

# Cost of Caring

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 largely been driven 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.

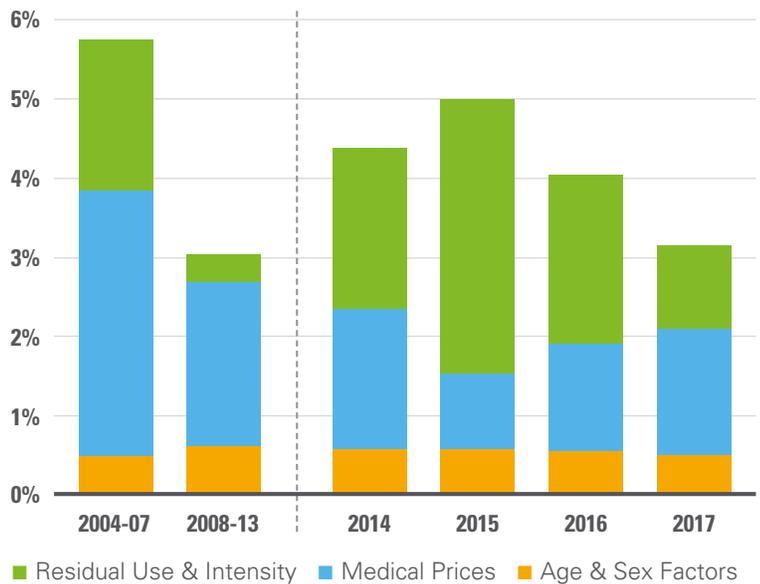
**Within the health care sector, hospitals and health systems have been leaders in controlling costs.**

- Hospital price growth, as measured by the Hospital Producer Price Index, has been around 2% for most of the last decade.
- Slower growth in health care spending has been largely attributable to slow growth in hospital spending.<sup>1</sup>

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

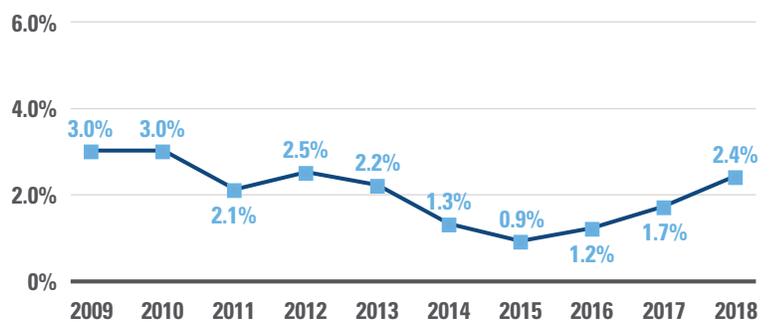
- Hospital care requires a range of inputs such as wages, prescription drugs, food, medical instruments, utilities and professional

**Increased use and intensity of services was a primary driver to health care spending growth between 2014 and 2017.**



**Source:** Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group.  
**Note:** Medical price growth, which includes economywide and excess medical-specific price growth (or changes in medical-specific prices in excess of economywide inflation), is calculated using the chain-weighted NHE price deflator. "Residual use and intensity" is calculated by removing the effects of population, age and sex factors, and price growth from the nominal expenditure level.

**The annual percent change in hospital prices has remained low over the last 10 years.**



**Source:** Bureau of Labor Statistics. Producer Price Index data, 2009 - 2018, for Hospitals (NAICS Code 622).

insurance. Steep increases in input prices can undermine hospitals' efforts to reduce the cost of care.

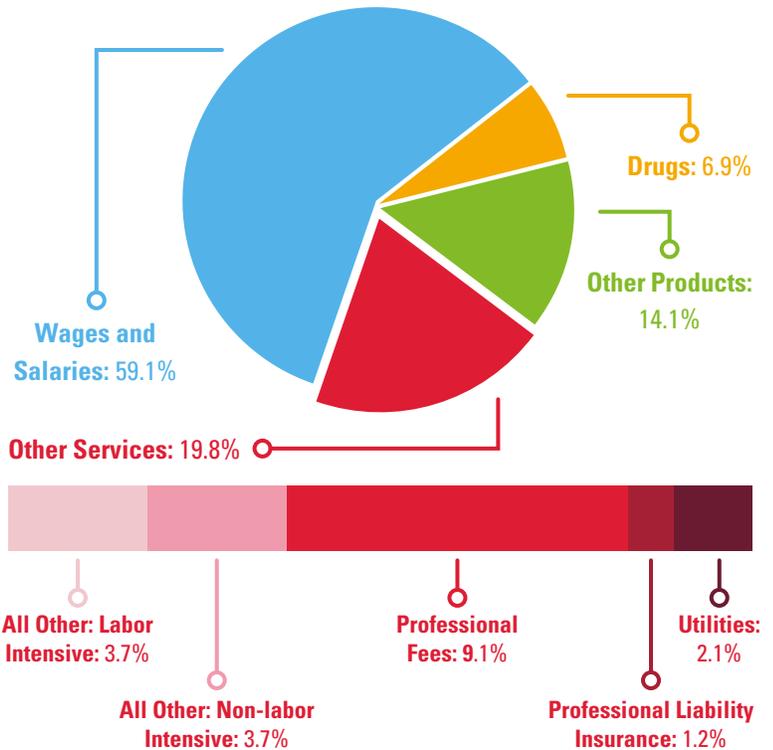
- Wages and benefits account for almost 60% of inpatient hospital costs, reflecting the importance of people in the care process.
- From 2015 to 2017, total hospital drug spending increased 18.5% per adjusted admission. Hospitals experienced drug price increases in excess of 80% across certain classes of drugs, including those for anesthetics, parenteral solutions, opioid agonists and chemotherapy. This is on top of a record 38.7% increase in inpatient drug spending between 2013 and 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.
- Hospitals are also investing in new technologies and improving how care is delivered. In 2017 alone, hospitals invested more than \$62 billion in electronic health records and other IT systems that record, store and transfer patient data securely among medical professionals.<sup>2</sup>
- Hospitals also face challenges related to regulatory burden – an average hospital spends \$7.6 million per year, or \$1,200 per admission, on regulatory burden from just four federal agencies.<sup>3</sup>

**Sources:**

1. Centers for Medicare & Medicaid Services. Office of the Actuary, National Health Statistics Group. Health Affairs.
2. Sharing Data Saving Lives: The Hospital Agenda for Interoperability: [https://www.aha.org/system/files/2019-01/Report01\\_18\\_19-Sharing-Data-Saving-Lives\\_FINAL.pdf](https://www.aha.org/system/files/2019-01/Report01_18_19-Sharing-Data-Saving-Lives_FINAL.pdf).
3. AHA Regulatory Overload Report: <https://www.aha.org/sites/default/files/regulatory-overload-report.pdf>.

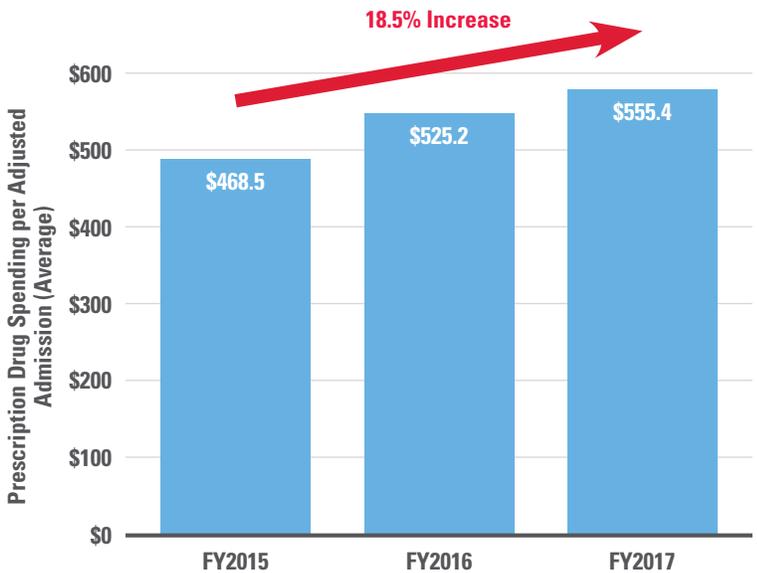
**Hospitals use many different inputs that impact the cost of caring for patients.**

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



Source: AHA Analysis of Centers for Medicare Services Data, Using base year 2014 weights. (1) Does not include capital. (2) Includes postage and telephone expenses.

**Hospital spending on drugs continues to rise.**



Source: 2019 AHA-FAH-ASHP Report: Recent Trends in Hospital Drug Spending and Manufacturer Shortages.