

All About Rising Health Care Costs & What Legislators Can Do To Ease The Burden



Constituents, Small Business, State Budgets Crushed by Health Care Costs

Health care costs are a top concern for U.S. voters of both parties.¹ That’s because ever-rising health care costs are a core economic issue that is making it difficult for people to get the health care they need, and to afford other necessities in their lives. Nearly one-third of working-age adults across various insurance types say that health care costs made it harder to afford food or utilities.² And unavoidable health care crises like illness or accidents have driven as many as 41% of Americans into medical debt.³

While the United States has made progress on improving health coverage rates over the last decade, health care costs have continued to

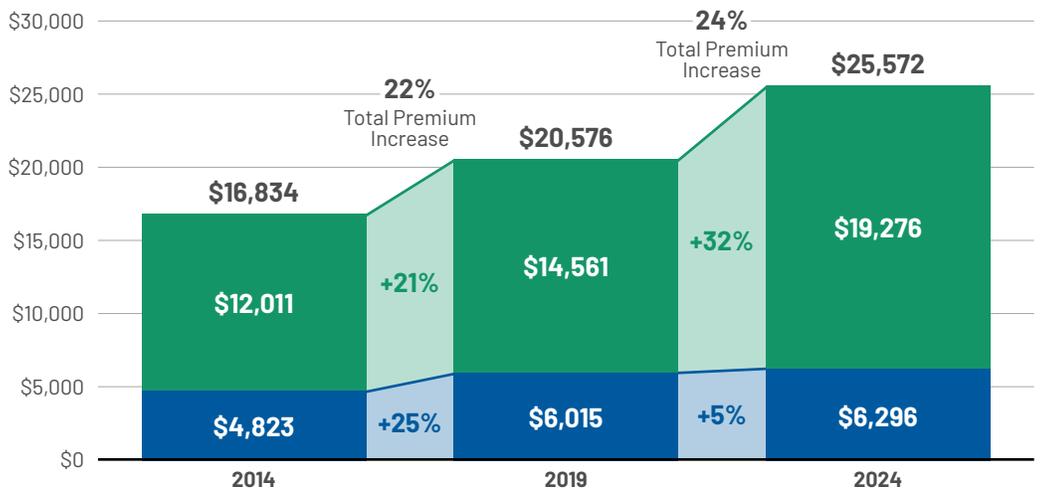
rise, far outpacing growth in wages and inflation. The chart below shows increases in worker and employer premium contributions to employer-sponsored coverage over the last decade; people also bear the cost burden in copays and high deductibles, as well as lost wages.

Health care costs likewise make it tough for small businesses to survive. A 2024 Small Business Majority poll showed that small business owners

Figure A

Average Annual Worker and Employer Premium contributions for Family Coverage, 2014, 2019, and 2024

■ Employer Contribution
■ Worker Contribution



Source: 2024 Employer Health Benefits Survey, KFF, October 9, 2024. <https://www.kff.org/health-costs/report/2024-employer-health-benefits-survey/> <https://www.kff.org/report-section/ehbs-2024-summary-of-findings/>



struggle to keep up with rising health care costs, and they strongly support policy solutions that can bring down these costs.⁴ While they wait for legislators to act, small businesses that provide health benefits to their employees report that they have been forced to make the following changes:

- 51%** increased employee contributions to their health plans
- 47%** moved to an insurance plan offering more limited coverage
- 29%** cut other employee benefits

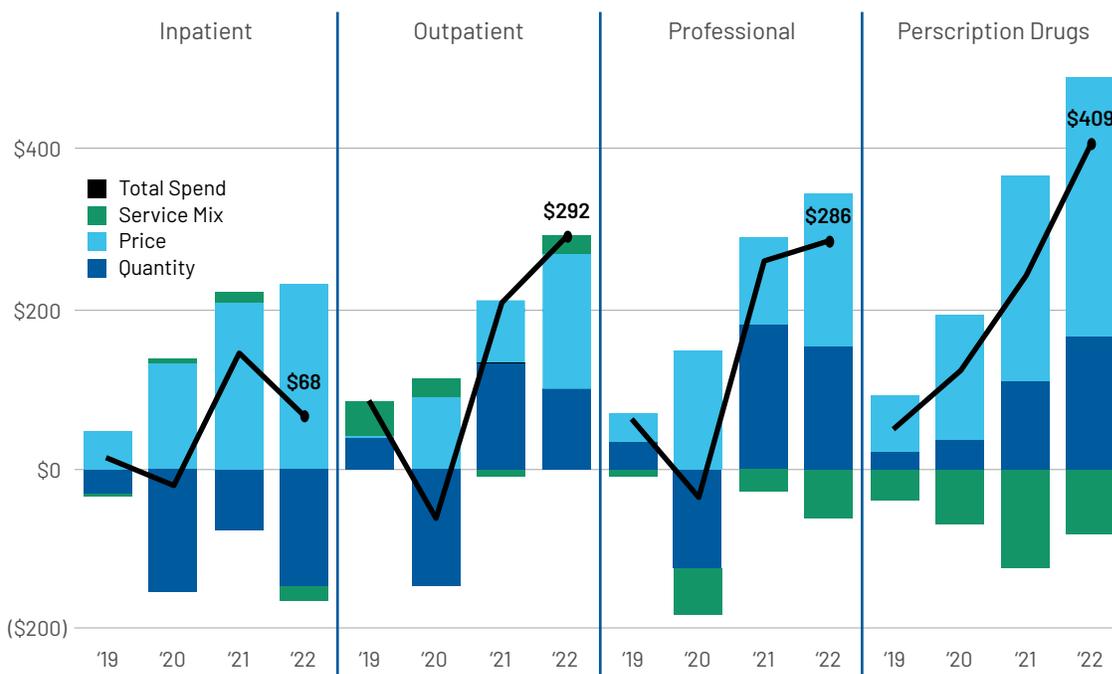
And, of course, state health care spending on coverage for public employees and Medicaid beneficiaries is eating up more and more of tight state budgets, leaving less for other sectors like education or infrastructure. Now is the time to address rising health care cost to ensure that people can maintain access to affordable health care.

Our health care dollars benefit some sectors of the health system more than others. Less than 5% percent of health spending goes to primary care, for example, even though good primary care has been shown to improve health outcomes and health equity.⁵ Access to primary care is declining, pointing to the need to not only contain spending growth but also redirect some of our health care dollars to help the health system work more efficiently.

What Drives Costs?

Prices. Analyses of recent national health care spending by service type,⁶ as well as available state data,⁷ show prescription drugs and hospital costs, particularly outpatient hospital costs, are major drivers of spending. Much of this increase can be attributed to rising prices rather than the number or complexity of the medical services provided.

Figure B
Cumulative Change in Total Spending Per Person and Contributing Factors by Service Since 2018



Source: Health Care Cost Institute. 2022 Health Care Cost and Utilization Report. April 2024. https://healthcostinstitute.org/images/pdfs/HCCI_2022_Health_Care_Cost_and_Utilization_Report.pdf



Why are providers raising their prices

Evidence suggests that despite rising health care expenses such as high labor costs and expensive physician-administered drugs, most providers are profiting from price increases. Legislators can use the Peterson-Milbank Guides to Hospital Finances to understand the financial health of their district's health systems.⁸

Consolidation. Much evidence suggests that price increases are tied to increasing health care market consolidation, and more recently, vertical consolidation in which health systems purchase physician practices or urgent care centers. As a result, 90% of U.S. hospital markets lack any sort of healthy competition.⁹ A few large health systems wield leverage that enables them to charge high and variable prices for everyday screenings like mammograms and colonoscopies. Such consolidation not only affects prices, but also appears to reduce quality, depress wages,¹⁰ and lead to job loss and even higher mortality rates.¹¹ Growing ownership of health care facilities by private equity firms also has a well-documented negative impact on prices and quality.¹²

When looking at spending by insurer market, it's clear that most spending increase are occurring within the opaque employer-sponsored market rather than the publicly funded insurers Medicare and Medicaid.

The RAND Hospital Transparency Study used data from self-funded employers, which pay for employee health care services directly, and 12 all-payer claims databases (APCDs) to assess hospital prices paid by private health plans.¹³ RAND found wide price variation by state, with employers and private insurers paying about 2.5 times what Medicare would have paid for the same services in the same hospital. These



findings underscore that health system leverage in negotiations with private insurance is driving higher prices and higher costs.

What States Can Do

States are already pursuing a number of policies to slow health spending growth. For example, eight states have taken a first step toward controlling spending by setting a goal for their annual health care spending known as a health care cost growth target. Learn more about this approach, as well as complementary policies to address cost growth drivers, in a forthcoming fact sheet.

Legislators can use Sage Transparency a public tool from the Employers' Forum of Indiana to compare hospital price, cost and quality data in their district. dashboard.sagetransparency.org



Peterson-Milbank
Program for Sustainable
Health Care Costs

Endnotes

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