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Explaining the (Temporary?) Decline in Health Care Spending

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The news is good: The growth in health care spending declined in 2009 and 2010, to just under 4 percent in both years. The bad news is that President Obama's health care law, if it survives the U.S. Supreme Court and the "repeal and replace" effort, will essentially negate a primary reason for the decline, taking us right back to unsustainable health care spending — and opening the door for even more top-down micromanaging and health care price controls.

Here's a fact you can take to the bank: The primary driver behind the unsustainable growth in U.S. health care spending is that patients are insulated from the cost of care. That is, in the vast majority of cases when a patient goes to the doctor or hospital or pharmacy, some third party — government, employers or health insurers — is paying the bill.

When consumers are insulated from the cost of their choices, they will spend more, especially if it is a highly valued item like health care. Imagine what would happen to the demand for Cadillacs if people could get one for a $15 copay — with someone else paying the balance. Although you and I as consumers might perceive that a Cadillac was becoming more affordable, total spending on automobiles would rise dramatically.

Cost insulation has had another significant, more insidious, impact: It has created a health care entitlement mentality such that many Americans have come to think they have a right to virtually free care. Exhibit A: Law school student Sandra Fluke, who became a national celebrity claiming women have a right to free contraceptives, even though most are very inexpensive.

How insulated from the cost of health care are we? Very, though that will come as a surprise to all the government-run, single-payer advocates. As health economist John Goodman points out, U.S. health care consumers pay less out of pocket than any other developed country in the world — about 12 percent of total health care spending in 2008.

Although Canada is often touted as a model for U.S. reform, Canadians spend about 15 percent out of pocket, Sweden is a little above 20 percent, and Switzerland is more than 30 percent.

However, two key factors have played a role in removing some of that cost insulation in recent years: the economic downturn and new types of health insurance coverage. And the president would like nothing better to bring an end to *both.*

One factor in the decline is that many consumers, even those with steady jobs and health insurance, may have postponed getting some health care — being financially cautious in uncertain economic times.

But a more important factor is that millions of Americans lost their jobs, and most of them their health insurance to boot. The uninsured still get health care, but they spend about 45 percent of

what the fully insured spend. Thus when the number of unemployed goes up, health care spending goes down.

But it's more than just the (hopefully) temporary spike in the uninsured; employer-based health coverage has been on the decline for years, leaving more workers uninsured or having to buy their own coverage. The recent recession may have exacerbated the shift, but it didn't cause it. According to a new report from the Employee Benefit Research Institute (EBRI), between 1997 and 2010 the percentage of workers *offered* coverage by their employers declined from 70.1 percent to 67.5 percent, and the percentage actually covered by their employers declined from 60.3 percent to 56.5 percent.

The biggest factor in the spending decline, I believe, is the change in health insurance coverage. For several years employers have been increasingly shifting to what's known as "consumer driven health plans," (CDHP) high-deductible health insurance coverage usually combined with a tax-free account, either a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA). Employers provide the high-deductible coverage to pay for major health care expenses, but often put part or all of the money saved on the less-expensive policies into the employees' account to be used for smaller and routine care. Since HSA funds actually belong to the employees, they have a reason to be value-conscious health care shoppers, at least with respect to the smaller expenditures.

The Kaiser Family Foundation points out that while 10 percent of employers offered CDHPs five years ago, 31 percent offered them last year — a huge increase. And it's clear why: CDHPs can be a less-expensive coverage option, making it easier for employers to continue offering coverage, and they bend the cost curve down, as the Council for Affordable Health Insurance noted a few years ago using American Academy of Actuary survey data.

It is important to note that this trend to CDHPs started long before ObamaCare was passed, and would proceed — if the health care law doesn't stop it in its tracks.

It is no secret that the same people who rammed through ObamaCare do not like high-deductible policies, and especially HSAs. And while the law doesn't eliminate them through the front door, it may through the back door, by imposing regulations that could make it almost impossible for them to exist — and giving CDHP detractors plausible deniability.

Thus, while everyone cheered the slowing rate of increase in health care spending, it may be short-lived. The economy is likely to get stronger, at least some day, which will mean more health care spending. And the fate of consumer driven health plans is unknown, and in large part rests, unfortunately, on the fate of the 2012 election.