Current Perspective

Why Are Health Care Costs Slowing?

The rate of rise in U.S. health care costs has decreased. From 1999 through 2008, the growth rate in total U.S. health care costs averaged 5.9 percent. Between 2009 and 2011, the rate has been about 3.9 percent.

Why did this happen? The 2009 recession and subsequent slow recovery seems a likely candidate. Americans lost health insurance. The personal economic impact led to deferred elective and, tragically, nonelective care. However, an article recently published by Cutler and Sahni (*Health Affairs,* May 2013, pp. 841-850) suggests that general economic conditions account for only 37 percent of the decrease. (The Kaiser Family Foundation had previously estimated that 77 percent of the decrease was due to the economy.) Cutler and Sahni believe that fundamental health care system changes (reduced adoption of new, expensive technology; higher patient out-of-pocket costs; and greater provider efficiency) account for the lion's share of the decreased rate of rise. Interestingly, even among Americans who did not lose insurance during the recession, health care costs decreased—suggesting a systemic, not a general economic, etiology.

Did the ACA drive the decrease? The president's Council of Economic Advisers attributed only 18 percent of the decrease to the economy and the rest to "early responses to the Affordable Care Act." However, multiple studies indicate that the growth moderation began by 2004 or 2005.

Chernew and colleagues (*Health Affairs,* May 2013, pp. 835-840) believe that a substantial driver has been higher patient copays; they attribute 20 percent of the decrease to rising out-of-pocket payments. In other words, when the insured bears more of the cost, the insured becomes more price sensitive. Structural changes in insurance plans play a role by setting differential copays on generic versus name brand drugs and steering insureds to lower cost services and facilities by increasing the out-of-pocket costs on more costly alternatives.

Will this lower growth rate continue? If the changes are systemic, they are likely to persist. Cutler and Sahni believe that, if they do continue, it will cut $770 billion over 10 years from projected health care costs.

The analysis has partisan overtones. The administration maintains 1) that the ACA is having a substantial impact—both direct and indirect—in lowering costs, but 2) that even a 3.9 percent rate of increase is about 30 percent higher than the rate of growth in GDP and unsustainable. Others support the position of a recent *Wall Street Journal* editorial (May 12, 2013), "It increasingly looks as if ObamaCare passed amid a national correction in the health markets that no one in Congress or the White House understood, much less noticed, so naturally Washington moved to create new problems when the old ones were starting to fix themselves."

I can only reflect that the cut in physician reimbursement of about 30 percent in real dollars, the increase in patient out-of-pocket costs, and other payment policies and system efficiencies introduced progressively over the past decade must by definition drive costs down. However, in the complex, dynamic fiscal equation of American health care, with all variables changing simultaneously, we may never understand the relative magnitude of the forces at play—until it is too late to use the information.

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