

The Cost of Care

Averages and Trends

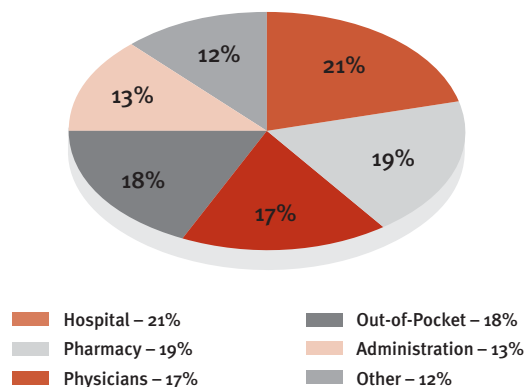
I. The Big Picture

- The U.S. spends more on health care than any other nation in the world: \$1.6 trillion in 2002, or \$5,540 per capita.¹
- Arizonans spent approximately \$21.5 billion on health care in 2002, or \$4,234 per capita.²
- Why might Arizona have lower per capita health care expenditures than the U.S. average?
 - Higher relative population growth. The denominator has grown faster than the numerator.
 - Higher influx of young people, immigrants, the uninsured.
 - Fewer staffed hospital beds, physicians, inpatient admissions and office visits. More people reporting unmet medical needs or delaying care.³
 - Relative lower pricing structure in southwest-mountain states generally.
- Do lower per capita health care expenditures = worse health outcomes?
 - There is no necessary relationship between health care expenditures and outcomes. In a new 2004 report on state health outcomes, Arizona ranked 21st on health outcomes alone and 30th on risk factors, for a composite ranking of 23 – up from 32 in 2003. Arizona received top scores for percent of health dollars earmarked for public health (4th), heart disease (8th) and cancer deaths (5th); the state received low scores for indicators such as motor vehicle deaths (47th), children in poverty (37th) and prenatal care (43rd).⁴
- People who have employer-based health insurance are paying more through increased co-payments and deductibles, increased premiums and foregone wages. During the 1970-2000 period in Arizona:
 - Total compensation increased by 21.8%.
 - Real wages increased by 15.2% (about .5% annually).
 - Retirement benefits increased by 37.3%.
 - Other benefits increased by 8.7%.
 - Health insurance benefits increased by 237.5% (8% annually), growing from 2.4% to 6.5% of total compensation.⁵

II. Arizona Health Expenditures

- Administrative expenditure estimates are controversial and vary widely. Nationally, some estimate that administration accounts for 25% or more of total health care expenditures. Excluding Medicare, Arizona estimated administrative expenditures range from 10% in the AHCCCS program to 34% in the individual insurance market and 23% in the small employer insurance market.⁷
- Inpatient and outpatient hospital expenditures also vary widely. Arizona hospital expenditures range from 19% and 22% respectively in the individual and small employer insurance markets to 41% in AHCCCS (Medicaid) program.
 - Between 1992-2002, hospital expenditures per admission increased 21% in Arizona compared to 35% nationally.
 - Arizona hospital operating margins averaged 2.5% in the period 2000-2003, ranging from .9% in 2000 to 4.8% in 2003.⁸

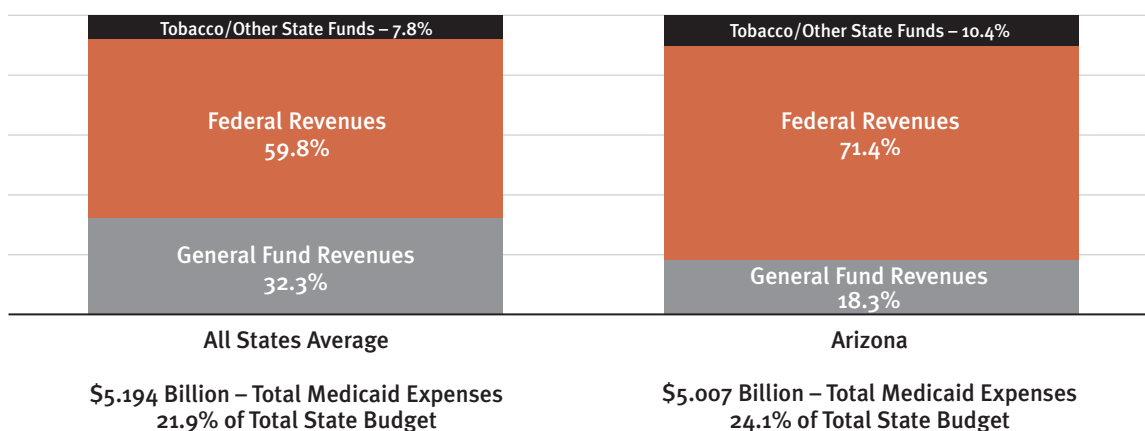
Health Expenditures 2004⁶



- Aggregate pharmacy spending in Arizona has increased from 9% in 1998 to a projected 20% in 2004. This ranges from a projected low of 10% in AHCCCS to a high of 26% among the uninsured.⁹
- In the 1997-2001 period, the average cost per person for prescription medications more than doubled, from \$144 to \$321. Seniors were especially affected, with per person expenses rising from \$330 to \$765 on average.¹⁰
- Arizona ranked 45th in the nation in retail prescriptions per capita (2003).¹¹ Even though the state spends more on prescription drugs as a percentage of total health care expenditures, it spends less on health care per capita than other states.
- In 1998, the last year for which comparative national data are readily available, Arizona spent more on physician and other professional services (33.4%) than the U.S. average of 29.1%, and less on hospital care (35%) than the U.S. average of 37.4%.¹²

III. AHCCCS (Medicaid)

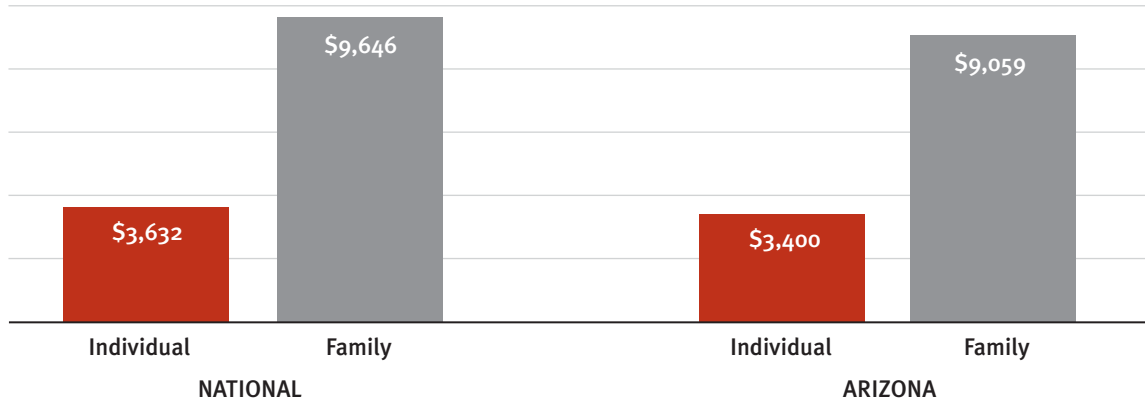
Estimated FY 2004 Medicaid Expenditures¹³



- Arizona Medicaid expenditures increased 36.6% between FY 2002-2004 compared to a 14.6% average increase across all states.

IV. Health Insurance Premiums

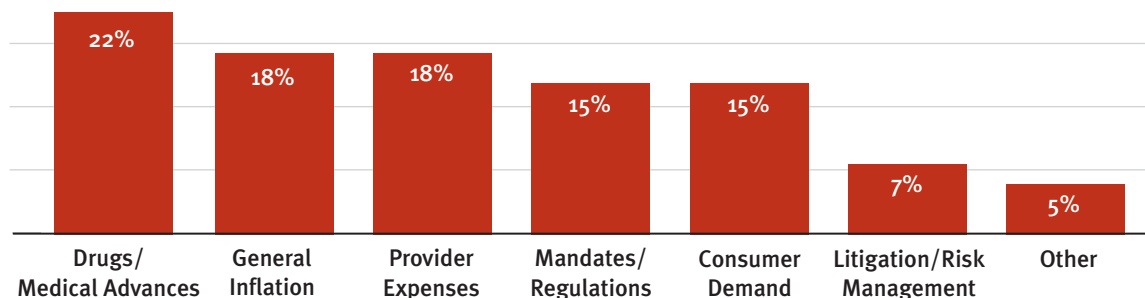
Average Employer-Based Premiums, 2003¹⁴



Premiums vary widely by region, type of plan, employer size, experience rating and other factors.

- Employee deductibles increased approximately 20% between 1999-2002, rising from \$772 to \$920 for family coverage.¹⁵
- People not insured through an employer pay even more:¹⁶
 - 15% of people with employer-based insurance paid an annual deductible over \$500, compared with 44% who paid over \$500 in the individual insurance market. An additional 30% of those in the individual market pay an annual deductible over \$1,000.
 - 10% of those with single coverage through an employer paid over \$2,500 in annual premiums, compared to 34% in the individual market.
- Projected 2004 Arizona out-of-pocket costs for persons insured individually or through a small business employer average between \$1,260-\$1,404, compared to out-of-pocket costs of \$540 for those covered through a large employer.¹⁷

Factors Driving Rising Costs in Health Care Premiums (2001-2002)¹⁸



V. Cost Distribution

- A small portion of the population consumes the majority of health care:¹⁹
- Top 5% of spenders account for 56% of aggregate health expenditures.
- Top 20% of spenders account for 84% of aggregate health expenditures.
- Bottom 50% account for just 2.6% of aggregate health expenditures – an amount equal to approximately \$350 annually (1997 dollars).
- Health costs vary between urban and rural populations. While average ambulatory expenses are similar for children in urban vs. rural settings (\$397 and \$377 respectively), the gap widens dramatically for seniors (\$1,596 and \$662 respectively).²⁰

- 1 Levit, K., et. al., "Health Spending Rebound Continues in 2002," *Health Affairs*, Jan/Feb 2004, pp. 147-167.
- 2 Assumes same health care growth rate as U.S. average. This should be interpreted with caution, but we think the general trend holds.
- 3 Characteristics of greater Phoenix health system compared to U.S. metropolitan areas 200,000+ population. See Center for Studying Health System Change, *Phoenix Community Report, Fourth Visit*, 2003.
- 4 See UnitedHealth Foundation, *America's Health: State Health Rankings, 2004*. www.unitedhealthfoundation.org.
- 5 Vogel, R., *An Analysis of Public Funding and Tax Expenditures for Health Care Services in the U.S. and in Arizona*, November 2003 (unpublished), St. Luke's Health Initiatives, Phoenix, AZ.
- 6 Projected expenditures are supplied by Mercer Government Human Services Consulting.
- 7 See St. Luke's Health Initiatives, *Arizona CAN: Coverage and Access Now, 2004* for more information. (www.slhi.org). In these comparisons, the 'out of pocket' expenses have been allocated to other areas.
- 8 Arizona Hospital and Healthcare Association, unpublished data.
- 9 Nationally, pharmacy costs as a percent of total health care expenditures are estimated to be in the 12 percent range (2002). Researchers use different methodologies to calculate these and other health care expenditures; thus comparisons should be interpreted with caution. Here, we are primarily interested in illustrating trends.
- 10 Pancholi, M., Stagnitti, M., *Outpatient Prescription Medicines: A Comparison of Use and Expenditures, 1987-2001*, Statistical Brief #33, June 2004. Agency for Healthcare Research and Quality (www.meps.ahrq.gov/papers/st33.htm).
- 11 Kaiser Family Foundation, *State Health Facts Online* (www.statehealthfacts.org).
- 12 Ibid.
- 13 National Association of State Budget Officers, *2003 State Expenditure Report*.
- 14 Calculated from information found at *State Health Facts Online* (2002 data) and Employer Benefits 2003 Annual Survey, available at the Kaiser Family Foundation web site (www.kff.org).
- 15 Sommers, J., *Employee Copays and Deductibles for Employer-Sponsored Health Insurance in 1999 and 2002*, Statistical Brief #53, September 2004, Agency for Healthcare Research and Quality (www.meps.ahrq.gov/papers/st53/stat53.pdf).
- 16 Collins, S.R., et. al., *The Affordability Crisis in U.S. Health Care: Findings from the Commonwealth Fund Biennial Health Insurance Survey*, March 2004. The Commonwealth Fund (www.cmwf.org).
- 17 St. Luke's Health Initiatives, *Arizona CAN*, 2004.
- 18 PriceWaterHouseCoopers analysis, April 2002. Available at www.pwc.com.
- 19 Monheit, A.C., "Persistence in Health Expenditures in the Short Run: Prevalence and Consequences," *Medical Care*, 41, July 2003 supplement III, pp. 53-64. This is based on 1997 data.
- 20 Larson, S.L., et. al., *Health Care in Urban and Rural Areas, Combined Years 1998-2000*, Agency for Healthcare Research and Quality, 2004. MEPS Chartbook #13.



Our Mission

To improve the health of people and their communities in Arizona, with an emphasis on helping people in need and building the capacity of communities to help themselves.

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