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Economic woes slow health spending

By: J. Lester Feder

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The economic slump has put the brakes on health spending, which may bolster a conservative truism: When consumers become more sensitive to the cost of health care, they cut back.

Or maybe it supports a progressive one: Forcing consumers to have more “skin in the game” means they will cut back on needed care, not just elective or unnecessary care.

And neither side can tell for sure yet whether people have changed spending patterns for good or just postponed seeing doctors or getting tests or treatment until the economy improves or they get too sick to wait any longer.

One thing is certain: Amid the recession and slow recovery, Americans have less to spend on health care and face bigger deductibles and co-pays. And the census reports that there are more than 5 million additional uninsured than in 2007, the year the recession began.

Health spending is still growing — but in these tough times, it’s growing at a notably slower pace. The annual rate for health spending growth was 6 percent in late 2007, according to the Altarum Institute. By 2009, the growth rate had bottomed out at around 3.5 percent.

Evidence suggests the slower growth reflects lower utilization. A recent analysis from the Kaiser Family Foundation found that even people with insurance are going to the doctor less frequently, with the number actually dropping most dramatically after the recession was technically over. Patients made 17 percent fewer doctor visits in the second quarter of 2011 than in the second quarter of 2009.

Spending is creeping up again in 2011 but is still less than some forecasters had expected and lower than recent pre-crash years.

For years, conservative health proposals have shared a common logic. Care for most Americans is financed by third parties — employers and taxpayers — so patients use services without worrying too much about what they cost. Both Sen. John McCain’s 2008 presidential campaign health insurance reform platform and House Budget Committee Chairman Paul Ryan’s recent Medicare voucher concept incorporated that view.

That logic has also driven high deductible health plans that are paired with tax-advantaged health savings accounts. They were championed by lawmakers, including Republican Rep. Bill Thomas, in the 1990s and expanded under President George W. Bush. Some conservatives' vision for an alternative to the 2010 health care law would also spur more consumer-directed care along these lines.

If consumers have more "skin in the game," the reasoning goes, they will spend health dollars more wisely.

And the response to the downturn shows that's the case, says the Cato Institute's Michael Cannon.

"Nobody likes that people can't find jobs. But the way consumers are handling health care right now shows us that … individuals actually make more responsible [health care] decisions than governments do," he said.

Douglas Holtz-Eakin, the architect of McCain's health plan who now heads the American Action Forum, said this trend is a partial validation of the consumer-directed approach.

"I think we should be pleased [about slowed cost growth], but we shouldn't love the fact that it only happens during a recession," he said. "The ultimate test is whether you can configure a consumer-directed system that in times of prosperity hits the target, controls cost and gets high-quality care."

But Americans may be cutting back on necessary as well as unnecessary care, economists and consumer advocates say. And if they're skipping medication to manage chronic illnesses or preventive care that could catch problems before they become serious, this could drive up health care costs in the long run.

"I think there's reason to worry that people are not getting necessary care," said Karen Pollitz, former director of the office of consumer support created by the health care reform law at the Department of Health and Human Services, now at the Kaiser Family Foundation.

Previous research, she said, shows that when people have to pay out of pocket, they tend to "use less care whether they need it or not." And the fact that Americans already pay a lot for their care through high deductibles and co-payments contributes to higher rates of preventable health problems than in other countries in which patients pay little or nothing out of pocket for these services.

A study that the RAND Corp. ran between 1971 and 1982 is widely cited by both sides in the debate over consumer-directed care. RAND randomly divided 2,750 families into four fee-for-service health insurance plans. One plan covered 100 percent of health costs. Under the other three, consumers had to pay a portion of their expenses, ranging from 25 percent to 95 percent.

Conservatives note that those who paid a share of their costs spent 20 percent to 30 percent less than those who had full coverage. The research also showed no health consequences for most of those who paid more out of pocket for their care.

But the RAND study — conducted in an era when health care prices were lower and people tended to spend less of their income on health than they do today — also found that consumers did not necessarily reduce health costs in the smartest way. They didn't shop around for the most cost-effective treatments. They simply avoided going to the doctor. And this did have negative consequences for the poorest and sickest 6 percent of patients, even though their out-of-pocket expenses were capped.

The impact on those with high blood pressure was the most dramatic. Patients with full coverage were projected to have a 10 percent lower death rate than those who had to share the costs because their condition was better managed. A later RAND study found that families with high out-of-pocket costs also skipped preventive care such as childhood vaccinations, mammograms and screenings for colorectal and cervical cancers.

If the system is not as consumer-directed as many conservatives would like, opponents of such policies argue Americans already pay a hefty chunk of their health costs because of cuts employers have made to their benefits packages.

The 2011 Kaiser Employer Health Benefit Survey found that one in three of all workers with employer-sponsored insurance — and half of those at small businesses — have deductibles of more than $1,000 for individual coverage.

Kaiser also found that the number of employers offering high deductible health plans increased by 50 percent from 2010 to 2011.

A survey by PwC Health Institute found that almost half of Americans report deferring care because of costs. But health policy analysts say it's not yet clear if the savings seen during the economic crunch are permanent — whether people are changing health care spending behavior or just delaying paying bills.

Spending could spike when the economy puts more money in people's pockets, or if people just can't put off the care any longer. If patients have conditions that went unmanaged and worsened because of money, it's even possible that the country will wind up spending more on health care than if these patients had gone to the doctor in leaner times.

"People aren't great at discriminating" between necessary and unnecessary services, said Genevieve Kenney of the Urban Institute.

Even though "we all agree that we want to get costs down," she added, doing it this way is "not unambiguously good."