The facts about rising health care costs

Underlying medical costs drive growth

October 2012
Total health care spending in the United States is expected to reach $4.8 trillion in 2021, up from $2.6 trillion in 2010 and $75 billion in 1970. To put it in context, this means that health care spending will account for nearly 20 percent of gross domestic product (GDP), or one-fifth of the U.S. economy, by 2021.¹
Many consumers and small employers are struggling to afford their health insurance premiums. Some employers are not able to offer health care coverage at all. For firms with fewer than 10 employees, only 50 percent offered coverage to their workers in 2012.²

As a result:
• 49 million Americans lacked health insurance in 2011.³
• Those consumers with health care coverage experienced a 7.2 percent increase in their share of health care costs between 2011 and 2012. Health care costs for American families in 2012 exceeded $20,000 for the first time.⁴
• Increasingly, Americans are having problems paying for care — 26 percent report they or a family member had problems paying medical bills in the past year. Fifty-eight percent of Americans reported foregoing or delaying medical care in the past year.⁵
• Escalating health care costs also are straining federal and state budgets, hindering the nation’s ability to pay for important initiatives needed to address other significant issues.

The rate of increase has slowed in the past decade — from 9.5 percent in 2002 to 3.9 percent in 2010.⁶ But the rate of health care cost increases continues to be well above the general rate of inflation.

**U.S. health care spending breakdown**

Health care spending in the United States totaled nearly $2.6 trillion in 2010. Of total spending, half (51 percent) goes to pay the cost of medical services provided by hospitals and physicians. Prescription drugs spending accounts for 10 percent. While prescription drug costs represent a significant portion of overall health spending, this is one area where there has been some recent success in slowing the growth in spending. From 2009 to 2010, prescription drug costs grew by just 1.2 percent while hospital and physician costs grew by 4.9 percent.⁷

While private health insurance administrative costs sometimes receive a significant amount of political attention, they represent only 3.75 percent of overall national spending on health care.⁸

**U.S. Health care spending breakdown, 2010**

![U.S. Health care spending breakdown, 2010](image)

**Source:** Center for Medicare and Medicaid Services
Why is U.S. health care spending so high?

According to National Health Expenditure data, the growth in premiums tracked directly with the underlying cost of medical care from 2000-2010 — a trend that has been consistent for decades. Any discussion of this upward trend in health spending must begin with health care prices in the U.S. Compared to other Organization of Economic Cooperation and Development (OECD) nations, hospital spending in the U.S. is more than 60 percent higher. Spending on physicians, specialists and dentists is almost 2 ½-times higher than in other OECD countries.

Hospital cost increases

The newly formed Health Care Cost Institute has found that rising prices for care were the chief driver of health care costs for privately insured Americans in 2011. Spending on health care services climbed 4.6 percent in 2011, well above the 3.8 percent growth rate found for 2010 and higher than expected for 2011. Prices rose for all major categories of health care, such as hospital stays and surgical procedures, but rose fastest for outpatient care.

An increasingly important factor driving hospital price increases is consolidation of the hospital industry. Hospital mergers and acquisitions jumped by 33 percent between 2009 and 2010. Research shows that hospital market concentration leads to increases in the price of hospital care. In fact, price increases exceeded 20 percent when mergers occurred in concentrated markets.

Provider prices

The prices that health care providers charge are much higher in the U.S. than in Europe, which, along with higher levels of obesity and greater access to advanced medical technology, is a primary driver of higher spending levels. Data show that after hospital spending the next biggest contributor to overall spending growth between 2005 and 2009 was the increase in physician and clinical service costs. These costs accounted for 18 percent of total growth or $229 per person over the five-year period.

Health expenditures per capita: A global comparison, 2009

Source: Center for Medicare and Medicaid Services
Medical technology

The increasing cost of medical technology is a significant contributor to higher health care spending. The implementation of new medical technology accounts for between 38 percent and 65 percent of health care spending increases. New technology expands the range of treatment options available to patients, but it does by replacing lower-cost options with higher-cost services.\(^{15}\)

Waste

Wasteful spending likely accounts for between one-third and one-half of all U.S. health care spending. PricewaterhouseCoopers calculates that up to $1.2 trillion, or half of all health care spending, is the result of waste.\(^{16}\) An Institute of Medicine (IOM) report estimated unnecessary health spending totaled $750 billion in 2009 alone.\(^{17}\) The biggest area of excess is defensive medicine, including redundant, inappropriate or unnecessary tests and procedures. Other factors that contribute to wasteful spending include non-adherence to medical advice and prescriptions, alcohol abuse, smoking and obesity.

Unhealthy lifestyles

The growing burden of chronic diseases adds significantly to escalating health care costs. Researchers predict a 42 percent increase in chronic disease cases by 2023, adding $4.2 trillion in treatment costs and lost economic output.\(^{18}\) Much of this cost is preventable, since many chronic conditions are linked to unhealthy lifestyles. For example, obesity accounts for an estimated 12 percent of the health spending growth in recent years.\(^{19}\)

Aging population

Life expectancy in the U.S. reached 77.9 years in 2007, up significantly from 62.9 years in 1940.\(^{20}\) Individuals who are age 65 or older, who spend much more on health care services than younger people, will comprise nearly one-fifth of the population by 2050.

Taxes

For 2011, Aetna’s income taxes equaled more than 3 percent of total Aetna revenue, more than half of what Aetna recognized as profit/net income. This does not include significant new taxes that will be levied on insurers under the Affordable Care Act in the next several years. Aetna estimates that the combination of the new Health Insurer Fee and Reinsurance Contribution will add approximately 3.5 to 4.5 percent to the cost of health insurance coverage. The new taxes have been estimated to increase the cost of health coverage by nearly $5,000 per family over the next decade.\(^{21}\)
Insurance industry profits are not a significant driver of health insurance premiums. A Yahoo Finance analysis places the health insurance sector’s average profit margin in 2012 at just 4.5 percent. By comparison, major drug manufacturers have an average profit margin of 16.7 percent; medical instrument and supply companies, 13.6 percent; biotechnology, 11.9 percent; and medical appliance and equipment companies, 13.7 percent.\textsuperscript{22}

Administrative costs represent less than 2 percent of health care spending growth. Private insurance administrative costs are actually comparable to Medicare’s administrative costs when comparing similar services. In 2009, private payers expended $12.51 per member per month versus $13.19 for Medicare.\textsuperscript{23}

Importantly, private insurer administrative costs include fraud detection, disease management, wellness programs, and investments in information technology.

Private insurance companies should be leading the way in the struggle to control health care costs. They know about every contact a patient has with the health care system and can see how much is wasteful or redundant. By altering the way they pay doctors and hospitals, they can potentially push providers to reduce costs, improve quality and even transform the whole culture of American medicine.


### Net profit margins by industry, 2012

![Net profit margins by industry, 2012](image)

Source: Yahoo Finance, October 1, 2012
The Aetna value

Aetna has brought an intense focus to the problem of spiraling health care costs. We approach the problem in a comprehensive, multi-faceted way that includes an array of strategies from developing innovative new products to working with public policy leaders and legislators to effect national solutions.

- **Delivering affordable products:** We bring to market innovative products that meet the needs of a broad range of customers. For example, employers that replaced their traditional health benefits plans with Aetna HealthFund® consumer-directed plans saved $21.8 million over a five-year period for every 10,000 members. Members with Aetna HealthFund plans spent 7 percent less on overall health care costs.

In many areas of the country, Aetna also provides access to networks of specialist physicians based on clinical performance and cost efficiency. We also recently launched a national program that alerts members when a referral for an outpatient surgical procedure may take them out of the Aetna network — when members who received the notice chose to stay in network, the average medical bill was reduced by $5,000 per incident.24

- **Improving health care system transparency:** We led the way in the past decade to greater transparency for consumers in health care quality and pricing. For example, the Member Payment Estimator tool provides real time, out-of-pocket cost estimates and cost comparisons for more than 550 commonly used, non-emergency in-network health care services, as well as many common out-of-network physician services.

This level of detail gives members a more complete and personalized cost picture to better plan for health care services. Aetna research has shown that the tool may save as much as $170 on out-of-pocket costs for more than 30 commonly selected health care services.25

- **Helping people get healthy:** We offer members a variety of wellness programs, and we help those already ill achieve better health through best-in-class care management. We provide expert case management and disease management programs for chronic heart failure, diabetes, and 32 other debilitating diseases in an interdisciplinary way that looks at the member as a whole. Our advanced health information technology, and our ability to connect with members before life-changing events occur, is making a dramatic difference in our members’ care.

The impact on costs is also significant. For example, the Aetna Healthy CommitmentsSM wellness program provides customers with 2 percent guaranteed savings on health care trend when their employees meet minimum participation levels.26

- **Fostering a more accountable health care system:** Patient-centered, collaborative care models, including accountable care organizations (ACOs), are an important component of Aetna’s vision for a more connected and effective health care system. Together with providers, we are helping to drive much-needed change in the quality, delivery and cost of health care. Since 2005, we have invested more than $2 billion to build or acquire a technology foundation based on capabilities proven to support accountable care.

A recent case study shows that members in our pilot Aetna Medicare Advantage-ACO collaborations required 43 percent less acute hospital care in 2010, compared to traditional Medicare.27

- **Bringing greater value to government programs:** Dual eligible beneficiaries — individuals who are eligible for both Medicare and Medicaid — are among the most expensive populations in the health care system. As part of an initiative to integrate care approaches for dual eligibles, Aetna is bringing greater care coordination and management to these populations.

A recent analysis of a plan administered by Schaller Anderson, an Aetna company, showed that members experienced 43 percent fewer days spent in the hospital, a 19 percent lower average length-of-stay, a 21 percent lower readmission rate and a 3 percent higher rate of accessing preventive/ambulatory health services.28


42012 Milliman Medical Index.


7CMS, Office of the Actuary, National Health Expenditures Data.

8Ibid.


16RWJF, Health Policy Snapshot, “What are the biggest drivers of cost in U.S. health care?”

17National Center for health statistics. 2010.


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