How Rising Health Care Costs Burden Families

Between 1999 and 2009, U.S. health care spending nearly doubled, climbing from $1.3 trillion to $2.5 trillion. This increase took a substantial bite out of the average American family’s disposable income, wiping out virtually all growth in after-tax income during the period (accounting for price increases in other areas). In particular, two hidden costs for families increased: employer-paid contributions to health insurance premiums, which resulted in lower wages, and taxpayer-financed spending on health care, such as Medicare and Medicaid. If health care cost growth had followed the consumer price index more closely, rather than dramatically exceeding it, families would have had more than $5,000 in additional annual income to spend.


Promising Approaches to Cutting Health Care Costs

Massachusetts passed legislation in 2006 extending health insurance to most residents, but rising costs and a weak economy threaten the initiative’s sustainability. RAND analyzed 21 options for reducing health care spending in the state and identified options that might produce savings over the next decade. The most promising of the options involved changing how health care is paid for. Among these options, bundled payment (a single payment for all services related to a treatment or condition) appears to offer the greatest potential savings. Some popular strategies, such as disease management and medical homes, are unlikely to cut costs significantly.

Effects of the Affordable Care Act in Five States
Using the RAND COMPARE microsimulation model, researchers studied the likely impact of the 2010 Affordable Care Act (ACA) on coverage and costs in five geographically and demographically diverse states (CA, CT, IL, MT, and TX). In all of these states, the proportion of uninsured residents will decrease significantly. Total state government costs will rise in all but one of the states studied (CT), mainly because of increased spending on Medicaid.


Effects of High-Deductible Health Plans (HDHPs)
Also known as “consumer-directed health plans,” HDHPs shift a greater share of costs onto consumers, largely in the form of steep deductibles. As employers have struggled to limit growth in premiums, these plans have become increasingly popular. A RAND study of the effects of these plans found that, in the first year after switching to an HDHP ($1,000 per person deductible or more), consumers spent less on health care compared with families in plans with lower deductibles. However, those in HDHPs also cut back on preventive care such as childhood immunizations and cancer screenings, even though the deductible was waived for such care.


The Costs of Obesity and Disability
Obesity in the United States has been increasing steadily over the past two decades—and severe obesity is increasing the fastest. Obesity is linked to higher health care costs than smoking or drinking, and plays a major role in disability at all ages, particularly among young people. The cost consequences of disability among America’s youth could swamp recent Medicare and Medicaid savings stemming from increasingly good health among the elderly.

Obesity and Disability: The Shape of Things to Come, RAND Corporation, 2007.

The Promise of Cost Savings from Health Information Technology (HIT)
Properly implemented and widely adopted across the U.S. health care system, HIT has the potential to save money and significantly improve health care quality. Annual savings from improved efficiency alone could reach $77 billion or more. An additional $4 billion could be saved through improved patient safety.
