



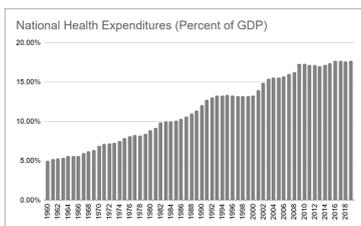
CURRENT DRIVERS OF RISING HEALTHCARE COSTS

Health care costs continue to rise with no end in sight. What factors contribute to drive costs?

Health care costs have been increasing at an alarming rate and have increased at a rate faster than the gross domestic product (GDP). Costs have been rising since the 1960's when they accounted for 5.0% of the GDP.

According to the Centers for Medicare and Medicaid Services (CMS), by 2019 health care costs had increased to account for 17.7% of the total GDP [1]. Broken down, this number indicates in the 1960's in the United States we were only spending about \$147 per person in health care costs compared to \$11,582 per person in 2019.

According to CMS, it is projected that from 2019 to 2028 that health care costs will continue to grow annually at a rate of approximately 5.4%. If this comes to fruition, then it is anticipated that by 2028 health care costs will account for 19.7% of the United States' GDP.



Source: Centers for Medicare and Medicaid Services, National Health Expenditures Data, March 2020

While US health care costs continue to rise and the US spends more on health care costs per person than other wealthy countries, our health outcomes do not reflect this.

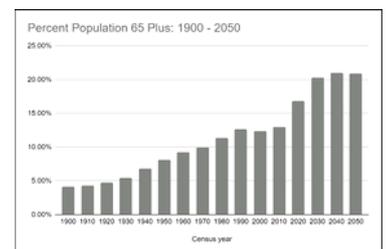
In fact, the US performs worse on health indicators such as life expectancy, infant mortality, and unmanaged diabetes compared to other developed countries.

If better health outcomes are not the outcome of the increase in health care dollars, then what is driving healthcare costs and why aren't we healthier?

In the United States, individuals are living longer than ever before. According to the US Census Bureau, in 1990 individuals aged 65 and older only accounted for 4.1% of the total population. By 2010, individuals 65 and older accounted for 13.0% of the population, and it is projected that by 2050 individuals 65 and older will account for 20.9% of the total US population. The growth of the older population is outpacing that of the US's younger population.

AGING POPULATION - According to the US Census Bureau there is also evidence that chronic conditions have

increased in the older population [1]. Chronic conditions such as **arthritis, cancer, stroke, diabetes, and heart conditions** are diseases that have long durations and account for **more than 75%** of health care costs.



Sources: 1900 to 1940, and 1960 to 1980, US Bureau of the Census, 1983; 1950, US Bureau of the Census, 1953; 1990, US Bureau of the Census, 1992; 2000, US Census Bureau, 2001; 2010, US Census Bureau, 2011; 2020 to 2050, US Census Bureau, 2012b; 1900 to 2010, decennial census; 2020 to 2050, 2012 National Population Projections, Middle series

INFLATED MEDICAL COSTS -

Most recent data from the Health Care Cost Institute found that average medical prices grew 3.6% in 2019 and were 18.3% higher than medical costs in 2015. 2019 increases by service category were as follows:

- Inpatient admissions prices rose 6.2%
- Outpatient service prices rose 3.6%
- Professional service prices rose 2.4%
- Prescription drug prices rose 3.2%

The continual increase of health service costs and high health service prices are not the norm in countries other than the United States. A study using data from the Organization for Economic Cooperation and Development (OECD) compared data from 30 countries and found that Americans use the same amount of health care services as other countries, but they spend more on them. In fact, the prices of hospital services in the US are greater by 60% than those of the average health care services in other countries [1], and the pharmaceutical drug prices are 70 percent higher. [2]

According to the Robert Wood Johnson Foundation, medical technology implementation accounts for between 38% to 65% of the increases in healthcare costs. However, the cost effectiveness of advanced medical technology is not always clear. Patients may be spending more for technologically advanced services when less expensive treatment options may have been just as effective in their particular situation.

FEE FOR SERVICE MODEL AND THE ESSENTIAL BENEFITS CAP

Fee for service (FFS) is the most common payment model for health care in the United States. As of 2010, up to 95% of health care providers in the US were using this model.

In FFS, providers are paid on the number of services they provide or procedures they perform. Therefore, in this model it is the quantity of services performed by a physician that determines the amount they receive regardless of achieving positive health outcomes for patients.

FFS PROS

- Consumers do not require prior approval to access care. Consumers can choose their health care providers.
- There are fewer regulations for consumers in choosing treatment options.

FFS CONS

- Care provided is reactive and not proactive.
- The stress is on quantity, not quality.
- Doctors are not held accountable to ensure the necessity of each test, procedure, and treatment.
- Health care costs may be driven up while there is no improvement in health outcomes.

Prior to the Affordable Care Act (ACA) less than 2% of health plans in the individual market provided coverage that met the essential health benefits requirements enacted with the ACA.[1]

Under the health care reform legislation enacted in 2010, by January 2014 individual and job-based insurance plans that had not been grandfathered in were required to provide coverage with no annual dollar limit to outlined essential health benefits. [2]

All new and grandfathered in plans were required to provide coverage with no lifetime dollar limit to the essential health benefits which include:

1. Hospitalization
2. Ambulatory services
3. Emergency services
4. Maternity and newborn care
5. Mental health and substance abuse services.
6. Prescription drugs
7. Lab tests
8. Specified preventative services
9. Pediatric services
10. Rehabilitative and habilitative services.

Therefore, consumers do not have a limit to the dollars spent in a large percentage of healthcare services.

For example, there is not a limit to the number of dollars spent on an individual for emergency care services.

Consequently, there is no incentive for an individual to seek care to prevent an unnecessary visit to the emergency room or to use another method of care such as a visit with a primary care provider or tele-health medicine when appropriate.

CONCLUSION

As health care costs continue to increase with no signs of stopping in the near future, it is imperative that businesses begin to look at new ways to decrease their healthcare costs.

Care management is a method that offers a wealth of evidence supporting its effectiveness in increasing health outcomes while driving down health care costs.

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