Introduction
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Hospitals continue to face a challenging environment with pressures from both the public and the private sectors. Hospitals secured some relief from the Balanced Budget Act, but still expect to experience Medicare losses going forward. Pressure is mounting for a Medicare prescription drug benefit, but where funding for such a benefit would come from is unclear as health care initiatives compete with other priorities of the new Bush Administration. On the private side, employer health insurance premiums jumped by 8 percent, raising fears that the moderation in premium growth experienced in the mid-nineties was just an anomaly. The economy has slowed, but the tight labor market for nurses, pharmacists, and other hospital workers continues to put upward pressure on hospital labor costs.

Backlash against managed care seems to have lessened as new issues, such as rising prescription drug costs, medical errors, and privacy regulations, captured national attention. Pressure remains to pass a patient bill of rights though the issue of a patient’s right to sue continues to impede agreement. Meanwhile, managed care plans are rethinking how they control utilization and several have pulled back from direct controls on physician behavior. The relaxation in utilization controls could be contributing to the recent jump in premium levels. If premiums continue to rise at rates approaching double digits, consumers and employers may need to revisit how much they are willing to pay for broader choice of provider and access.

According to Current Population Survey estimates, the rate of uninsurance declined slightly between 1998 and 1999, but not nearly as much as many had hoped given the robust economy and new programs such as the State Children’s Health Insurance Program (SCHIP). A Robert Wood Johnson Foundation initiative, of which AHA is a partner, has brought together an unlikely alliance among insurers, providers, consumer groups, and the business community that is pushing lawmakers to expand coverage.

In 1999, hospital days went up, reversing what had been more than a 20 year decline. Possible factors include a severe flu season, a relaxation of utilization controls and the aging population. After years of concern about overcapacity, large urban areas are now worrying about the ability of the health care system to handle upward fluctuations in demand. Stories about ambulance diversions have become headline news at the national level.
Aggregate total hospital margins fell to 4.6 percent in 1999—more than a point lower than the prior year—and the proportion of hospitals with negative total margins increased to 32.5 percent. Between 1998 and 1999, expense per adjusted admission grew at 1.9 percent, slightly less than in the prior year. Operating revenue per adjusted admission, however, grew at less than half that rate pushing down patient care margins. During the year, Medicare payments fell below Medicare costs. Despite two rounds of BBA relief, Medicare margins are projected to continue falling.

While early data indicate that overall margins for 2000 have changed little from 1999, bond rating agencies again issued more downgrades than upgrades. Moody’s expects hospital credit ratings to stabilize in 2001 with analysts citing positive industry developments including BBA givebacks, the end of transition periods for mergers and acquisitions, the easing of restrictions on choice and access, and a “back to basics” focus on core operations in hospitals.

Led by a growth in prescription drug spending, national health spending grew by 5.6 percent from 1998 to 1999, nearly a point higher than the prior year’s growth. Health spending as a percentage of GDP remained at 13 percent.

Public health continues to make advances in the rates of preventive care for services like mammograms and vaccinations, however, significant racial and ethnic disparities endure. Smoking, substance abuse, and obesity remain as key public health issues.

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’s Annual Survey from 1980 to 1999. Other data come 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 summarize key trends specific to the hospital field including organizational trends, volume and utilization, financing, and workforce. The final chapter looks at selected health status indicators.
Chapter 1:
Trends in the Overall
Health Care Market
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National Health Spending

Total national spending on health grew by 5.6 percent from 1998 to 1999, nearly a point higher than the prior year’s growth but still significantly lower than growth in the early part of the decade. Spending per capita grew by 4.7 percent. Health spending as a percentage of Gross Domestic Product remained at 13 percent (Charts 1.1 - 1.4).

Growth in spending on pharmaceuticals rose to 16.9 percent, more than triple the overall rate of growth. Growth in physician spending was just slightly higher than overall spending, while spending on hospital and nursing home care grew less. Spending on home health actually declined (Charts 1.5 - 1.6).

Growth in prescription drug spending now represents 22 percent of overall growth in national health spending. Private health insurance currently pays for a larger share of prescription drug spending than consumers (Charts 1.7 - 1.9).

Trends in Health Care Coverage and Premiums

Between 1998 and 1999 the percentage of the population uninsured nationally declined from 16.3 to 15.5. Despite this decline, more than 20 percent of the population is still uninsured in six states. New Mexico has the highest rate of uninsurance, with more than a quarter of its residents uninsured, while Rhode Island has the lowest (Charts 1.11 - 1.13). The strong economy produced very low unemployment and competition for workers may have led more employers to offer benefits. Whether this change is the beginning of a trend depends on the pace of the economy and employer response to increasing premiums.

Between 1998 and 1999, the percentage of individuals under private coverage increased slightly accounting for the decline in uninsured. Medicare and Medicaid coverage levels remained steady (Chart 1.11).
The percentage of the population under traditional indemnity type coverage fell to 8 percent in 2000. Enrollment in point-of-service plans declined after steady increases in recent years while HMO and PPO enrollment increased (Charts 1.14 - 1.15). After sharp increases between 1991 and 1998, Medicaid managed care enrollment remained constant as did the percentage of beneficiaries enrolled in Medicare HMOs (Charts 1.18 and 1.16).

As the effects of the Balanced Budget Act of 1997 continued to be felt across the health care industry, Medicare spending per beneficiary declined for only the second time in the history of the program. Meanwhile, growth in per-enrollee private health spending remained around 5.4 percent (Chart 1.17).

Private health insurance premiums jumped 8 percent in 2000 as health plans, particularly HMOs, continued to experience losses in 1999. Consumer backlash against managed care may also be contributing to increased premiums as health plans ease controls on choice and utilization (Charts 1.20 - 1.21).
Chart 1.1:
Total National Health Expenditures
1980 - 1999

Source: Health Care Financing Administration, Office of the Actuary
(1) Expressed in 1980 dollars; adjusted using the overall Consumer Price Index for All Urban Consumers

Chart 1.2:
Percent Change in Total National Health Expenditures
1981 - 1999

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.3:
Per Capita National Health Expenditures
1980 - 1999

Source: Health Care Financing Administration, Office of the Actuary
(1) Expressed in 1980 dollars; adjusted using the overall Consumer Price Index for All Urban Consumers

Chart 1.4:
National Health Expenditures
as a Percent of Gross Domestic Product
1980 - 1999

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.5:  
National Health Expenditures for Health Services 
and Supplies(1) by Category 
1980 and 1999

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 personal health care
(3) "Other professional" includes dental and other non-physician professional services
Chart 1.6: Percent Change in National Health Expenditures for Health Services and Supplies(1) by Category 1998 -1999

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 personal health care
(3) "Other professional" includes dental and other non-physician professional services
Chart 1.7: Total Prescription Drug Spending
1980 - 1999

Source: Health Care Financing Administration, Office of the Actuary
(1)Expressed in 1980 dollars; adjusted using the overall Consumer Price Index for All Urban Consumers

Chart 1.8: Growth in Total Prescription Drug Spending as a Percent of Total Growth in National Health Expenditures 1981 - 1999

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.9:
Consumer Out-of-Pocket Spending
vs. Private Health Insurance Spending
for Prescription Drugs
1980 - 1999

Source: Health Care Financing Administration, Office of the Actuary

Source: Health Care Financing Administration, Office of the Actuary


Source: US Census Bureau
Chart 1.12:  
Number and Percent Uninsured  
1985 - 1999

Source: US Census Bureau

Chart 1.13:  
Percent Uninsured by State  
1999

Source: US Census Bureau
Chart 1.14:

Source: The Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2000 Annual Survey

(1) Point-of-service plans not separately identified

Chart 1.15:
Distribution of Employer-sponsored Health Insurance Enrollment by Type of Plan 1988 - 2000

Source: The Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2000 Annual Survey

(1) Point-of-service plans not separately identified
Chart 1.16:  
Percent of Medicare Beneficiaries Enrolled in Medicare Managed Care 
1991 - 2000

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 1.17:  
Growth in Medicare Spending per Beneficiary vs. Private Health Insurance Spending per Enrollee 
1980 - 1999

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.18:  
Percent of Medicaid Beneficiaries Enrolled in Medicaid Managed Care  
1991 - 1999

Source: Health Care Financing Administration, Office of the Actuary

Chart 1.19:  
Percent of Medicaid Beneficiaries Enrolled in Medicaid Managed Care by State  
1999

Source: Health Care Financing Administration, Office of the Actuary
Chart 1.20:
Annual Change in Health Insurance Premiums
1988 - 2000

Source: The Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2000 Annual Survey

Chart 1.21:
HMO Plan Median Operating Margins
1990 - 1999

Source: Interstudy Competitive Edge: HMO Industry Report 10.2