



Trends-in-Medicine

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Quick Pulse

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CMS ANNOUNCES U.S. HEALTHCARE SPENDING SLOWS FOR THE FIRST TIME IN SEVEN YEARS

The pace of health spending growth slowed in 2003, marking the first deceleration in national health spending growth in seven years, according to a report by CMS actuaries. CMS Administrator Dr. Mark McClellan commented, "The Administration and the Congress have taken important steps in recent years to contain costs in our major healthcare programs while improving the quality of care that patients receive. And as we implement the new Medicare law, we intend to do even more in the year ahead."

Among the key findings in this report:

Overall spending. Health spending accounted for a record \$1.7 trillion in 2003, and the percent of GDP spent on healthcare – 15.3% also set a new record. Healthcare spending outpaced growth in the overall economy by nearly 3%. Changes in Medicare and Medicaid spending had a large impact on the slowing in healthcare spending growth.

Private insurance companies. Net costs – the difference between premiums and benefits – increased while benefits decelerated, suggesting that insurance companies either had bigger profits or larger administrative (overhead) costs. An actuary said, "Basically, companies collected 11.9% more in premiums than they paid out in 2001...This is the sixth year that net costs have increased for insurers."

Premiums. Private payers (primarily private health insurance and payments by individuals for co-pays, deductibles, and services not covered by insurance) funded more than half of national health expenditures in 2003, or \$913.2 billion.

Hospitals. Hospital spending decelerated but was still nearly one-third of total national health expenditures. CMS concluded, "Because hospital care comprises the largest single share of health spending, the impact of its slowing growth drove the deceleration in overall health spending." Another official said, "Hospital spending slowed for the first time since 1998...but a lot of that is driven by the slowdown in public spending, particularly Medicare and Medicaid."

Public spending. The slowdown in public spending for physician services was due primarily to slower Medicaid growth.

Home health. Private spending for free-standing home health agencies more than offset slowing Medicare payment increases. Legislation resulted in a 7% cut in Medicare home health payments, and the expiration of a 10% add-on to payments for rural home health care providers, caused Medicare spending growth to slow.

Medicare. Medicare deceleration was due primarily to:

- Economy.
- Upper payment limit (UPL) change.
- Enrollment growth, which decelerated slightly in 2003.

Prescriptions. Spending growth for prescription drugs decelerated significantly. Dr. McClellan said, "The slowdown in drug cost growth in 2003 was an important step, but we are doing more. The new Medicare law has sped up the availability of less costly generic medicines, and it is for the first time giving seniors without coverage access to prices that are significantly lower than the average prices paid by other Americans with public and private coverage." An actuary commented, "I'm not real surprised in the deceleration. This is the fourth consecutive year of deceleration in the prescription drug industry. But this year, there was a marked reduction in

utilization, and that was somewhat surprising." CMS officials said the decline in prescription drug usage was due to:

- A reduction in the growth of number of prescriptions dispensed.
- A reduction in estrogen replacement therapy use.
- The conversion of Schering-Plough's Claritin (loratadine) to OTC status.
- Fewer new drugs.
- Several drugs losing their patent protection, resulting in more generics.
- Expanded use of tiered co-payment plans. As a result, growth in the number of prescriptions sold per person slowed to 1.7 percent, about half the 2002 growth of 3.5 percent.
- Not counting prescriptions filled by Canadian and other non-U.S. pharmacies. CMS officials estimated that \$1.1 billion in prescriptions were filled in non-U.S. pharmacies.

CMS officials declined to predict what the trends will be in 2004 and 2005. An actuary said, "We know clearly that any time the economy contracts, there is a spike in the health share

of GDP...Usually, the economy recovers, and the pressures are alleviated through a variety of reasons...One thing can be changes by policymakers...At this time, I don't know what will happen in 2004-2005. But it is certain that the health spending share of GDP spikes during a recession."

Healthcare Spending in 2003 vs. 2002

Growth in:	2003	2002	Change in 2003 vs. 2002
Total health expenditure	Up 7.7% to \$1.7 trillion	Up 9.3%	Slowed 1.6%
Healthcare spending as a percentage of GDP	15.3%	14.9%	Increased 0.4%
Per capita health spending	\$5,670	\$5,317	Up \$353
Private sector spending	8.6%	9.0%	Slowed 0.4%
Private health insurance premiums	Up 9.3%	Up 10.7%	Slowed 1.4%
Prescription drug spending	10.7%	14.9%	Slowed 4.2%
# of prescriptions sold per person	1.7%	3.5%	Slowed 1.8%
Out-of-pocket consumer spending for health services	7.6%	6.0%	Increased 1.6%
Net costs of private insurers (the difference between premiums received and benefits paid)	12.8%	11.9%	Increased 0.9%
Public Spending Growth			
Total	6.6%	9.7%	Slowed 3.1%
Medicaid	6.9%	12.6%	Slowed 5.7%
Public Sector Funding Growth			
Total	\$766 billion	(9.7%)	N/A
Medicare	\$283 billion (17%)	N/A	N/A
Medicaid	\$267 billion (16%)	N/A	N/A
Hospital Spending Growth			
Total growth	6.5%	8.5%	Slowed 2.0%
Spending Growth for Physician Services			
Total	8.5%	8.2%	Increased 0.3%
Private spending	9.4%	8.2%	Increased 1.2%
Public spending	6.7%	8.1%	Slowed 1.4%
Home Health Agencies Spending Growth			
Free-standing home health agencies	8.5%	7.5%	Increased 1.0%
Medicare	9.9%	14.7%	Slowed 4.8%