

Rising Health Care Prices

by Christian G. Downs

As a new year begins, we should take a moment to reflect on recent trends in the costs of health services. Since the past is prologue, these trends may indicate what the future holds.

The quarterly Health Care Indicators (HCI), published by the National Health Statistics Group, is the best source for discovering trends in health care costs. HCI contains data and analysis of health care spending, employment, and prices. The data are valuable for understanding the relationship between the health care sector and the overall economy. Moreover, Medicare and some private insurers use this data to plan for future regulatory or payment activities, and employers watch closely the cost of employee health benefits and change their policies accordingly. In addition, the data allow the National Health Statistics Group to anticipate the direction and magnitude of health care cost changes prior to the availability of more comprehensive data.

In the National Health Statistics Group's most recent release, HCI data were reviewed for the fourth quarter of 1999 and annual data from 1991-1999. Medical care prices, as measured by the consumer price index (CPI), rose in 1999 by 3.5 percent, slightly more than 1998's 3.2 percent. Growth in costs for medical care continued to outpace overall price growth as measured by the CPI, which increased only 2.2 percent in 1999. All categories of health care increased in price, except for medical supplies and equipment (this does not include pharmaceuticals).

The fact that nearly all categories

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of health care increased in price is important for health care providers and employers. In the early 1990s, when the medical care CPI was racing far beyond the general CPI, providers were accused of gouging the system by raising prices above an acceptable margin. At the same time, employers, concerned about rising health insurance costs, were demanding health reform.

If the trend toward rising health care prices continues, providers should be prepared to answer the public's concerns about rising prices. If providers do not have valid reasons (e.g., new technology, new treatment plans) for their price increases, they may find themselves on the wrong end of the public opinion balance. Moreover, if increased medical care prices translate into increased insurance cost for employers, then providers must be well prepared for renewed calls for health care reform. Of course, health care reform is not ostensibly bad—as long as the reform neither falls on the backs of patients by limiting access nor on providers by limiting treatment options.

Hospital outpatient prices increased by 1.8 percent in 1999, led by Medicare price growth, which was up 3.9 percent. HCI notes that hospital outpatient prices have far outpaced price growth for private patients, which increased only 1.3 percent in 1999.

In 2001, Medicare, under the new Hospital Outpatient Prospective Payment System (HOPPS), will start to pay prospectively. A rapid decrease in hospital outpatient prices (with less people going into the system and programs moving cancer services out to some other setting) may signal some long-term problems with the HOPPS. If HOPPS does indeed pay much less than the original cost reimburse-

ment system, many hospitals will be forced to curtail services. As the HOPPS is implemented, providers and analysts will have to watch closely to make sure lower reimbursement does not translate into problems with patient access.

UPDATE ON APCS

As you know, ACCC has been working closely with providers and HCFA to make the transition to APCs as smooth as possible. Fortunately, most providers have been flexible enough at least to begin to understand their responsibilities under the new system. At the same time, HCFA has been willing to work on overcoming some of the administrative hurdles posed by the new system.

In the coming year, ACCC will work with HCFA and providers on several key areas of the HOPPS. First we will try to make sure Medicare pays for new drugs in a timely fashion, rather than having to wait for an appropriate code. Second, ACCC and other organizations are looking into modifying the annual update provision to the average wholesale price (AWP). A quarterly update in the physician office setting is more appropriate. Third, we will strive to keep the current reimbursement system for cancer therapies. Lastly, numerous minor technical changes must be made to the software used by HCFA and the fiscal intermediaries who run these programs. ACCC will be going to HCFA in January with a complete list of concerns.

Are you having problems with the APC system? If so, ACCC encourages you to contact HCFA at: Room 443-G, Hubert H. Humphrey Building, 200 Independence Avenue, SW, Washington, DC 20201. Send a copy of your letter to ACCC. ■