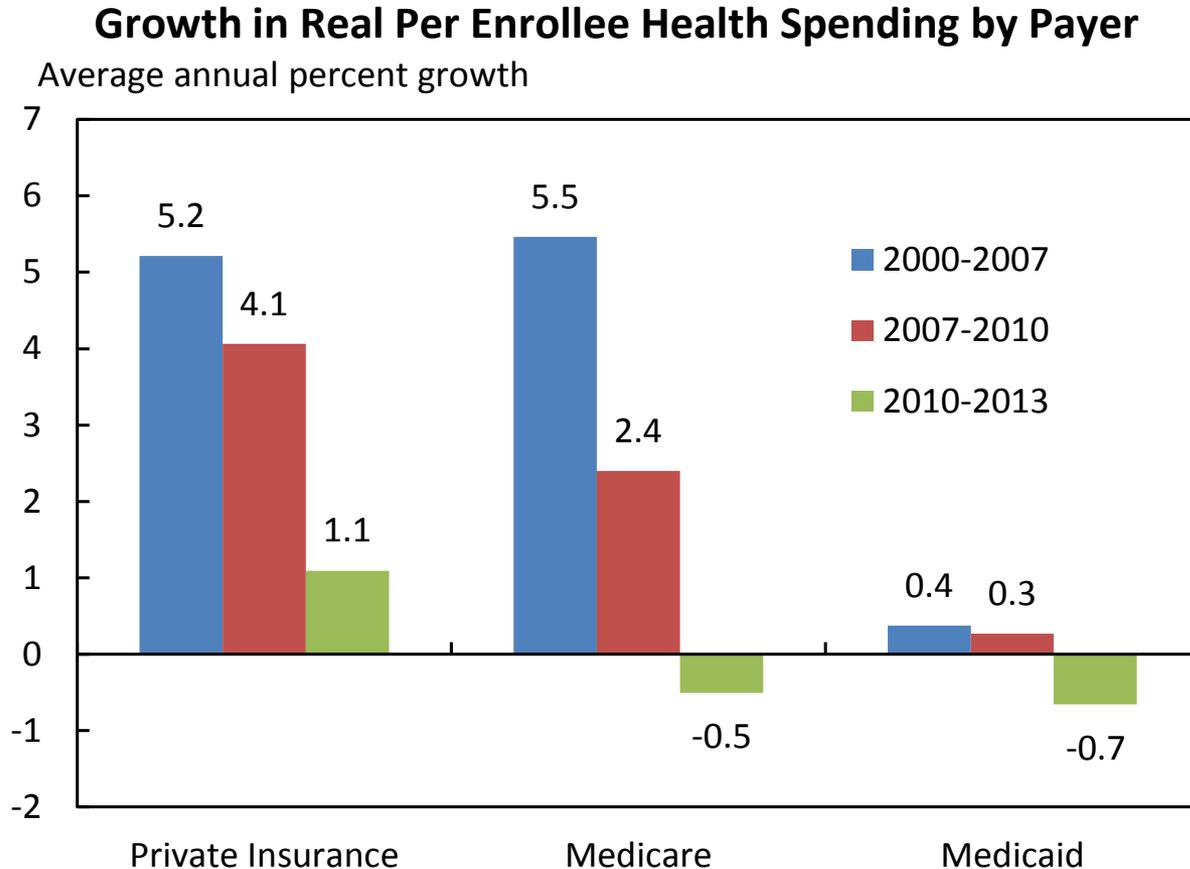
I. Recent Progress on Health Costs

The Three Years After 2010 Saw the Slowest Growth in Real Per Capita National Health Expenditures on Record



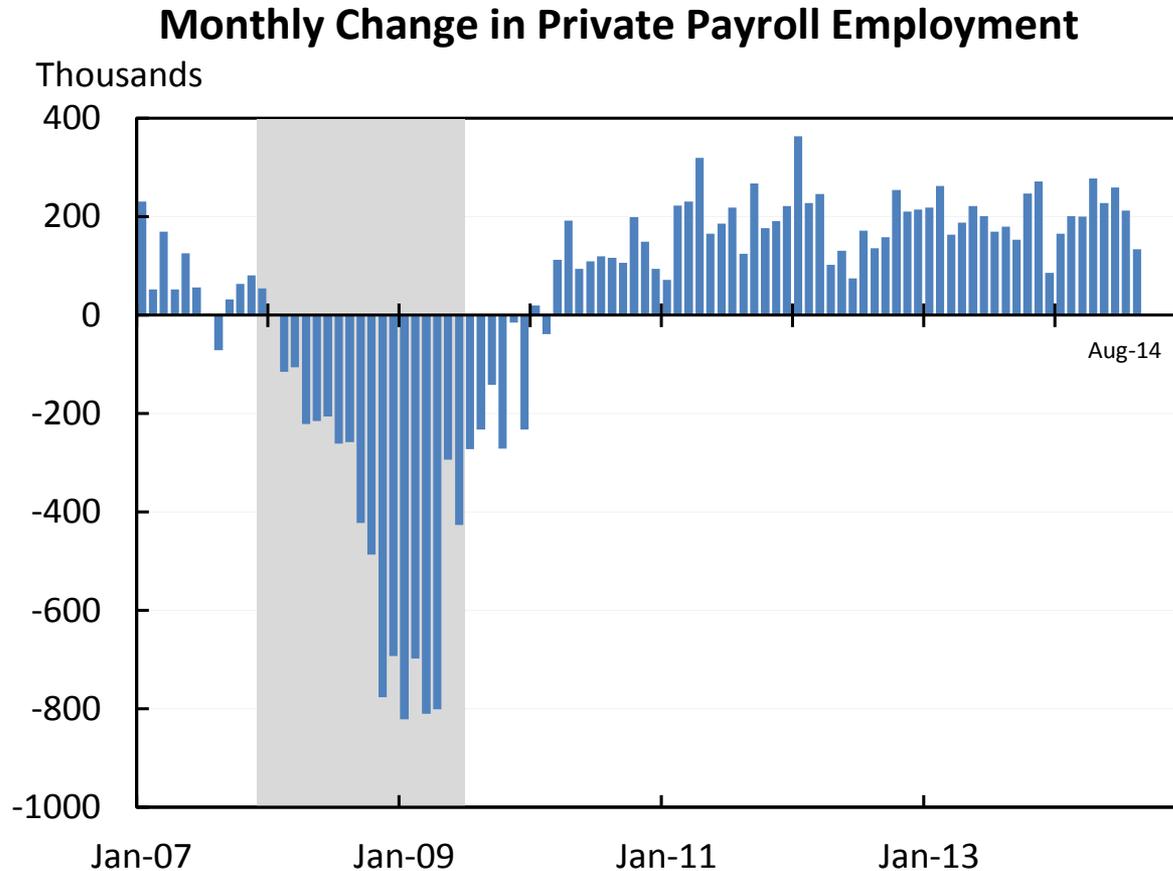
From 2010 through 2013, real per capita national health expenditures grew at an annual rate of just 1.1 percent, the slowest rate for any three-year period on record and well below the historical average rate of 4.6 percent from 1960-2010.

Health Care Spending Growth Slowed in Both the Public and Private Sectors



The dramatic slowdown in spending by Medicare beneficiaries, who are more insulated from economic trends, is strong evidence that the slowdown resulted in part from structural changes in the health care system, not just the deep recession.

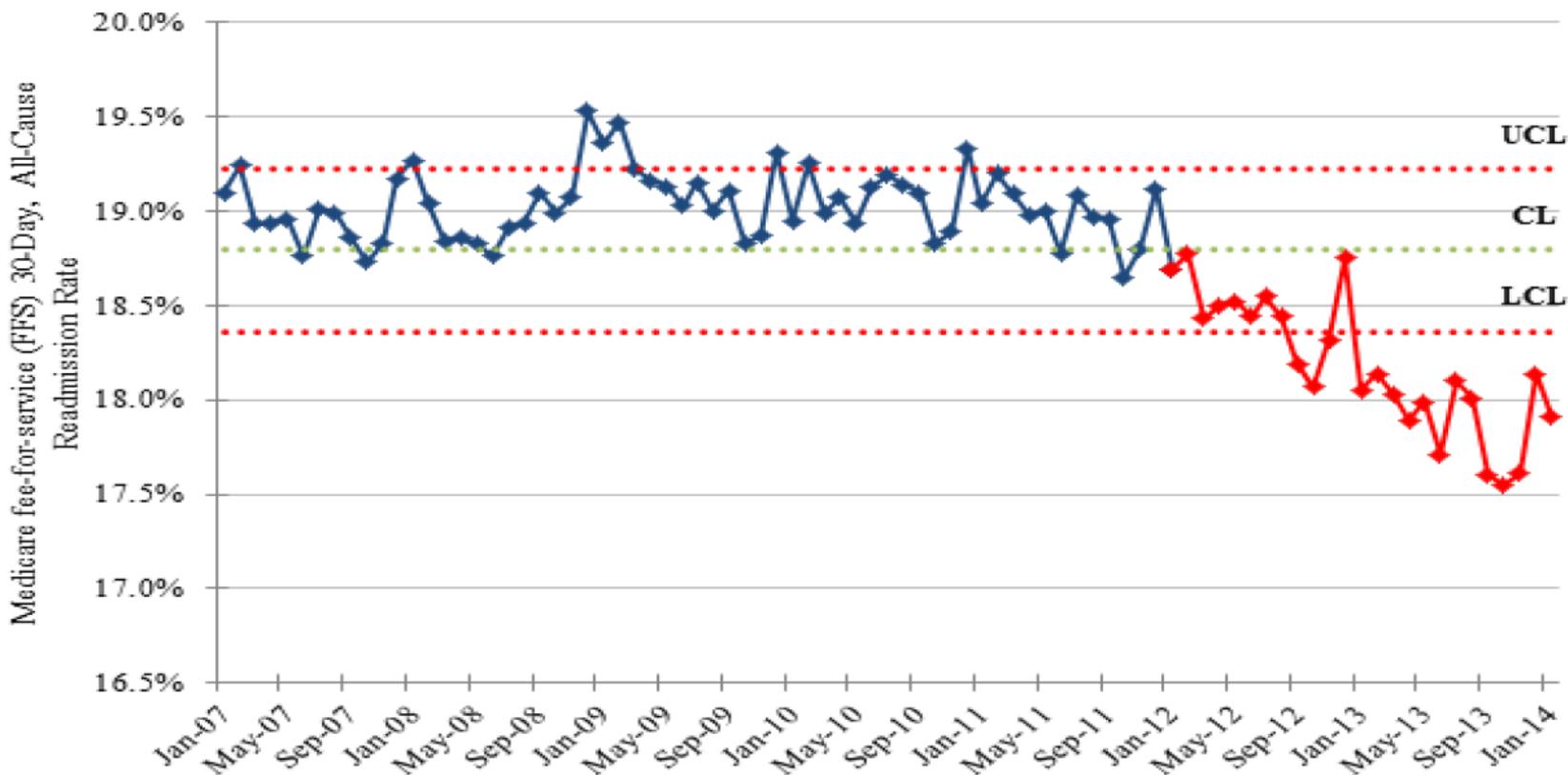
Slow Health Cost Growth Has Continued, Even After Businesses Have Added 10 Million Jobs Over 54 Straight Months of Private-Sector Job Growth



The recession is now five years in the past, and the economy has added 2.4 million private-sector jobs and cut the unemployment rate by 1.1 percentage points over the last year. Yet slow growth in health care costs is continuing.

Affordable Care Act Medicare Payment Reforms are Playing a Role in the Recent Slow Growth of Medicare Spending

Figure 1: Medicare FFS All-Cause, 30-day Readmission Rate⁷

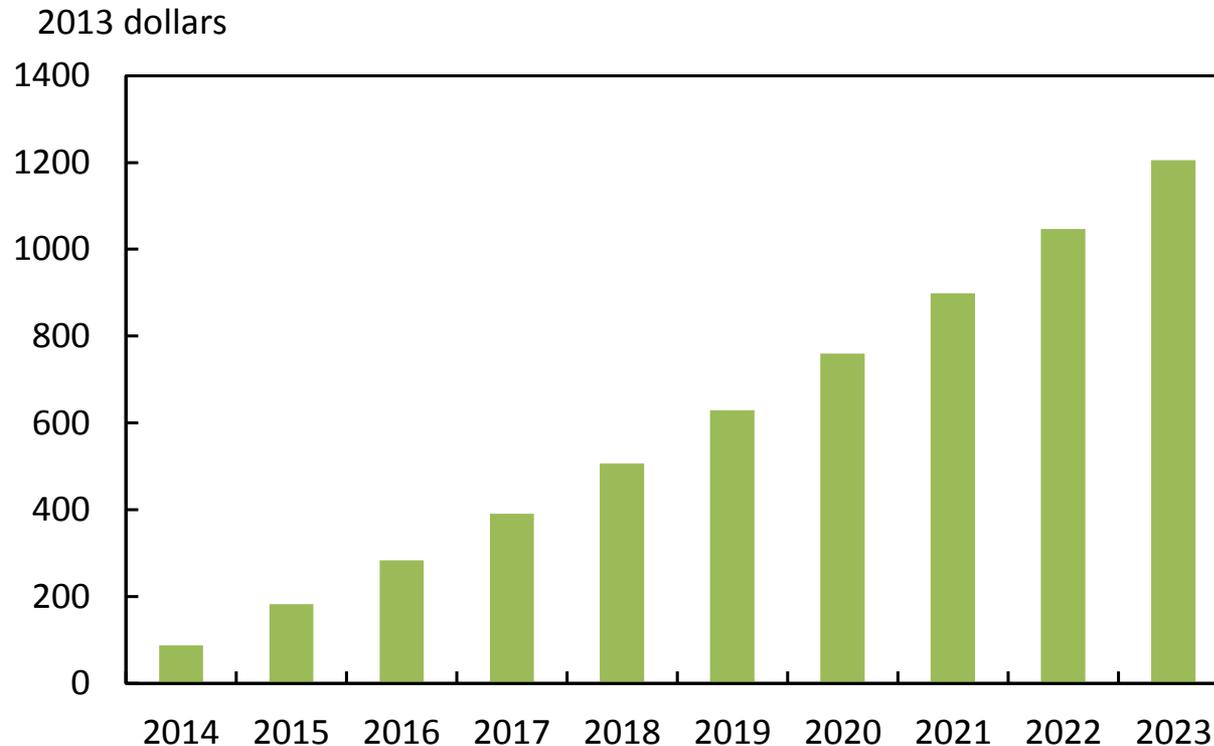


The Affordable Care Act gave hospitals a financial incentive to reduce the number of “readmissions,” cases in which a patient returns to the hospital soon after discharge. Readmission rates have fallen sharply as these incentives have taken effect, corresponding to 150,000 fewer readmissions in 2012 and 2013.

II. Economic Benefits of Slower Health Cost Growth

Even if Only a Portion of the Health Care Spending Slowdown Persists, the Resulting Savings will be Extremely Large

Annual Per-Person Savings if One-Third of the Health Care Spending Slowdown Persists

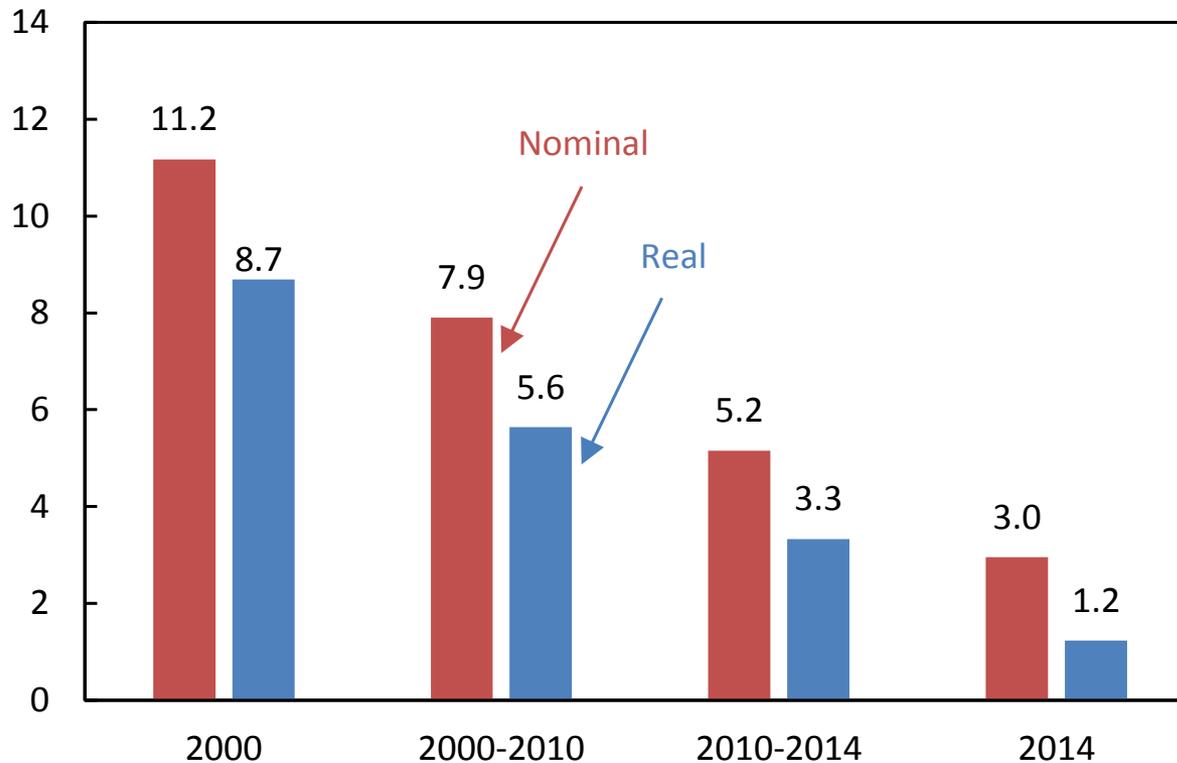


In a conservative scenario in which as little as one-third of the recent slowdown persists, national health expenditures would be \$1,200 per person lower in 2023 than if spending growth returned to its prior trend.

Slower Growth in Premiums in Employer Coverage Makes It Easier for Businesses to Hire and Pay a Good Wage

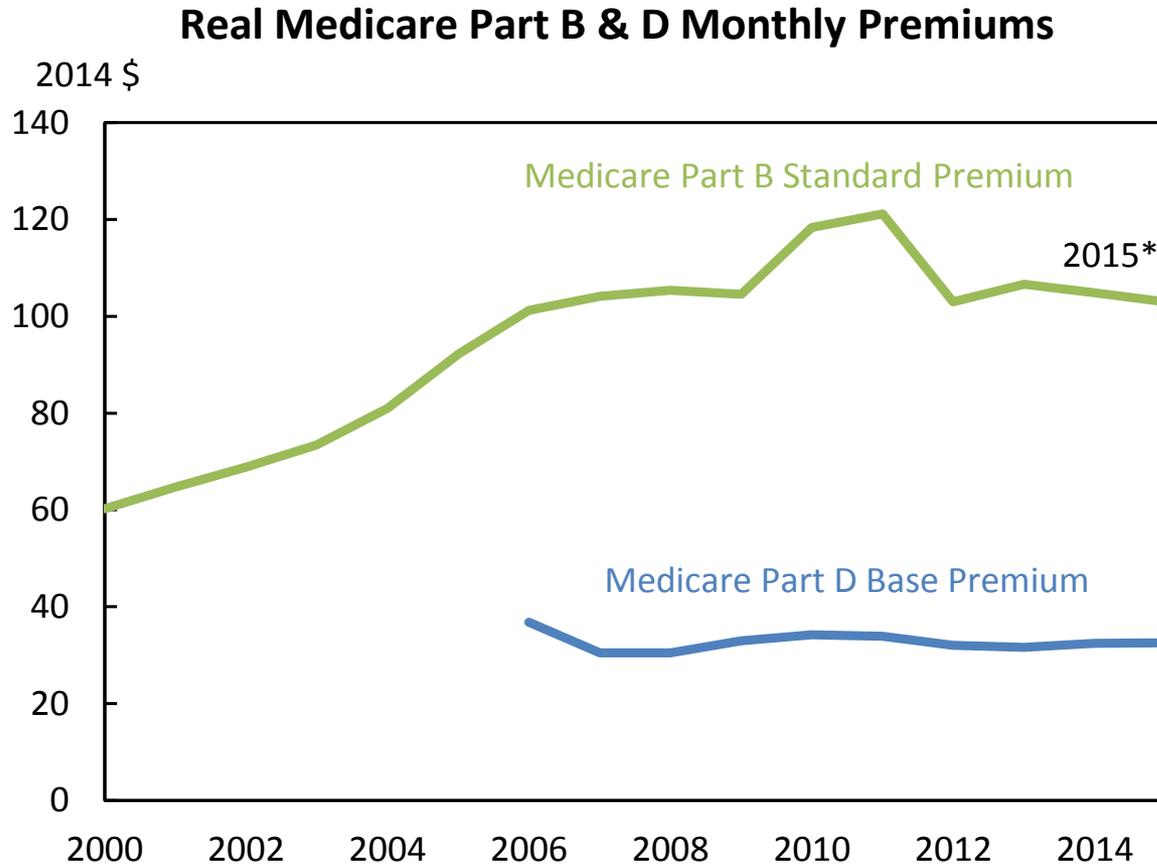
Growth in Premiums for Employer-Based Family Coverage

Average annual percent increase



In 2014, employer premiums grew at the slowest rate since the KFF/HRET survey began in 1999. If premiums growth had matched its 2000-2010 average since 2010, the average premium would be \$1,800 higher today. Lower premiums make it easier for employers to add jobs today and ultimately translate into bigger paychecks for workers.

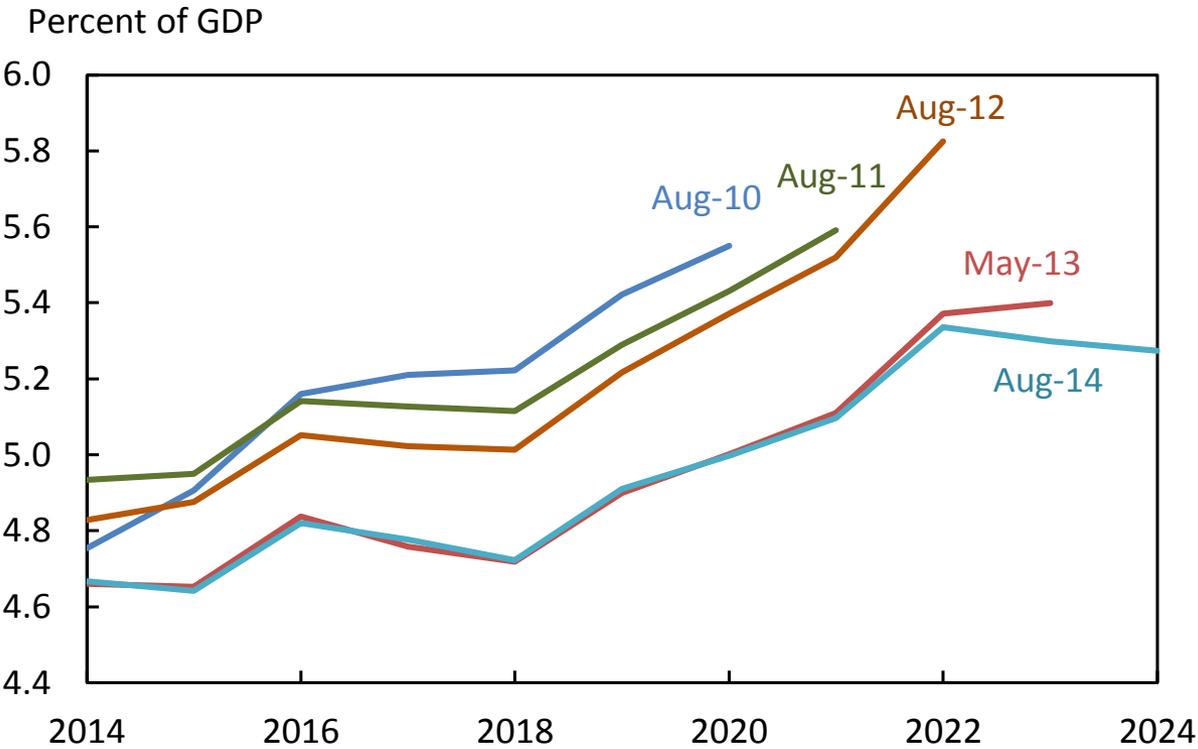
Slow Growth in Medicare Spending Has Kept Medicare Beneficiaries' Premiums Flat for Several Years Running



Medicare beneficiaries' premiums are set to cover a fixed share of program costs. Slow growth in Medicare program costs has kept beneficiaries' premiums for Part B & D approximately flat for several years running, and this is projected to continue into 2015.

Slow Growth in Health Care Spending Has Caused CBO to Sharply Reduce its Projections of Future Medicare and Medicaid Spending

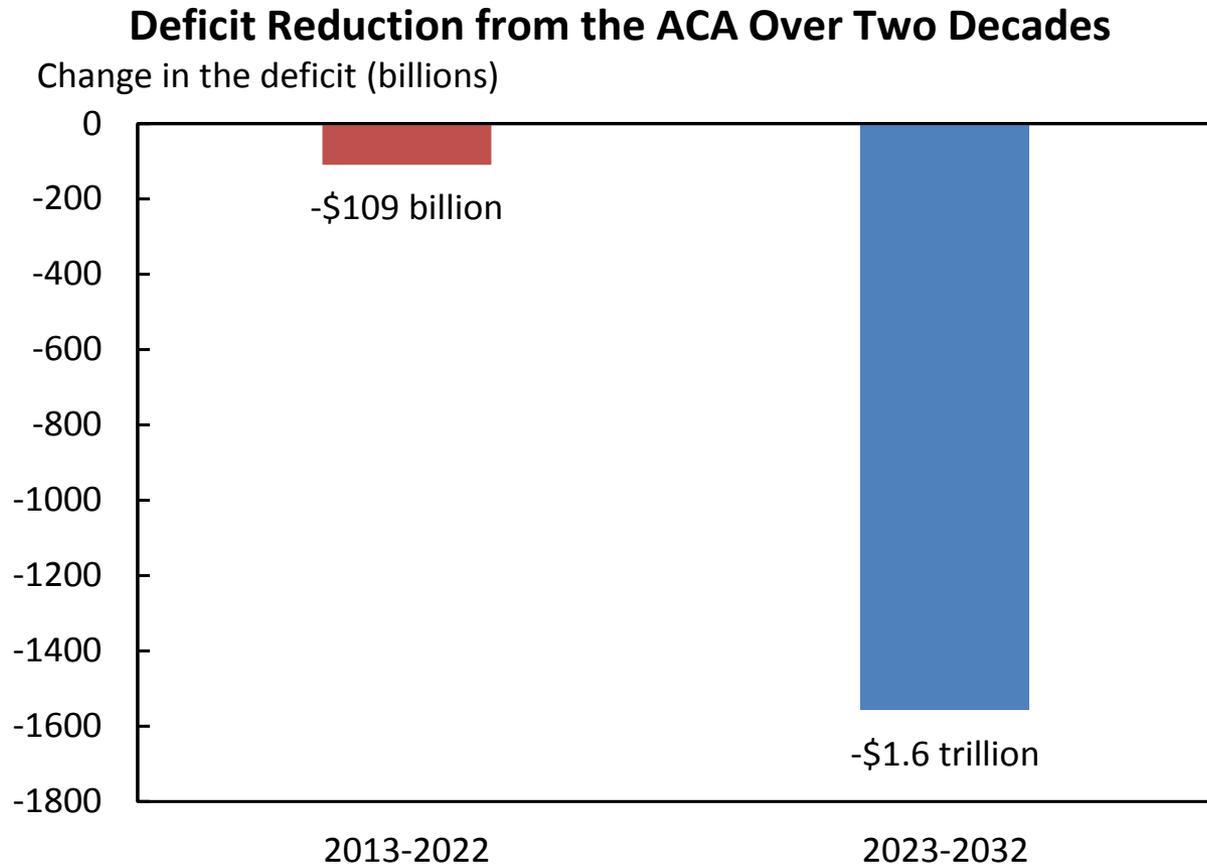
Recent Congressional Budget Office Projections of Medicare and Medicaid Outlays



Since August 2010, the Congressional Budget Office has reduced its estimate of combined Medicare and Medicaid spending in 2020 by \$188 billion. These revisions primarily reflect “technical” changes in response to slower growth in health care costs.

Note: The plotted estimates reflect adjustments to CBO’s original GDP estimates to reflect the comprehensive GDP revisions in July 2013.
Source: Congressional Budget Office.

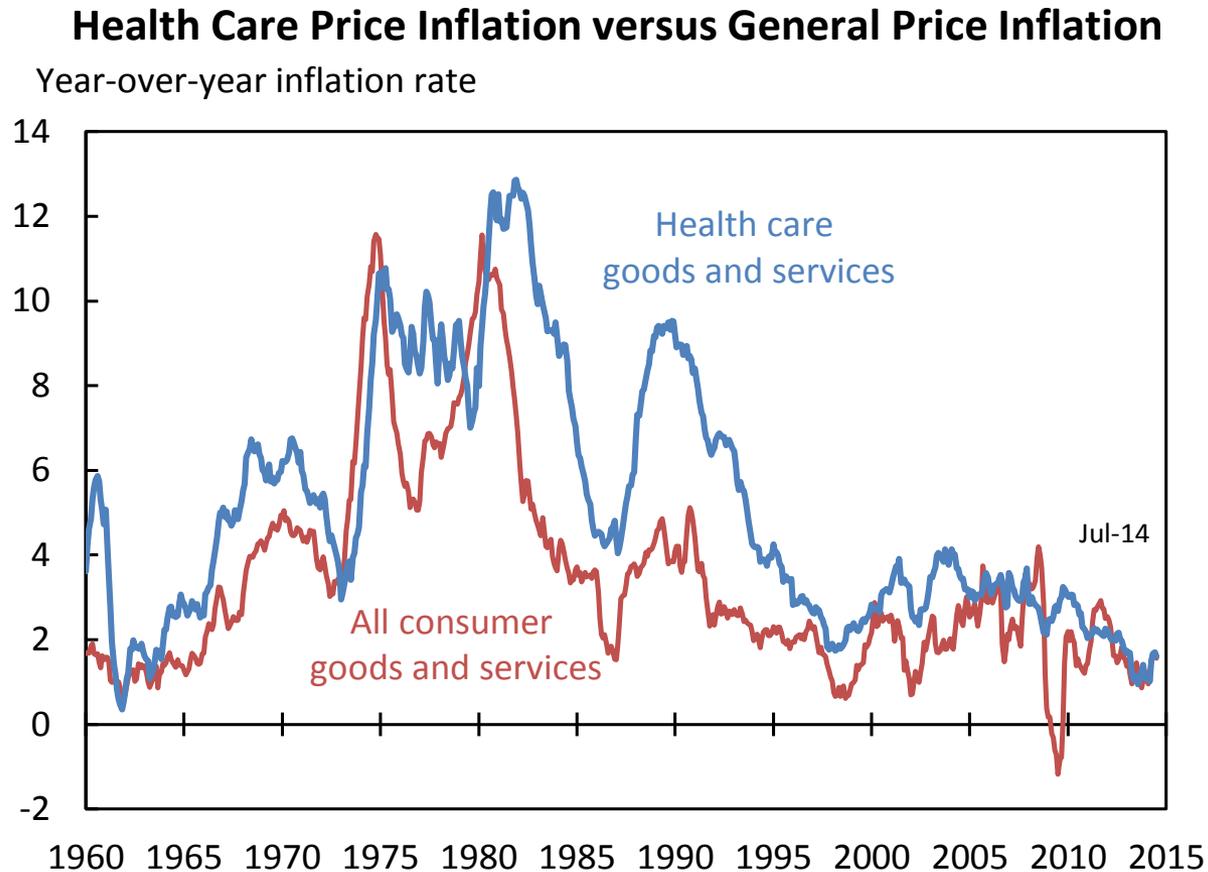
Directly “Scored” Effects of the Affordable Care Act Have Dramatically Improved Our Long-Term Budget Outlook



Over law’s second decade, CBO projects that the law will shave 0.5 percent of GDP from the deficit each year, on average. Lower long-term deficits boost national saving, thereby increasing capital accumulation and reducing foreign borrowing, which raises national income over time.

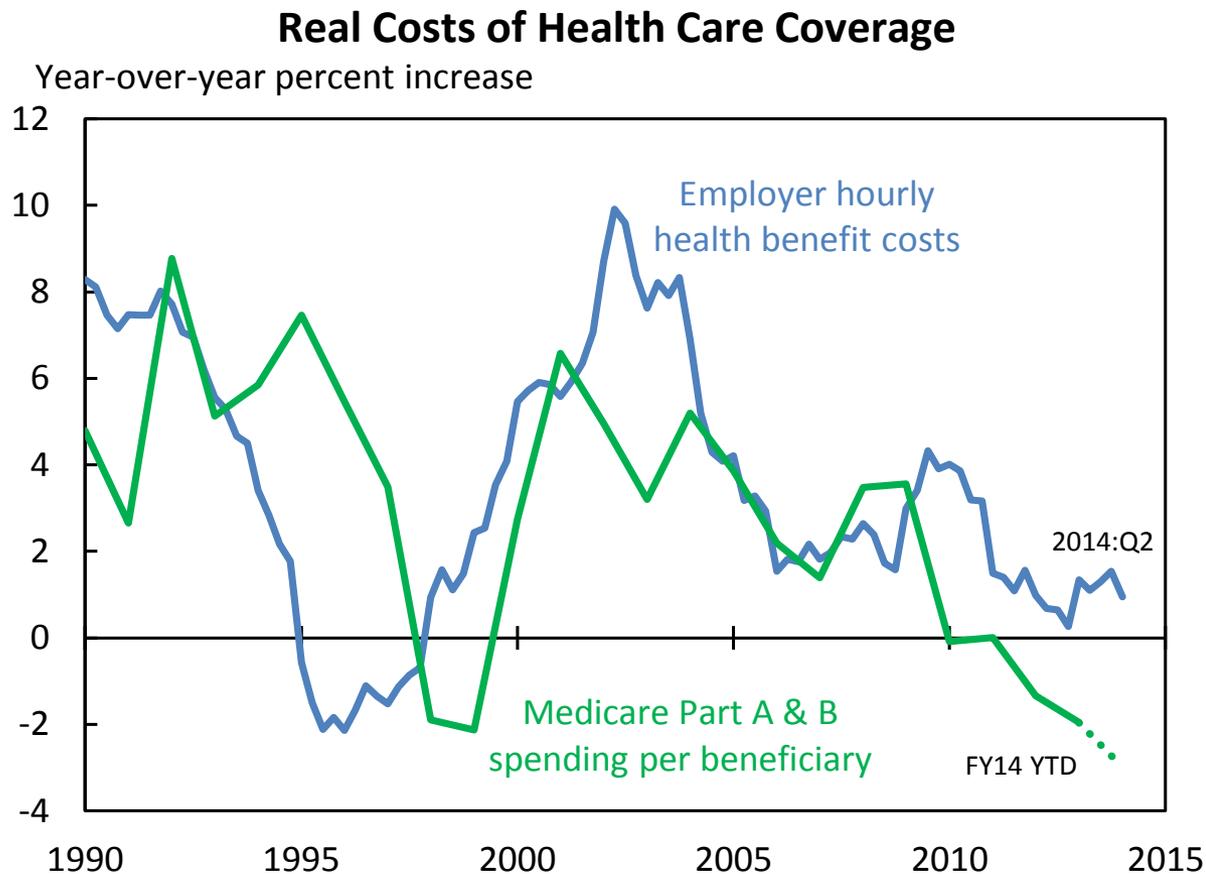
III. The Near-Term Outlook for Health Costs

Health Care Unit Prices: Historically Slow Health Care Price Inflation is Continuing



Since the ACA became law, health care prices have risen at the slowest rate in nearly 50 years, a trend that is continuing. A significant fraction of the recent slowdown in health care price inflation can be linked to Medicare reforms in the Affordable Care Act.

Health Care Per-Enrollee Costs of Coverage: Slow Growth in Both the Public and Private Sectors



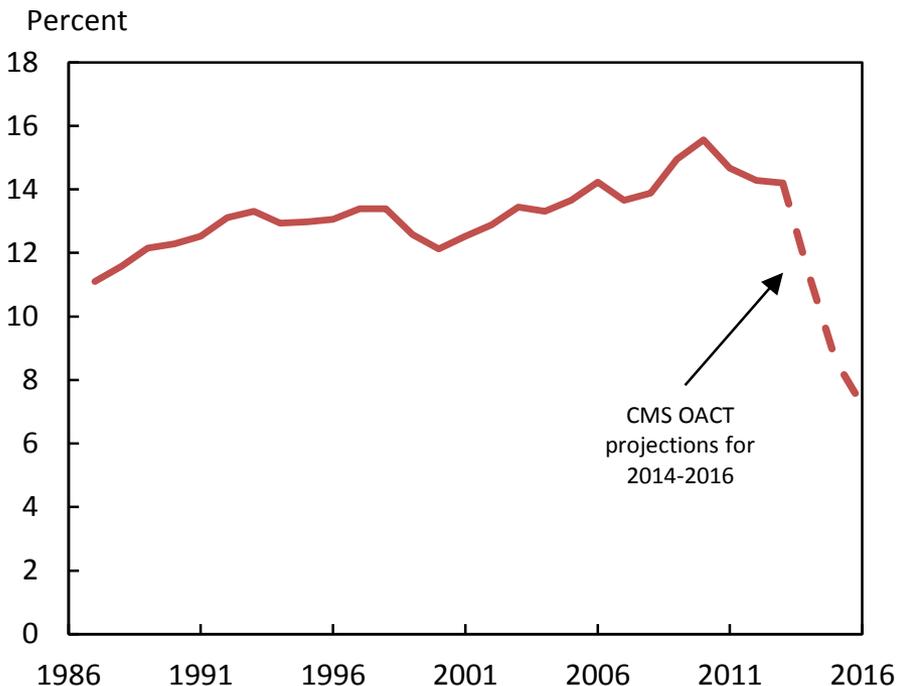
The total cost of health care coverage to families reflect both health care unit prices and per-enrollee health care utilization. Measures that capture both of these factors continue to show very slow growth in both the public and private sectors.

Note: Fiscal-year-to-date trend also includes Medicare Part D.

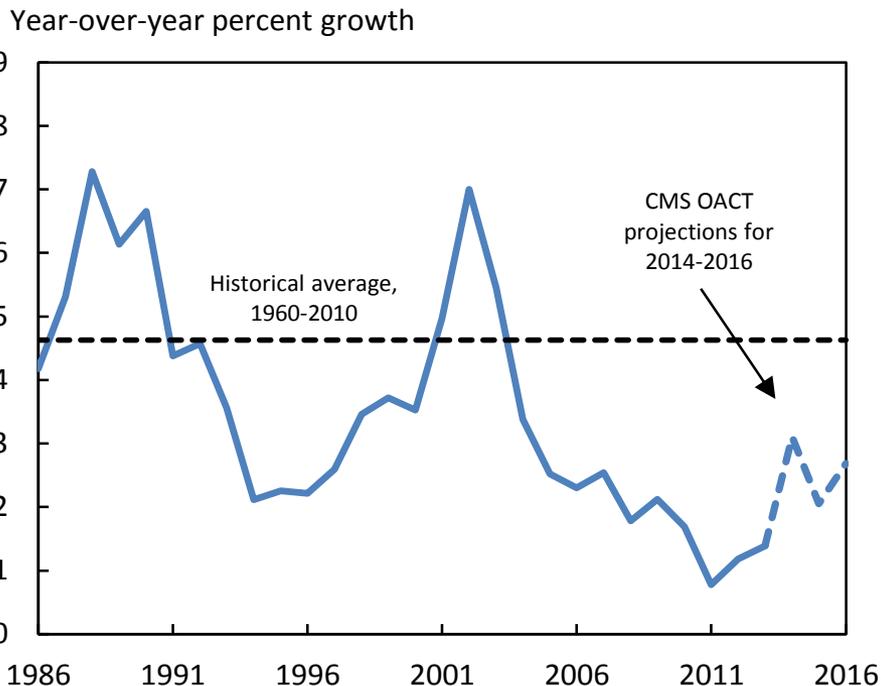
Source: Bureau of Labor Statistics, Employment Cost Index; CMS Office of the Actuary, Trustees Report and National Health Expenditure Projections; Bureau of Economic Analysis, National Income and Product Accounts; CBO, Monthly Budget Review; CEA calculations.

Health Care Aggregate Spending: Expanded Coverage Will Cause a One-Time Increase in Total Spending

Percent of Population Without Health Insurance



Real Per Capita National Health Expenditure Growth



Aggregate health care spending grew slowly through early 2014, reflecting continued slow growth in per-enrollee costs. Expanded coverage under the ACA will drive faster growth in aggregate spending until insurance coverage stabilizes at its new higher level. The added spending is benefiting the newly insured and boosting short-run growth.