



Hospitals and health systems are where the most complex care is provided for ill and injured patients. Yet, spending on inpatient and outpatient care has grown more slowly than spending on other health services. Hospitals and health systems have worked hard to make care more effective and efficient.

In recent years, health care spending growth has been driven primarily by increased use and intensity of services.

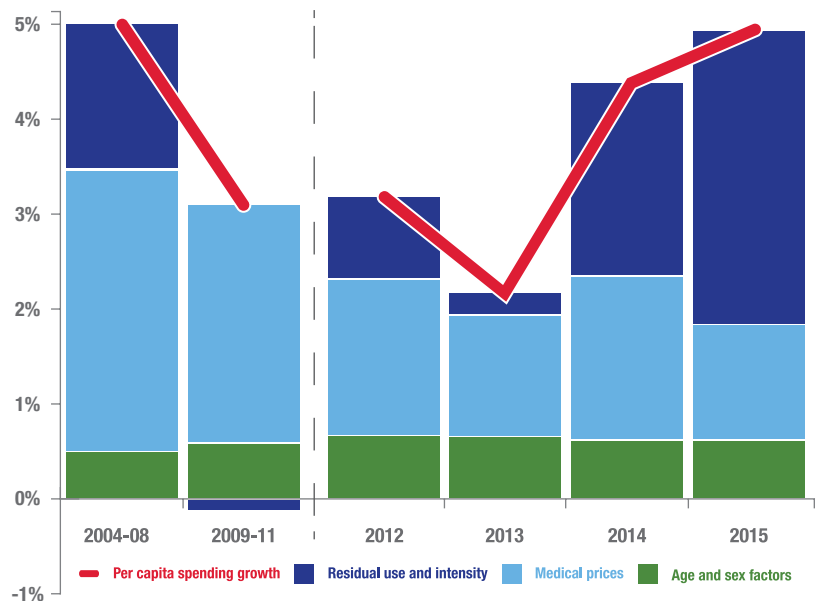
- Health insurance coverage has grown to cover an additional 21-22 million people since 2010.
- An aging population uses more health care, on average.
- Today's population has a higher rate of chronic disease, with nearly half of Americans having chronic conditions such as diabetes and heart disease.
- Medical advances bring health benefits that often raise costs.

Within the health care sector, hospitals and health systems have been leaders in controlling costs.

- Hospital price growth, as measured by the Hospital Producer Price Index, was just 0.9% in 2015, the slowest rate since 1998 and down from 4.4% in 2006.
- Growth in Medicare spending for all hospital services - inpatient and outpatient - is at its lowest level in 17 years. Inpatient spending actually declined by 1.9% in 2015.¹
- Overall growth in spending on hospital care (5.6%) was lower than the health care average (5.8%). Growth in hospital spending was largely driven by increased use and intensity of services.¹

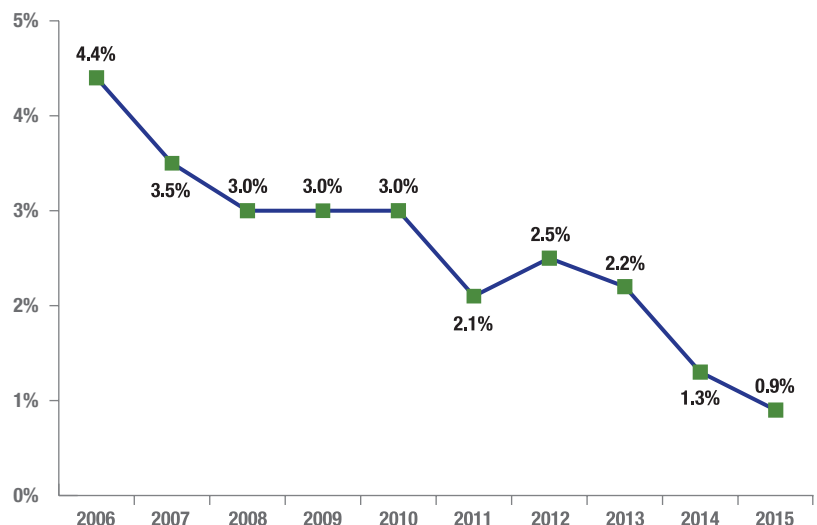
¹Centers for Medicare and Medicaid Services. Office of the Actuary, National Health Statistics Group. *Health Affairs*. December 2, 2016.

Health care spending growth per capita was largely driven by increased use and intensity of services provided in 2014 and 2015.



Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. *Health Affairs*. December 2, 2016.

The annual percent change in hospital prices has dropped significantly over the last 10 years.



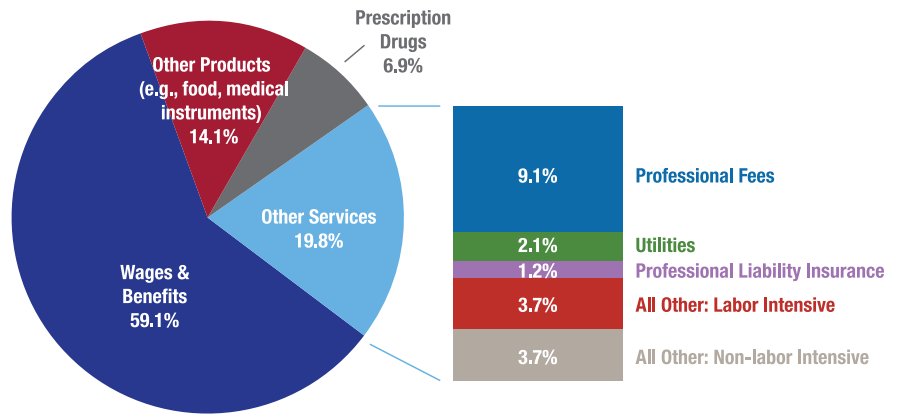
Source: Bureau of Labor Statistics. Producer Price Index data, 2006 - 2015, for Hospitals (622).

Hospitals and health systems face significant challenges as they work to reduce the cost of care, including rapidly escalating drug prices.

- Hospital care requires a range of inputs such as wages, prescription drugs, food, medical instruments, utilities and professional insurance. Steep increases in input prices can undermine hospitals' efforts to reduce the cost of care.
- Wages and benefits account for almost 60 percent of inpatient hospital costs, reflecting the importance of people in the care process.
- Inpatient prescription drug spending increased by 38.7 percent per admission between 2013 - 2015. Price changes for specific products necessary for patient treatment can be even more stark. For example, the inpatient price of Nitropress, a drug used to lower blood pressure, increased by 672 percent between 2013 - 2015.
- Medical devices also factor into the cost of care. Life-saving items such as cardiac defibrillators typically cost more than \$20,000, while higher complexity models can cost roughly \$40,000. Common items like artificial knees and hips often cost in excess of \$5,000.
- In recent years, hospitals also have invested tremendously in electronic health records. The AHA estimates that between 2010 and 2014 hospitals, collectively, spent over \$47 billion each and every year on IT.
- A growing number of regulatory requirements has increased administrative expenses and staffing needs for compliance.

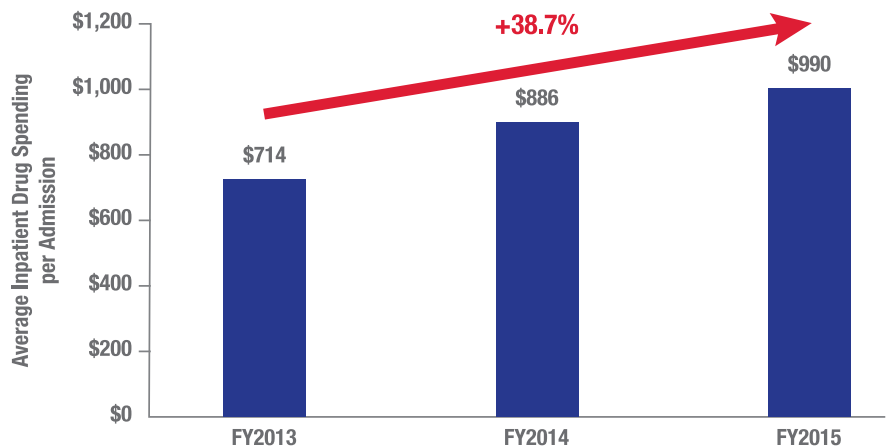
Hospitals use many different inputs that impact the cost of caring for patients.

Employee wages and benefits constitute the largest percentage of costs for inpatient hospital services.



Source: AHA analysis of 2015 Centers for Medicare and Medicaid Services inpatient market basket update projections, using base year 2010 weights (most recent available).

Inpatient drug spending per admission has increased substantially since 2013.



Source: 2015 NORC analysis of AHA-FAH Drug Survey and 2012-2014 AHA Annual Survey.