

# Perspective

## Healthcare Spending Trends

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*Total healthcare spending will rise; the debate is over how much. More forceful restraints are inevitable.*

### Introduction

The biggest long-term driver of the federal budget is healthcare. Although US government dollars are spent on a variety of programs, Medicare – the healthcare program serving the elderly – is the largest component.

- Almost 25% of today's federal dollars is spent on healthcare, more than double the 10% of the budget spent in 1960 (before Medicare and Medicaid were created). Based on the Congressional Budget Office projections, in 2020, healthcare will consume about 33% of federal dollars.
- And as Erskine Bowles (White House Chief of Staff under President Clinton) stated at the recent AAOS in Chicago, "Healthcare is totally unsustainable. It is the driving engine that is taking us into the vapors; it is the mastodon in the kitchen".

### Demographic Boom And Cost Of Care

According to Laura Meckler, in a December 2012 Wall Street Journal article, there are two factors — each of which is expected to account for about 50% of the problem in the coming decades — the demographic boom and rising healthcare costs.

#### 1. Demographic Boom

Since January of 2011, over 10,000 baby boomers have qualified for Medicare each day — a trend that will continue until 2030. Medicare now has 50 million people enrolled; by 2030, Medicare actuaries project the number of enrollees to reach 80 million. This directly impacts Medicaid, which covers expensive long-term care for the poor, as well.

In an effort to reduce the number of people in the program and the resultant spending, some have proposed raising the Medicare eligibility age from 65 to 68, which would save approximately \$245 billion over 10 years; however, others have countered that while increasing the eligibility age provides clear cost savings on paper, it may also shift costs without working to contain them elsewhere in Medicare, and in the health system overall.

## 2. Cost Of Care

Healthcare spending has risen rapidly for both government and private sectors. In 1970, it accounted for 7.2% of the nations GDP; by 2010, it increased to 17.9%. By 2021, it is expected to be 19.6% of gross domestic product. The government share of the spending also would be greater, at nearly 50%, up from 46%, mostly because of the anticipated growth in Medicare enrollment.

Fueling the increase are expensive new drugs and technologies, and a rise in chronic conditions that are costly to treat.

Experts suggest unnecessary spending — 20% or more of total spending — is tied to forms of waste including over treatment, failure to coordinate a patient's care and fraud.

### **Healthcare Spending: 2009-2011**

Over the past three years, the annual increases in national health care spending have slowed nationally to approximately 4% -- and to a lesser extent in Medicare. The figures, published in Health Affairs, suggested that the current soft spending is a short-term trend. Consumers have been cutting back on doctors' visits and employers have trimmed insurance since the US first fell into a recession. Another reason may be the new health law, which includes programs (like Accountable Care Organizations and bundled payments) to slow spending; however, it is uncertain whether these programs will actually deliver the savings promised – or if those savings will have a meaningful impact.

### **Healthcare Spending: 2013-2021**

A forecast released in June of 2012 by the Centers For Medicare and Medicaid Services (CMS) said the growth rate for US health spending of all types would stay historically low through 2013 (at ~ 4%). But it would jump to 7.4% once the healthcare overhaul takes effect in 2014 as millions of Americans gain coverage and government spending on health insurance and administration increases. After that, the rate is projected to drop — but spending would grow at a higher rate than that of the past several years — or at an average of 6.2% each year through 2021.

### **Looking Ahead**

As America ages, “the thing you can predict with reasonable confidence is the number of enrollees in Medicare – and to a lesser extent Medicaid — will increase. That’s a demographic fact”, according to a healthcare economist at the Brookings Institute. Total health spending will rise; the debate is over how much.

Some recent “activities” have already resulted in higher costs — hospitals have been increasingly acquiring private physician practices in an effort to make healthcare more efficient. But the phenomenon, in some cases, is also having another effect: higher prices. Major health insurers say a growing number of rate increases are tied to physician-practice acquisitions. The higher prices also affect employers, many of which pay for their workers coverage. A Federal agency claimed that doctor tie-ups are likely increasing Medicare spending as well, since the program pays substantially more for certain services performed in a hospital.

If the US is going to slow the growth of healthcare spending — as it must do to reduce federal budget deficits to sustainable levels — more forceful restraints are inevitable. In addition, more disruptive innovation focused around healthcare delivery — that goes beyond proposed programs like ACO's — will be required.

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