Why Are Health Care Costs Rising?
Leading Experts/Real-World Data Identify Multiple Factors Across the System

March 2010
Multiple Factors Driving The Cost Of Health Care

- There is no single cause of the escalating cost of health care in America — significant cost drivers are embedded throughout the system.
- Studies from government and academic experts as well as data from UnitedHealth Group illustrate a complex mix of factors responsible for the continuing rise in health care costs. These analyses come from:
  - Congressional Budget Office (CBO)
  - Department of Health and Human Services (HHS)
  - Centers for Medicare and Medicaid Services (CMS)
  - Massachusetts Office of the Attorney General
  - Academic institutions including Dartmouth College, Emory University, and the Center for Studying Health System Change (HSC)
What The Experts Are Saying

“If you want to keep costs under control, it’s not about managing health care premiums…it’s about managing the underlying health care costs.”
- Sandy Praeger, Kansas Insurance Commissioner

“Insurance is not the problem. The problem is incentives. We have payment for procedures, not for results.”
- Warren Buffet, CEO, Berkshire Hathaway

“And ‘the elephant in the room that no one has focused on is providers’ power to get higher rates from insurers.’”
- Paul Ginsburg, Center for Studying Health System Change

“Health insurers have been squarely in the crosshairs and blamed for the high cost of private insurance, while the role of growing hospital and physician market power has escaped scrutiny.”
- Robert Berenson, M.D., Senior Researcher, Urban Institute

“Everyone is beating up on the insurance companies, but you may be shooting at the wrong target…”
- Uwe Reinhardt, Economist, Princeton University

Kaiser Health News: State Regulators Criticize Obama Plan To Create Federal Authority Over Health Insurance Rates, 02/22/10

CNBC, 03/01/10

USA Today: Impact of Bipartisan Summit To Be Felt Beyond Health Care, 02/24/10

HSC News Release, Feb. 2010

AOL News: Who’s the Bad Guy in Insurance Premium Hikes?, 02/21/10
CBO: Largest Costs In Health Care Today

**Demand**
- 300M people across America
- $2.555T 100%

**Administration and net cost of private insurance**
- $0.184T 7%

**Supply**
- Hospital Care $800B
- Physicians & Clinical Drugs $533B
- Dental $264B
- Home Health/Nursing Home Etc. $177B
- $210B

Total Supply $2.371T 93%

Source: Congressional Budget Office: Key Issues in Analyzing Major Health Insurance Proposals, December 2008
CMS: Hospitals And Physicians Account For Majority Of Cost Increases

- Hospitals: 33% increase
- Physicians, Clinical Professional: 34% increase
- Drugs: 8%
- Equipment and Construction: 8%
- Dental: 7%
- Other, Including Nursing Homes: 5%
- Private Administration, Net Cost of Insurance: 5% increase

Source: Average annual increases in private expenditures 2003-2008. From National Health Expenditure Accounts, Centers for Medicare and Medicaid Services, HHS.
Dartmouth: Widespread Regional Variations In Medicare Cost Increases

Despite this regional cost gap, Dartmouth researchers found that:

- “Quality of care and health outcomes are better in lower spending regions.”
- “There have been no gains in survival in regions with greater spending growth.”

Source: Fisher et al, NEJM 360;9 2009
MA Attorney General: Higher Provider Prices Are Responsible For Cost Increases

1. “Price increases, not increases in utilization, caused most of the increases in healthcare costs during the past few years in Massachusetts.”

2. “Hospital and physician group prices vary significantly within the same geographic area and amongst providers offering similar levels of service.”

3. “Price variations are not correlated to:
   • quality of care;
   • the sickness or complexity of the population being served;
   • the extent to which a provider is responsible for caring for a large portion of patients on Medicare or Medicaid; or
   • whether a provider is an academic teaching or research facility.

4. “Price variations are not adequately explained by differences in hospital costs of delivering similar services at similar facilities.”

5. “Price variations are correlated to market leverage, as measured by the relative market position of the hospital or provider group compared with other hospitals or provider groups within a geographic region or within a group of academic medical centers.”

Researchers from The Center for Studying Health System Change cite “a definite shift in negotiating strength toward providers, resulting in higher payment rates and premiums.”

“Evidence from two decades of hospital mergers and acquisitions nationally demonstrates that consolidating hospital markets drives up prices, with disagreement only over the magnitude of the increases.”

“Hospital and physician payment rates are nearly 30 percent and 20 percent higher, respectively, than Medicare rates…In some cases, payment rates to hospitals and powerful physicians groups approach and exceed 200 percent of what Medicare pays.”

“As one medical group executive said, ‘We are making out hand over fist.’”

Source: Health Affairs: Unchecked Provider Clout in California Foreshadows Challenges to Health Reform, April 2010
Impact Of Provider Price Inflation

FACT: 67% of the increase in National Health Expenditure is accounted for by price inflation -- CMS Office of the Actuary, January 2010

REAL-WORLD EXAMPLES

- A large multi-specialty physician group in Washington, D.C., charges all competing health plans 8% more than what it charges the Blues due to a ‘most favored nation’ clause.

- A hospital in suburban New Jersey — the only hospital in its community — is demanding that health plans pay an extra 15-16% to compensate them for Medicaid and Medicare payments that are rising by 4-5% less than the hospital’s own costs.

- A hospital in the Northeast charges health plans 50% more than what it charges the plan owned by its own hospital system.

Source: UHG internal contract negotiations. Recent examples of provider-price increases.
Sharply rising hospital inpatient and outpatient costs are the main cause of rising medical costs for employers and consumers.

<table>
<thead>
<tr>
<th>Service</th>
<th>2009E</th>
<th>2010P</th>
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<tbody>
<tr>
<td>Physician</td>
<td>4.0%-5.0%</td>
<td>Increased fee schedules. Office visits similar to 2009.</td>
</tr>
<tr>
<td>Inpatient</td>
<td>11.5%-12.5%</td>
<td>Continued unit cost pressure. Similar utilization trends as 2009.</td>
</tr>
<tr>
<td>Outpatient</td>
<td>8.0%-9.0%</td>
<td>Continued unit cost pressure. Utilization trends remain in the mid-single digits.</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>6.0%-7.0%</td>
<td>Consistent cost trend.</td>
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Source: UHG Data as of December 1st, 2009
Brand-Name Drug Price Increases

FACT: 416 brand-name drugs had extraordinary price increases -- GAO, Dec. 2009

UHC Prices of Some Popular Drugs Have Also Jumped Dramatically…
Adderal XR Up 60%, Flomax Up Over 30%, Crestor Up Nearly 20%

Brand-Name Drug Price Inflation Reached 11.3% for UHC in 2009

Price Inflation for Select Drugs

Drug Price Inflation by Year

*Specialty drug
Source: UHC data. AWP per unit January 2008 compared to AWP per unit ending September 26, 2009

*Source: Sample of UHC data based on AWP per days supply for actual utilization January 2009 – September 26, 2009
HHS: Treatment Volumes Are Rising

Over the past decade:

- MRI / CT / PET scans **tripled**
- Hip replacements **up by a third**
- Knee replacements **up by 70%**
- Kidney transplant rates **up by 31%**
- Liver transplant rates **up by 42%**
- Statin drug usage **up nearly tenfold**

Data for the decade to 2006/7.
Emory University:
Obesity A Leading Cost Driver

- Obesity is growing faster than any previous public health issue America has faced. If current trends continue, 103 million American adults will be considered obese by 2018.

- The U.S. is expected to spend $344 billion on health care costs attributable to obesity in 2018 if rates continue to increase at their current levels. Obesity-related direct expenditures are expected to account for more than 21 percent of the nation’s direct health care spending in 2018.

- If obesity levels were held at their current rates, the U.S. could save an estimated $820 per adult in health care costs by 2018 — a saving of almost $200 billion dollars.

Emory University: Chronic Conditions Driving Medicare Spending

“Much of the recent growth in spending among Medicare beneficiaries is attributable to rising spending on chronic conditions — specifically diabetes and hypertension.”

Source: Thorpe et al, Health Affairs, April 2010
The Bottom Line

There is no single factor responsible for rising health care costs. Our system is complex and the cost drivers are numerous.

- 95 cents of every $1 cost increase is driven by health care providers and related services.
- Hospitals, physicians and prescription drugs cause 75% of the increase in spending.
- 67% of the increase in national health spending is accounted for by rising prices charged by providers, not increased use of health care.
- But treatment volumes are increasing too – partly because of the rise of chronic conditions and obesity.

www.unitedhealthgroup.com/reform
What Drives Insurance Costs?

Insurance premiums reflect the costs of care.

- Rising health insurance costs reflect increasing demand and the underlying costs of medical care, i.e., physician, hospital, pharmaceutical and diagnostic costs.
- Our goal in pricing is to match expected medical cost increases with premiums, while helping patients and employers hold down costs and access the most appropriate quality care.
- Net premiums for our commercial business, UnitedHealthcare, have increased 6% on average per person over the past three years. Our comparable UnitedHealthcare medical costs increased by nearly 7½% a year on average per person in the same period.
- The UnitedHealthcare medical cost ratio has been increasing steadily in recent years, from 80.5% in 2006, rising to 84% in 2009 – pushing margins down as they have occurred across the industry.

Premium increases are driven by underlying medical costs.

- For 2010, we are expecting our UnitedHealthcare net medical costs to increase by about 8% (+/-50bps).
- Sharply rising hospital costs are the main cause of these rising medical costs for our consumers and employers: we’re expecting 2010 inpatient costs to rise by 11.5% to 12.5%.
- Two-thirds of our 2010 medical cost increases are expected to be from hospitals and doctors charging higher prices, compared to one-third due to increased treatment volumes.
- Prices of many branded and specialty drugs are rising sharply – in some cases by 20%-40%.

The government’s own data confirm that it is rising medical costs that drives US health spending.

- According to CBO and HHS data, fewer than 7 cents of every dollar of US health spending is on “administration and the net cost of private insurance.”
- Over the past five years, rising hospital, physician and drug costs accounted for 75 cents of every dollar increase in national health care costs. Health insurance plans accounted for just one-twentieth of the increase.

Many factors explain why US medical costs are rising, including a) health care provider price inflation, b) greater volumes of treatment, and c) the rising burden of chronic disease.

a) Health care provider price inflation:
   - Hospitals have been seeking major increases. For example:
     - A large multi-hospital system in California sought a 23% price increase.
What Drives Insurance Costs?

- A hospital in suburban New Jersey – the only hospital in its community – is demanding health plans pay an extra 15-16% more, to compensate it for Medicaid and Medicare payments that are rising by 4-5% less than the hospital’s own costs.
- A hospital in the Northeast is refusing to renew its contract unless it receives increases about 50% above what it charges its own health plan.

- Massachusetts Attorney General Martha Coakley reported in January that higher prices are correlated to hospitals’ monopoly power or market leverage, rather than to their costs or quality.
- A current report from the Center for Studying Health System Change found that in California growing physician and hospital market clout gives providers an upper hand in demanding higher reimbursement rates and is an underlying driver of increased premiums. The report, entitled “Unchecked Provider Clout in California Foreshadows Challenges to Health Reform,” published in the April issue of the journal *Health Affairs*, concludes, “the trends in California suggest an urgent need for policymakers to address the issue of growing provider market strength.”

**b) Treatment volumes are increasing:**
- HHS has just published data showing that over the past decade (to 2006/07):
  - MRI/CT/PET scans tripled
  - Hip replacements are up by a third
  - Knee replacement surgeries shot up by 70%
  - Kidney and liver transplantation rates are up by between 31-42%
  - Statin usage is up nearly tenfold

**c) Chronic disease and lifestyle-related health problems are driving demand:**
- Recent research from the United Health Foundation and experts at Emory University shows that on current trends, obesity will be contributing to more than a fifth of the nation’s healthcare costs by the end of the decade.
- But if we act as a nation – and if obesity levels can be held at their current rates – we could save almost $200 billion dollars – $820 for every adult in the country.

Health insurers’ profits are low compared with other health care companies and overall businesses.

- Health plans’ net profits are less than a third of those for the health care sector as a whole (including pharma, hospitals).
- The profit margin for UnitedHealth Group in 2009 was 4.4%. According to an August 2009 *U.S. News &World Report*, the profit margin for health insurance companies overall ranked 87th out of 215 industries.