

The Real Reason Health Spending Has Slowed

Brief Analysis No. 793

by John C. Goodman and Peter Ferrara

February 12, 2014

President Obama tells us that “health care costs are growing at the slowest rate in 50 years.” He and members of his administration attribute that trend to the Affordable Care Act. But ObamaCare is just taking effect this year, while the slowdown has been underway over a decade. [See Figure I.]



Dallas Headquarters:
12770 Coit Road, Suite 800
Dallas, TX 75251
972.386.6272

www.ncpa.org

Washington Office:
601 Pennsylvania Avenue NW,
Suite 900, South Building
Washington, DC 20004
202.220.3082



The Growth of High-Deductible/Consumer-Directed Health Plans.

Three developments track the slowdown in health care spending very closely: the growth of Health Savings Accounts (HSAs), the growth of Health Reimbursement Arrangements (HRAs) and the general trend toward higher deductibles. All three changes mean that patients are paying more medical bills out of their own pockets. And that has produced profound changes — on both the demand and supply sides of the market.

HSA plans have a high deductible, in the range of \$2,000 to \$6,000 a year or more. High deductible plans have lower premiums, and those savings help fund the HSAs, which pay for health care costs below the deductible. Unused amounts roll over tax free from year to year and are available for future health care or other expenses in retirement.

Congress passed laws enabling HSA plans back in 2003, and participation has grown by double digits every year since. As shown in Figure II:

- By early 2005, one million people were covered by high-deductible health plans that allowed individuals and their

families to obtain health savings accounts.

- In January 2010, 10 million people had access to an HSA.
- By the beginning of 2013, 15.5 million people were covered by HSA plans.

Balances in HSA accounts grew 22 percent in 2012, to more than \$15.5 billion. HRAs, a similar arrangement commonly offered by large employers, have grown in tandem with HSAs. Today, close to 30 million Americans are covered by these consumer-directed health plans. In fact, enrollment in consumer-driven health plans probably now exceeds enrollment in Health Maintenance Organizations (HMOs).

The 2013 annual Kaiser Family Foundation survey reported that one-fifth of all workers are now enrolled in consumer-directed health plans, up from 8 percent in 2008. And as individual accounts have grown, national health spending growth has slowed.

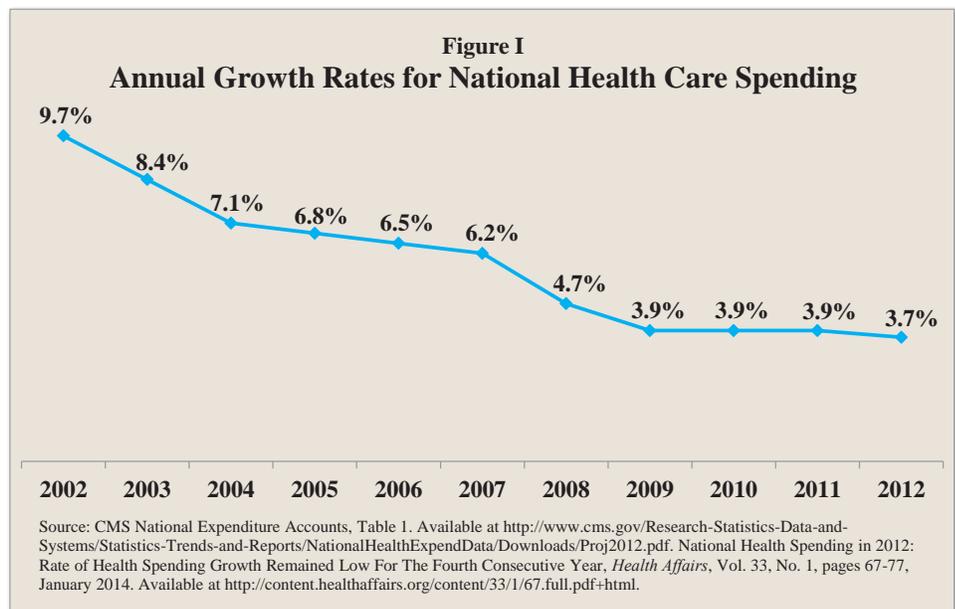
ObamaCare Has Increased Health Spending. Over the past three years, almost all the significant features of the Patient Protection and Affordable Care Act have increased, rather than reduced, health costs by: providing risk pool insurance to the uninsurable, forcing private plans to cover more benefits, and adding such extras to Medicare as free “wellness exams” and closing the prescription drug “doughnut hole.”

The Real Reason Health Spending Has Slowed

Many economists expect the health reform law to increase costs even more in future years. Medicare's actuaries project that ObamaCare will add \$625 billion to total health care spending over the next decade. The RAND Corporation predicts that it will increase the cost of health insurance coverage by almost \$2,000 a year by 2016.

Health Savings Accounts Reduce Health Spending. HSAs give people the opportunity to manage some of their own health care dollars. And when people spend their own money in the medical marketplace, they typically shop more carefully than when they are spending money that comes from a third-party payer — an employer, an insurance company or government. HSAs and their incentives have proven very effective in controlling costs in the real world:

- A 2012 Rand Corporation study found that people in HSA plans spend 21 percent less, on average, on health care in the first year.
- Total HSA costs have run about 25 percent less than costs for traditional health insurance.



- Annual cost increases for HSA/high-deductible plans have run more than 50 percent less than conventional health care coverage, sometimes with zero premium increases.

The emergence of so many people paying for care with their own money is also changing the supply side of the market. Nationally, 1,300 walk-in clinics post their prices and provide timely care. Free-standing emergency care clinics and “Doc-in-the-Box” outlets have now arisen to complement them. The

first mail-order prescription drug organization, RX.com, was also driven by cash patients wanting to save time and money. Walmart now offers \$4 generic drugs financed by cash, not costly insurance. Phone and email consultation services that give patients access to health care providers on demand are another development.

HSAs are advantageous for vulnerable populations, particularly the sick and the poor. Because they have complete control over their HSA funds, the sick become empowered consumers in the medical marketplace. Because they can pay for care themselves out of their HSAs, the poor have ready access to a wide range of providers.

Conclusion. As HSAs and similar plans have soared in the private market, health-spending growth has plummeted. That reflects the success of market competition and incentives.

John C. Goodman is president and CEO, and the Kellye Wright Fellow in Health Care, and Peter Ferrara is a senior fellow with the National Center for Policy Analysis.

