



# JOINT ECONOMIC COMMITTEE

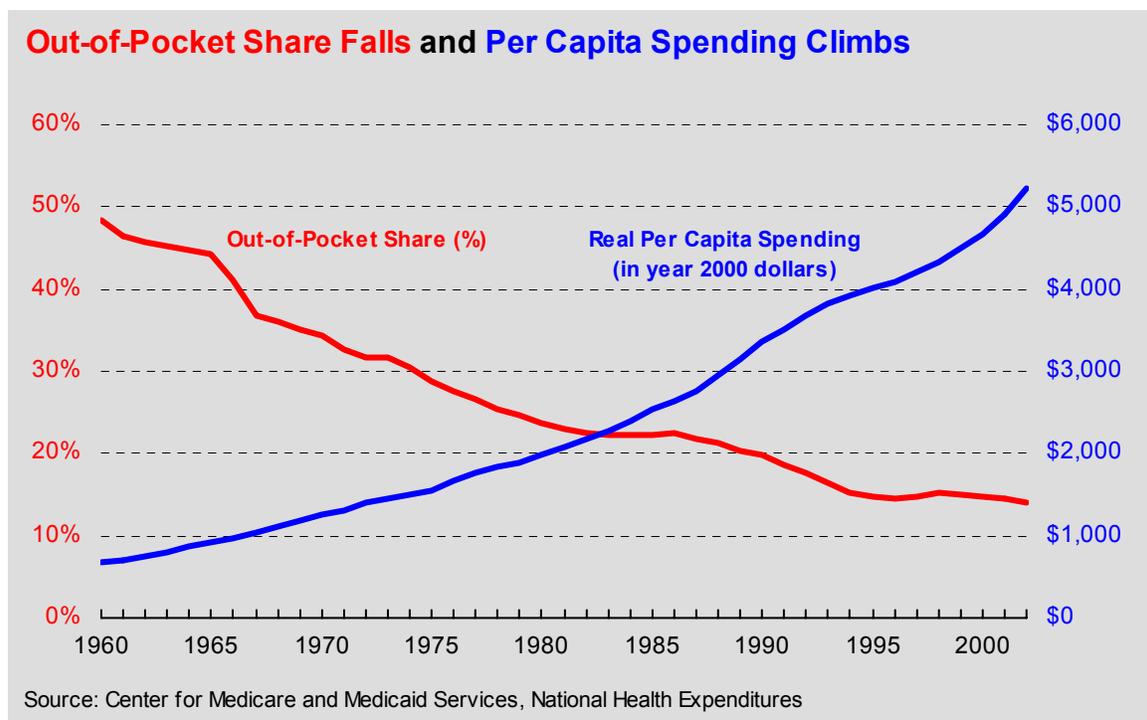
ROBERT F. BENNETT, CHAIRMAN

FEBRUARY 25, 2004

## MEDICAL SPENDING GROWTH & THE LEVEL OF INSURANCE COVERAGE

Health care spending has again become a serious concern in the United States. After slowing somewhat in the mid-1990s, the growth of health spending has once again begun to outstrip economic growth. In 2003, for example, national health expenditures grew twice as fast (6.2% adjusted for inflation) as the overall economy (3.1%). Increased spending reflects, in part, advancement toward better care and modern treatment; however, rising costs also price some Americans out of the health care market and impose increasing burdens on taxpayers, wage earners, and employers.

**As depicted in the chart below, large increases in spending are nothing new.** Health spending has grown substantially over the last 40 years, with real spending per person increasing almost seven-fold. While a number of factors have contributed to this rise, one of the most significant has been the reduction in the share of health care payments that individuals make out of their own pockets.



**In 1960, Americans paid almost half of health care expenses directly out of their own pockets; today that fraction is less than one-seventh.** Americans bear the remainder of their health expenditures indirectly – through their health insurance premiums and through the taxes that fund Medicare, Medicaid, and other public health insurance systems. The expansion of public and private health insurance programs has dramatically improved the quality and availability of health care in America, but those gains have come at a cost – increasing insurance coverage has also weakened the link between consumption and payment.

**Comprehensive insurance coverage contributes to higher health care spending.** Today, the perception of most Americans is that their health care is paid for with someone else's money. This third-party could be an employer, a private insurer, or the government. Most working Americans and their families receive health care through an employer because of the tax advantages of employer-provided health insurance. For many decades, the tax "subsidy" for health insurance led to widespread purchase of low-deductible, comprehensive plans offered by employers.

As the level of coverage increases, more payments are made by third-parties and people lose direct control over spending decisions. The result is that consumers have less of an incentive to take cost into consideration when purchasing health care services. Furthermore, this dynamic encourages the use of cost-increasing technology because greater coverage levels mean more patients and doctors turn to expensive high-tech diagnostics and procedures without considering other options first. Although increased spending on health care has delivered significant benefits to many Americans, its growth rate threatens to outstrip the resources needed to finance it.

**New efforts focus on greater consumer control and emphasize value in care.** In recent years, early consumer-driven health care approaches have attempted to control future spending increases by changing how Americans think of health insurance. Health Savings Accounts (HSAs), for example, include a high-deductible insurance plan to cover large, unplanned expenses and a tax-preferred personal savings account for routine care. The purpose is to reduce the top-down control of third-party health care. Giving individuals and families greater control over their health care decisions should strengthen the patient/physician relationship, improve accountability, and ensure consumers receive the greatest value for their health care dollar.

### **Further Reading**

Stephen Heffler et al., "Health Spending Projections Through 2013," *Health Affairs* web exclusive, February 11, 2004. (<http://content.healthaffairs.org/cgi/content/abstract/hlthaff.w4.79>)

Edgar A. Peden and Mark S. Freeland, "A Historical Analysis of Medical Spending Growth, 1960-1993," *Health Affairs*, Summer 1995.

Tom Miller, "How the Tax Exclusion Shaped Today's Private Health Insurance market," Joint Economic Committee report, December 17, 2003. [http://jec.senate.gov/\\_files/HealthTaxExclusion.pdf](http://jec.senate.gov/_files/HealthTaxExclusion.pdf)