Insurance Times: Outpatient care found to be chief cost driver

October 15, 2002, Vol. XXI No. 21

NEW YORK (AP) — Contrary to popular wisdom, high prescription drug prices and baby boomers' use of medicines are not the primary drivers of soaring health care spending, according to a pair of new studies.

Spending on outpatient hospital care soared 16.3 percent last year, the fastest growing component of overall health care spending, according to one of the new studies released by the Center For Studying Health System Change (HSC).

Overall health care spending grew 10 percent — the first double-digit increase in more than a decade, and outpatient spending accounted for 37 percent of that increase.

It was the first time since 1995 that drug costs didn't represent the biggest chunk of the increase, according to the HSC study. According to the Washington, D.C.-based nonprofit research and policy institute, spending on prescription drugs rose 13.8 percent last year, making it the second biggest cost driver. It was the second year in a row that the increase in prescription drug costs shrank from the previous year.

Spending on inpatient hospital care jumped 7.1 percent. Driven by higher prices and increased use, inpatient and outpatient hospital care spending climbed an average of 12 percent, accounting for 51 percent of the overall health care spending increase.

There are signs the rate of increase is slowing, however. For the first six months of this year, overall spending rose 8.8 percent. Hospital outpatient spending continued to be the biggest driver, rising 13.6 percent.

"There is potential for encouragement but I think it is dicey to read too much into six-month numbers," said Paul Ginsburg, president of HSC.

Ginsburg said the decline may represent consumers' decision to limit use of the health care system now that their employers are asking them to foot more of the bill.

The stabilizing health care landscape also could be contributing to the decrease, Ginsburg said. One reason health care costs soared during the mid-to-late 1990s was the change from plans that limited access to ones that are more flexible as employees balked at the restrictions. The change represented a sharp increase in costs, but now that the switch is largely over so are the dramatic increases.

The study's findings for 2001 also reflect efforts to lower prescription drug costs, Ginsburg said. As those costs soared in the mid-to-late 1990s, insurers encouraged consumers to use generic medicines by forcing them pay more for brand names.

Conversely, there hasn't been as much attention paid to keeping outpatient costs down. Those services are one area where hospitals haven't felt pricing pressure by insurance companies.

"The outpatient meadow is one where hospitals have still been able to make hay," said Uwe Reinhardt, a professor of economics and public affairs at Princeton University. "But that will change. In five years, you won't see that kind of increase."