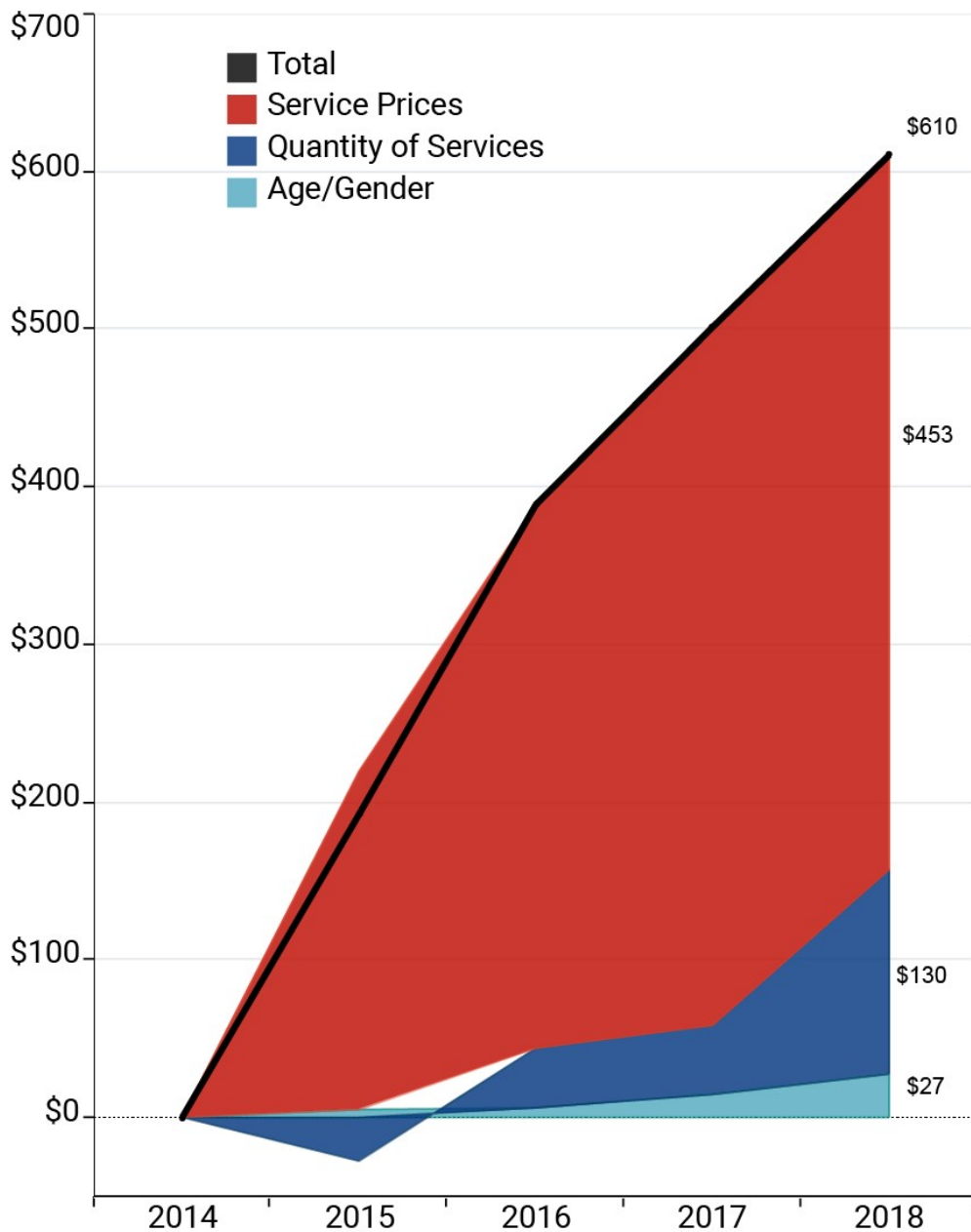


Prices Drove Spending Growth: Trends In Employer-Sponsored Insurance Costs, 2014-2018

Health care costs continue to be at the forefront of the discussion in the presidential primaries, on Capitol Hill, and in state houses, boardrooms and kitchen tables across the country. Drawing on 2.5 billion medical and pharmacy claims from four of the largest national health insurers, the latest [annual report](#) from the Health Care Cost Institute (HCCI) shows that average health care spending climbed to an all-time high in 2018 of \$5,892 per person for individuals with health insurance coverage through an employer. That amounts to an average annual growth rate of 4.3 percent between 2014 and 2018.

The increase in health care spending is particularly concerning because nearly three-quarters of the increase in inflation-adjusted spending was due to rising prices (exhibit 1). (We measured inflation using the Consumer Price Index for All Urban Consumers.) Somewhat encouragingly, price growth slowed in 2018. However, rapid price increases between 2014 and 2017 mean that the increase in utilization in 2018 contributed more to spending growth than a similar increase would have just five years earlier.

Exhibit 1: Factors contributing to growth in spending per person.



Source: Authors' calculations based on HCCI data

Price Growth Drove Increases In Spending

Prices were the main driver of spending increases between 2014 and 2018, accounting for nearly three-quarters of post-inflation spending growth, an average of \$453 per person. Inflation contributed another \$304 per person to spending growth over that time. Areas of notable price growth included payments to inpatient facilities for surgical admissions, which rose \$6,014 (16 percent) in just five years. The prices paid to outpatient facilities for surgical visits also rose substantially, increasing \$884 (20 percent).

As the drug overdose epidemic crested during the same five-year-period, prices for inpatient substance use admissions increased by 34 percent, from an average \$8,641 in 2014 to \$11,598 in 2018. Patients also saw their out-of-pocket payments for substance use admissions rise more than for any other type of inpatient care,

increasing by 30 percent, from \$1,237 to \$1,603 on average.

Utilization Increased In 2018

Utilization of health care services, which rose 1.8 percent in 2018 after several years of limited growth, accounted for 21 percent of spending growth since 2014—an average of \$130 per person. As noted, because average prices have increased, 2018's growth in utilization had a greater effect on costs than a similar increase would have had in earlier years.

Professional services—which includes payments to physicians and other members of the clinical care team, as well as certain things these providers sell as part of their services—saw the largest increase in utilization. Psychiatry experienced a 12 percent increase in utilization in 2018, the largest growth in any subcategory of professional services. Other service subcategories with single-year utilization increases above 4 percent included radiology, physical medicine, and administered drugs.

Out-Of-Pocket Spending Rose Steadily

People with employer-sponsored insurance have seen their annual out-of-pocket spending rise by approximately 15 percent over five years, reaching an average of \$907 per person in 2018. Average out-of-pocket spending increased in each year, with a total increase of \$114 per person over the five years. That increase, while rapid, was lower than the rate of total spending growth.

Some of the increase in out-of-pocket costs is likely related to changing trends in benefit structures. By 2018, 33.5 percent of Americans with job-based coverage were enrolled in consumer-directed/high-deductible health plans, a 7.7 percentage point increase since 2014.

An area of notable out-of-pocket cost growth was emergency room visits. Patients were responsible for paying \$503 to ER facilities per visit in 2018, compared to \$368 in 2014, a 37 percent increase. Out-of-pocket costs for prescription drugs varied widely depending on brand versus generic usage: The average out-of-pocket cost for a 30-day supply of generic drugs, \$10, was less than one-fifth of the average out-of-pocket cost for brand drugs, \$58, in 2018.

Putting The Findings In Context

For policymakers and employers seeking to control health care spending, our 2018 data adds to a growing body of evidence that prices remain a key driver of health care costs. Little has changed since Uwe Reinhardt and colleagues initially told *Health Affairs* readers “[It's the Prices, Stupid](#)” back in 2003.

In a 2019 update, “[It's Still the Prices, Stupid](#),” Reinhardt's coauthors note that prices for medical services have grown faster in the private than the public sector since their 2003 article; they suggest that policymakers shift their focus accordingly. Yale's Zack Cooper used HCCI data [to show](#) that it's the prices paid by private U.S. insurers, not Medicare and Medicaid, that are the true international outliers. A recent [report](#) by the International Federation of Health Plans confirms that the prices paid for same health care services by the privately insured in the US are significantly higher than

the prices paid by private insurers in other countries.

Research by Cooper et al [shows](#) that prices paid by private insurers in the U.S. vary significantly and appear to correlate with different factors than those that drive Medicare and Medicaid spending. Thus, trends in employer-sponsored insurance prices are essential pieces of the U.S. health costs puzzle.

But while prices are an important factor in cost growth, policymakers, researchers and innovators can't look *only* to prices for the answers on containing costs. Increases in utilization, shifting demographics in the employer-insured population, and higher out-of-pocket costs paid by enrollees also offer a bounty of insights about how American health care is changing.