Focus on

The Rising Cost of Health Care

Reining in health care costs has become a central policy challenge for government and a pressing concern for American businesses, families, and individuals. A substantial body of RAND research has focused on evaluating existing and potential policies to lower health care costs; examining the cost implications of healthy and unhealthy behaviors, with an eye toward promoting health and preventing disease; and improving health system value, reducing waste, and improving the quality of care.

RECENT RESEARCH

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.

Auerbach D et al., "A Decade of Health Care Cost Growth: Impact on the American Family," *Health Affairs*, Vol. 30, No. 9, September 2011.

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.

Eibner C et al., *Controlling Health Care Spending in Massachusetts: An Analysis of Options*, RAND Corporation, 2009.

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.

How Will Health Care Reform Affect Costs and Coverage? Examples from Five States, RAND Corporation, 2011.

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.

Beeuwkes Buntin M et al., "Healthcare Spending and Preventive Care in High-Deductible and Consumer-Directed Health Plans," *American Journal of Managed Care*, Vol. 17, No. 3, March 2011, pp. 222–230.

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.

Hillestad R et al., "Can Electronic Medical Record Systems Transform Health Care? Potential Health Benefits, Savings, and Costs," *Health Affairs*, Vol. 24, No. 5, September 2005, pp. 1103–1117.

CURRENT PROJECTS

Designing a Value-Based Purchasing Program to Improve Quality and Control Costs—Testing assumptions about which pay-for-performance program design choices will lower costs without sacrificing gains in quality.

Probing the Relationship Between Quality and Cost—Systematically and comprehensively reviewing and synthesizing what is known about the relationship between health care costs and quality and identifying major gaps in current knowledge.

Payment Bundling and New Payment Strategies—Examining both quality improvement and cost-containment payment strategies and the unintended consequences of different approaches.

Quantifying the Costs of Poor Coordination—Identifying unnecessary health care services that could be avoided through improved coordination of ambulatory care services and quantifying costs and potential savings.

RAND HEALTH INSURANCE EXPERIMENT (HIE)

The HIE, conducted in the 1970s and early '80s, is the largest health policy study in U.S. history. It remains the only community-based experimental study of how cost-sharing arrangements affect people's use of health services, the quality of care they receive, and their health. It was conducted when cost sharing and managed care were first entering the health care debate. RAND found that modest cost sharing caused patients to spend less money on health care and generally had no adverse effect on most people, except for the sickest and poorest (the most disadvantaged 6 percent of the population). The HIE also demonstrated that HMOs were an acceptable alternative to fee-for-service care in terms of cost and quality. The HIE was an important factor in subsequent decisions to implement cost sharing and the spread of managed care. In subsequent decades, these policy changes resulted in trillions in savings. The HIE also introduced a note of caution that resonates today: Cost sharing causes consumers to reduce needed as well as unneeded services. Subsequent RAND research has reaffirmed this finding.

ABOUT RAND HEALTH

For more than 40 years, RAND Health has been conducting objective research and analysis that helps shape health policy decisions at local, state, national, and global levels. Much of our work addresses the consequences of current policy choices or the likely effects of proposed alternatives. But we also focus extensively on the scientific basis for improving service delivery, system performance, and organizational effectiveness.

Learn More

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