Introduction
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Hospitals face a challenging health care environment, fueled by changes in both the public and private sectors. Medicare continues to struggle with ways to ensure future solvency, and the full impact of the Balanced Budget Act of 1997 (BBA) remains to be seen. Meanwhile, against a backdrop of the strong economy, the end of a period of low health insurance premium growth, increasing concern about the cost of prescription drugs, and a tight labor market, private sector priorities are changing. The “managed care backlash” has raised concerns around choice and access and for the first time HMO enrollment as a percent of total private enrollment has declined.

The proportion of hospitals with negative total margins grew to over 26 percent in 1998, due to private market pressures, BBA payment reductions, and increasing expense per adjusted admission. After steady increases for a number of years, the Medicare payment-to-cost ratio fell in 1998, joining the continued downward trend in the payment-to-cost ratio for private payers. Early data indicate that margins continue to trend down in 1999. In 1999, bond rating agencies reported more downgrades than upgrades of non-profit hospital bond ratings, and the composite earnings projections of publicly traded hospital companies fell 16 percent.

After a period of declining increases in health insurance premium levels, the rate of growth in health insurance premiums is on the rise again. Premiums increased five percent in 1999 and are expected to increase more next year. But, higher premium levels do not translate into higher payments to hospitals. Much of the increase is going to fund prior health plan losses rather than to increase provider payments. The managed care backlash has led health plans to relax utilization control policies and back off from capitation as a form of payment. Any growth in utilization, however, may be offset by increased plan pressure on provider payment rates to control costs and maintain premium growth at levels palatable to employers.
Hospital strategies appear to be changing in response to these pressures. Over the past two years, there has been a striking reversal in a longstanding upward trend in hospital pursuit of varied horizontal and vertical integration strategies. These strategies were pursued both to prepare for managing covered lives and to increase market power. After peaking in 1997, however, fewer hospitals reported being in a system, having an ownership interest in an insurance product, or offering home health or long-term care services. Since 1996, the number of hospitals using various physician affiliation models has been declining. “Disintegration” seems to be a theme of recent news reports as hospital CEOs talk about returning to “core” lines of business.

Meanwhile the shift in hospital volume and revenues from inpatient to outpatient continues. Outpatient services now account for 33 percent of total hospital revenues up from 13 percent in 1980.

Recently, attention has been focused on prescription drug spending, which has been increasing much more rapidly than physician and hospital spending in the United States. Even though prescription drugs make up only 8.1 percent of total health care spending nationally, they were responsible for 20 percent of the total increase in health care spending between 1997 and 1998.

The hospital field also is affected by larger societal factors. Technological advances and lifestyle changes have decreased mortality rates. As a result, people are living longer. By 2050, 20 percent of the population will be 65 or older and five percent of the population will be 85 or older. Utilization for the over 65 population is significantly higher than for those under 65. At the same time, the aging population means fewer workers per Medicare recipient. This trend will put greater pressure on the solvency of Medicare, leading policymakers to continue to find ways to control the cost of care.

The following charts present an analysis of trends in the hospital field within the context of the broader environment for health care. Hospital data is drawn primarily from the American Hospital Association Annual Surveys. Other data comes from a variety of sources. The chartbook begins with a chapter on overall trends in health care spending, financing, and coverage. The next four chapters look at trends specific to the hospital field, including organizational trends, volume and utilization, financing, and workforce issues. The final chapter looks at selected community health indicators.
Chapter 1:
Trends in the Overall Health Care Market
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National Health Spending

Total national spending on health and spending per capita continued to rise through 1998, but the rate of increase has slowed considerably since the 1980s. This slower growth during a time of general economic expansion has meant that health spending as a percentage of Gross Domestic Product has been relatively flat since 1993 (Charts 1.1 - 1.4).

The distribution of national health spending by category has changed significantly. Between 1980 and 1998, spending for hospital care declined from 44 percent to 34 percent of total expenditures. By comparison, spending on physician services increased from 19 percent to 21 percent. The percent spent on home health tripled, while the percent spent on nursing home care declined, and prescription drug spending rose from five percent to eight percent of the total (Chart 1.5).

While the rate of increase in overall spending has declined, growth in spending on pharmaceuticals is accelerating. Growth in prescription drug spending now represents 20 percent of overall growth in national health spending. Private health insurance currently is paying for a larger share of prescription drug spending than are consumers (Charts 1.6 - 1.8).

Trends in Health Care Coverage and Premiums

Since 1980, Medicare and Medicaid together have gone from paying 26 percent to 34 percent of total national health expenditures. The share paid by private insurance has also risen. Meanwhile the share paid out of pocket has declined from 24 percent to 17 percent (Chart 1.9).

The percentage of individuals under private coverage has decreased slightly, while that under public coverage has remained fairly steady since 1990. The number of uninsured has grown by 28 percent since 1985 to 44.3 million, or from 14 percent to 16 percent of the total US population. The percent uninsured varies from a low of nine percent in Nebraska to a high of 25 percent in Texas (Charts 1.10 - 1.12).
Traditional indemnity type coverage has all but disappeared. In 1999 only 14 percent of those under private insurance could choose an indemnity option and only nine percent enrolled in one. HMO enrollment, however, peaked at 33 percent of private health coverage in 1996. Since that time, enrollment has shifted away from HMOs toward less restrictive products like PPOs and point-of-service options (Charts 1.13 - 1.14). At the same time, Medicare and Medicaid have used HMOs as a vehicle to expand access and reduce health care costs. The percent of beneficiaries enrolled in Medicare and Medicaid HMOs rose significantly in the 1990s, especially in Medicaid with 54 percent enrolled in HMOs in 1998 (Charts 1.15, 1.17 - 1.18).

While moderating significantly overall, the change in per-enrollee Medicare and private health spending has varied considerably over time. From 1984 to 1991, Medicare experienced lower growth in per-enrollee spending, likely due to the introduction of the hospital prospective payment system. Between 1992 and 1997, private sector costs increased more slowly than those of Medicare. This reversal was likely due to the massive shift of the privately insured population into managed care products. Now the rate of change for the private sector is trending up for a variety of reasons, while Medicare is trending down as the Balanced Budget Act of 1997 takes effect (Chart 1.16).

The annual change in private health insurance premiums hit a low of 0.5 percent in 1996, but is now rebounding as health plans, particularly HMOs, try to recoup recent losses in 1997 and 1998. (Charts 1.19 - 1.20).
Chart 1.1:
Total National Health Expenditures
1980 - 1998

Source: Health Care Financing Administration, Office of the Actuary
(1)Expressed in 1980 dollars; adjusted using the overall consumer price index for urban consumers

Chart 1.2:
Percent Change in Total National Health Expenditures
1981 - 1998

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.3:
Per Capita National Health Expenditures
1980 - 1998

Source: Health Care Financing Administration, Office of the Actuary
(1) Expressed in 1980 dollars; adjusted using the overall consumer price index for urban consumers

Chart 1.4:
National Health Expenditures
as a Percent of Gross Domestic Product
1980 - 1998

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.5: National Health Expenditures for Health Services and Supplies by Category 1980 and 1998

Trends in the Overall Health Care Market

Source: Health Care Financing Administration, Office of the Actuary

(1) Excludes medical research and medical facilities construction

(2) "Other" includes net cost of insurance and administration, government public health activities, and other health services

(3) "Other professional" includes dental and other non-physician professional services
Chart 1.6:
Total Prescription Drug Spending
1980 - 1998

Chart 1.7:
Growth in Total Prescription Drug Spending as a Percent of Total Growth in National Health Expenditures
1981 - 1998

Source: Health Care Financing Administration, National Health Accounts

(1) Expressed in 1980 dollars; adjusted using the overall consumer price index for urban consumers
Chart 1.8:
Consumer Out of Pocket Spending vs. Private Health Insurance Spending for Prescription Drugs
1980 - 1998

Source: Health Care Financing Administration, National Health Accounts
Chart 1.9:
Distribution of National Health Expenditures
by Source of Payment
1980 and 1998

Out of Pocket - 24.4%
Other Private - 5.0%
Private Insurance - 28.2%
Other Government - 16.6%
Medicaid - 10.6%
Medicare - 15.2%

Source: Health Care Financing Administration, Office of the Actuary

Chart 1.10:
Distribution of Health Insurance
Percent of Population Covered by Payer
1990 and 1998

Private
Medicare
Medicaid
Other Government
Uninsured

1990
1998

Source: US Bureau of the Census
Chart 1.11:  
Number and Percent Uninsured  
1985 - 1998

Source: US Bureau of the Census

Chart 1.12:  
Percent Uninsured by State  
1998

Source: US Bureau of the Census
Chart 1.13:
Percentage of Employees with Employer-based Coverage
Who Can Choose Conventional, PPO, HMO and POS Plans
1988 - 1998

Source: KPMG Compensation & Benefits Health Care Group, Health Benefits 1998
(1)Point-of-service plans not separately identified

Chart 1.14:
Distribution of Medium and Large Firm Employer-sponsored
Health Insurance Enrollment by Type of Plan
1988 - 1999

Source: 1988-1998 The Kaiser Family Foundation, Trends and Indicators in the Changing Health Care
Marketplace; and 1999 from the Health Research Education Trust Employer Health Benefits 1999 Annual Survey
(1) Point-of-service plans not separately identified
Chart 1.15:  
Percent of Medicare Beneficiaries Enrolled in Medicare Managed Care  
1988 - 1999

Source: Health Care Financing Administration, Office of the Actuary

* Percentages are risk enrollees divided by enrollees who have both hospital insurance and supplementary medical insurance

Chart 1.16:  
Growth in Medicare Spending per Beneficiary vs. Private Health Insurance Spending per Enrollee  
1980 - 1998

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.17: Percent of Medicaid Beneficiaries Enrolled in Medicaid Managed Care 1991 - 1998

Source: Health Care Financing Administration, Office of the Actuary

Chart 1.18: Percent of Medicaid Beneficiaries Enrolled in Medicaid Managed Care by State 1998

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.19:
Annual Change in Health Insurance Premiums
1991 - 1999

Source: The Kaiser Family Foundation and Health Research Education Trust Employer Health Benefits 1999 Annual Survey

Chart 1.20:
HMO Plan Operating Margins
1990 - 1998

Source: Interstudy Competitive Edge: HMO Industry Report 9.2