Altarum Institute Center for Sustainable Health Spending

Health Sector Trend Report

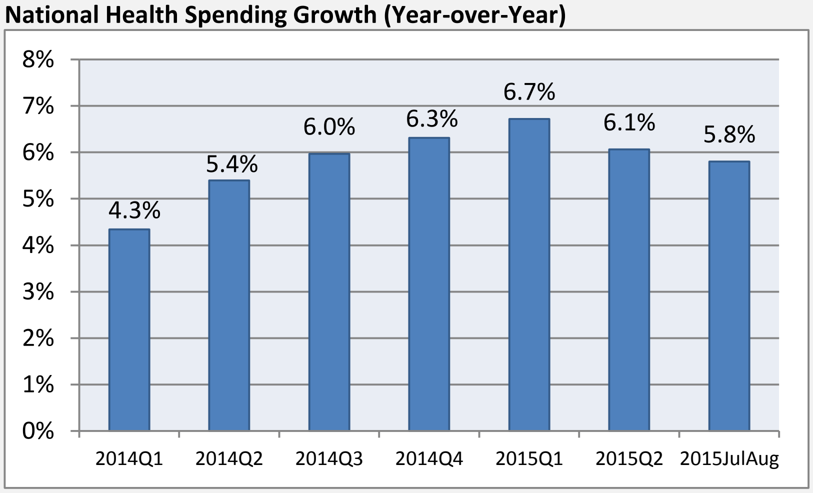
October 2015

This report provides a monthly summary of key trends in U.S. health care spending, prices, utilization, and employment. The reports build on Altarum Institute's Health Sector Economic Indicators℠ briefs (HSEI) and make direct use of the U.S. Census Bureau's Quarterly Services Survey (QSS), the timeliest source of detailed, survey-based spending information for health care services, which account for more than 70% of national health spending. When new QSS data are released (in March, June, September, and December), an expanded version of this report is published with a more detailed analysis of health care services trends. The next expanded report, covering the third quarter (Q3) of 2015, will be produced in December. Interim reports highlight noteworthy health sector trends and early indications of results for the next quarter.

The recent acceleration in health spending peaked at 6.7% in Q1 2015, and growth has now fallen to 5.8% during the first 2 months of Q3 2015.

- Health spending grew at about 4% per year from 2009 through 2013. It began accelerating in 2014, with growth peaking at 6.7% in Q1 2015, then dropping below 6% during the first 2 months of Q3 2015.
- Previous trend reports have shown that this pattern is largely explained by expanded coverage under the Patient Protection and Affordable Care Act and a major acceleration in spending on prescription drugs fueled by the introduction of new hepatitis C drugs and higher prices on generics.
- Altarum expects that the spending growth rate will continue to decline through the remainder of 2015 and into 2016 due to a leveling off in both the number of insured persons[1] and spending on hepatitis C. However, absent significant downward revisions to the 2015 data released thus far, the growth rate for all of 2015 is almost certain to exceed the 5.3% rate projected by the Centers for Medicare & Medicaid Services.

National Health Spending Growth (Year-over-Year)



Source: Altarum Center for Sustainable Health Spending (CSHS) computations from October 2015 HSEI data.

[1] Over 30 million people remain uninsured, so there is potential for additional expanded coverage effects, but we do not foresee enough movement in the near future in state Medicaid expansion decisions or other policies to significantly increase coverage.

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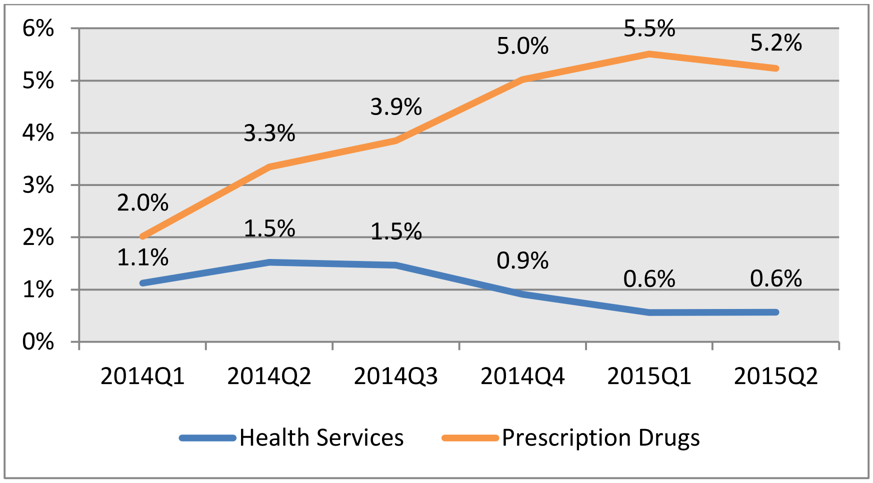
Health care prices do not explain the acceleration in health spending, except for prescription drugs, where prices offer a partial explanation.

- Growth in prices for health care services (accounting for more than 70% of all health spending) has remained very low and actually decelerated after Q3 2014. Growth in prices for prescription drugs (accounting for less than 10% of health spending) explains some of the acceleration in prescription drug spending.

Health Services and Prescription Drug Price Growth (Year-over-Year)

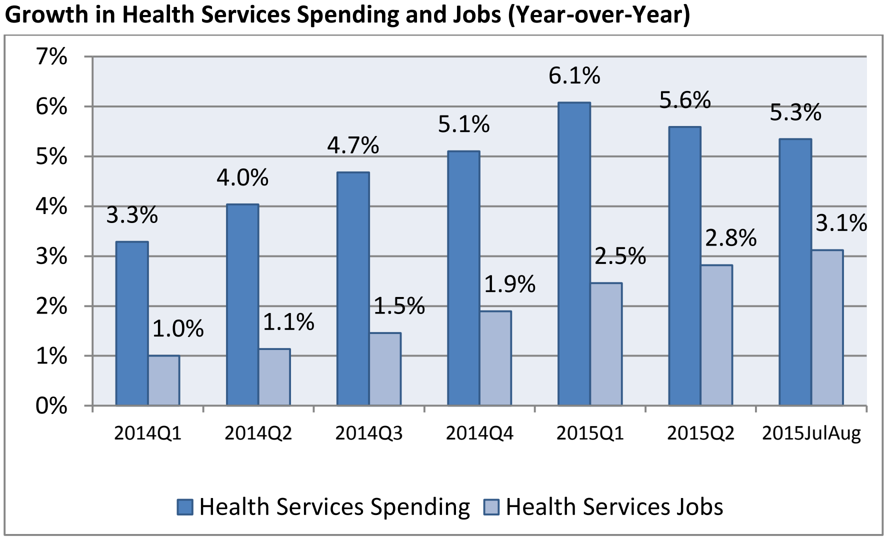


Source: CSHS computations from October 2015 HSEI data.

Health services jobs continue to accelerate, despite the recent downward trend in the growth in health services spending.

- While the growth in spending on health care services started to decline in Q2 2015, the growth in health services jobs continues to ramp up. The chart below shows this pattern for all health services; the same chart for hospitals (which are driving much of the acceleration in health jobs) shows a similar pattern. It seems likely that there would be a lag between an increase in demand for services and the ability of providers to staff up to meet the demand. Some providers are reporting a tightening of the job market for nurses, care coordinators, and other professionals.[1]

Growth in Health Services Spending and Jobs (Year-over-Year)



Source: CSHS computations from October 2015 HSEI data.

[1] Evans, Melanie. *Modern Healthcare*. "Trinity Health sees more volume but rising labor costs." October 20, 2015.