

Accuracy of Projected Health Care/Health Insurance Costs in 2013 Article by Simons/Adams

The 2013 article on the need for rapid re-engineering of the US health system cited studies indicating:

1. the average cost of health insurance will equal 50% of median household income by 2021 and surpass the median household income by 2033
2. health insurance premium costs plus out-of-pocket expenses per family will exceed median household income by 2030
3. health care would account for 28% of total GDP by 2030

It appears that the projections about health insurance premium costs, with and without out-of-pocket expenses, exceeding 50% of median household income by 2021 and 100% of median household income by 2033 are still on track. Milliman found that average annual health insurance premium costs per household in 2016, at \$21,510, are already at 40% of the median household income (i.e., \$53,657). Average out-of-pocket health care costs per household are an additional \$4,316. Thus, average per household annual costs of insurance premiums and out-of-pocket costs amount to 48% of median household income. This is due to a combination of health care costs continuing to increase faster than general inflation and median household income declining or remaining flat for each of the last five years.

"In 2016, the cost of healthcare for a typical American family of four covered by an average employer-sponsored preferred provider organization (PPO) plan is \$25,826, according to the Milliman Medical Index (MMI)."

"Over the 10-year period ending March 2016, CPI-medical has increased by approximately 3.2% per year, while the MMI has increased by 6.8% per year."

"Milliman Medical Index is an actuarial analysis of the projected total cost of healthcare for a hypothetical family of four covered by an employer-sponsored preferred provider organization (PPO) plan. Unlike many other healthcare cost reports, the MMI measures the total cost of healthcare benefits, not just the employer's share of the costs, and not just premiums. The MMI only includes healthcare costs. It does not include health plan administrative expenses or profit loads."

Source: Christopher S. Girod, Scott A. Weltz, Susan K. Hart, "2016 Milliman Medical Index," May 24, 2016, accessed online 8/23/2016 at <http://us.milliman.com/MM> and at <http://us.milliman.com/uploadedFiles/insight/Periodicals/mmi/2016-milliman-medical-index.pdf>

The Census Bureau found that median household income in 2014 was \$53,657:

"Median household income was \$53,657 in 2014, not statistically different in real terms from the 2013 median of \$54,462 (Figure 1 and Table 1). This is the third consecutive year that the annual change was not statistically significant, following two consecutive years of annual declines in median household income."

Source: Carmen DeNavas-Walt and Bernadette D. Proctor, "Income and Poverty in the United States: 2014," Current Population Reports, US Census Bureau, Issued September 2015 P60-252, accessed online 8/23/2016 at <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-252.pdf>

It does appear that the projections of the percent of GDP used for health care will be less than 28% in 2030. It appears now that the percent of GDP used for health care in 2030 will be between 20% and 25%, although the 2013 article documented that it should be substantially lower by squeezing waste out of the US health care system and simultaneously improving quality.

CMS currently estimates that national healthcare expenditures (NHE) will amount to 20% of GDP by 2025, as compared to the current 18%. The projection of 20% of GDP in 2025 is a smaller percentage than before the 2008 recession and the Affordable Care Act. There is no comparable projection beyond 2025. (Source: NHE Fact Sheet, CMS, August 10, 2016, available online at <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html>)

It is possible that the healthcare cost curve has been bent to some degree, which accounts for some of the smaller increase in the percentage of GDP devoted to health care costs. The alternative hypothesis is that the linger effects of the 2008 recession account for all or most of the reduced increase in health care costs. This difference in explanations is addressed in an article by John Holahan and Stacey McMorrow, of the Urban Institute entitled "The Widespread Slowdown in Health Spending Growth."

"Clearly, not all of the spending reduction is due to the ACA; much is due to the recent recession and a long period of slow income growth, the growth of high deductible private health plans, cost constraints within state Medicaid programs, and Medicare policies unrelated to the ACA (e.g. sequestration). But it is also likely that the law contributed; though how much is impossible to estimate."

Source: John Holahan and Stacey McMorrow, "The Widespread Slowdown in Health Spending Growth," Urban Institute, April 2015 accessed online at <http://www.urban.org/research/publication/widespread-slowdown-health-spending-growth> and <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000176-The-Widespread-Slowdown-in-Health-Spending-Growth-Implications-for-Future-Spending-Projections-and-the-Cost-of-the-Affordable-Care-Act-ACA-Implementation-1.pdf>

In summary, the projections about health care and health insurance costs in the 2013 article by John Simons and Peter Adams have proven to be reasonably accurate.

8/24/2016 PJA