

Has Faster Health Care Spending Growth Returned?

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Timely Analysis of Immediate Health Policy Issues

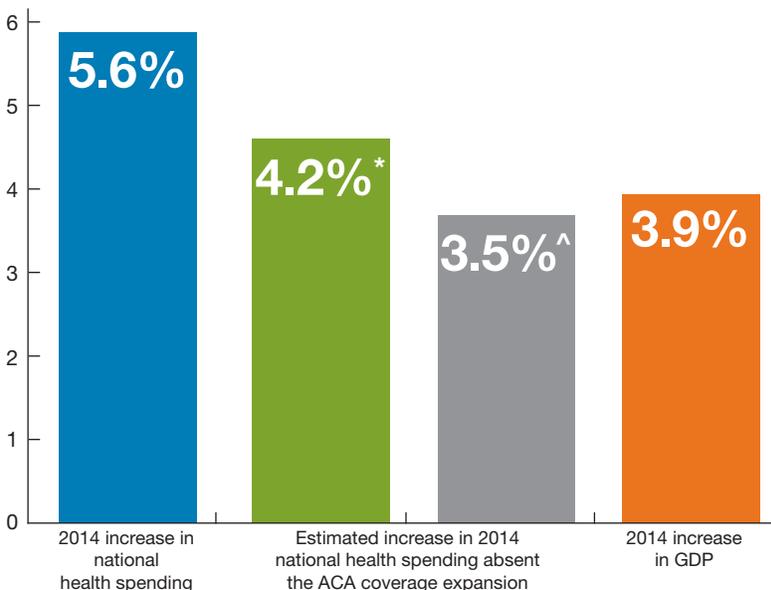
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In-Brief

Following several years of slow growth in U.S. national health spending from 2008 to 2013, recent reports suggest such growth has returned to a more typical level of approximately 5.6 percent in 2014, considerably faster than increases in gross domestic product (GDP). Interpreting these new data is difficult, however, because 2014 was the first year of the Affordable Care Act's (ACA) coverage expansion, under which an estimated 10.6 million individuals gained coverage. In this paper we estimate how the underlying spending growth rate, absent the coverage expansion, compares to GDP growth. We use two approaches. The first uses data from Centers for Medicare & Medicaid Services (CMS) actuaries and estimates Medicaid spending, private health insurance spending and out-of-pocket spending in 2014 had their 2010 to 2013 growth rates continued. This produces an estimate of national health spending growth of 3.5 percent in 2014 had there been no coverage expansion. The second approach uses the Urban Institute's Health Insurance Policy Simulation Model to estimate the ACA coverage expansion's effect on national health expenditures. We then reduce the 2014 CMS estimate of national health spending by this amount and find that the underlying growth rate in the absence of the ACA coverage expansion would have been 4.2 percent. Recent data show 2014 GDP growth is expected to be 3.9 percent. Thus, there does not yet appear to be evidence of an underlying spike in health spending; such a spike may still occur but most of the recent bump can be explained by the ACA coverage expansion.

Was the 2014 Bump in Health Spending an ACA Anomaly?

Urban Institute researchers find that most of the recent bump in health spending can be explained by the ACA coverage expansion.



*Using Urban Institute's Health Insurance Policy Simulation Model (see Table 2)
^Using CMS data on historic spending growth (see Table 1)

Introduction

Several reports from the Altarum Institute suggest that U.S. national health expenditures (NHE) grew at a rate of approximately 5 percent between 2013 and 2014, with slower growth early in the year and a growth rate of 5.6 percent in December 2014 compared to a year earlier.¹ Reports for early 2015 suggest NHE growth rates of up to 7.5 percent.² These estimates are considerably higher than recent NHE growth rates, which averaged 3.9 percent from 2008 to 2013.³ Thus, the 2014 estimates from the Altarum Institute may support the idea that slow NHE growth in recent years was primarily caused by the Great Recession and subsequent sluggish economic recovery, and NHE growth is now returning to more typical rates relative to gross domestic product (GDP).⁴ But the authors of the Altarum reports also point to the effects of the Affordable Care Act (ACA) coverage expansion and to new, expensive Hepatitis C drugs as reasons that the 2014 jump in spending growth could level off over time. Thus, it remains unclear whether the recent spike in NHE growth will be transient or whether it represents the first sign of a return to NHE growth that outpaces GDP growth.

Some have argued that many factors beyond slow economic growth and low inflation contributed to the recent slowdown in NHE growth and that this could lead to continued slow growth even as the economy improves.⁵ Some of these factors include the movement of more people from private to public insurance (because the latter has significantly lower provider payment rates), the increased use of higher deductibles and coinsurance in commercial health plans (which lowers use of services), the shift to narrow network options in private insurance that have lower than average provider payment rates, decreased prescription drug spending because of patent expirations and few new drugs, reductions in Medicare payment rates, and strong state-level Medicaid cost containment efforts. If some combination of these factors significantly reduced the flow of revenues to providers, the health system may have responded with more systemic and permanent structural changes. Thus, even in the presence of a robust economic recovery, health spending may continue to grow at rates closer to the rate of GDP growth.

The 2014 spike in NHE growth is not necessarily inconsistent with this latter view, however, if such growth is a temporary increase caused by the ACA's expansion

of insurance coverage. By September 2014, an estimated 10.6 million people had gained coverage⁶ and it is important to account for this when considering whether we are seeing a return to historic rates of NHE growth. In this brief, we use two approaches to calculate the NHE growth rate in 2014 absent the ACA coverage expansion. The first uses historic data from the Centers for Medicare and Medicaid Services (CMS) Office of the Actuary to project health spending in 2014 had the ACA coverage expansion not been implemented. The second approach uses the Urban Institute's Health Insurance Policy Simulation Model (HIPSM) to estimate the effect of new coverage on health spending in 2014 and subtracts this from CMS estimates of 2014 spending under the ACA. In both approaches, we use the current CMS estimates of 2014 health spending under the ACA as the basis for comparison.

Predicting Health Spending in 2014 Absent the ACA Coverage Expansion

Using CMS data on historic spending growth

In their most recent projections, CMS actuaries estimated NHE growth in 2014

Table 1. Using Pre-ACA (2010–2013) Growth Rates to Project 2014 Spending Without ACA Coverage Expansion

	2013 spending (\$)	2010–2013 average growth rate	Projected 2014 spending without ACA coverage expansion (\$)	2014 growth rate without ACA coverage expansion	CMS estimated spending for 2014 under ACA (\$)	2014 growth rate with ACA coverage expansion	Difference in 2014 spending without ACA coverage expansion
Medicare	591		616	4.2%	616	4.2%	0
Medicaid	450	4.1%	468	4.1%	507	12.8%	-39
Private	948	3.3%	979	3.3%	1012	6.8%	-33
OOP	339	3.5%	350	3.5%	338	-0.1%	12
Other	568		583	2.7%	583	2.7%	0
Total NHE	2895		2996	3.5%	3057	5.6%	-60

Source: Urban Institute estimates using data from CMS office of the Actuary.

Note: ACA = Affordable Care Act; CMS = Centers for Medicare and Medicaid Services; OOP = out-of-pocket; NHE = national health expenditures. All dollar amounts are in billions.

of 5.6 percent; their estimate of growth for 2013 was 3.6 percent.⁷ Medicaid and private spending are estimated to have increased 12.8 percent and 6.8 percent, respectively, and out-of-pocket (OOP) spending is estimated to have fallen 0.1 percent. To predict health spending in 2014 in the absence of the ACA coverage expansion, we assume that Medicaid, private insurance and OOP spending would have grown at the average rate from 2010 to 2013, thereby eliminating the projected effects of the 2014 coverage expansion. Medicare and other spending are assumed to grow as estimated by CMS for 2014. This approach assumes the entire difference between average growth from 2010 to 2013 and estimated growth for 2014 is caused by the ACA coverage expansion. Though there are surely some other factors contributing to 2014 growth rates, CMS notes the coverage expansion is largely responsible for the increases in Medicaid and private spending and the drop in OOP spending.⁸ Importantly, for example, CMS assumptions for GDP growth remained modest at 3.3 percent in 2014 compared with 3.4 percent in 2013, suggesting that the CMS actuaries were not incorporating significant economic recovery into their 2014 NHE estimates.

Thus, absent the ACA coverage expansion, we assume that Medicaid spending would increase 4.1 percent in 2014, and by applying this growth rate to 2013 Medicaid spending of \$450 billion, we estimate 2014 Medicaid spending of \$468 billion instead of the actual \$507 billion (Table 1). The \$39 billion difference provides our estimate of the ACA's effect on Medicaid spending. Likewise, if health care spending through private health insurance had grown at the 2010 to 2013 average growth rate of 3.3 percent,

health care spending by private insurers would have been \$33 billion lower than the \$1,012 billion dollars of estimated spending in 2014 under the ACA. However, absent the ACA, OOP spending would have been \$12 billion higher than estimated under the ACA. So, if spending had grown by \$60 billion less than has been estimated to be the case under the ACA in 2014, then the NHE growth rate we would have observed in 2014 would be 3.5 percent.

Because the selection of the 2010 to 2013 period is somewhat arbitrary, we also calculate the same estimates using the Medicaid, private and OOP growth rates from 2011 to 2013 and from 2012 to 2013. Using 2011 to 2013 produces a projected 2014 NHE growth rate of 3.6 percent absent the ACA and using the growth rates in 2013 alone produces a projected NHE growth rate of 3.9 percent. Moreover, in the previous version of its spending projections released in 2013, CMS explicitly projected health spending absent the ACA, removing both the coverage expansion and cuts to Medicare reimbursement.⁹ If we assume ACA cuts to Medicare reimbursement remain in place, CMS's estimates absent the ACA coverage expansion show a 2014 NHE growth rate of 4.1 percent.¹⁰

In all of these scenarios, the estimated NHE growth rate in 2014 absent the ACA coverage expansion remains at or below 4.1 percent, similar to the slow rates the US has been experiencing since 2008. These estimates may overstate the effect of the ACA because Medicaid and private spending could have increased at faster rates between 2013 and 2014 than observed from 2010 to 2013. For example, the 2014 economy was stronger and the core inflation rate slightly higher

than in the 2010 to 2013 period. Thus, the 3.5 percent estimate of NHE growth absent the ACA may be too low.

Using the Health Insurance Policy Simulation Model

Another approach to investigating the effect of the ACA coverage expansion on NHE is to use the Urban Institute's Health Insurance Policy Simulation Model (HIPSM). HIPSM estimates the effect of the ACA on coverage and health care expenditures. It produces a steady-state or full-implementation estimate of the ACA's coverage provisions for 2016. We use estimates of the reduction in the uninsured by September 2014 (10.6 million) from the Health Reform Monitoring Survey to scale back the 2016 projected increase in expenditures to what we would have observed in 2014.¹¹ For each individual and family, HIPSM simulates changes in expenditures by source (such as household direct payments or reimbursement by private or public health insurance) caused by transitions from being uninsured to being insured, from being insured to uninsured, and from switching from one type of insurance to another. Given the increase in insurance coverage and general increases in the comprehensiveness of insurance coverage, expenditures in total would be expected to rise. The difference between HIPSM's estimate of NHE with the ACA in place and its estimate of NHE without the ACA represents the effect of the coverage provisions on NHE.

HIPSM estimates that the ACA contributed \$39.9 billion dollars to 2014 spending (Table 2). Government spending, primarily for Medicaid, marketplace tax credits, and cost-sharing reductions, would increase \$44 billion, employer spending would increase \$11.8 billion, and individual spending would increase \$8.1 billion. Because of the reduction in the uninsured, uncompensated care spending would fall \$24.0 billion. The net increase in spending would be \$39.9 billion. Subtracting \$39.9 billion from the \$3,057 billion estimated 2014 NHE under the ACA shows that absent the ACA, NHE in 2014 would have been \$3,017 billion. This means that the growth in NHE

Table 2. HIPSM Estimates of Expenditure Increases Under the ACA, 2013–2014

Government expenditures	\$44.0 billion
Employer expenditures	\$11.8 billion
Individual expenditures	\$8.1 billion
Uncompensated care	-\$24.0 billion
Total	\$39.9 billion

between 2013 and 2014 absent the ACA coverage expansion would have been 4.2 percent rather than the CMS estimate of 5.6 percent. This implies that about 70 percent of the difference between estimated 2014 growth and the earlier trend is attributable to the coverage expansion.

The HIPSM method will likely underestimate the contribution of the ACA coverage expansion to growth in NHE because it does not account for any adverse selection that might have occurred in 2014, the initial year of reform. In other words, if those newly enrolling in coverage in 2014 were sicker than the average enrollee will be when the law is fully implemented, that is not taken into account here. Thus, the 4.2 percent estimate of NHE growth absent the ACA coverage expansion may be too high.

Discussion

These two approaches provide us with estimates between 3.5 percent and 4.2 percent of NHE growth in 2014 absent the ACA coverage expansion; compare this to the 2014 GDP growth of approximately 3.9 percent.¹² Unfortunately, it is not possible to be more precise. But the

bottom line is that the difference between 2014 NHE growth and the prior trend is largely, if not completely, attributable to the coverage expansion. Though this represents a real increase in spending because insured people use more medical services than uninsured people and because people with more comprehensive coverage use more services than those who are underinsured, this increase in spending should not be confused with an increasing rate of spending caused by increased intensity of service use per insured person or caused by higher prices being paid to health care providers per unit of service. Thus, there does not appear to be evidence at this time of an underlying spike in health spending that places us back on our historically troublesome growth path.

As this brief was going to print, the CMS actuaries released updated NHE projections through 2024.¹³ Their analyses of spending growth in 2014 and 2015 are largely consistent with the findings in this brief. That is, they attribute most of the increase in spending growth in 2014 and 2015 to expanded coverage.¹⁴ But they project that the share of GDP devoted to health care will increase from 18.0 percent in 2015 to 19.6 percent in 2024,

with NHE growth exceeding GDP growth by 1.4 percentage points each year. This faster spending growth is attributed to population aging and stronger economic growth as well as assumptions that health care prices and utilization will increase at faster rates than in recent years. The actuaries may prove to be correct, but they assume that most of the factors contributing to slow growth in recent years are not likely to persist and that health spending will return to growth rates closer to historic levels. The actuaries do note however that even these higher growth rates of approximately 6 percent are lower than the average annual growth rate of 9 percent over the past 3 decades even in the presence of a substantial coverage expansion. Thus, the headlines associated with these updated projections suggesting that faster spending growth has returned should be taken in the context of a longer history of much higher spending growth and the impact of the substantial reduction in the number of uninsured Americans.

Notes

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- 6 Long SK, Karpman M, Shartzter A, Wissoker D, Kenney GM, Zuckerman S, Anderson N and Hempstead K. “Taking Stock: Health Insurance Coverage Under the ACA as of September 2014.” Washington: Urban Institute, 2014.
- 7 Sisko et al. 2014. National Health Expenditure Projections, 2013–23: Faster Growth Expected With Expanded Coverage And Improving Economy. *Health Affairs* 33(10):1841-1850.
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- 9 Centers for Medicare and Medicaid Services. “National Health Expenditure Projections 2012–2022” Washington: Centers for Medicare and Medicaid Services, n.d. <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/proj2012.pdf> (accessed July 2015).
- 10 In estimates that removed all aspects of the ACA, including cuts to Medicare spending, CMS estimated a 2014 NHE growth rate of 4.5 percent.
- 11 Long SK et al., “Taking Stock.”
- 12 Congressional Budget Office. *The Budget and Economic Outlook: 2014 to 2024*. Washington: Congressional Budget Office, 2014. https://www.cbo.gov/sites/default/files/45010-Outlook2014_Feb_0.pdf (Accessed July 2015).
- 13 Keehan SP et al. 2015. “National Health Expenditure Projections, 2014-24: Spending Growth Faster Than Recent Trends.” *Health Affairs* 34(8):1407-1417.
- 14 They also attribute some of the increase to prescription drug spending on new Hepatitis C drugs.

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