Overview

Though the health care system has changed in many ways over the last decade, many of the same issues that drove the national dialogue on health care reform in the early nineties have resurfaced. Growth in national health care spending is accelerating again after moderating in the mid-1990s, and health insurance premium increases are in the double digits. As was the case last year, growth in spending on prescription drugs drove growth in spending on health care services. Spending on prescription drugs rose 17.3 percent, more than double the overall national rate. Tightly managed care, once viewed as the solution to rising health care spending, suffered a backlash from consumers in the mid-nineties. HMO enrollment dropped from a peak of 31 percent in 1996 to 23 percent in 2001, although it climbed to 26 percent in 2002. According to 2001 estimates, progress in reducing the rate of uninsurance appears to have ended in the wake of the economic slowdown as employers find it harder to afford coverage, the unemployment rate rises, and states face pressures to reduce Medicaid spending to reduce budget deficits. Employers are increasing the amount of cost sharing required of employees, but the outcome of this cost containment strategy remains uncertain.

At the federal level, the US Congress is again dealing with a growing budget deficit. Despite this, pressure is high to provide a prescription drug benefit for seniors, yet how such a benefit would be funded or what its impact would be on the deficit are unclear. Medicare+Choice is struggling – the percentage of Medicare beneficiaries enrolled in Medicare HMOs declined for the first time since the program began. This is largely due to decreased availability of Medicare HMO coverage as many health plans have withdrawn from the program. Meanwhile, the number of Medicare beneficiaries is growing, with significant increases expected after 2010 when Baby Boomers begin to retire.

Against this backdrop, hospitals face many challenges.

- According to AHA Annual Survey data, between 1999 and 2000, hospital total margins leveled off at 4.6 percent after dropping over 2 percentage points since 1997. Hospital margins for patient care remained negative and nearly a third of hospitals lost money overall. Financial stress is reflected in the capital markets as Standard and Poor’s downgraded six times more hospitals than it upgraded.
• Payment rates relative to costs continue to decline for Medicare and Medicaid – programs that together account for more than 50 percent of hospital costs.

• Hospitals are facing a critical shortage of health care professionals, especially pharmacists, registered nurses, and imaging and laboratory technicians, as a result of increasing demand, competition from other health care employers, declining enrollment in health education programs, and an aging workforce. Today’s shortage is expected to worsen over the next 20 years.

• Demand for hospital services is increasing. After sharp declines in the eighties and early nineties, hospital inpatient days and admissions are now increasing. Outpatient volume has increased by 150 percent since 1980. As demand increases, hospitals are facing capacity constraints. In a recent nationwide survey, over 60 percent of hospitals reported that their emergency departments were “at” or “over” capacity and over 30 percent reported having to divert ambulances. At a time of constrained capacity – both physical capacity and human capacity – hospitals also are focusing on disaster readiness and implementation of the Health Insurance Portability and Accountability Act (HIPAA) requirements.

• As the population ages, the demand for health care services will continue to rise. Between 1990 and 2000, the U.S. population increased by about 13.1 percent (33 million people); the population over age 85 grew about 40.3 percent (1.2 million people). According to Census Bureau projections, the percent of the U.S. population over age 65 will double in the next 30 years.

• Hospitals are confronting upward pressures on costs. Facing a severe shortage of health care workers, hospital labor costs are rising at a rate 38 percent above that of other service industries. Hospitals also are experiencing rising costs for pharmaceuticals and other new technologies. The current crisis in the medical liability insurance industry has led to premium increases in the triple digits for many hospitals, according to a limited survey of hospital risk managers.\(^1\)

• The U.S. population is also becoming more racially and ethnically diverse, and hospitals are trying to recruit a workforce that better reflects the population they serve. By 2020, the Hispanic population is projected to grow

\(^1\) American Hospital Association/ASHRM Survey of Hospital Experience with Professional Liability Insurance, 2002
70 percent, and the population of Asian and Pacific Islanders is projected to grow 75 percent. In order to make the provision of care more effective for people of different ethnicities, hospitals and health care workers must become more attuned to cultural differences in an effort to facilitate communication and enhance the quality 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 are drawn primarily from the American Hospital Association Annual Surveys. 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 look at trends specific to the hospital field, including organizational trends, volume and utilization, financing, and workforce issues. The final chapter examines demographic shifts and hospital capacity to serve a changing population.
Chapter 1:
Trends in the Overall Health Care Market
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National Health Spending

Since 1997, the growth rate for national spending on health has increased each year. This trend continued from 1999 to 2000, with spending growing by 6.9 percent, over a percentage point higher than the prior year’s growth. In addition, spending per capita grew by 5.9 percent. Health spending as a percentage of Gross Domestic Product remained at 13 percent, although this is likely to change as growth in the overall economy slows relative to growth in health care spending (Charts 1.1 - 1.4).

The percentage of national health expenditures for hospital care continued to decrease relative to other health services and supplies (down to 32.8 percent in 2000 from 33.4 percent in 1999). Furthermore, spending on physician services, hospital care, and nursing home care grew less than the overall rate of growth in spending for health services and supplies. After declining in 1998 and 1999, spending on home health increased slightly in 2000 (Charts 1.5 - 1.6).

The needs of an aging population, breakthrough drugs that allow more conditions to be treated through medication, and direct-to-consumer marketing have increased demand for prescription drugs. From 1999 to 2000, spending on pharmaceuticals rose 17.3 percent – more than double the overall rate of growth in spending for health services and supplies. In addition, although prescription drugs represent only 9.7 percent of health care spending, growth in drug spending represented 21.4 percent of overall growth in national health spending, down slightly from the prior year. Both private health insurance and consumer prescription drug spending continued to rise, with private health insurance paying for a larger share of prescription drugs than consumers (Charts 1.6 - 1.9).

Trends in Health Care Coverage and Premiums

After a 2 year decline, the percentage of the population uninsured nationally increased from 14.2 percent in 2000 to 14.6 percent in 2001. Whether this increase will continue depends on the pace of the economy, employer response to increasing premiums, and the effect of budgetary pressures on state coverage programs. Texas has the highest rate of uninsurance, with an average across 2000 and 2001 of 23.2 percent of its residents uninsured, while Rhode Island has the lowest (Charts 1.12 - 1.13).
Between 2000 and 2001, the percentage of individuals under private coverage decreased from 71.9 percent to 70.9 percent. The percentage of the population under HMO type coverage declined from 28 percent in 1999 to 23 percent in 2001, and climbed to 26 percent in 2002. Conventional indemnity coverage and point-of-service plan enrollment fell between 1999 and 2002. PPO enrollment increased from 38 percent in 1999 to 52 percent in 2002 (Charts 1.11, 1.18 -1.19).

Trends in enrollment in public insurance programs are mixed. Medicare enrollment increased slightly between 1998 and 1999 (the most recent years for which data are available) while Medicaid enrollment decreased slightly. Enrollment in SCHIP increased from 2 million in 1999 to 4.6 million in 2001. After sharp increases between 1991 and 1998, Medicaid managed care enrollment continued to hold constant, while the percentage of beneficiaries enrolled in Medicare HMOs actually declined for the first time since the program’s inception (Charts 1.14 - 1.17, 1.20, 1.22, 1.23).

Private health insurance premiums jumped by 12.7 percent in 2002 as health plans, particularly HMOs, continued to rebound from losses experienced in the late 1990s. Consumer backlash against managed care may be contributing to increased premiums as health plans ease controls on choice and utilization (Chart 1.24).
Chart 1.1:
Total National Health Expenditures
1980 - 2000

Source: Centers for Medicare & Medicaid Services, 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 - 2000

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
Chart 1.3:
Per Capita National Health Expenditures
1980 - 2000

Source: Centers for Medicare & Medicaid Services, 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 Percentage of Gross Domestic Product
1980 - 2000

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
Chart 1.5:
National Expenditures for Health Services and Supplies\(^{(1)}\) by Category
1980 and 2000

Source: Centers for Medicare & Medicaid Services, 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 Expenditures for Health Services and Supplies\(^{(1)}\) by Category
1999 - 2000

Source: Centers for Medicare & Medicaid Services, 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 - 2000

Source: Centers for Medicare & Medicaid Services, 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 Percentage of Total Growth in National Health Expenditures
1980 - 2000

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
Chart 1.9:
Consumer Out-of-Pocket Spending vs. Private Health Insurance Spending for Prescription Drugs
1980 - 2000

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

<table>
<thead>
<tr>
<th>Source of Payment</th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>14.2%</td>
<td>17.5%</td>
<td>17.3%</td>
</tr>
<tr>
<td>Total Medicaid</td>
<td>10.6%</td>
<td>15.3%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Other Government</td>
<td>16.9%</td>
<td>12.4%</td>
<td>12.4%</td>
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<tr>
<td>Private Insurance</td>
<td>34.2%</td>
<td>15.2%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Other Private</td>
<td>5.9%</td>
<td>6.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Out of Pocket</td>
<td>23.7%</td>
<td>15.2%</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

Chart 1.11: Distribution of Health Insurance Coverage Percentage of Population Covered by Payer 1990, 2000, and 2001

<table>
<thead>
<tr>
<th>Payer</th>
<th>1990</th>
<th>2000</th>
<th>2001</th>
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<tbody>
<tr>
<td>Private</td>
<td>71.9%</td>
<td>70.9%</td>
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</tr>
<tr>
<td>Medicare</td>
<td>13.5%</td>
<td>13.5%</td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>11.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Government</td>
<td>3.4%</td>
<td>3.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Uninsured</td>
<td>14.6%</td>
<td>14.2%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>

Source: US Census Bureau

Chart 1.12:  
Number and Percent Uninsured\(^{(1)}\)  
1985 - 2001

Source: US Census Bureau  

Chart 1.13:  
Average Percent Uninsured by State  
2000 - 2001

Source: US Census Bureau
Chart 1.14:
Medicare Enrollees(1) 1980 - 1999

Source: Centers for Medicare & Medicaid Services
(1) Hospital insurance (Part A) enrollees only; includes all persons (aged and disabled)

Chart 1.15:
Medicaid Enrollees 1991 - 1999(1)

Source: Centers for Medicare & Medicaid Services
(1) Includes S-CHIP Enrollees
Chart 1.16:
National SCHIP Enrollment\(^{(1)}\)
FY 1999 - FY 2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1999</td>
<td>1,959,330</td>
</tr>
<tr>
<td>FY 2000</td>
<td>3,333,879</td>
</tr>
<tr>
<td>FY 2001</td>
<td>4,601,098</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Number of children enrolled at any point in the year

Source: Centers for Medicare & Medicaid Services

Chart 1.17:
Percent Change in SCHIP Enrollment By State
FY 2000 - FY 2001

Map showing percentage changes in SCHIP enrollment by state. States are color-coded to indicate the percentage change:
- RI: 51%
- DE: 24%
- DC: 24%

Other states are color-coded to represent different percentage changes:
- Less than 0%
- 0%
- 1% to 50%
- 51% - 100%
- Over 100%

Source: Centers for Medicare & Medicaid Services
Chart 1.18:
Percentage of Employees with Employer-based Coverage Who Can Choose Conventional, PPO, HMO and POS Plans
1988 - 2002


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

Chart 1.19:
Distribution of Employer-sponsored Health Insurance Enrollment by Type of Plan
1988 - 2002


(1) Point-of-service plans not separately identified
Chart 1.20:
Percentage of Medicare Beneficiaries Enrolled in Medicare Managed Care\(^{(1)}\)
1991 - 2001

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
\(^{(1)}\) Percentages are risk enrollees divided by enrollees who have both hospital insurance and supplementary medical insurance

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Chart 1.21:
Percent Growth in Medicare Spending per Beneficiary vs. Private Health Insurance Spending per Enrollee
1980 - 2000

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
Chart 1.22: Percentage of Medicaid Beneficiaries Enrolled in Medicaid Managed Care 1991 - 2000

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

Chart 1.23: Percentage of Medicaid Beneficiaries Enrolled in Medicaid Managed Care by State 2000

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
Chart 1.24:
Annual Change in Health Insurance Premiums
1988 - 2002


Chart 1.25:
HMO Plan Median Operating Margins
1990 - 2000

Source: Interstudy Competitive Edge: HMO Industry Report 11.2