

Health Spending Growing Faster Than U.S. Economy

For the first time in almost a decade, federal health economists reported January 8, health expenditures outpaced the growth of the economy.

Spending rose 6.9% from 1999 to 2000, to \$1.3 trillion, while the nation's gross domestic product (GDP) grew 6.5%. This was the third year of accelerating growth in health spending.

With the economy in a downturn, health costs are likely to continue to grow faster than the GDP at least for the next few years.

The shift may herald the end of several years of relatively free-wheeling spending, when employers offered less restrictive, more costly insurance plans, and hospitals and physicians refused to accept onerous managed care discounts, said the economists.

Instead, in 2001, insurers will likely charge higher premiums and employers will ask consumers to pay a higher share of their health costs.

From 1999 to 2000, there was a 1.2% increase in the rise in health care spending. Spending grew 5.7% in 1999, but by 6.9% in 2000. While this may sound paltry, this is the largest positive change in the growth rate since 1993.

Most of the increase in private and public spending for 2000 -- **24% of the dollar share -- was for hospitals.** Hospital costs grew 5.1% in 2000 to **\$412 billion**. The economists said that spending has grown partly because facilities, merged together into ever-larger bargaining units, are extracting higher payments from insurers, particularly from managed care. Hospital labor costs have also increased.

Prescription drug spending accounted for 9.4% of the increase. But the cost of drugs rose by 17.3% in 2000, the sixth consecutive year of double-digit growth, according to the authors. Consumers are being hit especially hard, paying more out-of-pocket with each passing year. The economists said that higher spending on outpatient drugs is being fueled by direct-to-consumer advertising, more new drugs on the market and increased coverage of pharmaceuticals by insurers.

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