



As healthcare spending soars, what lies ahead?

By Jessica Sweeney-Platt | February 13, 2017

Few in healthcare were likely surprised by last December's "National Health Expenditures" report from the Centers for Medicare and Medicaid Services. Overall U.S. health spending, CMS noted, rose 5.8 percent in 2015 to \$3.2 trillion. On a per-person basis, the United States is now spending \$9,990 per year on healthcare – far more than any other country in the world.

Healthcare spending in America has been rising for decades, but the rate of increase had actually been dropping over the previous several years. Now, it seems to be rebounding again.

Some of those increases have to do with macro trends, such as the aging population of the United States. The baby boomer generation is swelling the ranks of Medicare: according to CMS, about 7,000 to 10,000 people age into the program every day. In 2015, the agency reports, Medicare spending jumped 4.5 percent to \$646 billion and accounted for 20 percent of healthcare spending overall.

The cost of prescription medications is also climbing – both for new specialty drugs and for existing brand-name medications. Overall spending on retail prescription drugs climbed 9 percent in

2015 to nearly \$325 billion, CMS reports. The outlay for drugs purchased for Medicaid beneficiaries alone: \$57 billion.

How will rising spending – and the current political climate – affect the key stakeholders in healthcare: government, commercial payers and employers, and patients?

Government: The push for value continues

Now that the Trump Administration has moved in and both branches of Congress are controlled by the Republican Party, the future of the Affordable Care Act is in doubt. At this point, there's a lot of noise, but little visibility into which portions of the law the government will keep and which will be thrown out.

Still, despite the uncertainty around "repeal and replace," the underlying threat that increased health spending poses to the nation's fiscal health is still very much a reality. So it's not surprising that the current administration seems committed to certain payment reforms.

For instance, no one in government has proposed repealing MACRA, the 2015 law that reforms the way Medicare pays physicians, creating new quality reporting requirements and pushing clinicians toward alternative payment models – with an aim of reducing healthcare spending.

The program's reporting requirements have been scaled back substantially from the original proposal, to give the industry a chance to get up to speed. Still it seems likely that MACRA's major provisions will continue.

We're also likely see a fair amount of attention shift to the states. The Trump Administration's interest in Medicaid waivers suggests that states will likely have more freedom to experiment with cost savings reforms for their own residents.

And at times, President Trump has also indicated a willingness to negotiate with pharmaceutical companies, which current law prevents the federal government from doing. (Trump publicly backtracked on some of those ideas after a meeting with pharma executives.)

Payers and employers: Creative contracts and high deductibles

Payers face plenty of uncertainty today. The future of the ACA exchanges is in doubt. Several of the largest companies are currently facing off with the federal government over proposed mergers. And like many service-oriented industries, the insurance industry continues to struggle to create an attractive value proposition for millennial consumers.

But it's clear that payers can't afford to ignore healthcare spending increases – it's affecting their clients, their members, and their relationships with the federal government.

Their adjustments will be intertwined with those of employers, who are acutely affected. Most will continue to offer insurance benefits (even in the absence of the ACA's employer mandate), but rising costs are leading them to adjust their coverage strategies.

Some large employers such as Walgreens are taking an "activist" approach to reducing costs, using consumer-driven health plans to rein in health-benefit expenses. (Participants in such plans receive defined contributions from their employers, which they can then use to buy coverage on their own.)

Other employers are contracting directly with specific providers. The Lowe's Cleveland Clinic Benefit Program, for example, offers eligible employees and their covered dependents access to world-class physicians at the Cleveland Clinic. The calculation there: Higher-quality care equals lower long-term costs.

But by far, the most common strategy is simply to shift cost exposure to employees, by asking them to assume a greater share of the total cost burden. The percentage of employees covered by employer-sponsored high-deductible health plans has more than doubled since 2010, now accounting for almost a third of all covered workers.

This shift in employer focus is contributing to shifts in commercial payer focus. For example, commercial insurers are recognizing the need to offer "affordable" coverage options – whether through the ACA exchanges for individuals, narrow or tiered network products for employers, or Medicare Advantage plans to seniors.

Patients: Searching for cost and convenience

For patients, the impact of increasing health spending is seen mainly in an increased exposure to cost. There is ample evidence to suggest that when faced with significant out-of-pocket costs, patients simply opt for less care overall, regardless of the impact on their longer-term health.

This is one reason for the flowering of innovation focused on increasing convenience and access while reducing unnecessary – and expensive – utilization of high-cost sites of service. Telehealth in particular is having a moment; companies like Teladoc and American Well are satisfying a demand for lower cost, more convenient access to primary care services.

We are still early in the transformation to a consumer-driven healthcare system, but all signs point to the likelihood that it will continue. In this murky healthcare landscape, that could be another point of solace: The fixes are evolving and sometimes elusive, but at least we understand the problems we need to solve.

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