Health Care Spending Slowdown: The Consumer Paradox

Dobson | DaVanzo

Submitted to:
Federation of American Hospitals (FAH)

Submitted by:

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Wednesday, July 23, 2014 — *Final Report*

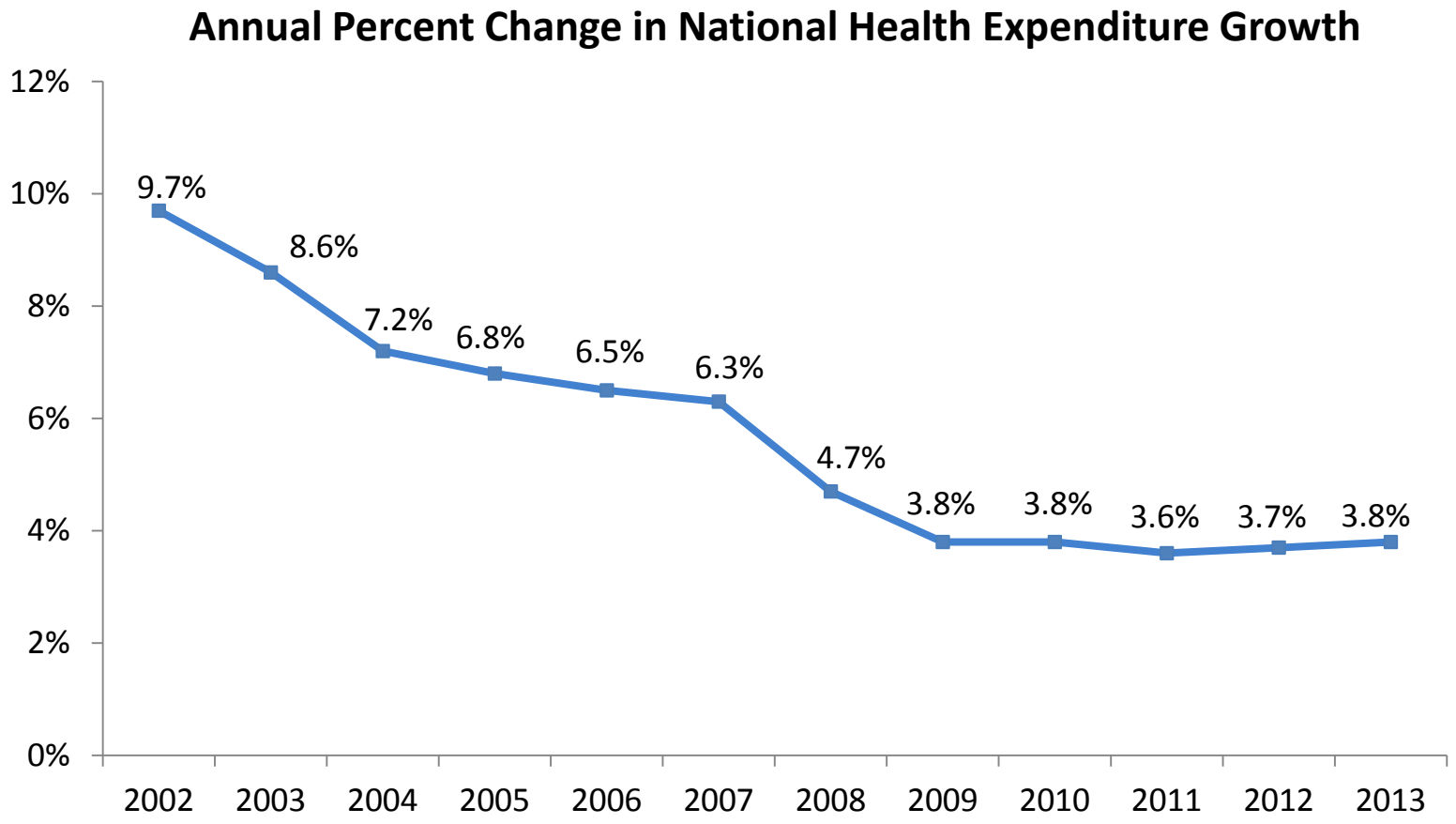
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Historic Spending Slowdown is On-Track and Enduring

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Four Years of Historic Low Growth Indicate the Cost Curve Is Bending…

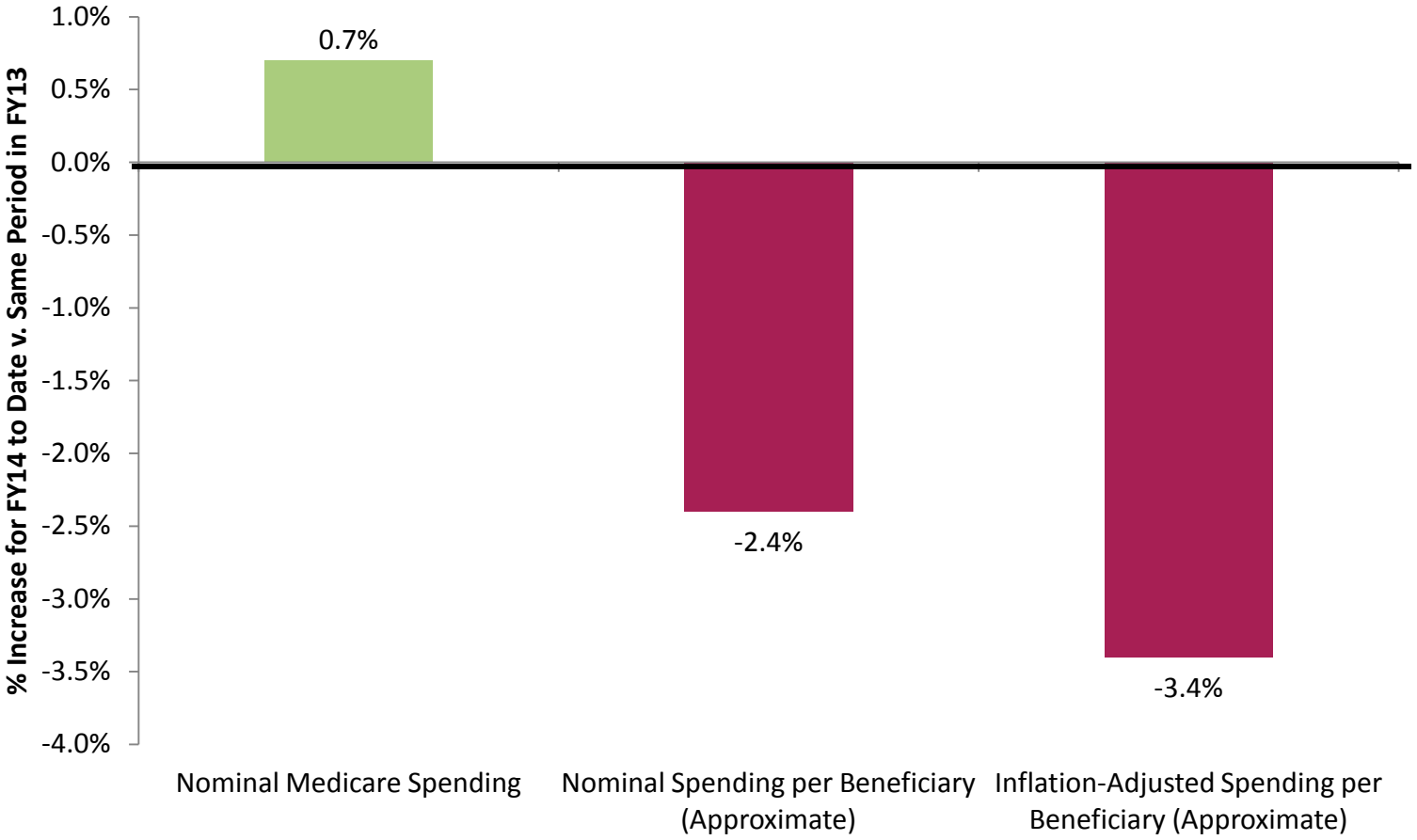


Source: Centers for Medicare & Medicaid Services (CMS), Office of the Actuary (OACT) National Health Statistics Group.
Note: 2013 is a projection.

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… and Recent Medicare Spending Shows Similar Declining Trends in 2014



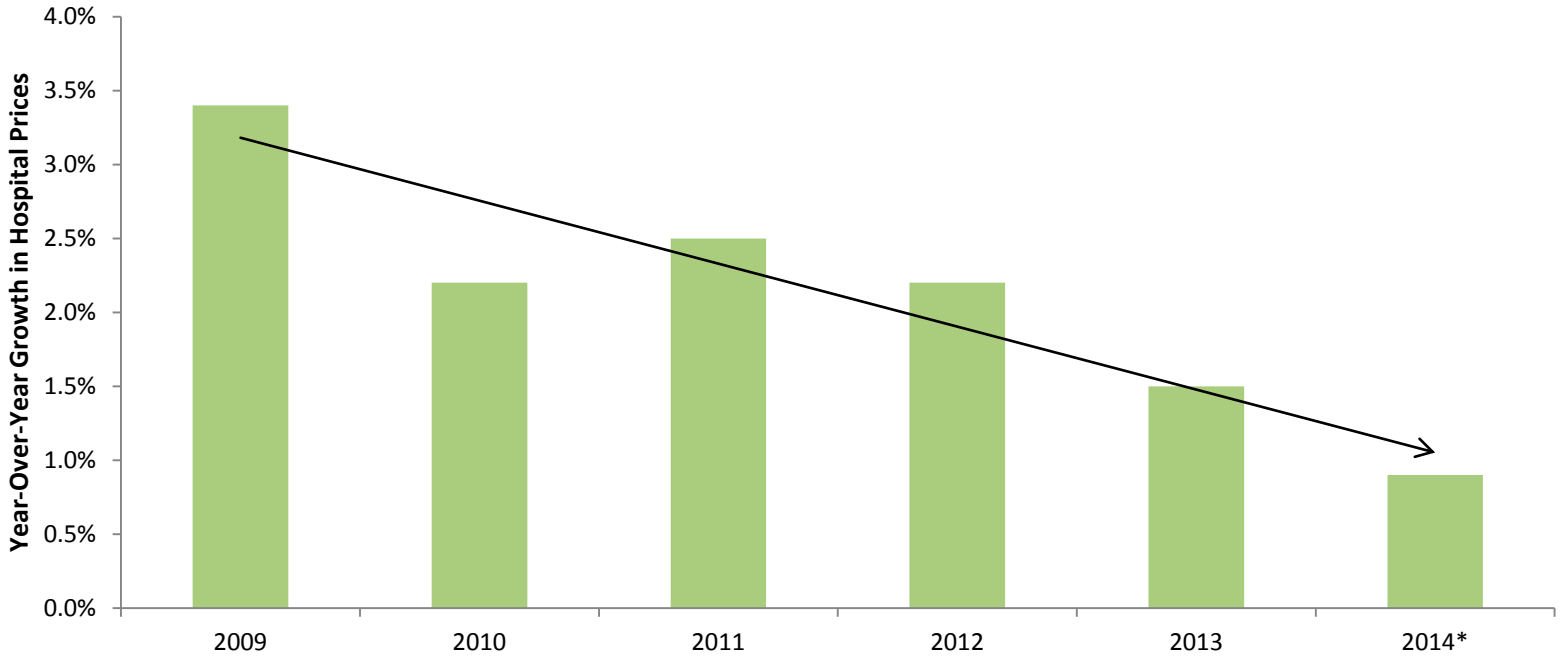
Source: The Whitehouse Blog. (2014, May 27). Alongside expanded coverage, underlying slow growth in health costs is continuing.

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New Data on Hospital Prices Show Trend Is Consistent with Recent Low Growth…

- **Hospital prices increased at an annual rate of 0.9% from December 2013 to June 2014**



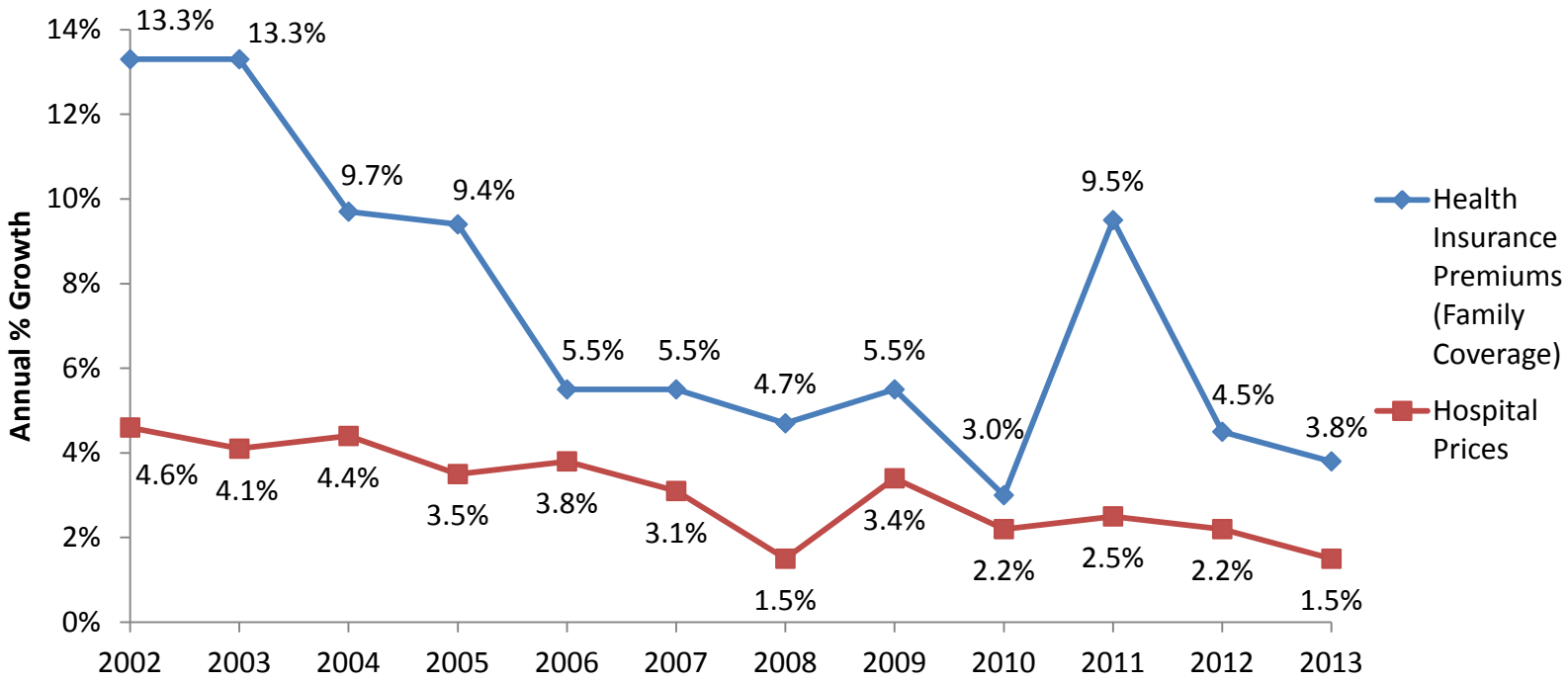
Source: Dobson | DaVanzo analysis of Bureau of Labor Statistics data.
Note: Annual growth rates calculated from December to December of each year.*2014 growth rate calculated from December 2013 to June 2014.

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…and Remains Below Health Insurance Premium Growth

- **Recent data indicate that hospital consolidation activity has not led to higher hospital price growth**



Source: Dobson | DaVanzo analysis of Bureau of Labor Statistics data (Producer Price Index) and Kaiser Family Foundation's Employer Benefits, 2013 Survey.
Altarum Institute Center for Sustainable Health Spending. (2014). July Price Brief.

Note: Annual growth rates calculated from December to December of each year.

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Why Has the Rate of Increase in Health Spending Slowed?

Macro-environment

- Medicare and private sector payment and delivery reform initiatives
- Economic recession
- Slowdown in diffusion of expensive technologies
- State Medicaid payment and delivery reform initiatives
- Shift to value-based payment

Hospital-led Factors

- Slower growth in hospital prices
- Provider risk-taking with new, innovative business models
- Reductions in health care associated infections, medical errors, and readmissions
- Hospitals' cutting waste and reducing inefficiency

Employer- and Insurer-led Strategies

- New benefit plan designs, including increased patient cost-sharing and growth of limited network plans

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Spending Slowdown: The Consumer Paradox

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Most Consumers Believe Health Care Spending Is Growing Faster than Usual

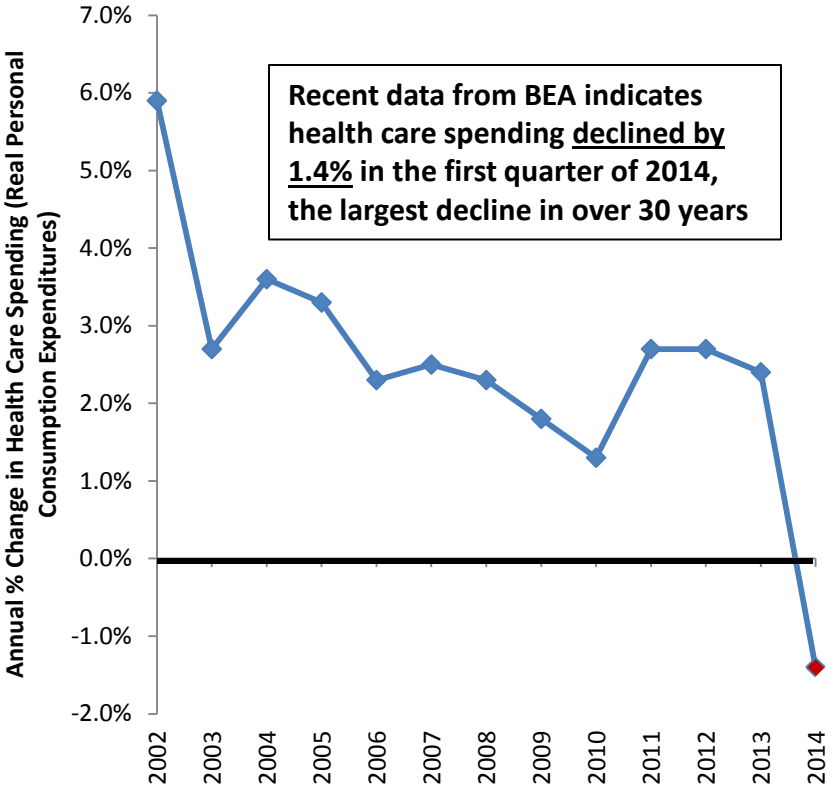
Percentage of Surveyed Consumers Who Believe…	
Health Care Costs	
Health care costs for the nation have been growing faster than usual*	**58%**
Health care costs are higher than they should be**	88%
50% or more of health care spending is wasted***	62%
Who Is Responsible for High Costs	
Health insurance companies**	**>70%**
Pharmaceutical companies/Rx drugs**	>60%
Hospitals**	<40%

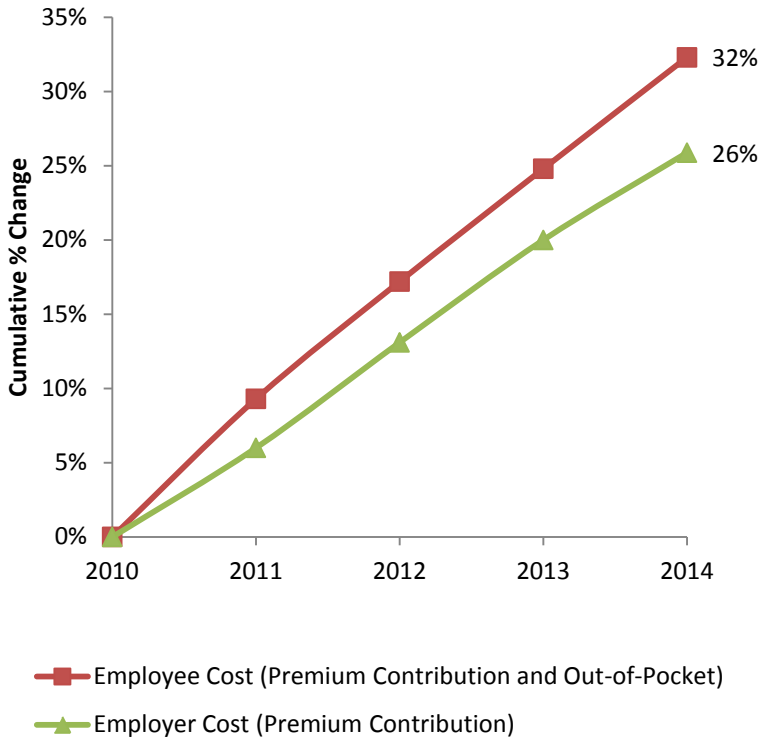
Sources: * Altman, D. (2014, March). Health cost growth is down, or not. It depends who you ask. Kaiser Family Foundation.
** Altarum Institute (2013). Survey of Consumer Health Care Opinions.
*** Deloitte (2012). 2012 Survey of US Consumers.

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Growth in Consumer Health Care Spending Has Been Falling, Yet Employee Costs Are Rising Faster than Employer Costs





Source: Dobson | DaVanzo analysis of Bureau of Economic Analysis data and 2014 Milliman Medical Index.

Note: Real personal consumption expenditures consist of the actual and imputed expenditures of households and are adjusted for inflation. The Milliman Medical Index is an actuarial analysis of the projected total cost of health care for a hypothetical family of four covered by an employer-sponsored preferred provider organization (PPO) plan.

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Benefit Plan Design Trends

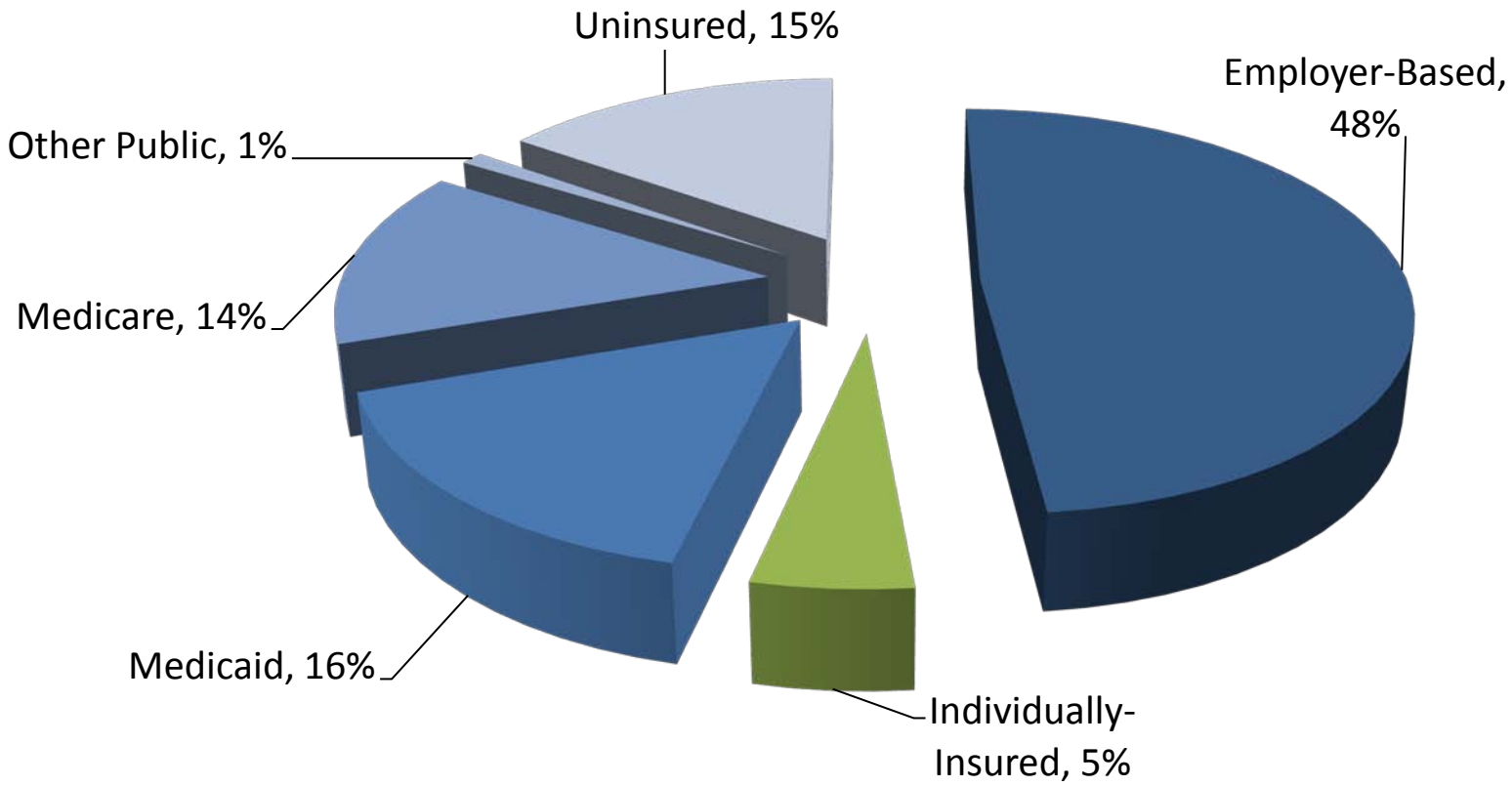
- **Developing trends in benefit plan design are intended to incentivize patients to select high value services for medically necessary care**
  - Aspects of benefit plan design that affect employee spending include:
    - Premiums, and for ESI, worker's contribution to premiums
    - Health savings accounts and consumer-driven health plans
    - Co-payments and co-insurance
    - Deductibles
    - Tiered networks
    - Tiered drug formularies
- **At the same time, these designs can have negative effects on consumers[1]**
  - Shifting too much of the burden to consumers causes them to put off medical care — including high-value and necessary care—which can increase health care costs downstream as their health status worsens
  - Consumers are often not provided with sufficient information to identify high-value and necessary services

Source: 1. Baicker, K., Goldman D. (2011). Patient Cost-Sharing and Healthcare Spending Growth. *Journal of Economic Perspectives.*

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Employer-Based Insurance Represents the Largest Proportion of the Insured Population

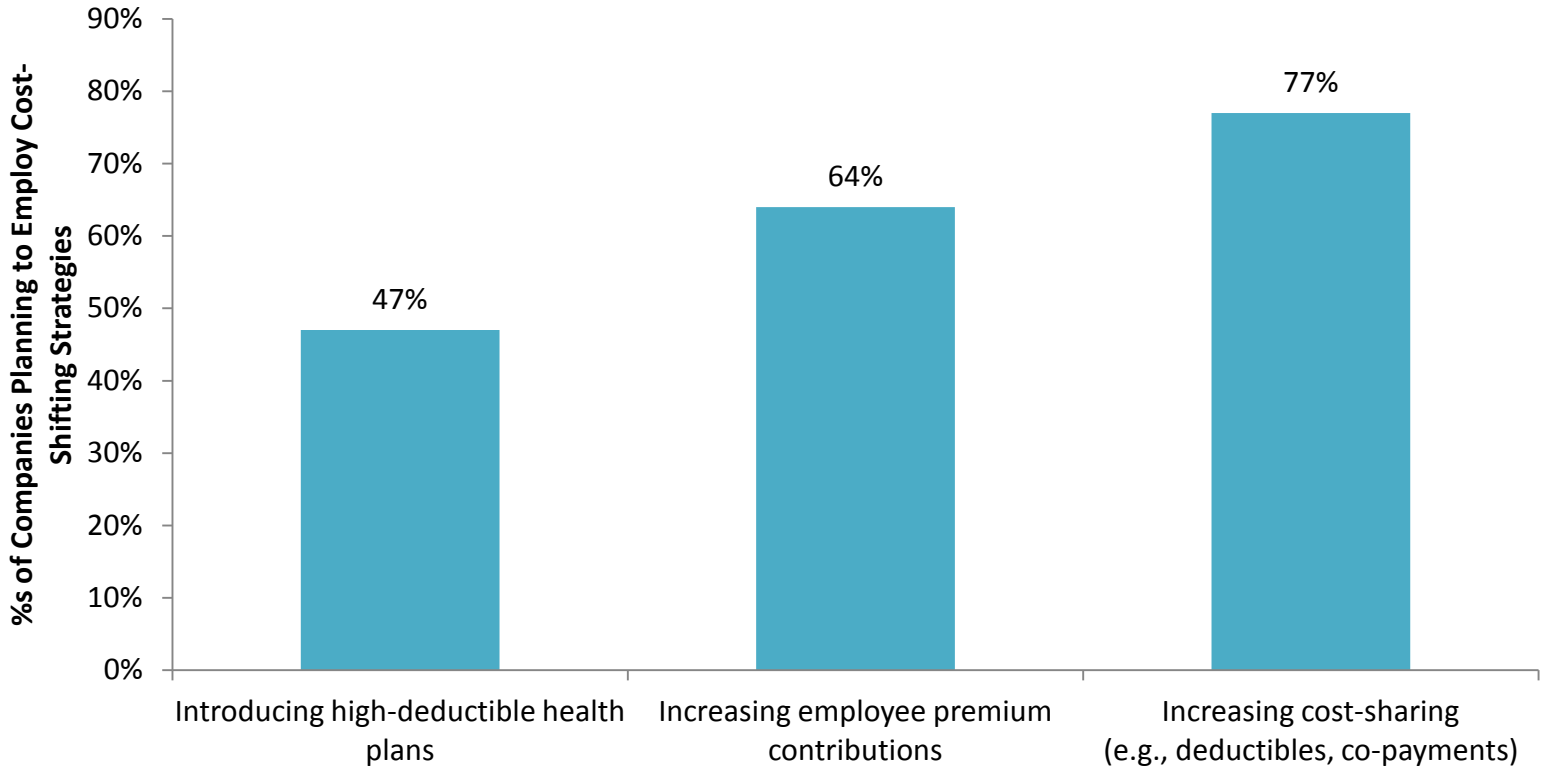


Source: Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on the Census Bureau's March 2012 and 2013 Current Population Survey (Annual Social and Economic Supplements).

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The Majority of Companies Currently Use a Variety of Strategies to Shift Costs to Employees



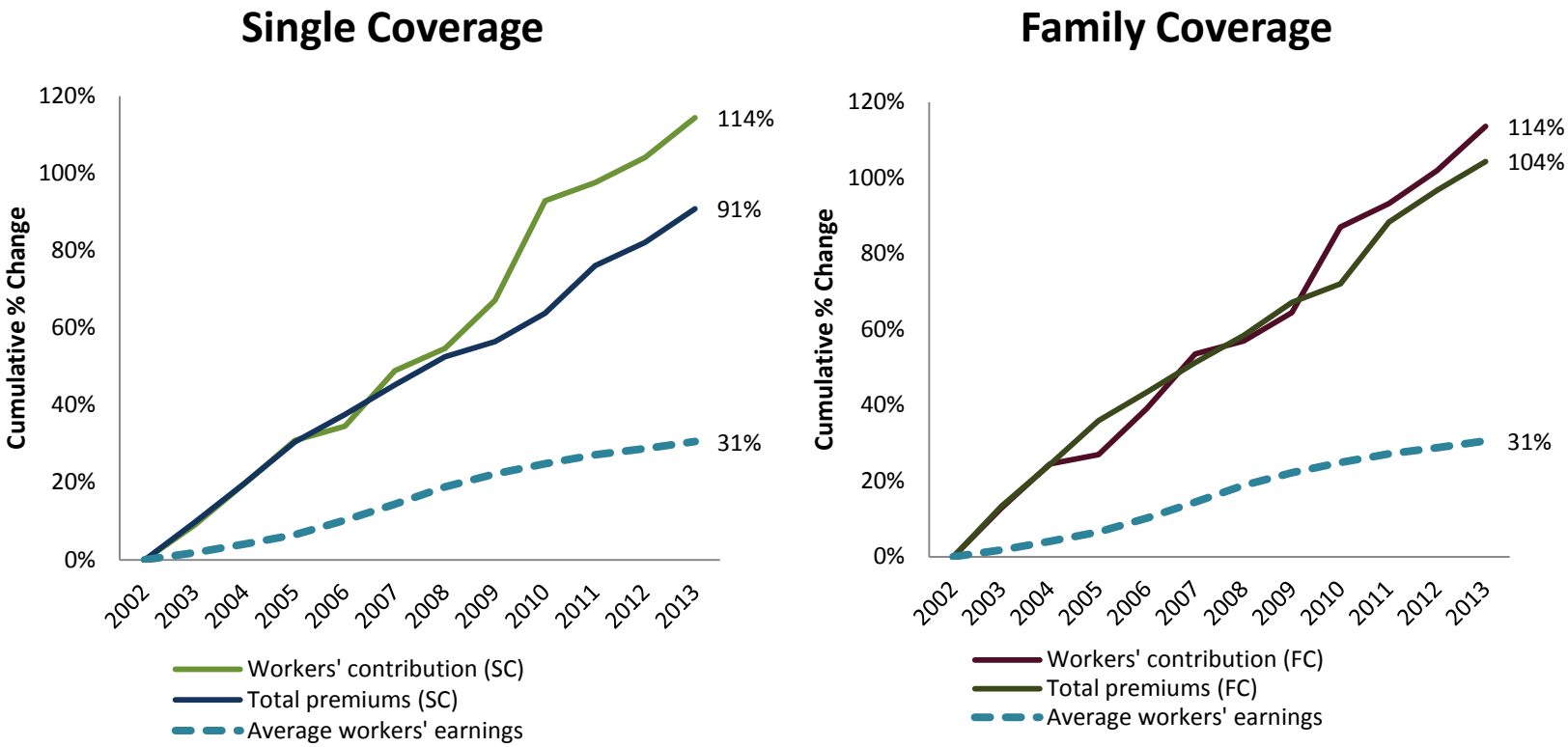
Source: Dobson | DaVanzo analysis of Deloitte 2012 and 2013 Survey of US Employers and Bureau of Labor Statistics data.

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Cumulatively, Growth in Workers' Contributions to Premiums More than Doubled, and Grew Almost 4x Faster than Average Workers' Earnings Between 2002 and 2013

- **This means health care expenses take up a growing share of wages over time**



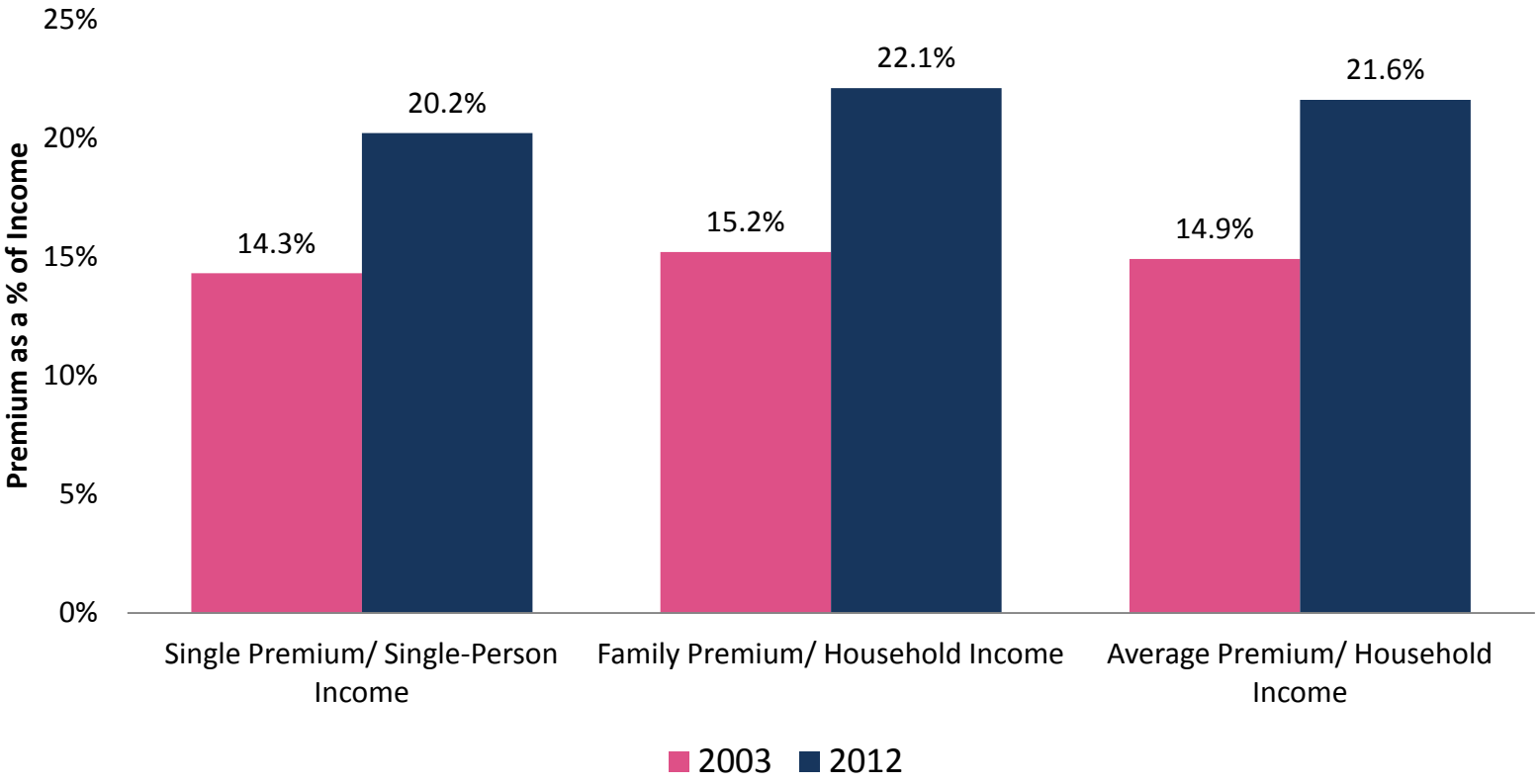
Source: Dobson | DaVanzo analysis of Kaiser Family Foundation's Employer Benefits, 2013 Survey, and CMS OACT National Health Expenditures.

Note: SC= single coverage, FC= family coverage.

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Total Premiums Have Increased Substantially as a Percent of Median Income Since 2003

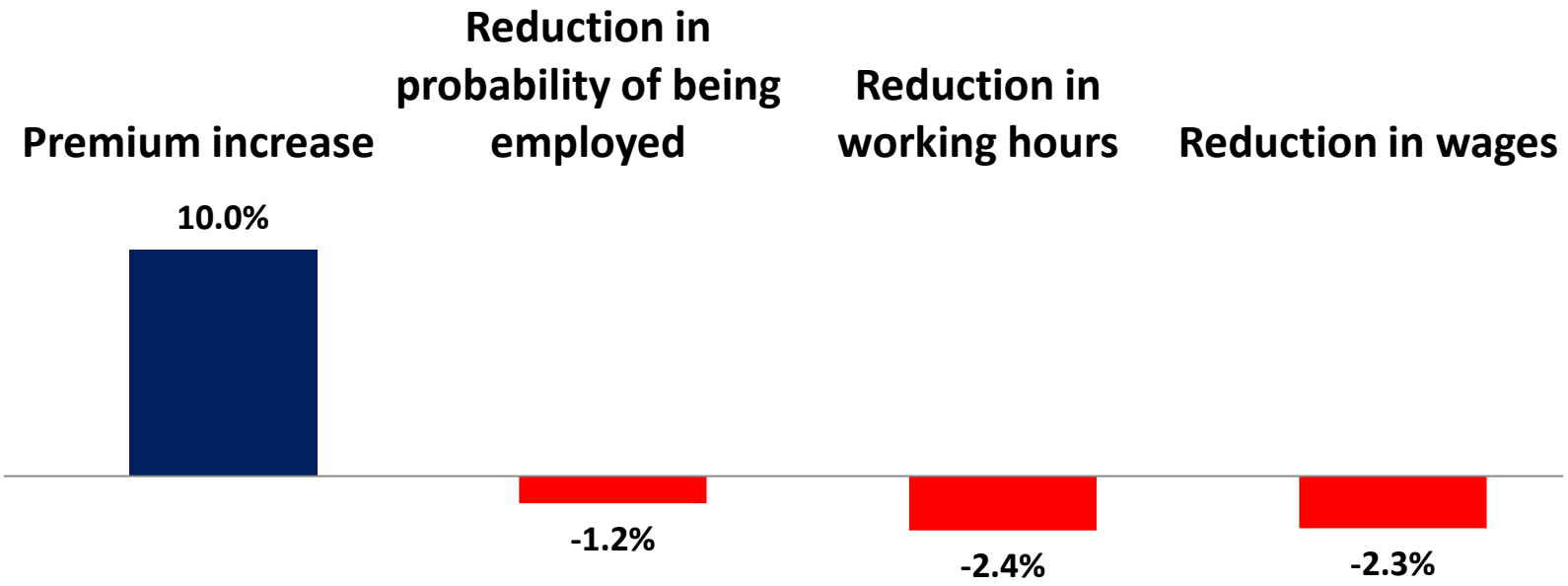


Source: Schoen C., Hayes S.L., Collins S.R., Lippa J.A., Radley, D.C. (2014, March). America's underinsured: A state-by-state look at health insurance affordability prior to the new coverage expansions. The Commonwealth Fund.

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Increases in Premiums Reduce Wages, Working Hours, and the Probability of Being Employed



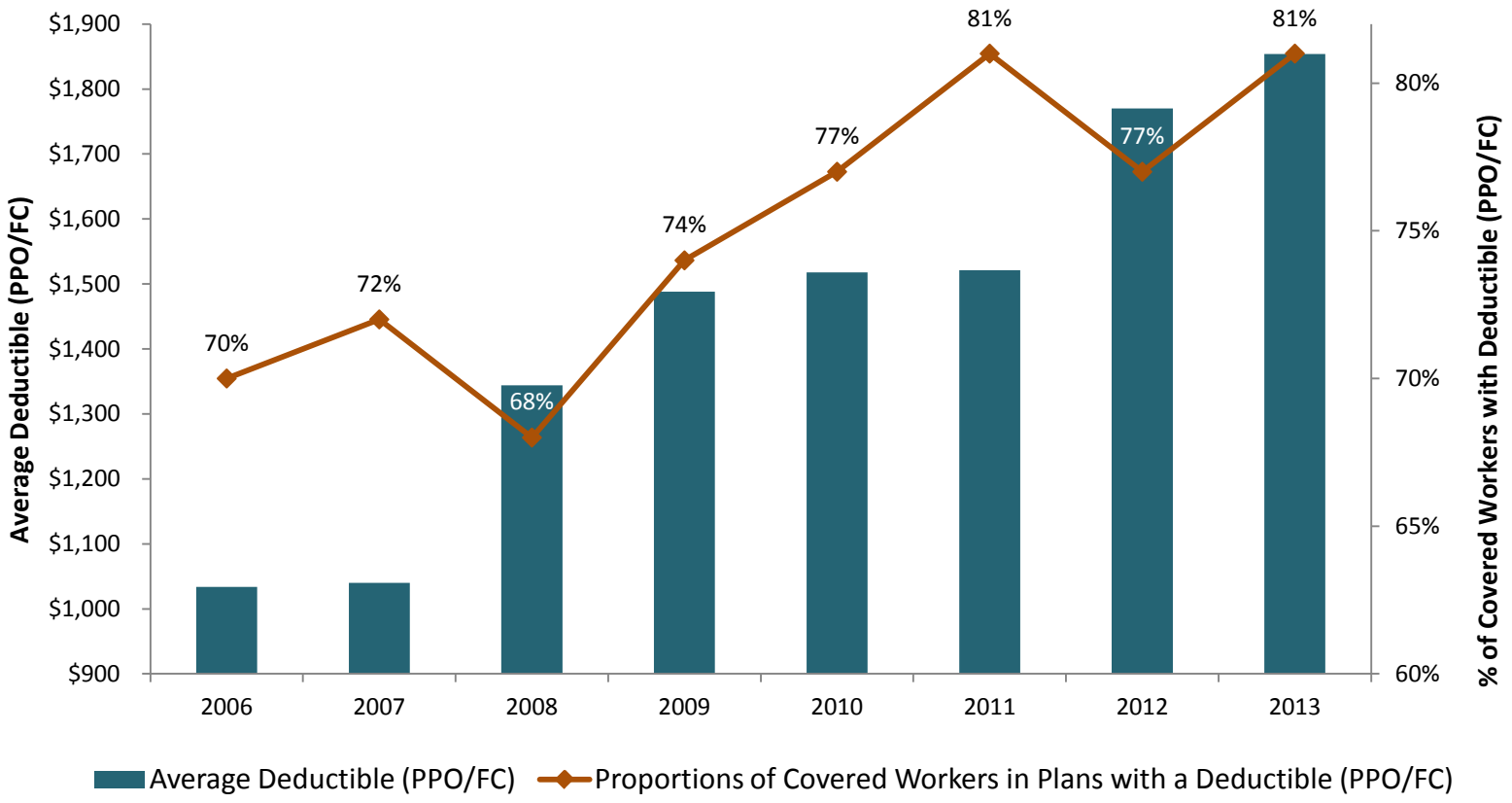
- **A continued decline in health care spending growth should reduce the growth in premiums and ultimately lead to increased employment rates, working hours, and wages**

Source: Baicker, and Chandra, The Labor Market Effects of Rising Health Insurance Premiums, 2006. Note: 1996-2002 data.

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Additionally, Deductible Amounts and the Percent of Enrollees with a Deductible Increased Substantially for Family Coverage Between 2006 and 2013



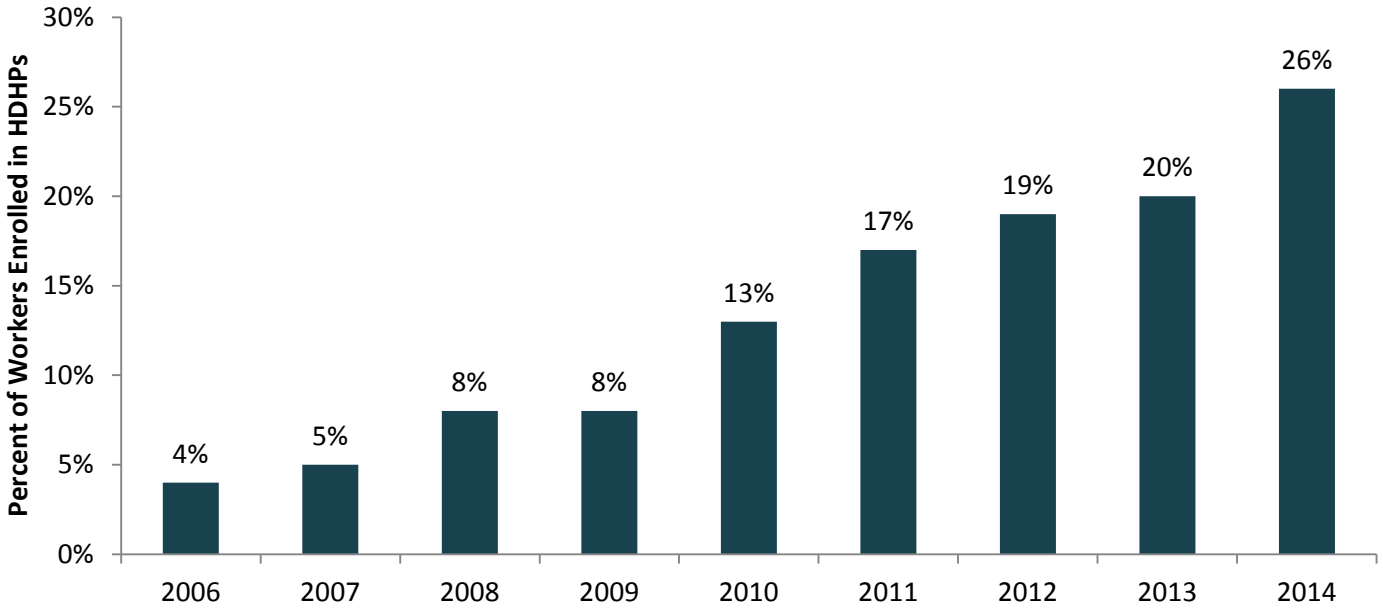
Source: Dobson | DaVanzo analysis of Kaiser Family Foundation Employer Benefits, Surveys for 2006-2013 Survey.
Note: PPO/FC= Preferred Provider Organization Plan for Family Coverage.

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Worker Participation in High-Deductible Health Plans is Also Increasing

- **The percentage of workers with high-deductible health plans increased from 4% in 2006 to 26% in 2014**
  - The typical plan deductible now exceeds the typical family's available savings



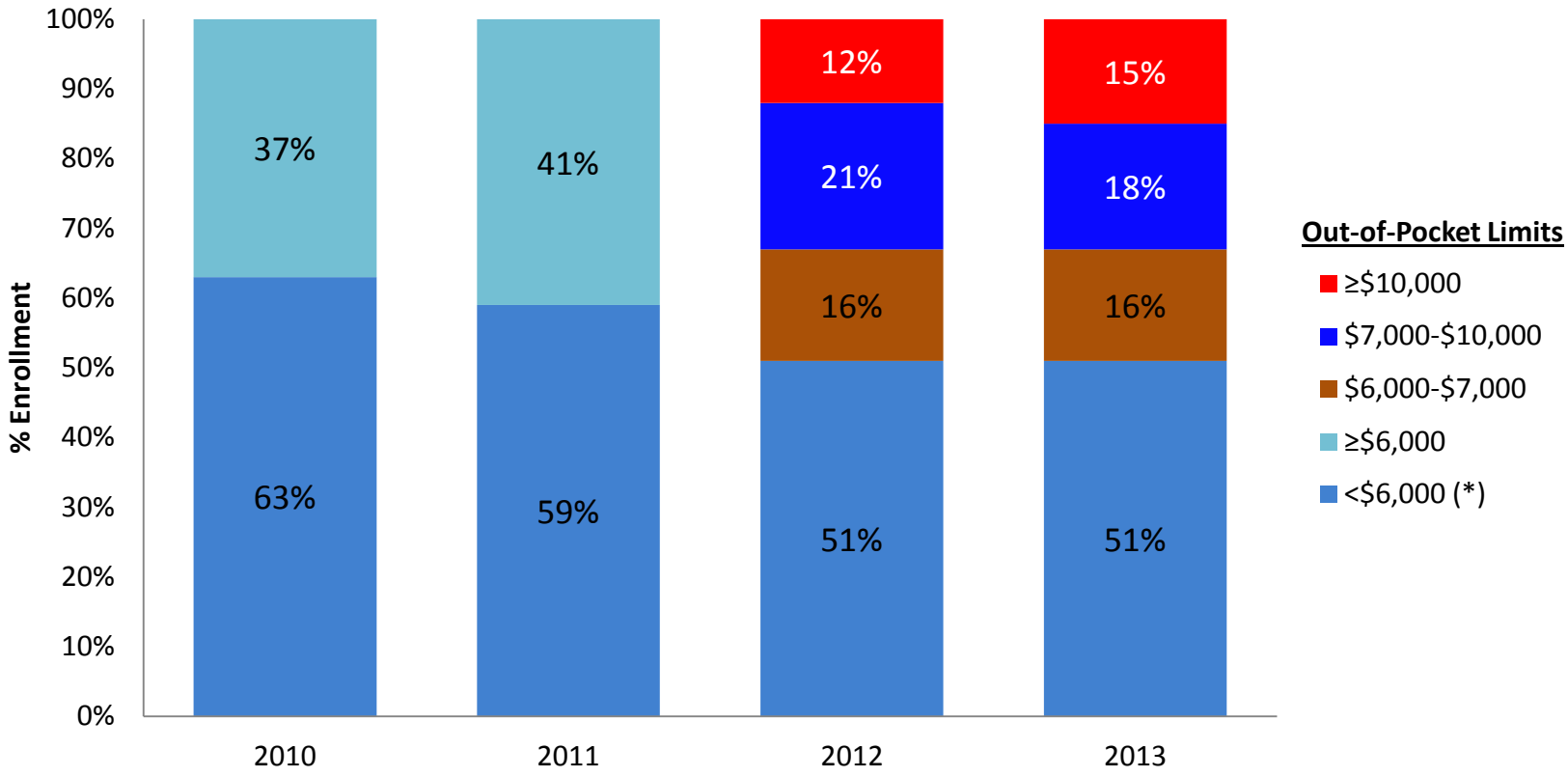
Sources: Blumenthal D, Stremikis K, Cutler D. (2013). Health Care Spending—A Giant Slain or Sleeping? *New England Journal of Medicine* 369(26):2551-2557.
Kaiser Employer Health Benefits 2013 Annual Survey.
PwC's Medical Cost Trend: Behind the Numbers 2015.

Note: High deductible health plan defined as health plans with a deductible of at least $1,000 for single coverage and $2,000 for family coverage.

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Similarly, Enrollment in Health Plans with Higher Out-of-Pocket Maximum Limits Has Increased Dramatically Since 2010 for Family Coverage



Source: Kaiser Family Foundation Employer Benefits, 2010-2013 Surveys.

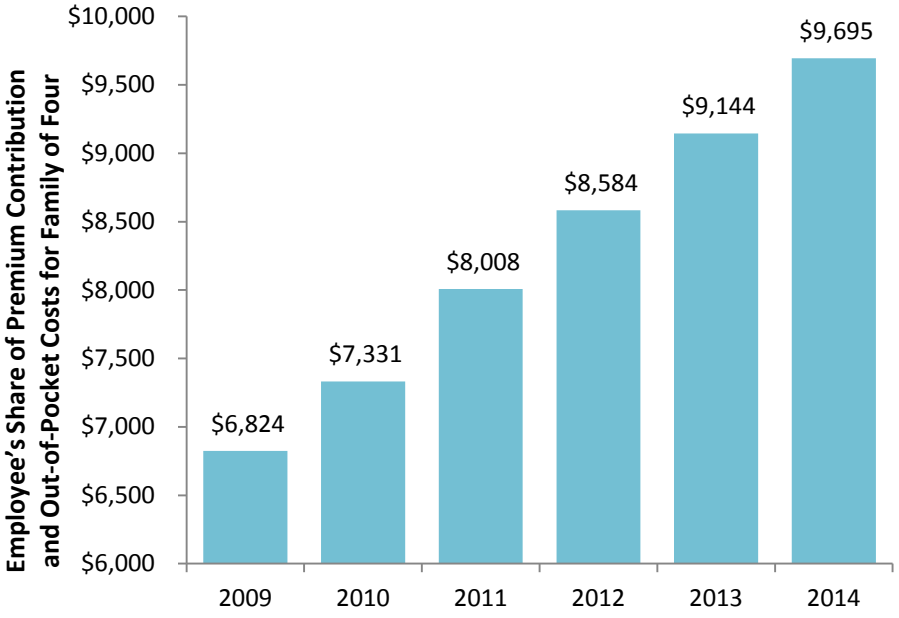
Note: We made a minor adjustment in cut-off points between the first and second out-of-pocket tiers for the purpose of comparison. For 2012 and 2013, the first tier is $5,499 or less instead of $6,000 as for 2010 and 2011, and the second tier is between $5,499-$7,000.

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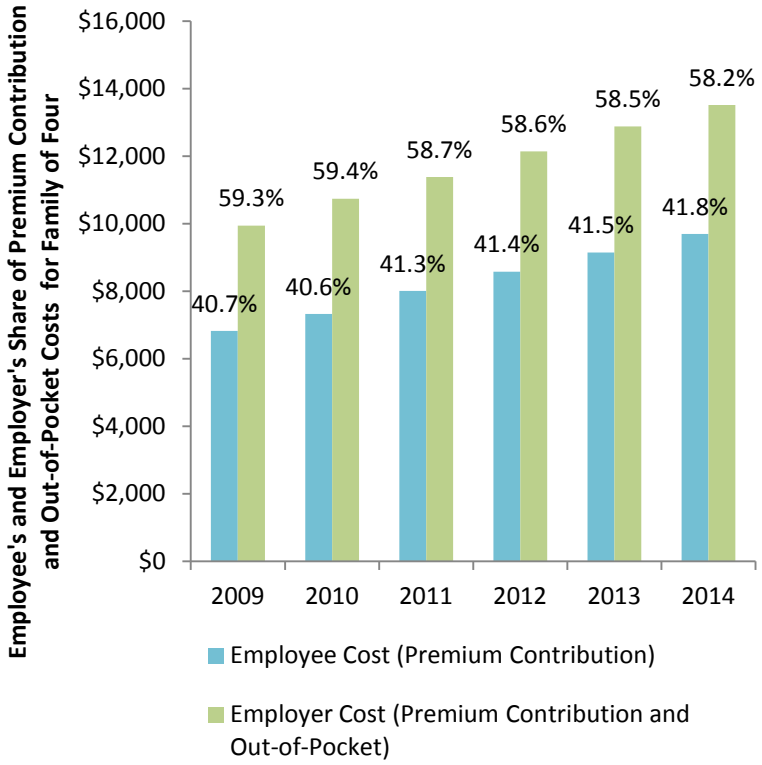
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Annual Employee Health Care Spending Has Increased Substantially Since 2009; The Proportion of Health Care Spending Has Increased Moderately…

Employee's Share of Medical Costs (2009-2014)



Medical Cost by Source of Payment (2009-2014)



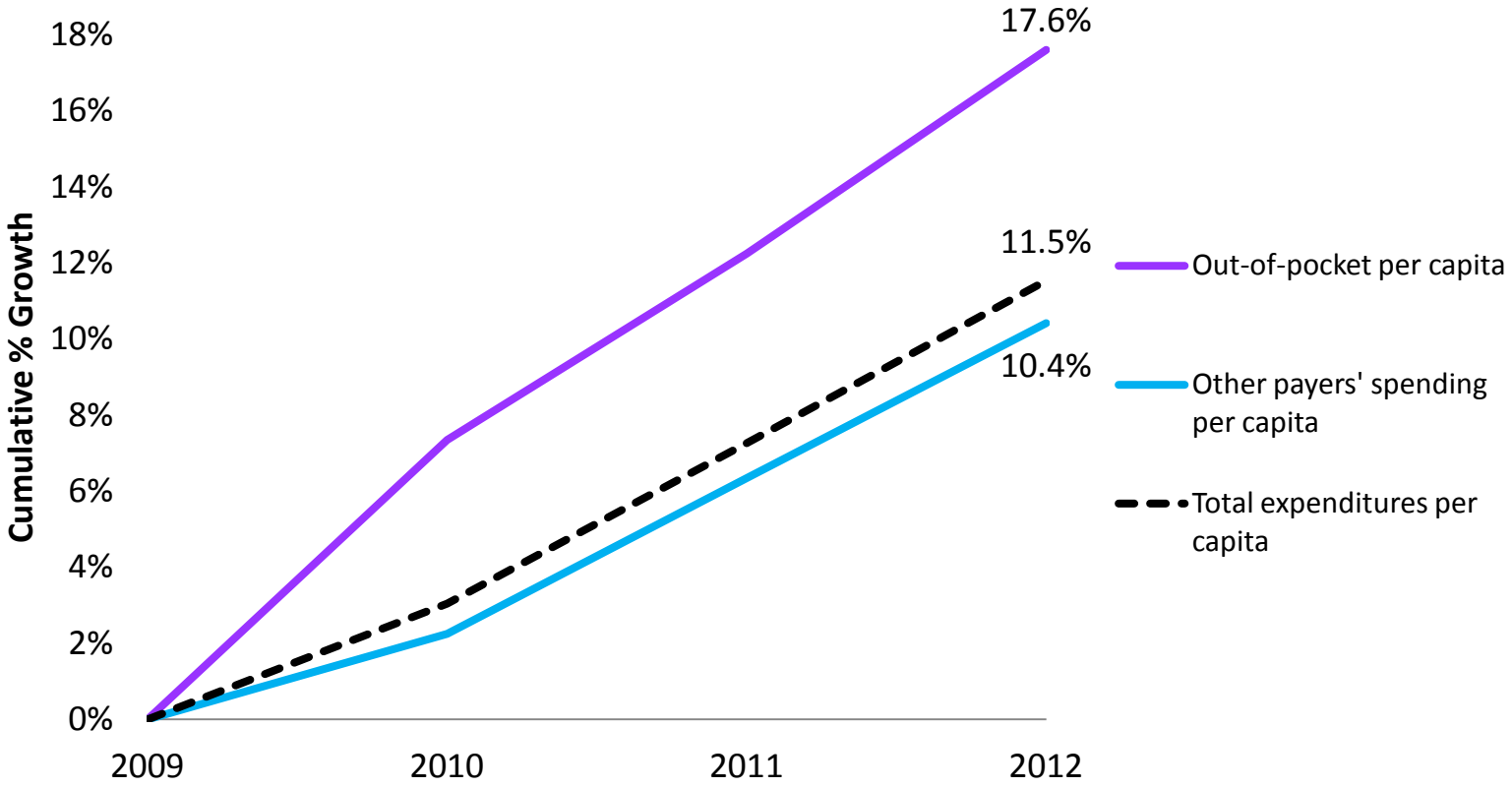
Sources: Milliman Medical Index 2014.

Note: The Milliman Medical Index is an actuarial analysis of the projected total cost of health care for a hypothetical family of four covered by an employer-sponsored preferred provider organization (PPO) plan. Percentages on chart indicate percent of total medical costs incurred by source of payment (employees or employers)

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…However, Cumulative Growth in Out-of-Pocket Spending Was 70% Higher than Spending by Other Payers per Capita



Source: Dobson | DaVanzo analysis of Health Care Cost and Utilization Report, 2012. Note: HCCI Data includes group insurance, individual insurance, and Medicare Advantage.

Note: Other payers' spending reflects the amounts paid by insurers (employers or health plans) to providers for health care services. Out-of-pocket expenditures are actual payments made by insureds directly to medical professionals, facilities, and pharmacies. Total expenditures include both out-of-pocket and other payers' spending.

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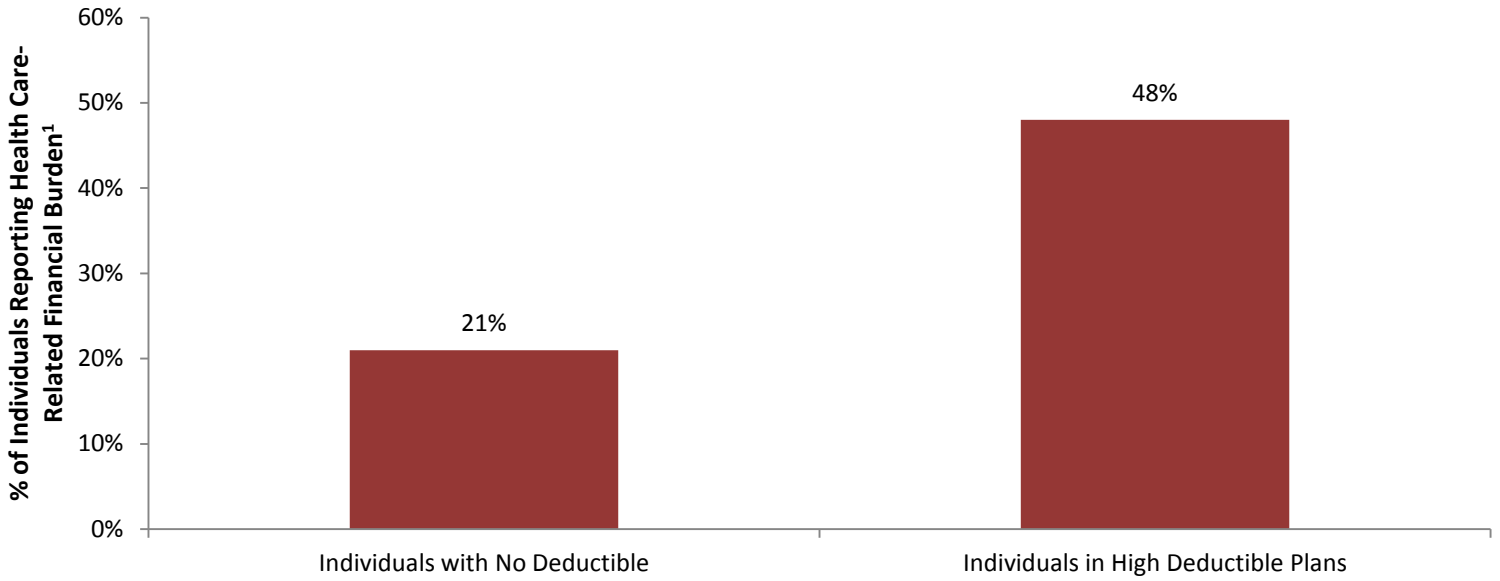
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Policy Implications

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High Deductibles Can Harm Patients—Directly by Creating Difficulty in Affording Their Care, and Indirectly As Providers Experience Bad Debt and Possibly Curtail Services



- **"We have definitely been hearing from members that they are seeing an increase in bad debt and even in charity care for people with high-deductible health plans"[2]**

Sources: 1. Galbraith A, et al. (2011). Nearly half of families in high-deductible health plans whose members have chronic conditions face substantial financial burden. *Health Affairs* 30(2): 322–331.
2. Hancock, J. (2013, August). More high-deductible plan members can't pay hospital bills. kaiserhealthnews.org, quoting AHA

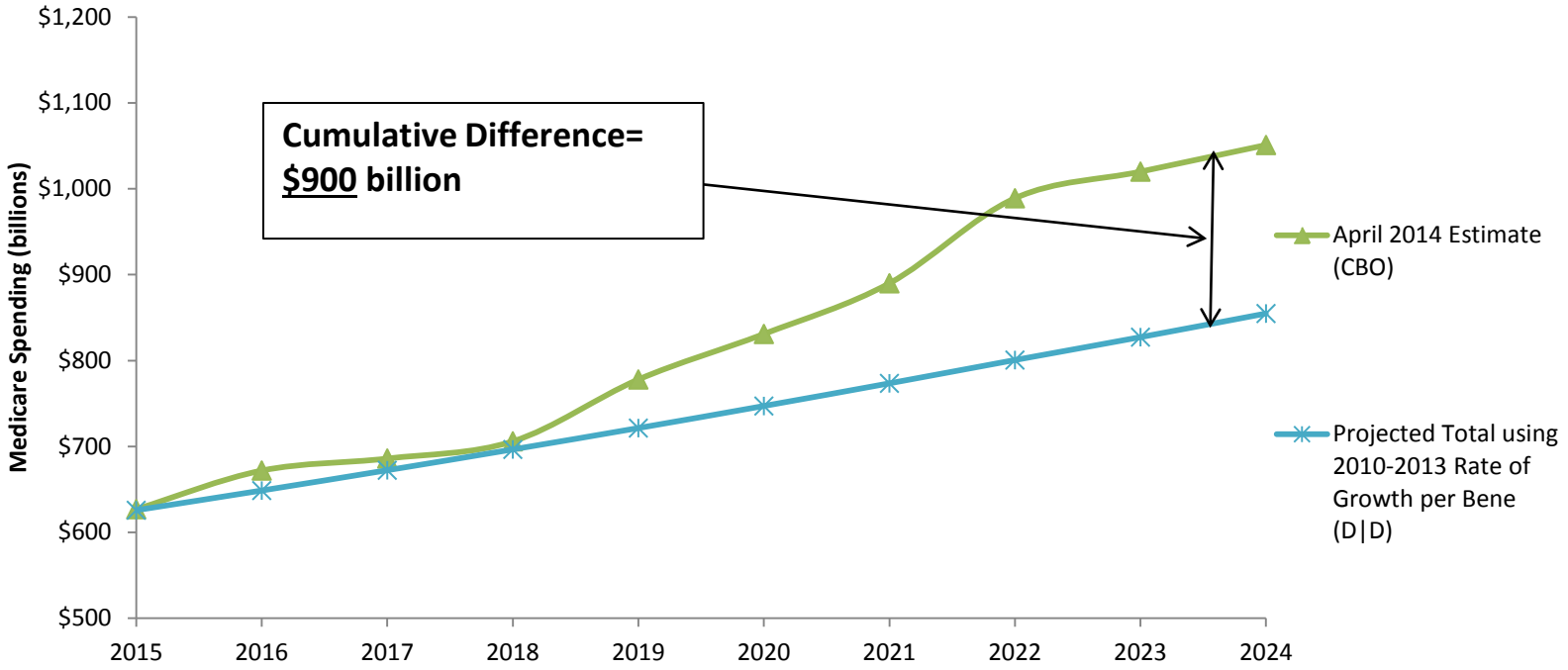
Note: High deductible plan defined as plans with annual family deductibles of at least $1,000.

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$900 Billion in Additional Medicare Savings Is Within Reach if We Stay the Course – Employer-Sponsored Insurance Could Similarly Benefit from the Health Care Spending Slowdown

- **If Medicare spending per beneficiary grows at the average 2010-2013 rate, the cumulative federal deficit from 2015 to 2024 could be reduced by 12%**



Note: D|D is Dobson | DaVanzo.
For detailed methodology see: Dobson, A., DaVanzo, J., Berger, G., Reuter, K. (2014). Do Structural Changes Drive Health Care Spending Slowdown? New Evidence. Updated Implications for Medicare Policy and Deficit Reduction. Vienna, VA: Dobson | DaVanzo. The average growth rate from 2010-2013 was calculated using CBO estimates of total Medicare expenditures from 2010-2013 (reported in the April 2014 CBO baseline estimate) divided by the number of Medicare beneficiaries in each year as reported in the 2013 Medicare Trustees report.

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Policymakers Should Not Disrupt the Initiatives Currently in Place

- **As the cost-curve continues to bend, both consumers and payers will benefit from reduced spending on health care and from a vastly improved health care system**

- **"…the contained growth [of the past five years] is evidence that structural changes aimed at delivery of better quality care at lower costs are starting to hold healthcare spending growth in check." – *PricewaterhouseCoopers, June 2014***

- **Abrupt changes to health care policy at this point could bring uncertainty and unintended consequences for payers and providers—currently undertaking multi-year plans to implement structural changes—and ultimately for consumers**

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Discussion

In recent reports we have outlined the continuing historic slowdown in the growth rate of health care spending driven in large part by emerging structural changes in the health care system.[1,2] Recent evidence suggests that the cost curve has continued to bend, with health care spending **declining** in the first quarter of 2014. Despite this continuing trend in health care spending growth, consumers are increasingly concerned that they are ever-more financially burdened by spending on their own health care.

Consumer spending on health care grew at its slowest rate in over three decades in the fourth quarter of 2014, yet consumers experience increases in health insurance premiums and out-of-pocket spending that continue to outpace increases in wages.

This consumer perception is largely a factor of the "new normal" being established through health insurance, which includes:

- Benefit plan designs, used by employers and insurers to shift greater financial risk to consumers through higher out-of-pocket spending (i.e., deductibles, co-payments, and co-insurance); and
- Health insurance premiums, which continue to rise faster than the average person's income.

This trend of growth in out-of-pocket spending combined with increases in health insurance premiums that outpace increases in wages is not sustainable over the long term, and harms both patients and providers. However, the slowing growth of national health care spending has eased this burden to some degree, and if it continues, will ultimately benefit consumers. The savings from the health care spending slowdown have been and will continue to be passed onto consumers through lower costs than would otherwise have been the case and greater value in the services they use.

A shift to value (rather than volume) based payment is a key factor driving spending growth reductions. Payers and providers are transitioning to structural changes in delivery and payment arrangements that are beginning to show reduced spending and higher quality (e.g., fewer hospital readmissions). To support these efforts, providers are making large

[1] Dobson, A., DaVanzo, J., Berger, G., Reuter, K. (2013). Structural Changes Drive Health Care Spending Slowdown: Implications for Medicare Policy and Deficit Reduction. Vienna, VA: Dobson | DaVanzo.

[2] Dobson, A., DaVanzo, J., Berger, G., Reuter, K. (2014). Do Structural Changes Drive Health Care Spending Slowdown? New Evidence. Updated Implications for Medicare Policy and Deficit Reduction. Vienna, VA: Dobson | DaVanzo.

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investments in cost reductions, developing new care and business models, provider partnerships, and data systems that allow them real-time feedback to influence clinical and administrative decisions. The development of a stronger health care infrastructure able to provide high quality, affordable care to the aging American population is reliant upon health care providers continuing to support this transition. Therefore, policymakers should not get in the way of the innovations currently in place or under development; as the cost-curve continues to bend, both consumers and payers will benefit from reduced spending on health care and from a vastly improved health care system. Abrupt changes to health care policy at this point could bring unintended consequences.

Key Findings

In the first quarter of 2014, new evidence emerged that the sustained health care spending slowdown has continued even as Medicaid coverage expands and the state-based and federal health insurance marketplaces launch. For example:

- In the first quarter of 2014, consumer spending on health care **declined** by 1.4%, representing the largest decline in over 30 years, and 7.0 percentage points lower than the 5.6% increase in the fourth quarter of 2013[3]

However, paradoxically, consumers perceive that their health care spending is increasing more than usual. This perception is largely a result of spending on their health care increasing faster than personal income combined with a continuing redesign of their health insurance benefits, which shifts more of the cost burden onto consumers:

- Almost 60% of Americans think that health care costs have been growing faster than usual in recent years[4], and more than 70% of consumers attribute responsibility for their perceived high and rising costs to health insurance companies[5]
- Total premiums have increased substantially over the past decade, from 14.9% to 21.6% of median household income between 2003 and 2012[6]
- Employee contributions to premiums and out-of-pocket spending have risen 23% faster than employee costs since 2009 (32% in cumulative growth vs. 26%)[7]

[3] Bureau of Economic Analysis. Real Personal Consumption Expenditure Data.

[4] Altman D., "Health Cost Growth Is Down, or Not. It Depends on Who You Ask", Kaiser Family Foundation, March 2014. Almost 60% of the respondents said that health care cost for the nation have been growing faster than usual in recent years, less than 30% thought the costs have been the same, and just 4% responded that they have been slower than usual. No one said that health care costs were going down.

[5] Altarum Institute, Survey of Consumer Health Care Opinions, Fall 2013.

[6] Schoen C, Hayes S.L., Collins S.R., Lippa J.A., and Radley D.C., America's Underinsured, A State-by-State Look of Health Insurance Affordability Prior to the New Coverage Expansion, The Commonwealth Fund, March 2014.

[7] Milliman Medical Index, 2014.

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- Cumulative growth in workers' contributions to premiums between 2002 and 2013 was 114%, approximately four times higher than growth in workers' average income (31%)[8]
- Deductibles for family coverage increased more than 75% from 2006 and 2013 (from $1,034 to $1,854), while enrollment in plans with a deductible increased to 81% in 2013[9]
- The percentage of workers enrolled in high-deductible plans ($1,000 or more) has increased more than five times over the past decade, from 4% in 2006 to 26% in 2014
- Overall, employees' premium contributions and out-of-pocket expenses per capita have grown by 42% over the past five years, from $6,824 in 2009 to $9,695 in 2014[10]

As consumers, payers, and providers all adjust to the new health insurance market status quo—which represents higher patient cost-sharing and therefore a higher financial burden on the consumer—policymakers need to be mindful of potential unintended consequences. Additional reforms to or other interventions in the marketplace could not only disrupt the dynamic driving the spending slowdown, but also shift to patients even more of the cost of health care.

Introduction and Study Purpose

Dobson DaVanzo & Associates, LLC (Dobson | DaVanzo) was commissioned by the Federation of American Hospitals (FAH) to analyze the seemingly incongruous relationship between the slowing rate of national health care spending growth and the perception of ever higher health care costs paid by consumers. In this report we examine:

1) Recent health care spending data that continue to show a slowdown in the rate of increase in health care spending;
2) Consumer perceptions of how health care spending burdens them financially, trends showing how total consumer health care spending has changed over time, and, importantly, how these trends compare to trends in income over time; and
3) Policy implications.

[8] Data for total premiums and workers' contributions are from Kaiser Family Foundation, Employer Benefits Survey, 2013; Data for workers' earnings are from the Bureau of Labor Statistics.

[9] Kaiser Family Foundation, Employer Benefits Surveys, 2006-2013. Deductible rates for single coverage increased from $584 in 2006 to $1,135 in 2013, with an increase, respectively, from 55% to 78% in enrollment of covered workers in plans with deductibles. Rates for family coverage increased from $1,034 in 2006 to $1,854 in 2013.

[10] Despite increases in the absolute dollar amount spent by consumers out-of-pocket, out-of-pocket spending as a percent of total health care spending has remained relatively constant at slightly over 16% since 2009 (Dobson | DaVanzo analysis of Health Care Cost and Utilization Report, 2012).

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Continued Slowdown in Health Care Spending

In our last report to the FAH, we provided a comprehensive overview of the current trends in health care spending. In the report we found that:

- From 2010 to 2013, the average real (inflation adjusted) per capita national health expenditure growth rate was just 1.3%, the lowest three-year growth rate recorded in the past 50 years, and approximately one-third of the average real growth rate since the 1960s[11]
- This has, in large part, led to a reduction in the federal deficit, which the Congressional Budget Office (CBO) projects for 2014 ($492 billion) will be less than half of the actual deficit in 2012 ($1,087 billion)[12]
- In the fourth quarter of 2013, hospital prices reached near-historically low annual growth rates, indicating that recent trends in health care spending could likely continue into 2014[13]
    - Hospital prices grew at 1.5% annually from 2012 to 2013
- If the 2010-2013 rate of spending per Medicare beneficiary continues over the next decade, the Medicare program could save $900 billion beyond that which CBO projects through 2024[14]

Since that report, substantial evidence has been released supporting our findings of an ongoing slowdown in health care spending growth into 2014:

- In the first quarter of 2014, consumer spending on health care **declined** by 1.4 %, representing the largest decline in over 30 years, and 7.0 percentage points lower than the 5.6% increase in the fourth quarter of 2013[15]
- Medicare spending per beneficiary **declined** by 2.4%, and on an inflation-adjusted basis by 3.4%, from April 2013 to April 2014[16]
- Increases in hospital prices continued at historic lows, as hospital prices increased at an annual rate of just 0.9% in the first half of 2014[17]

In our previous reports, we presented evidence that structural changes in health care delivery are taking effect and may continue to have a major impact on reducing future health care spending growth. We continue to support this statement, and in Exhibit 1

[11] Council of Economic Advisors (2013). Trends in Health Care Cost Growth and the Role of the Affordable Care Act.

[12] Congressional Budget Office (2014, April). Update budget projections: 2014 to 2024 [Pub. 4928]. Washington, DC: CBO.

[13] Altarum Institute Center for Sustainable Health Spending. (2014) February Price Brief.

[14] Dobson, A., DaVanzo, J., Berger, G., Reuter, K. (2014). Do Structural Changes Drive Health Care Spending Slowdown? New Evidence. Updated Implications for Medicare Policy and Deficit Reduction. Vienna, VA: Dobson | DaVanzo.

[15] Bureau of Economic Analysis. Real Personal Consumption Expenditure Data.

[16] The Whitehouse Blog. "Alongside Expanded Coverage, Underlying Slow Growth in Health Costs Is Continuing." May 27, 2014.

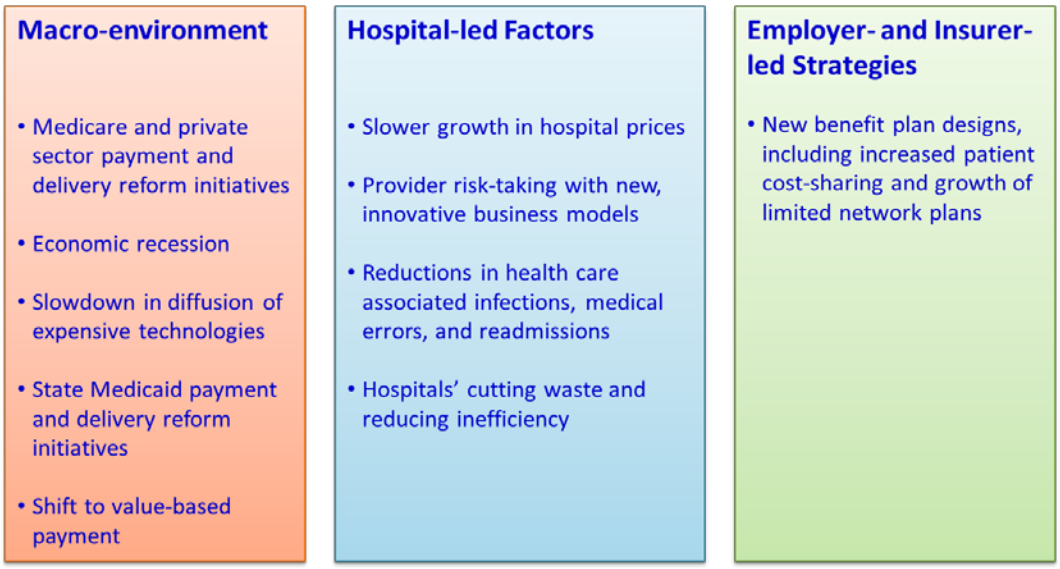
[17] Dobson | DaVanzo analysis of Bureau of Labor Statistics Data

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summarize several factors that we believe have influenced the slowdown (for more discussion of these factors, see our June 2013 and February 2014 reports cited in footnotes 1 and 2).

As these structural changes unfold and exert force on the health care marketplace, we will likely see a continued slowdown in the rate of health care spending growth. This could ultimately reduce consumer spending on health care to a level that is more sustainable.

Exhibit 1: Why Has the Rate of Increase in Health Spending Slowed?



Consumer Perception of Health Care Spending and Trends in Consumer Spending

Although health care spending has grown at historically low levels over the past four years and this low growth has continued through the first quarter of 2014, recent survey research finds that American consumers maintain the perception of health care costs as excessively high and rising faster than normal.

According to a Kaiser Family Foundation opinion poll, no survey respondents believe that health care costs have been going down; almost 60% of Americans think that health care costs have been growing faster than usual in recent years.[18] Other surveys show that approximately 90% of consumers think health care costs are higher than they should be;

[18] Altman D., "Health Cost Growth Is Down, or Not. It Depends on Who You Ask", Kaiser Family Foundation, March 2014. Almost 60% of the respondents said that health care cost for the nation have been growing faster than usual in recent years, less than 30% thought the costs have been the same, and just 4% responded that they have been slower than usual. No one said that they were going down.

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more than 70% of consumers attribute responsibility for their perceived high and rising costs to health insurance companies.[19]

Who is right? The paradox is that both the experts and the consumers are, in a certain sense, right. The slowdown in health care spending growth has endured through the beginning of 2014 and there is strong evidence to believe it will continue.[20,21] At the same time, consumers correctly observe that the ongoing evolution of benefit plan design has increased patient cost-sharing, and their spending—both contribution to premiums and out-of-pocket spending—as a proportion of overall health care expenditures has risen faster than their wages.

Benefit plan design, particularly with respect to cost-sharing[22], has been used by employers and insurers to shift more of the risk (i.e., financial burden) of health care spending to consumers, as well as to incentivize the consumption of more high-value and necessary medical services. These incentives (often in the form of avoiding penalties) include:

- Higher deductibles;
- Higher out-of-pocket maximum limits;
- Narrow provider networks;
- Tiered pharmaceutical plans; and
- The expansion of high-deductible health plans.

While increased patient cost-sharing can lead to fewer avoidable hospital admissions and emergency room visits, studies have found that increased cost-sharing can also have a negative impact on consumers. For example, high co-payments and deductibles can cause patients to delay medical care, including high-value and necessary care, which can lead to worse health status and to increased costs.[23,24]

Despite these potential consequences, surveys show that over the next several years:

- Roughly 75% of employers plan to increase the employee share of insurance premiums, expand high deductible plans, and increase deductibles and co-payments;

[19] Altarum Institute, Survey of Consumer Health Care Opinions, Fall 2013.

[20] Orszag P., It's Time for Some Optimism About Health Care Spending, Vox, June 15, 2014.

[21] Orszag P., Stopping the Spikes in Health Care Costs, BloombergView, May 5, 2014.

[22] Cost-sharing represents consumer out-of-pocket spending, including deductibles, co-payments, and co-insurance, but does not include employee contributions to health insurance premiums.

[23] Baicker K. and Goldman D., Patient Cost-Sharing and Health Care Spending Growth, Journal of Economic Perspectives, Spring 2011.

[24] Swartz K., Cost-sharing: Effects on Spending and Outcomes, Research Synthesis Report No.20, Robert Wood Johnson Foundation, December 2010.

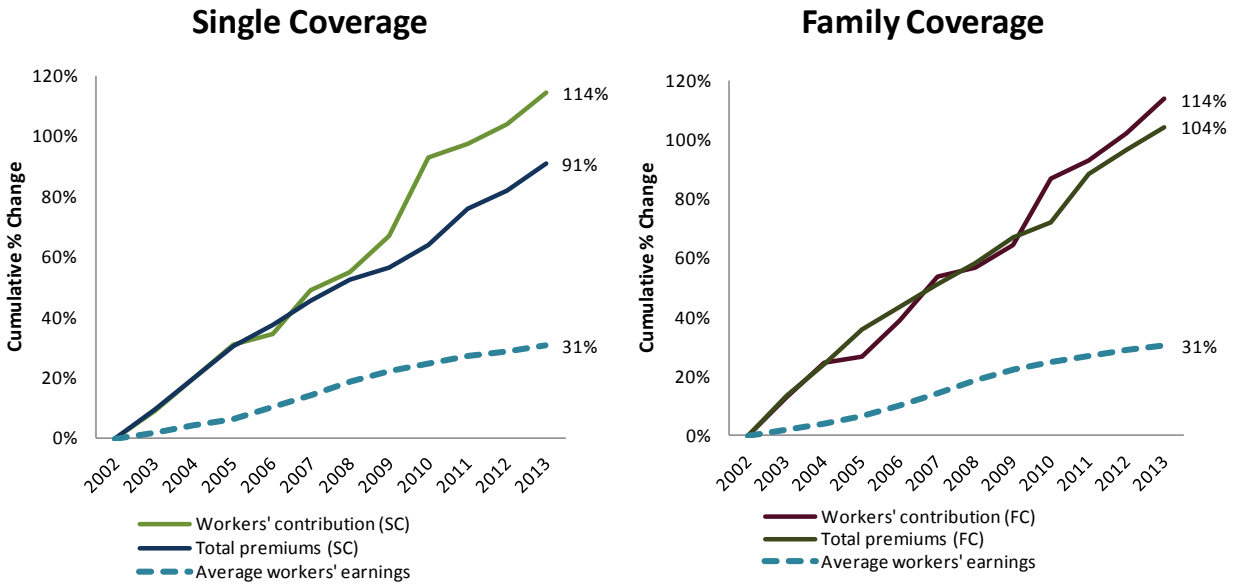
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- Almost 70% of companies surveyed plan to increase the proportion of employee premium contributions; and
- Approximately half of companies plan to introduce high-deductible health plans.

Since employer-based insurance covers close to 150 million people and represents the vast majority of the insured population,[25] trends in the employer-based insurance market toward greater patient cost-sharing have an impact on nearly half of all Americans and have led, in part, to the broad-based perception of increased health care spending.

Over the past decade, premiums, deductibles, and out-of-pocket maximum limits have all increased substantially while wage growth has been relatively flat. Between 2002 and 2013, total premiums, as well as the worker contribution to premiums, have doubled for both single and family coverage (see Exhibit 2).[26]

Exhibit 2: Cumulative Growth in Workers' Contribution to Premiums, Total Premiums, and Average Worker Income, Single and Family Coverage (2002-2013)



During this same time period, cumulative growth in workers' contributions to premiums between 2002 and 2013 was 114%, approximately four times higher than growth in

[25] Urban Institute and Kaiser Commission on Medicaid and the Uninsured, estimates based on the Census Bureau's March 2012 and 2013 Current population Survey (CPS: Annual Social and economic Supplements).

[26] Kaiser Family Foundation, Employer Benefits Surveys, 2013. Total premiums increased by 91% for single coverage and by 104% for family coverage from 2002 to 2013.

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workers' average income (31%).[27] Premium increases have been shown to have a large, negative effect on the overall economic well-being of wage earners. Research finds that a 10% increase in premiums is estimated to reduce the probability of being employed by 1.2%, lessen working hours by 2.4%, and decrease wages by 2.3%.[28]

In addition to increases in their premium payments relative to income, consumers have also seen deductibles for family coverage increase more than 75% from 2006 and 2013 (from $1,034 to $1,854) while enrollment in plans with deductibles has increased to 81% in 2013; similar changes have occurred with single coverage over the same time period.[29]

The proportion of employees enrolled in high-deductible health plans has also risen more than five times over the past decade, from 4% in 2006 to 26% in 2014.[30,31] According to PricewaterhouseCooper's (PwC) 2014 Touchstone Survey, high-deductible health plans are being considered as the only insurance option for employees during the next three years by almost half of employers across industries.[32] Meanwhile, more employees in both single and family coverage are enrolling in plans with higher out-of-pocket maximum limits, particularly since 2012.[33]

As a result of these changes, the absolute dollar amount paid by employees for health care costs has risen dramatically. Total premiums have increased substantially over the past decade, from 14.9% to 21.6% of median household income between 2003 and 2012.[34] Employee contributions to premiums and out-of-pocket spending are rising 23% faster than employer costs—32% since 2009 for employees compared to 26% for employers.[35] At the same time, consumer out-of-pocket spending per capita on health care has increased 70% faster than other payers' (i.e., employers and health plans) spending, with cumulative growth of 17.6% from 2009 to 2012 (compared to 10.4% for other payers).[36] Overall, employees' premium contributions and out-of-pocket expenses

[27] Data for total premiums and workers' contributions are from Kaiser Family Foundation, Employer Benefits Survey, 2013; Data for workers' earnings are from the Bureau of Labor Statistics.

[28] Baicker and Chandra, The Labor market effects of Rising Health Insurance Premiums, 2006.

[29] Kaiser Family Foundation, Employer Benefits Surveys, 2006-2013. Deductible rates for single coverage increased from $584 in 2006 to $1,135 in 2013, with an increase, respectively, from 55% to 78% in enrollment of covered workers in plans with deductibles.

[30] Blumenthal D., Stremikis K., Cutler D., Health Care Spending- A Giant Slain or Sleeping, New England Journal of Medicine 369(26):2551-2557.

[31] PwC's Medical Cost Trend: Behind the Numbers 2015.

[32] PwC's Medical Cost Trend: Behind the Numbers 2015.

[33] Kaiser Family Foundation, Employer Benefits Survey, 2013.

[34] Schoen C, Hayes S.L., Collins S.R., Lippa J.A., and Radley D.C., America's Underinsured, A State-by-State Look of Health Insurance Affordability Prior to the New Coverage Expansion, The Commonwealth Fund, March 2014.

[35] Milliman Medical Index, 2014.

[36] Health Care Cost and Utilization Report, 2012.

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per capita have grown by 42% over the past five years, from $6,824 in 2009 to $9,695 in 2014.[37]

As the costs of health insurance are ultimately borne by workers through lower wages and higher premiums and out-of-pocket spending,[38] the growth in average workers' income has not kept pace with the rate of increase in their costs for health care. A greater proportion of workers' income, therefore, has been consumed by worker contributions to premiums and out-of-pocket expenses shifted onto them. According to a recent study by the Kaiser Family Foundation, one in every three Americans reported having difficulties in affording their medical care, and a majority of those surveyed had employer-sponsored insurance.[39] As health insurance benefit design increasingly shifts costs onto patients through higher deductibles, co-insurance, and co-payments, health insurance no longer provides one of its primary functions: the protection of household financial security.

The consumer paradox, then, is the uneasy reconciliation of a historic slowdown in the growth of overall spending on health care—including the growth of health care as well as hospital prices—with the reality of stagnant wages, increasing worker contributions to premiums, high deductibles, and out-of-pocket maximum limits that exceed the average family's savings.[40]

Policy Implications

This trend—of increasing consumer health care spending that outpaces income growth—is not sustainable and harms both patients and providers of health care services. For consumers, the unintended consequences could be delaying or foregoing needed health care services, obtaining these services only to suffer financial distress, or ultimately facing ongoing access issues (especially for low income families). These consequences are exactly the types of risks health insurance was designed to avoid.

For providers, emerging evidence points to higher deductibles and co-payments leading to increased bad debt for patients that are unable to afford their cost-share.[41] Broader economic consequences could include a decline in consumer spending on other goods and services as a greater share of worker income is taken up by health care.

[37] Despite increases in the absolute dollar amount spent by consumers out-of-pocket, out-of-pocket spending as a percent of total health care spending has remained relatively constant at slightly over 16% since 2009 (Dobson | DaVanzo analysis of Health Care Cost and Utilization Report, 2012).

[38] Emanuel E.J. and Fuchs V.R., Who Really Pays for Health Care? The Myths of "Shared Responsibility", JAMA, March 2008.

[39] Pollitz K. and Cox C., Medical Debts among People with Health Insurance, Kaiser Family Foundation, January 2014.

[40] Altman D., "Health Cost Growth Is Down, or Not. It Depends on Who You Ask", Kaiser Family Foundation, March 2014.

[41] Hancock, J. (2013, August 12). More high-deductible plan members can't pay hospital bills. Kaiser Health News Capsules Blog. Retrieved from: http://capsules.kaiserhealthnews.org/index.php/2013/08/more-high-deductible-plan-members-cant-pay-hospital-bills/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+Capsules-TheKhnBlog+%28Capsules+-+The+KHN+Blog%29

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It is important to note, however, that despite the financial pressures faced by consumers as cost-sharing increases, the fact that national health care spending growth has slowed over the past several years will continue to produce consumer savings. Factors contributing to the slowing rate of increase in health spending appear to extend beyond the Great Recession and include structural changes, such as the transition from fee-for-service to value-based payments, increases in hospital efficiency, and lower health care prices.

The health care spending slowdown began before the Affordable Care Act was passed, but the innovations and other structural changes taking hold as a result of its ongoing implementation will continue to move the marketplace in this direction. According to PwC, "the contained growth [of the past five years] is evidence that structural changes aimed at delivery of better quality care at lower costs are starting to hold healthcare spending growth in check."[42]

As these structural changes take hold, payers and providers are both adjusting to a "new normal" in the marketplace through a variety of multi-year strategies aimed at improving quality, reducing costs, and minimizing financial risk within the evolving regulatory framework. Additional interventions or blunt policymaking, rather than allowing the market to respond to current reform efforts, could interfere with the system and result in additional unintended consequences. For example:

- ***Interrupting access to care***: Within the context of existing uncertainty, increasing bad debt related to the expansion of high deductible health plans or eroding the predictability of government reimbursement for services could cause providers to lose their capital reserves and/or face solvency issues. This could also lead to providers cutting services, leaving individuals with difficulties accessing care including delayed procedures, increased travel time, and longer wait times, or even closing facilities.
- ***Inhibiting advancement in the health care system***: Providers have invested in redesigning care and business models to improve quality while also decreasing costs to patients (e.g., accountable care organizations, bundled payments). Hospitals and other providers have made and need to continue making investments in health information technology, clinical integration, developing best practices, and care reengineering to manage care outside of their four walls. Without capital reserves to support these efforts, some of which are required by regulation—such as meaningful use of electronic medical records—providers may lack the ability to devote substantial and sustained resources to fund these investments.

[42] PricewaterhouseCoopers (2014, June). Medical cost trend: Behind the numbers 2015. PwC Health Research Institute.

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Discussion

Both payers (including employers) and providers have prepared multi-year transition plans to adjust their business models, and require some level of predictability and capital reserves in order to ensure that they survive. Major disruptions to their operating environment may generate uncertainty, which ultimately could flow down to consumers in the form of higher premium contributions and out-of-pocket spending.

If the 2010-2013 rate of spending per Medicare beneficiary continues over the next decade, we projected savings of $900 billion beyond that which CBO projects through 2024.[43] The health care spending slowdown, which has continued through 2014, may similarly benefit consumers with individual and employer-sponsored insurance through reduced health care prices, higher value services, and other system-wide savings that get passed on to consumers.

Therefore, it is prudent for policymakers to allow the health care marketplace to continue adapting, innovating, and implementing the structural changes already underway; as the cost-curve continues to bend, both payers and consumers will ultimately benefit both from reduced spending on health care and from a vastly improved health care system.

[43] Dobson, A., DaVanzo, J., Berger, G., Reuter, K. (2014). Do Structural Changes Drive Health Care Spending Slowdown? New Evidence. Updated Implications for Medicare Policy and Deficit Reduction. Vienna, VA: Dobson | DaVanzo.

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