

Insurance and Rising Health Costs

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Accounting for Health Cost Increases

	Newhouse (1992)		Cutler (1995)	
	Percent Increase	Share of Growth	Percent Increase	Share of Growth
Real Spending per Capita, 1940-90	790%	100%	790%	100%
IMPACT OF:				
Aging	15%	2%	14%	2%
Rising Real Income	180%	23%	37%	5%
Medical Price Inflation (> CPI)	0%	0%	147%	19%
Factor Rents / Supplier-Induced Demand	0%	0%	0%	0%
Rising Administrative Costs	0%	0%	101%	13%
Spread of Insurance	80%	10%	100%	13%
SUB-TOTAL	275%	35%	399%	51%
Remainder / Technology	515%	65%	391%	49%

SOURCE: Technical Review Panel on the Medicare Trustees Reports, *Review of Assumptions and Methods of the Medicare Trustees' Financial Projections* (December 2000), available at www.cms.hhs.gov/ReportsTrustFunds/downloads/TechnicalPanelReport2000.pdf.

Real Growth in Personal Health Care Expenditures

(Billions of 2003 Dollars)

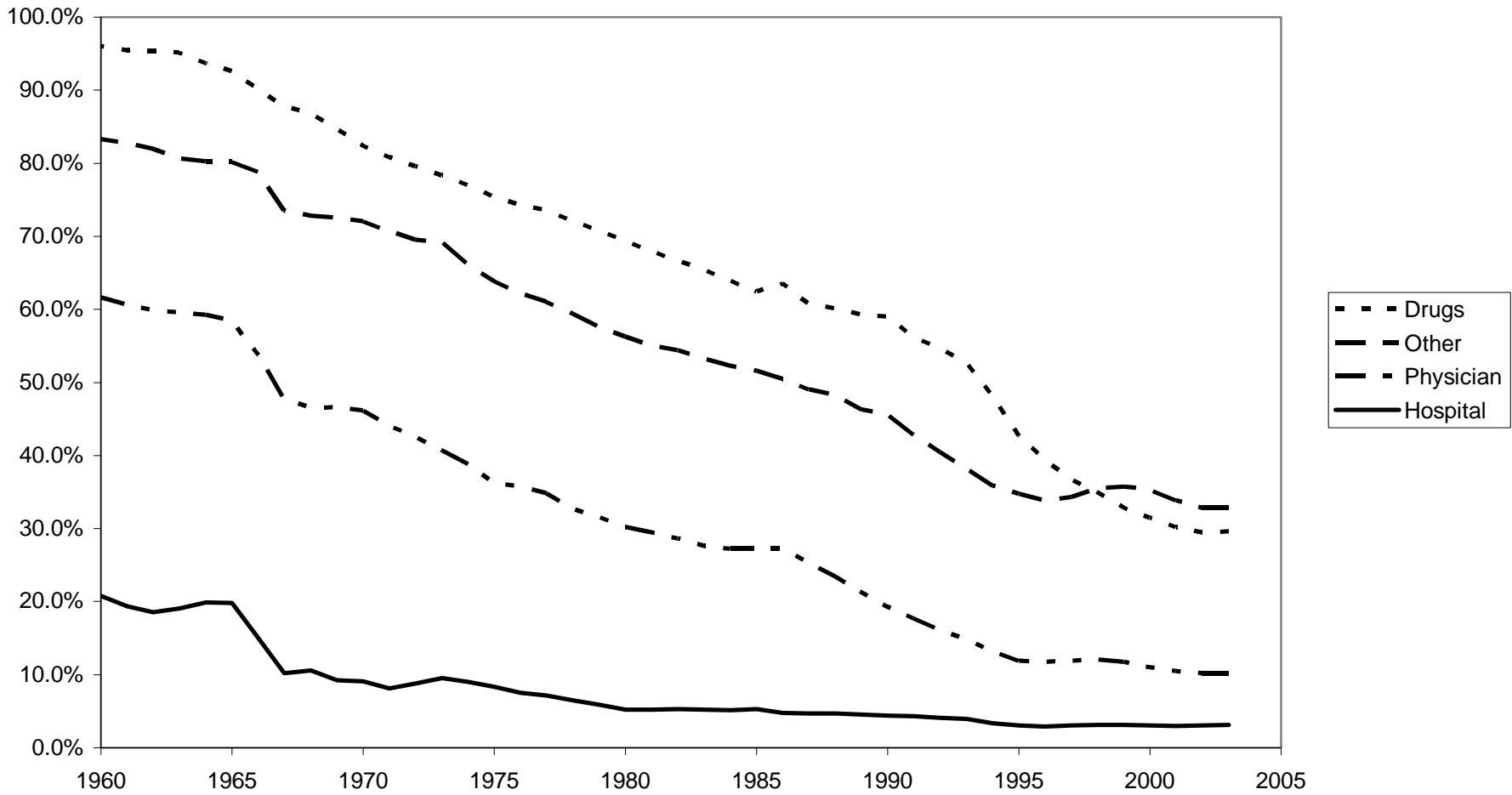
	1973	2003	Share of Increase	Average Annual Growth
Health Care Spending				
Hospital	160	516	33%	4.0%
Physician	79	370	27%	5.3%
Outpatient Drugs	28	179	14%	6.4%
Other	90	376	26%	4.9%
Total	357	1,441	100%	4.8%
GDP	4,602	11,004		2.9%
Personal Health / GDP	7.8%	13.1%		

SOURCE: National Health Expenditure (NHE) accounts (2003)

NOTE: Personal Health Care expenditures exclude certain categories such as administrative costs, research, and construction and thus represent a lower share of GDP than total NHE.

Share of Health Costs Paid Out of Pocket

By Type of Service, 1960-2003



Source: National Health Expenditure accounts

Estimated Share of Total Cost Growth Due to Insurance

Results are Very Sensitive to the Method of Modeling the Response and to the Change in Hospital Coinsurance Due to Medicare

Responses Modeled as	Decline in Hospital Coinsurance	Estimated Effect of Medicare on Hospital Spending	
		23 Percent	37 Percent
"Point" Elasticity	7 Points	~ 33%	~ 52%
	10 Points	~ 23%	~ 37%
Arc Elasticity	7 Points	~ 13%	~ 25%
	10 Points	~ 7%	~ 12%

Source: Author's Estimates

NOTE: Figures in bold are the shares of the increase in total health spending (1950-90) accounted for by the spread of insurance (i.e., reduction in average coinsurance). Based on a 500% increase in real spending for that period.

Change in Out-of-Pocket (OOP) Shares for Personal Health Spending

(2003 Dollars in Billions)

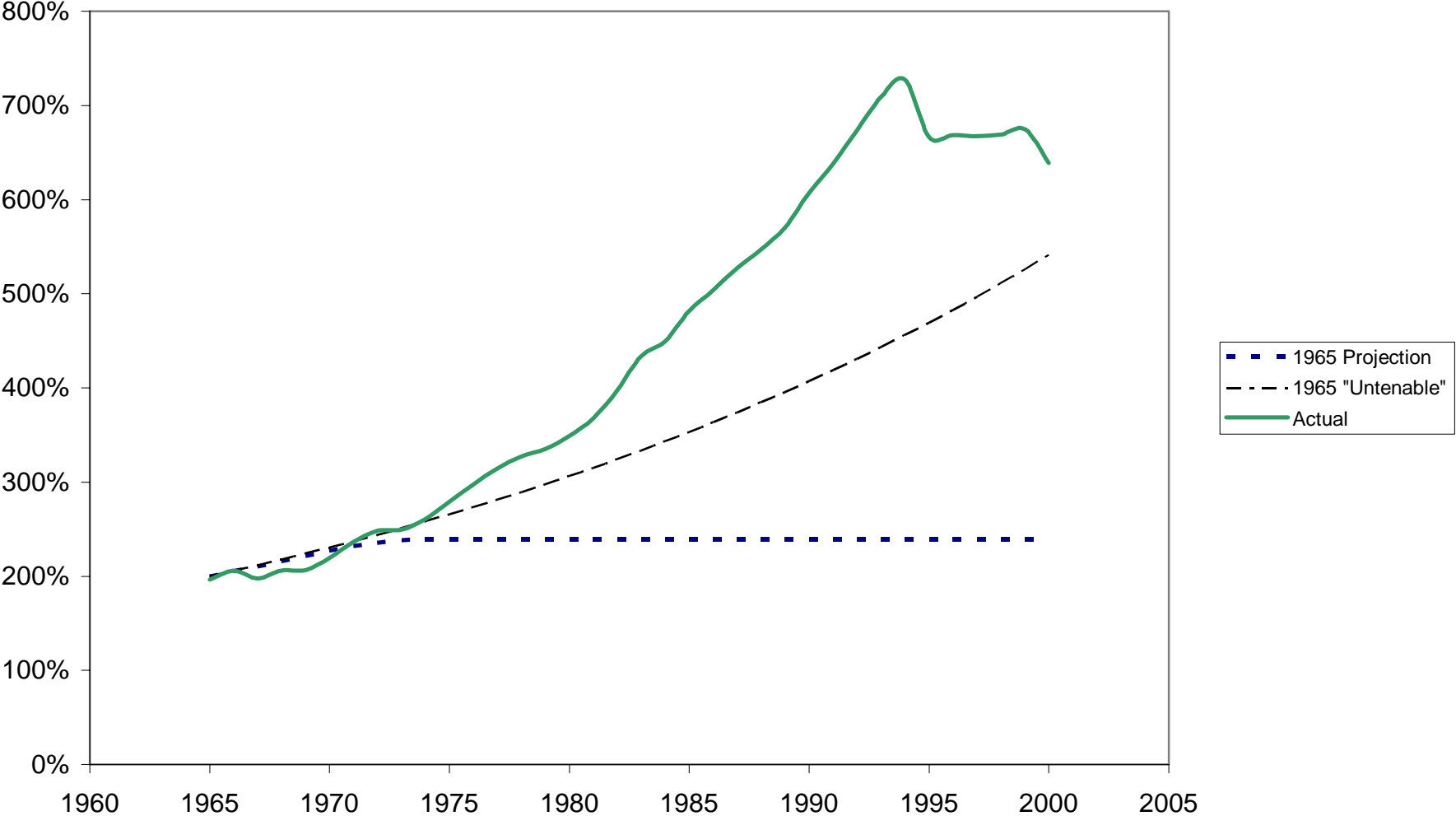
	(1)	(2)	(3)	(4)	(5)	(6)
	1973		2003			
	OOP Costs / Spending in Category	OOP Costs / Total Health Spending	OOP Costs / Spending in Category	OOP Costs / Total Health Spending	Percentage Pt. Change (4) - (2)	Share of OOP Change
Hospital	9.5%	4.3%	3.2%	1.1%	-3.1	14.9%
Physician	40.7%	9.0%	10.2%	2.6%	-6.4	30.7%
Drugs	78.3%	6.2%	29.7%	3.7%	-2.5	12.0%
Other	69.3%	17.4%	32.8%	8.6%	-8.9	42.5%
Total	36.9%	36.9%	16.0%	16.0%	-20.9	100.0%

SOURCE: CBO calculations based on National Health Expenditure accounts

NOTE: "Other" consists of **Dental**, Other Professional, **Home Health**, Nursing Home, DME, Other Non-Durable Medical Products, and Other Personal Health Care.

Reconsidering the Original Cost Projection for Medicare

Hospital Costs per Day as a Percentage of Average Wages Per Day



Spending for Major Entitlement Programs as a Share of GDP

(Percent)

Year	2006	2050		
		Lower	Intermediate	Higher
Spending Scenario				
Health Cost Growth per Capita		GDP + 0	GDP + 1	GDP + 2.5
Federal Medicaid	1.5	1.9	4.0	5.9
Medicare	3.0	5.1	8.6	16.0
Social Security	4.2	6.3	6.4	6.6
Total	8.7	13.3	19.0	28.5

Source: Congressional Budget Office, *The Long-Term Budget Outlook* (December 2005)

Note: Projections are for total spending on current-law benefits.