



## Committee on Ways and Means Democrats

Representative Charles B. Rangel - Ranking Member

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### KEY FACTS ABOUT THE U.S. HEALTH SYSTEM

#### General Facts on the U.S. Economy

- Average hourly earnings have *declined* by 1.1 percent since May 2003 after inflation.<sup>i</sup>
- Forty-five percent of the uninsured have no tax liability.<sup>ii</sup>
- Under President Bush, total profits have grown 63 percent while total wages have only grown 17 percent.<sup>iii</sup>

#### Health Care Spending in the U.S.

- The US spends 16% of GDP on health care, far more than any other country. Total health care spending rose 7.9 percent in 2004, to \$1.9 trillion, or an average of \$6,280 per person<sup>iv</sup> This is more than twice as much as any other industrialized nation.<sup>v</sup>
- Greater spending in the U.S. appears to be linked to higher prices and salaries, more intensive medical treatment, and inefficiency due to the U.S.'s highly fragmented and complex payment system.<sup>vi</sup>
- Public spending represents less than half of total spending in the U.S.<sup>vii</sup> Private spending in the U.S. is nearly four times higher than other countries.
- Except for 1993-1996, health insurance premiums have consistently outpaced overall inflation, medical inflation, and wages (see attached chart).
- Since the program began, Medicare's cost growth has been consistently lower than both private plans and FEHBP.<sup>viii</sup>
- Starbuck's spends more on health care benefits than it does for coffee beans.
- General Motors spent \$5.2 billion on health care in 2003, about \$1,500 for each car it produces.

- Increased spending for hospital care and payments to doctors were the highest recorded since 1991.<sup>ix</sup>
- Spending on prescription drugs rose 8.2 percent, to \$188.5 billion in 2004<sup>x</sup>. From 1995 to 2000, increases in drug spending were two to five times larger than increases in spending on hospital care and physician services.<sup>xi</sup>

### **Private Health Insurance in the U.S.**

- Employer sponsored health insurance provides coverage for 160 million Americans, nearly three out of five of the nonelderly population.<sup>xii</sup>
- In 2002, only 6.6% of the non-elderly population (16.5 million people) purchased coverage through the individual market.<sup>xiii</sup>
- The percentage of workers receiving health coverage through their employer has decreased from 65 percent in 2001 to 59.8% in 2004.<sup>xiv</sup>
- The percentage of firms offering health coverage declined from 69% in 2000 to 60% in 2005. Within offering firms, 80% are eligible for coverage, and 83% of eligible workers elect to enroll.<sup>xv</sup>
- Premiums for employer-sponsored health insurance increased by 9.2 percent in 2005.<sup>xvi</sup>
- The average premium for employer-sponsored family coverage was \$4,024 for single coverage and \$10,880 for family coverage in 2005. Since 2000, health insurance premiums have increased 73%, compared with inflation growth of 14% and wage growth of 15%.<sup>xvii</sup>
- Employee contributions for premiums average 16% for single coverage and 26% for family coverage.<sup>xviii</sup>
- Employers are shifting costs to employees. In network deductibles for PPOs, the most common type of health plan offered by an employer, have increased from \$175 in 2000 to \$323 for single coverage and \$679 for family coverage in 2005.
- Many families experience difficulty paying for basic necessities, such as food, heat, and housing as a result of health care costs increases. Increased health care costs also forced households to decrease their contributions to a retirement plan and other savings.<sup>xix</sup>

### **Do Other Countries Ration Care?**

- Despite the relatively high level of health expenditure, the United States has fewer physicians, nurses, and hospital beds per capita than most other OECD countries.<sup>xx</sup>
- Services that typically have queues in other countries account for only 3 percent of U.S. health spending.<sup>xxi</sup>
- Although spending on pharmaceuticals has increased from 8.6% of total health spending in 1993 to 12.9% in 2003, the U.S. is still far below the OECD average of 17.7%.<sup>xxii</sup>

### **Quality of Health Care in the U.S.**

- Infant mortality in the U.S. is higher than other industrialized nations.<sup>xxiii</sup>
- Life expectancy in the U.S. is lower than other industrialized nations.<sup>xxiv</sup>
- Medical errors account for more deaths than auto accidents, breast cancer, or AIDS.
- The US spends 100 times more than Costa Rica, but has similar life expectancy at birth.

### **True Drivers of Health Care Cost Increases**

- Higher prices. The price of health care goods and services is higher in the U.S. than other nations, which largely accounts for higher U.S. health care spending.<sup>xxv</sup>
- Variation of spending within U.S.. There is more than a two-fold difference in Medicare spending in different regions of the U.S., mainly because of more frequent physician visits, tests and procedures and greater use of specialists in higher-spending regions. Yet regions with higher spending do not have higher quality of care.<sup>xxvi</sup>
- High administrative cost. Administrative costs in the U.S. health system totaled \$292 billion in 1999, which represents 31 percent of U.S. health care spending.<sup>xxvii</sup>
- Inadequate quality of care. Patients receive only 55 percent of recommended health care, which can lead to preventable complications and deaths.<sup>xxviii</sup> More than

\$11 billion in lost productivity could be avoided each year if best practices were more widely adopted.<sup>xxxix</sup>

## Profit

HC cost growth compared to inflation/CPI (also see PPT chart).

Annual Growth:	1970	1980	1993	1997	2000	2002	2003	2004
NHI <sup>xxx</sup>	10.5%	13.0%	10.3%	5.4%	6.3%	8.8%	8.2%	7.9%
CPI <sup>xxxi</sup>	5.6%	12.5%	2.7%	1.7%	3.4%	2.4%	1.9%	3.3%

### Pharmaceutical Industry

- For every year from 1995 through 2002, the pharmaceutical industry was the most profitable industry in the U.S., although its profitability declined somewhat in 2002. Drug companies were more than 3 times as profitable as the median for all Fortune 500 companies in 2003 (14.3% compared to 4.6%).<sup>xxxii</sup>

The Pharmaceutical Industry: Arguably the Most Profitable Industry in the World <sup>xxxiii</sup>			
Year	Rank: Among all Fortune 500 Industries	Profit as a % of Revenue	Median Profit as a % of Revenue for all Fortune 500 Industries
1993	1 <sup>st</sup>	14.6%	3.5%
1994	1 <sup>st</sup>	16.1%	4.6%
1995	1 <sup>st</sup>	14.4%	4.8%
1996	1 <sup>st</sup>	17.1%	5.0%
1997	1 <sup>st</sup>	16.1%	4.9%
1998	1 <sup>st</sup>	18.5%	4.4%
1999	1 <sup>st</sup>	18.6%	5.0%
2000	1 <sup>st</sup>	18.6%	4.5%
2001	1 <sup>st</sup>	18.5%	3.3%
2002	1 <sup>st</sup>	17.0%	3.1%
2003	3 <sup>rd</sup>	14.3%	4.6%
2004	3 <sup>rd</sup>	15.8%	5.2%

- In 2003 the pharmaceutical industry spent \$108.6 million on Federal lobbying activities, employing 824 individual lobbyists.<sup>xxxiv</sup> That's more than eight lobbyists for each member of the U.S. Senate.
- Manufacturers spent \$11.9 billion for advertising in 2004...with \$7.8 billion (66%) directed toward physicians and \$3.2 billion (34%) directed toward consumers. Spending for direct-to-consumer advertising -- typically to advertise newer, higher-priced drugs -- was 15 times greater in 2004 than in 1994.<sup>xxxv</sup>

### Private Insurance Industry

- Net profits at the nation's HMOs rose 21% to \$6.98 billion in the first half of 2005. That compared with a 32% earnings gain in the first half of 2004, to \$5.76 billion, and a 73% gain in the first half of 2003, to \$4.37 billion.<sup>xxxvi</sup>

### **Profit Motive Does Not Improve Quality**

- NONE of the Hospitals on the US News and World Report list of Honor Roll hospitals were for-profit.<sup>xxxvii</sup>
- While for-profit facilities have 16.14% of overall hospital market share, they accounted for only 1.69% of the total top hospital rankings across 17 different specialties.<sup>xxxviii</sup>

### **Debunking the Malpractice Myth**

- Malpractice costs amounted to an estimated \$24 billion in 2002, but that figure represents less than 2 percent of overall health care spending. Thus, even a reduction of 25 percent to 30 percent in malpractice costs would lower health care costs by only about 0.4 percent to 0.5 percent, and the likely effect on health insurance premiums would be comparably small.<sup>xxxix</sup>
- Malpractice insurers increased their net premiums by 120.2% during the period 2000-2004, although their net claims payments rose by only 5.7%.<sup>xl</sup>

### **Dissatisfaction with "Consumer-Driven Health Plans"**

- **Lower Satisfaction.** Sixty-three percent of individuals with comprehensive health insurance were extremely or very satisfied with their health plan, compared with 42 percent of CDHP enrollees (people with combination HDHP/HSA plans) and 33 percent of HDHP-only participants. About 60 percent of individuals with comprehensive insurance reported they were extremely or very likely to stay with their current health plan if they had the opportunity to switch, compared with 46 percent of CDHP enrollees and 30 percent of HDHP enrollees.<sup>xli</sup>
- **Higher out-of-pocket costs.** Despite similar rates of health care use, individuals with CDHPs and HDHPs are significantly more likely to spend a large share of their income on out-of-pocket health care expenses than those in comprehensive health plans. Two-fifths (42 percent) of those in HDHPs and 31 percent of those in CDHPs spent 5 percent or more of their income on out-of-pocket costs and premiums in the last year, compared with 12 percent of those in more comprehensive health plans.
- **More Missed Health Care.** Individuals with CDHPs and HDHPs were significantly more likely to avoid, skip, or delay health care because of costs than were those with more comprehensive health insurance, with problems particularly pronounced among those with health problems or incomes under \$50,000. About one-third of individuals in CHDPs (35

percent) and HDHPs (31 percent) reported delaying or avoiding care, compared with 17 percent of those in comprehensive health plans.

- **Lack of information.** Few health plans of any type provide cost and quality information about providers to help people make informed decisions about their health care. The study also found very low levels of trust in information provided by health plans.

- <sup>i</sup> US Department of Labor, Bureau of Labor Statistics, "Real Earnings." Washington, DC.
- <sup>ii</sup> CRS analysis of 2003 CPS data.
- <sup>iii</sup> US Department of Labor, Bureau of Labor Statistics, "Real Earnings." Washington, DC.
- <sup>iv</sup> Smith, Cynthia, Cathy Cowan, Stephen Heffler, Aaron Catlin and the National Health Accounts Team, "National Health Spending in 2004: Recent Slowdown Led By Prescription Drug Spending." *Health Affairs*. Vol24, Issue 4; January/February 2006: 186-196.
- <sup>v</sup> U.S. General Accounting Office (GAO), "Health Care System Crisis: Growing Challenges Point To Need for Fundamental Reform." Presentation by Comptroller General David M. Walker, January 2004.
- <sup>vi</sup> Anderson, Gerard F., Peter S. Hussey, Bianca K. Frogner, and Hugh R. Waters, "Health Spending in the United States and the Rest of the Industrialized World." *Health Affairs*. Vol 24, Issue 4; July/August 2005: 903-914.
- <sup>vii</sup> Kaiser Family Foundation, "Trends and Indicators in the Changing Health Care Market Place: Section 1." April 1, 2005.
- <sup>viii</sup> Levitt, K., et al, "Health Spending Rebound Continues in 2002." *Health Affairs*. Vol 32, Issue 1. January/February 2004; pp 152-153.
- <sup>ix</sup> Smith, Cynthia, Cathy Cowan, Stephen Heffler, Aaron Catlin and the National Health Accounts Team, "National Health Spending in 2004: Recent Slowdown Led By Prescription Drug Spending." *Health Affairs*. Vol24, Issue 4; January/February 2006: 186-196.
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- <sup>xi</sup> Kaiser Family Foundation, "Trends and Indicators in the Changing Health Care Marketplace." Washington, DC. February 2, 2005. Accessed on the web January 18, 2006.
- <sup>xii</sup> Kaiser/HRET Annual Survey of Employer Health Insurance Benefits, 2005.
- xiii. Kaiser Family Foundation/ehealthinsurance, "Update on Individual Health Insurance." Washington, DC. August 2004 (revised).
- <sup>xiv</sup> US Department of Commerce, US Census Bureau, "Income, Poverty and Health Insurance Coverage in the United States: 2004." *Current Population Reports, Consumer Income* P60-229; August 2005: 59-78.
- <sup>xv</sup> Kaiser/HRET Annual Survey of Employer Health Insurance Benefits, 2005.
- <sup>xvi</sup> Kaiser/HRET Annual Survey of Employer Health Insurance Benefits, 2005.
- <sup>xvii</sup> Kaiser/HRET Annual Survey of Employer Health Insurance Benefits, 2005.
- <sup>xviii</sup> Kaiser/HRET Annual Survey of Employer Health Insurance Benefits, 2005.
- <sup>xix</sup> EBRI, "How Rising Health Care Costs Affect Household Finances." November 3, 2005.
- <sup>xx</sup> OECD Health Data, 2005
- <sup>xxi</sup> Anderson, Gerard F., Peter S. Hussey, Bianca K. Frogner, and Hugh R. Waters, "Health Spending in the United States and the Rest of the Industrialized World." *Health Affairs*. Vol 24, Issue 4; July/August 2005: 903-914.
- <sup>xxii</sup> OECD Health Data; 2005.
- <sup>xxiii</sup> OECD Health Data; 2005.
- <sup>xxiv</sup> OECD Health Data; 2005.
- <sup>xxv</sup> Andersen et al., *Health Affairs*, May/June 2003.
- <sup>xxvi</sup> Fischer et al., *Annals of Internal Medicine*, February 18, 2003.
- <sup>xxvii</sup> Woolhandler et al., *New England Journal of Medicine*, August 21, 2003.
- <sup>xxviii</sup> McGlynn et al., *New England Journal of Medicine*, June 26, 2003.
- <sup>xxix</sup> National Committee for Quality Assurance, September 2003.
- <sup>xxx</sup> Medicare Payment Advisory Commission (MedPAC), "A Data Book: Healthcare Spending and the Medicare Program." June 2005; Chart 7-8.
- <sup>xxxi</sup> US Department of Labor, Bureau of Labor Statistics, "Table Containing History of CPI-U U.S. All Items Indexes and Annual Percent Changes From 1913 to Present" <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiiai.txt> Accessed January 24, 2006.
- <sup>xxxii</sup> Kaiser Family Foundation, "Trends and Indicators in the Changing Health Care Marketplace." Washington, DC. February 2, 2005. Accessed on the web January 18, 2006.
- <sup>xxxiii</sup> Source: Fortune Magazine: Fortune 500 editions, 1995-2005.
- <sup>xxxiv</sup> Public Citizen, Congress Watch, "The Medicare Drug War: An Army of Nearly 1,000 Lobbyists Pushes a Medicare Law that Puts Drug Company and HMO Profits Ahead of Patients and Taxpayers." June 2004 <http://www.citizen.org/documents/MedicareDrugWarReportREVISED72104.pdf>

Accessed January 24, 2006.

<sup>xxxv</sup> "Prescription Drug Trends Fact Sheet - November 2005 Update" Kaiser Family Foundation, available at <http://www.kff.org/insurance/upload/3057-04.pdf>

<sup>xxxvi</sup> Weiss Ratings press release issued 1/30/06, [http://www.weissratings.com/News/Ins\\_HMO/20060130hmo.htm](http://www.weissratings.com/News/Ins_HMO/20060130hmo.htm)

<sup>xxxvii</sup> Staff Analysis of "Best Hospitals: 2005." U.S. News and World Reports, July 18, 2005.

<sup>xxxviii</sup> Staff Analysis of "Best Hospitals: 2005." U.S. News and World Reports, July 18, 2005.

<sup>xxxix</sup> Congressional Budget Office (CBO), "Limiting Tort Liability for Medical Malpractice," January 8, 2004; Available at <http://www.cbo.gov/showdoc.cfm?index=4968&sequence=0>, accessed January 24, 2006.

<sup>xl</sup> Angoff, Jay, "Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry." Center for Justice and Democracy, July 2005; Available at <http://www.centerjd.org/ANGOFFReport.pdf>, accessed January 24, 2006.

<sup>xli</sup> Fronstein, P and Sarah Collins, "Early Experience With High-Deductible and Consumer-Driven Health Plans: Findings From the EBRI/ Commonwealth Fund Consumerism in Health Care Survey." EBRI Issue Brief #288. December 2005.