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Health Care Costs to Slow in 2014

June, 2013

Benefits Pro

The slowdown in health care spending as previously reported by researchers just may be here to stay.

A report Tuesday from consulting firm PricewaterhouseCoopers projected lower overall growth in medical costs in 2014, even as millions more newly-insured Americans join the health system under the Patient Protection and Affordable Care Act.

PwC's Health Research Institute projected that health care inflation in the U.S. is projected to dip to 6.5 percent in 2014 but that when other factors are put into the mix, that figure could end up around 4.5 percent.

Though costs are still rising faster than inflation, it's still a nice reprieve from previous double-digit increases. It's also slightly less than the 7.5 percent increase PwC estimated for 2013.

"Health care cost increases continue to exceed overall growth in wages, but the gap appears to be shrinking," said Michael Thompson, principal with PwC's human resource services practice. "The long-term trends suggest that as the economy improves, the cycle of runaway cost increases will be broken."

That's a critical revelation as employers re-evaluate the role of health care benefits to their organizations, and step up efforts to engage employees more directly in value-based health care decision making, Thompson said.

Still, the report notes that uncertainty about the impact of PPACA implementation and what to expect from a largely unknown, newly-insured population are manifested in seemingly contradicting themes: a declining medical cost trend and rising insurance premiums, particularly in the individual market.

Rising premiums are mostly due to new requirements as part of PPACA. Essential health benefits and the pre-existing provision cost more to cover. Industry experts have long warned that individual premiums will rise due to PPACA, especially for younger and healthier adult males.

Though a slowdown in health care spending may be good news for the Obama administration, who have been defending their landmark health reform law, some argue that it's in part due to the weak economy and consumers putting off care.

PwC researchers said that the slowdown is in part due to consumers making spending adjustments. Many are **delaying care**, using fewer services and choosing less expensive options such as retail clinics, urgent care centers and mobile health devices.

An **analysis earlier this year from Kaiser Family Foundation** found that health spending grew by 4.2 percent per year from 2008 to 2012, down from a peak of 8.8 percent from 2001 to 2003 – and that most of the slowdown (77 percent) was due to years of a weak economy "which causes people to put off health services when they can and prompts employers and states to reduce health spending." The rest is explained by changes in the health system, including increased consumer cost-sharing, tighter managed care and modifications in payments and delivery, that analysis said.

"The problem of health costs is not solved, and we need to be realistic that health spending increases will return to more typical levels as the economy improves," Drew Altman, president and CEO of the Kaiser Family Foundation, said in April.

Additionally, more employers continue to shift costs to their employees through higher deductibles.

On the plus side, PwC researchers said, some active approaches are contributing to the slowdown in health spending. Major employers are beginning to contract directly with big-name health systems to tackle expensive and complex procedures for employees, such as heart surgery and spinal fusion. According to PwC's Touchstone Survey, 33 percent of businesses are considering high-performance networks over the next year. Early data suggests this could mean as much as a 25 percent reduction in costs, researchers said.

And the government is ramping up penalties on hospitals that have too many patients coming back with problems soon after being discharged, which also is pushing down overall health care costs.

Regardless, PwC researchers said in their report that the health care industry needs to be proactive and aware in navigating the "rapidly-changing environment."

“The health industry is at an inflection point as it rebalances, realigns and prepares for full-scale transformation from fee-for-service medicine to consumer-centered, accountable care,” said Kelly Barnes, PwC's U.S. Health Industries leader.

“Change of this magnitude takes time and will come in stages. Health organizations should learn to adapt to a market in which growth may be lower in the near term, and pursue new sources of growth often in unlikely places."

Return to Article Index

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