



benefitNEWS

## Health Care Cost Institute Issues Cost and Utilization Report

Earlier this year the national *Health Care Cost Institute* issued their comprehensive data analysis of the group health market for 2016. The data is telling and offers a strong glimpse into key drivers of cost. The headlines include:

### Overall Costs

- Healthcare spending per person for the commercially insured reached a new high of \$5,407 in 2016. Total spending per person in 2016 was 4.6% higher than 2015. This was the highest annual total spending growth observed during the 2012-2016 study period; much greater than the 2.8% growth from 2012 to 2013.
- In 2016, increased spending on outpatient services was the biggest contributor to the annual growth in total spending. This is a change from prior years. In 2014 and 2015, prescription drug spending was the biggest contributor to total spending growth. Prescription drug spending growth was higher than total spending growth in most years, with annual growth peaking at 10.4% in 2015. While spending growth on prescription drugs remained relatively high in 2016 at 5.1%, it was substantially lower than in the previous two years.
- Healthcare spending is the product of two components: price and utilization. From 2012 to 2016, increases in spending were almost entirely attributable to increases in price. In 2016, high growth in prices was partially offset by a net decrease in utilization. From 2012 to 2016, we observed increases in prices each year and across nearly all service categories. The greatest cumulative price increase was seen in prescription drugs, with 24.9% price growth.
- The highest average price across any subcategory was for surgical hospital admissions, \$41,702 per admission in 2016. The average price for surgical admissions increased by nearly \$10,000 from 2012 to 2016, a 30% cumulative increase in five years.
- In contrast, utilization of most services declined over the 2012-2016 period, with the exception of prescription drugs, which increased 1.8%. The utilization of inpatient services had the largest decline, with admission rates decreasing 12.9% between 2012 and 2016. This decline in use resulted in relatively low inpatient spending growth despite the high price growth. Conversely, the small increase in use of prescription drugs, coupled with high price growth, led to very high spending growth.

### Outpatient and Emergency Room Care

- Within the outpatient services category, emergency room (ER) visits and outpatient surgeries accounted for the largest share of spending. They were also the biggest

contributors to the absolute increase in outpatient spending across the study period. In 2016, outpatient services had the highest annual spending growth of any service category, at 6%. ER visits were a consistent driver of outpatient spending growth since 2012, with a cumulative 34% increase from 2012 to 2016. In comparison, outpatient surgery spending, which had the second-highest cumulative increase in absolute dollars, increased by 12% over the same period.

- Between 2012 and 2016, the price of an outpatient ER visit increased by 31% to \$1,917. ER visit use increased 2% from 2012 to 2016, an increase of four visits per 1,000 individuals. The price increase, in combination with the slight increase in use, drove 40% of the increase in total outpatient spending between 2012 and 2016.
- ER visits are the most commonly used type of outpatient visit and their use has remained relatively stable from 2012 to 2016, with annual growth peaking at 1.5% in 2016.
- Within the professional services category, two types of services had net declines from 2012 to 2016. Spending on professional radiology services fell by 3%, and spending on office visits to primary care physicians (PCPs) was 6%. The decline in spending on PCP office visits over the study period was driven by the 18% decline in use of these visits. In contrast, the increased utilization of specialist visits contributed to a 31% spending increase for those visits.

## Pharmacy

- Prescription drug spending (combined brand and generic) made up an increasing share of total spending each year, despite being the category with the lowest per-person spending. Prescription drugs had the highest cumulative spending growth (27%) of any service category during the study period.

## Out-Pocket Costs

- From 2012 to 2016, total out-of-pocket (OOP) spending per person increased slightly each year. In dollars, the average increase was relatively small: a total of \$88. The cumulative growth in OOP spending (12%) was outpaced by total spending (15%). OOP spending growth appears to be on the rise after a few years of relatively low growth. In 2016, we observed a modest increase of 3.6% in OOP spending per person, up from a 2.9% increase in 2015. Though OOP spending per person decreased 15% for prescription drugs from 2012 to 2016, it increased for all other categories. The biggest increase we observed was 29% for outpatient, which was mainly due to increased OOP spending for ER and outpatient surgery over the study period.

The study analyzed a subset of data totaling about four billion claim lines for approximately 39 million insured per year (2012-2016). Click [here](#) to view the full 22-page report.

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