Slower Growth Behind Dip in Health Spending

BY ALICIA AULT
Associate Editor, Practice Trends

Overall health spending growth for 2005 hit the lowest level since 1999, largely because of a continuing slowdown in retail prescription drug sales and an increased use of generic drugs, according to a report issued by the Centers for Medicare and Medicaid Services in January.

The CMS report, the official government tally, found that overall, health care spending grew 6.9% in 2005, compared with 7.2% in 2004 and 8.1% in 2003.

"It is unclear whether this is temporary or indicative of a longer-term trend," lead author Aaron Catlin, a CMS economist, said in a statement.

Even with the slowdown, the United States spent slightly more per capita in 2005—$6,697 per person—than in 2004, when expenditures were $6,322 per person.

The percentage of personal income devoted to health care is rising as well. Out-of-pocket spending grew from $235 billion in 2004 to $249 billion in 2005, with prescription drugs accounting for 20% of that expense.

'Even the slower spending growth of 6.9% continues to outpace inflation and growth in wages for the average worker in the United States.'

Total spending in 2005 hit $2 trillion, according to the CMS (Health Affairs 2007;26:142-53, and Health Affairs 2007;26:249-57).

Medicare was the biggest spender, accounting for $342 billion of the $2 trillion total. The figure does not include the Part D drug benefit, which did not begin until 2006. Medicaid spent $311 billion in 2005, a 7.2% increase from the previous year. But that growth rate was on par with 2004, when spending rose 7.5%.

Cost-containment efforts by the Medicaid program helped hold down the nation's overall drug bill, according to the report. For Medicaid, drug spending grew only 2.8% in 2005. The nation's total drug tab in 2005 was $200 billion, an increase of 5.8% over the previous year, when drug spending rose 8.6%.

Most drugs—about 73%—were covered by private sources in 2005. Private spending grew only 6%, down from 7.2% in 2004. Drug price increases remained stable from 2004 to 2005, at about 3.5% overall and 6% for brand names.

The pharmacy benefit management industry took credit for helping to keep a lid on spending, noting that industry tools such as formularies, rebates, generic drugs, and mail-service are being used by both private and public payers. "PBMs have played a huge role in helping to drive prescription drug trends to an historic low," Mark Merritt, president of the Pharmaceutical Care Management Association, said in a statement.

Both CMS and America's Health Insurance Plans said that increasing use of multitiered drug formularies—which require consumers to pay more for higher-cost medicines—also contributed to the slowdown in drug spending.

Spending on physician and clinical services hit $421 billion in 2005, which made it the second biggest category of spending, after hospitals. That represented a 7% increase from 2004, when spending rose 7.4%. Medicare, however, spent 9.5% more on physician services in 2005, which was a slight decline from the 10.4% growth in 2004.

Hospital spending grew about 8% in 2005 and 2004, hitting $611 billion.

The fastest growing component of health spending was freestanding home health care, rising 11% in 2005 to $47.5 billion. At least three-quarters of home care is covered by public payers.

Spending for nursing home care grew 6% in 2005 to $121 billion. That was a larger increase than in the previous year, when spending rose 4%. Though Medicaid is the largest payer, accounting for 44% of funding for nursing home care, its expenditures increased by only 4% in 2005, compared with Medicare's 12% rise.

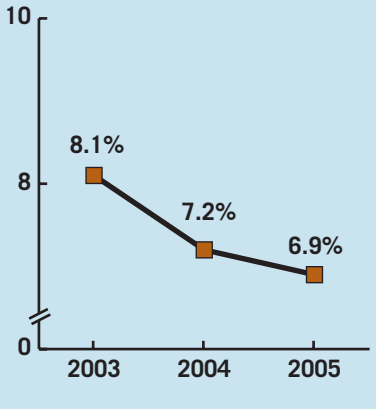
Growth in the cost of health insurance premiums also declined. In 2005, premiums increased 6.6%, compared with 7.9% in 2004. It was the third consecutive year that premium increases dropped.

However, the CMS researchers noted that employees are still paying more for their health care through higher coinsurance and deductibles and other out-of-pocket costs.

Consumers are taking a big hit on health costs, agreed Karen Davis, president of the Commonwealth Fund, a private nonpartisan foundation that is working toward a health system that offers better quality and more access.

"Even the slower spending growth of 6.9% continues to outpace inflation and growth in wages for the average worker in the United States," Ms. Davis said in a statement. ■

Health Care Spending Growth Is Slowing Down



Source: CMS Report

ELSEVIER GLOBAL MEDICAL NEWS

POLICY & PRACTICE

Part D Battle Begins

As promised during the midterm elections, House Democrats began work immediately on tweaking Medicare's Part D drug coverage. Rep. John Dingell (D-Mich.) along with 189 colleagues, introduced H.R. 4, the Medicare Prescription Drug Price Negotiation Act of 2007, which would require the Health and Human Services department to negotiate prices with drug makers. The legislation was passed by the House in January by a vote of 255-170. While two Senators have taken up the cause—Harry Reid (D-Nev.) and Benjamin Cardin (D-Md.)—it appears the Senate will take a more measured approach. The Senate Finance Committee held hearings Jan. 11 to investigate the impact of price negotiations. If enacted as currently written, new prices would go into effect for the plan year beginning Jan. 1, 2008.

Unique New Drugs on Decline

The Food and Drug Administration only approved 18 new molecular entities last year, on par with the previous year, but close to a historic low. Throughout the 1980s and 1990s, the agency approved at least 20-30 NMEs annually. Among the 18 were 4 biologic therapies and 4 new vaccines. The paltry number of approvals and a Government Accountability Office report issued in December may point to a decline in new drug development, according to Rep. Henry Waxman (D-Calif.), Sen. Richard Durbin (D-Ill.), and Sen. Edward Kennedy (D-Mass.). The legislators requested the GAO report, which found that huge increases in drug industry research and development from 1993-2004 were not accompanied by a similar rise in new drug applications—especially for NMEs—to the FDA. From 1993-2004, research and development spending increased 147%; NME applications increased by only 7%. NME applications have declined especially since 1995. "These submission trends indicate that the productivity of research and development investments has declined," the GAO report said. Backing up that conclusion: Over the same period, FDA has continued to approve most submissions, but the number approved overall has declined, GAO said.

FDA Panels Held Less Often

An advocacy group is charging that the FDA is holding outside advisory panel meetings less often than it did a decade ago. Public Citizen's Health Research Group analyzed the 275 advisory committee meetings held from 1997 to 2006. In 1998 and 1999, almost half of approved NMEs were preceded by panel meetings; from 2000 to 2006, only 24% (35) of the 147 NMEs approved had a committee meeting first, according to Public Citizen, which put its conclusions in a letter published in the Dec. 23 issue of The Lancet. The group also found that the FDA did not present its scientific opinion as a counterbalance to the drug maker's presentation at 18%, or 49 of the 275 meetings. The FDA overruled the panel conclusions 28% of the time, "a figure higher than is generally assumed," according to Public Citizen.

2007 Advocacy Agenda

Finding a permanent solution to the way Medicare pays physicians is at the top of the agenda for both the American Medical Association and the American Academy of Family Physicians this year. Congress acted at the end of last year to stop a 5% Medicare pay cut from going into effect but that was only a stopgap, according to the AMA. "This year we will work with Congress, the Administration, and seniors to stop the 2008 Medicare cut and enact a more permanent solution to the flawed Medicare physician payment formula," Dr. Cecil Wilson, AMA board chair, said in a statement. Both groups also plan to push for an expansion of health insurance coverage for the uninsured this year. Other top AMA priorities include reforming the medical liability system, closing health care gaps for minority patients, and preparing for and responding to public health emergencies. Another item at the top of the agenda at the AAFP is encouraging the use of new types of payment systems that reward continuity of care, such as paying primary care physicians a care management fee. "The current system just doesn't really reward that," Dr. Rick Kellerman, AAFP president, said in an interview. Other AAFP priorities include increasing federal support for health information technology adoption and expanding medical education.

Cancer Care Time Costs Add Up

The cost of the time spent by cancer patients in fighting their illness amounted to approximately $2.3 billion in 2005, according to a study published in the January issue of the Journal of the National Cancer Institute. The researchers analyzed the time that cancer patients spent getting to and from appointments, waiting for care, consulting with physicians, and undergoing treatments. They valued that time at $15.23 per hour, the median U.S. wage rate in 2002. The researchers used data from the Surveillance, Epidemiology, and End Results–Medicare database to find the net patient time costs associated with cancer care for 11 common tumor sites. They analyzed records for 767,010 patients who were initially diagnosed between 1973 and 1999 and were 65 years or older during the study observation period of 1995-2001, and included 1,145,159 matched controls. The net patient time costs associated with medical care during the first 12 months after diagnosis were lowest for melanoma ($271) and prostate cancers ($842) and highest for gastric ($5,348) and ovarian ($5,605) cancers. In most cases, hospital stays accounted for the greatest net time costs.

—From staff reports