



February 19, 2003

Dear Member of Congress:

The issue of rising health care spending is generating national attention and discussion. But, too often, the discussion fails to address the underlying reasons for increased spending on health care, specifically hospital care. That is why the American Hospital Association and the Federation of American Hospitals joined together and asked PricewaterhouseCoopers to undertake a study to examine the key drivers behind increased spending on hospital services.

The study identified two major factors that drove growth in spending on hospital care between 1997 and 2001:

- More Americans seeking more care from hospitals
- The rising cost of the goods and services needed to provide that care

The report also cites government projections that the growth in spending on hospital services has peaked and is slowing, and that hospital spending is continuing to diminish as a percentage of total health spending.

Volume growth (more people using more services) accounts for more than half (55.4 percent) of the increase in spending on hospital services from 1997 to 2001, according to the report, "Cost of Caring: Key Drivers of Growth and Spending on Hospital Care." Factors accounting for volume growth include: population growth and aging; the easing of managed care restrictions; and new technology that allows more care for more people.

Growth in the costs to hospitals of providing patient care accounts for the remaining 44.6 percent of the growth in hospital spending, according to the report. Most of that growth is attributable to labor costs that have been higher due to the national hospital workforce shortage. Other notable cost drivers include rising expenses for drugs, medical devices, and liability insurance premiums.

We have attached the executive summary of the report for your information. The full report is at the AHA Web site at [www.aha.org](http://www.aha.org), or the Federation Web site at [www.americashospitals.com](http://www.americashospitals.com).

We hope this report provides you with useful insight and perspective into the many challenges that hospitals face as they care for their communities. If you have any questions, please contact Kristen Morris (202) 626-2677 at the AHA and Teresa Houser (202) 624-1522 at FAH.

Sincerely,

Rick Pollack  
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American Hospital Association

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