The Daily Dish

Health Care Costs

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Eakinomics: Health Care Costs

This (election) year promises a lot of talk about health care costs, especially the need to lower (or at least slow the growth of) health care costs. But which health care costs? Is it the total health care bill for the nation? The total health care bill for an individual? The cost of care covered by insurance? Or, is it the cost of care paid out of pocket? It matters, as these questions yield different answers.

Using the National Health Expenditure Data, the United States spent $3,475 billion on "Health Consumption Expenditures" in 2018, an amount that was up $156 billion (or 4.7 percent) from 2017. Of that $156 billion increase, $137 billion – nearly 88 percent – was covered by insurance of all types. Another $10 billion – under 7 percent – was covered by additional out-of-pocket charges. The remainder was covered by miscellaneous third parties.

Now, it is easy to see that you could keep out-of-pocket costs from rising, but only by increasing the amount covered by insurance, which would mean higher premiums. Alternatively, one could control the amount of premium increases by having greater reliance on out-of-pocket costs. But given that there is an additional $156 billion to cover, there is a dollar-for-dollar tradeoff between insurance costs and out-of-pocket costs.

That means the focus should be on the $156 billion; i.e. what causes spending on health care to rise – a larger population, a sicker population, more services for each individual, rising prices of health services, or something else? Any other focus is ultimately about shifting costs from one person to another, but not really solving the problem.

Going into the year, there are three competing strategies for controlling national health care spending. On the left, single-payer proposals rely on price controls to reduce spending. Proponents of this approach have to answer to questions regarding access to quality care and the impact of increased utilization in a "free" system.

On the right, much of the approach is to model health spending more closely on other consumer spending, by having households given full information about the price and quality of services, exposing them to the financial consequences of different decisions, and so forth. The degree to which households are up to this task, the ability to identify quality services, and the capacity of families to face additional risk are frequent points of debate.

In the middle is the current practice of putting cost control in the hands of insurance companies by relying on managed care, Medicare Advantage, and other hybrid combinations of financial insurance and delivery system management. As the *status quo,* it is damned simply by association with the current dissatisfaction.

Get ready for a fun year.