RISING HEALTHCARE SPENDING TAKES ITS TOLL ON CONSUMERS

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Since the adoption of the Affordable Care Act (ACA) and the subsequent rule changes that have taken effect, comprehending the changes to the healthcare industry has become a difficult task for anyone, let alone consumers. Keeping up with the transformation is difficult, even for industry insiders. Recent news reports demonstrate this.

- Aetna is pulling out of the various state insurance exchanges, as are UnitedHealthcare, Humana and many of the Blue Cross/Blue Shield regional insurers. Insurance companies are losing big money in the exchanges as their costs are exceeding income by over five percent, according to McKinsey's Center for U.S. Health System Reform.
- A federal judge recently squelched Aetna's $37 billion bid to acquire Humana. The ruling indicated that combining the companies would stifle competition.
- Healthcare spending is rising at a faster clip than at any time since the 2007 recession, with costs rising faster than most consumers can handle. Patients are struggling to pay their medical bills, with no relief in sight.
- Employers and consumers continue to spend more on healthcare each year, with consumers ultimately paying the price as they deal with rising healthcare costs.

Healthcare Spending—By the Numbers

Americans spent $3.2 trillion on healthcare in 2015, or $9,990 per person. Healthcare spending increased to 5.5 percent in 2015, which is lower than previous annual growth rates, but slightly higher than the 5.3 percent increase recorded in 2014. Industry experts at the Centers for Medicare and Medicaid Services (CMS) predict that U.S. healthcare spending will grow at least 5.7 percent annually between 2014 and 2024.

CMS stated that the spending increase in 2015 was mainly due to expanded coverage of individuals who signed up for the ACA insurance coverage program or who took advantage of the expansion of Medicaid. These factors have created a demand for more hospital and clinic services as well as prescription drugs, which has caused increased spending.

According to governmental actuaries, healthcare spending represents a significant portion of the U.S. economy. In 2015, it made up 17.8 percent of the gross domestic product (GDP), and experts estimate it will increase to 20.1 percent by 2025. The rise in spending has economists worried that appropriate actions are not enough to slow down healthcare's growth.

While the initial impact linked to the ACA's coverage expansion is waning, the increase in health spending is in direct correlation with changes in economic growth. Rising medical costs and services required for an aging population are the main contributors to spending growth.

National Health Expenditures Today and in the Future

In 2015, 28.7 percent of total healthcare spending came from the federal government while consumer households contributed 27.7 percent. The private business share of health spending accounted for 19.9 percent of total healthcare spending, state and local governments accounted for 17.1 percent, and other private revenues accounted for 6.7 percent.

The totals of National Health Expenditures (NHE) are broken out into seven categories:

1. Medicare spending grew 4.5 percent to $646.2 billion in 2015 or 20 percent of total NHE;

2. Medicaid spending grew 9.7 percent to $545.1 billion in 2015 or 17 percent of total NHE;
3. Private health insurance spending grew 7.2 percent to $1,072.1 billion in 2015 or 33 percent of total NHE;
4. Out-of-pocket spending grew 2.6 percent to $338.1 billion in 2015 or 11 percent of total NHE;
5. Hospital expenditures grew 5.6 percent to $1,036.1 billion in 2015, faster than the 4.6 percent growth in 2014;
6. Physician and clinical services expenditures grew 6.3 percent to $634.9 billion in 2015, a faster growth than the 4.8 percent in 2014; and
7. Prescription drug spending increased 9.0 percent to $324.6 billion in 2015, slower than the 12.4 percent growth in 2014.

What can we expect for healthcare spending in the future? CMS outlined its estimates for 2015 - 2025 spending as follows:

- For 2015-2025, health spending is projected to grow at an average rate of 5.8 percent per year.
- Health spending is projected to grow 1.3 percentage points faster than the GDP per year over this period. As a result, the health share of GDP is expected to grow from 17.5 percent in 2014 to 20.1 percent by 2025.
- Given the ACA's coverage expansions and premium subsidies together with population aging, federal, state and local governments are projected to finance 47 percent of national health spending by 2025 (from 45 percent in 2014).
- Health spending growth is faster than in the recent past due to the effects of the ACA's coverage expansions, stronger than expected economic growth

and population aging. Growth is still slower than the growth experienced over the past two decades.

- After 5.3 percent growth in 2014, national health spending is estimated to have grown 5.5 percent in 2015.
- The persisting effects of coverage expansions under the ACA influenced spending changes in 2016.
- Health spending growth is expected to accelerate and average 5.7 percent for 2017 through 2019 because of gradual increases in economy-wide and medical-specific prices. Projected average growth of six percent is anticipated for 2020 through 2025. Growth in spending for Medicare is notably strong as enrollment growth among baby boomers returns to higher utilization rates of Medicare services that more closely resemble their historical average. These circumstances will drive a 7.6 percent average growth. Projected average growth of 6.1 percent in Medicaid is driven primarily by the changing profile of that program's population, as an increasingly higher share of beneficiaries is comprised of comparatively expensive aged and disabled individuals.

Employees Wrestle with Costs that Exceed Their Insurance Premiums

Patients are finding that their healthcare costs are rising and there are no short-term solutions in sight. For most people, out-of-pocket costs, including insurance premiums, copays and deductibles, have increased to the point that costs for some have largely become unaffordable. Unfortunately, the growth of out-of-pocket costs comes at a time when wages have remained largely stagnant.

In recent years, the shared cost of healthcare between insurers and consumers has become a growing issue. Employers have responded to increasing healthcare premiums by sharing more of the costs with their employees and offering new insurance plans that shift more financial risk to workers. Changes in insurance coverage led to an upsurge in deductibles for people with employer-provided health coverage, from an average of $303 in 2006 to $1,077 in 2015.

Higher insurance costs are financially challenging for the employee as the potential exposure to out-of-pocket costs grows. To make matters worse, many employees will never reach their deductibles and others may have expenses that far surpass them. Either way, employees are paying more than ever before.

The growth of employee payments toward deductibles is a key factor of the changes in the cost-sharing distribution of payments. In 2004, deductibles accounted for 24 percent of cost-sharing payments, increasing to 47 percent in 2014. On the other hand, copayments were nearly half of cost-sharing payments in 2004, falling to 20 percent in 2014.

Between 2004 and 2014, average payments for deductibles and coinsurance rose more rapidly than the overall cost for covered benefits. Over this period, patient cost sharing climbed considerably faster than payments for care by health plans while insurance coverage became less generous.

The Result of Increased Spending for Consumers

With the changes in out-of-pocket responsibility, many consumers are unable to keep up with their medical bills. According to a survey from the *New York Times* and Kaiser Family Foundation, the challenges for patients paying for medical treatments varied based on the actual type of service. The survey found that of respondents who had problems paying their medical bills, about two-thirds said they were the result of short-term or one-time medical expenses. Among those who had issues paying their medical bills:

- 65 percent had difficulty paying bills for doctor’s visits;
- 65 percent had difficulty paying for diagnostic tests, such as X-rays;
- 64 percent had difficulty paying for lab fees; and

- 61 percent had difficulty paying for care in the emergency department.

The survey also found that the most common bills that represented the largest share of medical expenses were emergency department visits (21 percent) and hospitalization (20 percent).

Many patients do not have the financial resources to keep up with their general household bills, let alone their healthcare obligations. Recent studies demonstrate this:

- Three in four Americans are living paycheck-to-paycheck (McKinsey Quarterly, May 2015);
- Nearly half of Americans do not have enough money to cover a $400 emergency expense (Federal Reserve survey);
- 63 percent of consumers cannot afford to pay a $500 car repair or a $1,000 emergency room visit (Bureau of Labor Statistics); and
- The average consumer who makes under $40,000 per year does not have the ability to handle any unplanned expense (Consumer Expenditure survey).

Greater Out-of-Pocket Medical Spending Drives Increased Collection Activity

Past-due medical bills have become the Achilles' heel for consumers. Rising out-of-pocket responsibility is forcing consumers into a head-on clash with debt collectors. If bills hanging over the heads of consumers isn't bad enough, the lack of timely payment can lead to credit problems that can last for years.

A study conducted between December 2014 and March 2015 by the Federal Consumer Financial Protection Bureau[1] found that past due medical bills, credit cards and student loans were among the most frequently cited consumer debts. Of those surveyed, 59 percent reported being contacted by a debt collector for medical services, making medical debt the most pressing financial issue for most Americans. To make things worse, they also found that 72 percent of respondents reported that they had two or more medical debts.

Providers must collect medical debt owed to them while meeting stringent requirements to do so. The ACA requires nonprofit hospitals to take steps to retain their federal nonprofit status,[2] including establishing written charity care policies. Hospitals must determine whether patients are eligible under their policies and provide assistance for those who are eligible. Providers must follow guidelines outlined in the Internal Revenue Code 501(r), which provides additional requirements for charitable hospitals, such as how much uninsured patients are charged, and restricting aggressive billing and collections activities. Under these rules, nonprofit hospitals are barred from initiating "extraordinary collection actions" (such as reporting to credit bureaus, garnishing wages, placing a lien on property or taking legal action) until 120 days after the first billing statement. Although the rule does not apply to for-profit hospitals, the regulation introduced an overall federal standard for reporting medical debt.

These guidelines have reduced the number of medical bad debts and made it more difficult for collection agencies to collect past due medical bills, but it's no consolation for consumers. When they are unable to satisfy their medical debts, they can be reported to the credit bureaus. A credit derogatory can substantially reduce consumers' credit scores, which can materially affect a patient's financial standing. Credit problems created from past due medical bills can often become the last straw for consumers. Many have no other choice but to file for bankruptcy.

With the trickle down effects from increased healthcare spending and growing patient payment liability, some people have become more reluctant to seek care because of the debt they might incur. When patients skip medical treatment because of the costs involved, it creates a sicker patient population, which ultimately drives up healthcare spending.

Summary

Patients will continue to face a growing financial burden as their healthcare costs increase and their ability to pay for care declines. Payment responsibility for medical costs continues to shift from employers to employees, and those covered under the ACA struggle to pay co-pays and deductibles. Higher medical costs and spending have an effect on how consumers pay their medical bills. The current healthcare environment has placed consumers, employers and healthcare providers in a precarious position, one that is not likely to change in the foreseeable future.

1. Consumer Experiences With Debt Collection: Findings From the CFPB's Survey on Consumer Views on Debt, January 12, 2017, https://www.consumerfinance.gov/data-research/research-reports/consumer-experiences-debt-collection-findings-cfpbs-survey-consumer-views-debt/
2. Additional Requirements for Charitable Hospitals; Community Health Needs Assessments for Charitable Hospitals, https://www.federalregister.gov/documents/2014/12/31/2014-30525/additional-requirements-for-charitable-hospitalscommunity-health-needs-assessments-for-charitable

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