

Healthcare Prices Rise Slowly, While Employment Growth Remains Volatile

According to the Altarum Institute's Center for Sustainable Healthcare Spending (*the Center*), the rate of increase for *personal healthcare prices* (PHPs) and employment have fallen, on a national basis, for the months of June and July 2014. In June 2014, national PHPs increased at a *year-over-year* (YOY) rate of 1.7%, slightly lower than the YOY rate for May 2014 (1.8%).¹ In July 2014, national private sector healthcare employment increased by 7,000 positions, a monthly increase that was significantly lower than the average increase over the past 24 months of 18,600 positions per month.² The Center's price and employment data point to potential increases in healthcare utilization caused by the expansion of insurance coverage through the *Patient Protection and Affordable Care Act* (ACA), although factors such as uneven job growth throughout the second quarter of 2014, and uncertain levels of health literacy among the newly insured population may limit those increases.

While the June 2014 YOY price rate growth for personal healthcare services fell from May 2014 levels, the overall increase marked the second straight month that healthcare price inflation exceeded economy-wide price inflation.³ For June 2014, the YOY price increase for personal healthcare services (1.7%) exceeded the *gross domestic product* (GDP) deflator (1.5%) by 0.2%, continuing the shift away from the "*recent and rare episode*" of slower healthcare price growth in relation to economy-wide price growth.⁴ Starting in March 2013, and continuing through April 2014, the GDP deflator, a measure of economy-wide price inflation, either matched or exceeded the YOY growth rate of PHPs.⁵ However, starting in April 2014, this trend started to reverse. In April 2014, the GDP deflator rate of 1.7% exceeded the April YOY growth rate in PHPs by 0.1%,⁶ a decrease from the 0.3% difference in March 2013 (1.4% GDP deflator to 1.1% PHP growth).⁷ May 2014 marked the first month in over a year in which the YOY rate of personal healthcare price growth exceeded the economy-wide inflation rate (by 0.1%), a new trend continuing into June 2014.⁸ However, the Center noted that PHPs will likely not increase significantly in the future due to "*stingy reimbursement rates and concerns over future low rates.*"⁹ If the Center's predictions, which reflect similar concerns about the effect of the *sustainable growth rate* (SGR) on lowering physician

reimbursement rates,¹⁰ are accurate, then personal healthcare price inflation may again return to levels lower than the rate of economy-wide inflation.

The rate of price growth within specific sub-industries varied during June 2014. Notably, prescription drug prices rose 4.1% from June 2013 to June 2014, a jump from the 3.6% YOY rate from May 2013 to May 2014 and the highest rate of growth since March 2012.¹¹ In addition, prices for dental care rose 2.1% from June 2013 to June 2014,¹² a slight decrease from the May 2014 rate of 2.2%.¹³ Hospital prices, which form a significant portion of PHPs, rose 1.9% from June 2013 to June 2014, a decrease from the May 2014 rate of 2.1%.¹⁴ Prices for physician and clinical services increased 0.5% from June 2013 to June 2014, a decrease from the May 2014 rate of 0.6%.¹⁵

The lower rate of increase in hospital and physician prices is noteworthy when contrasted against the recent trend of provider consolidation in the healthcare industry.¹⁶ The Center's July 2014 price report found no evidence that the increase in hospital and physician prices were "*stemming from aggressive provider consolidation,*"¹⁷ increases which articles and reports published by the Robert Wood Johnson Foundation and the *Journal of the American Medical Association* predicted would occur as a result of provider consolidation.¹⁸ Similarly, the Center's August 2014 price report noted that price momentum, a gauge which highlights the most recent three months of data on price increases and can serve as a leading indicator for prices in an industry, is "*substantially lower for hospitals (and) physicians,*"¹⁹ questioning the prediction of price increases for these industries due to consolidation.

July 2014 healthcare employment figures reflect continued volatility in healthcare employment data. During June 2014, above-average gains in the nursing and residential care industry, as well as the hospital industry, offset the below-average gains the ambulatory care industry, home health industry, and physician office setting.²⁰ However, July 2014 demonstrated many opposite trends, with nursing and residential care facilities (as well as hospitals) losing positions, while the ambulatory care industry added positions above its average increase over the previous 24 months.²¹ In July of 2014, nursing and residential care facilities lost 7,200

positions, a sharp contrast from its addition of 5,700 positions in June 2014,²² and below its average increase over the previous 24 months of 1,900 positions.²³ Similarly, hospitals added 2,200 positions in June 2014 but shed 7,100 positions in July 2014, well below the industry's average increase over the previous 24 months of 700 positions. The ambulatory care industry added 21,300 positions, which offset losses to an extent,²⁴ and was higher than both the June 2014 additions (13,100)²⁵ and the industry's average increase over the past 24 months of 16,000 positions.²⁶ Physician offices added 7,500 positions in July 2014,²⁷ an increase from the June 2014 addition of 4,000 positions,²⁸ while the home health industry added 5,200 positions, an increase from the June 2014 addition of 3,500 positions.²⁹

The Center's employment and price data demonstrate potential changes in utilization patterns throughout 2014. Overall, per capita utilization (average use per person) of personal healthcare services in June 2014 grew 1.7% YOY, a growth rate less than the 12-month average of 2.3%³⁰ but equal to the May 2014 YOY rate.³¹ However, utilization of personal healthcare services may have begun to increase within certain sectors of the healthcare industry, including prescription drugs and inpatient procedures, since the end of the open enrollment period for the ACA's insurance exchanges. In the pharmaceutical industry, June 2014 monthly prescription volume grew by 2.6% YOY, with new prescription volume increasing by 4.6% YOY.³² These gains were attributed to "*modest tailwinds owing to ACA and an improving macroeconomic climate*" and are consistent with the Center's observation of significant increases in YOY prescription drug prices.³³ Further, a study published in *JAMA Surgery* indicated discretionary surgeries (defined as "*elective, preference-sensitive procedures*") increased by 9.7% in Massachusetts before and after the state expanded health insurance coverage in the late 2000s, a potential sign of broader, national effects on inpatient utilization due to the ACA's expansion of health insurance coverage.³⁴

It is important for industry observers and actors to continue to monitor the ACA's effects on utilization, prices, and employment, as it is still too early to definitively label the changes described above as trends within the healthcare industry. While the authors of the *JAMA Surgery* study opine that their discretionary surgery data "*suggest(s) that some surgical disciplines (e.g. orthopedic surgery) could experience rapid growth in demand with implementation of the ACA,*"³⁵ such inpatient trends should be viewed in light of the Medicare Payment Advisory Commission's March 2014 observation of a shift from inpatient to outpatient care,³⁶ as well as contrary employment growth figures for hospitals and ambulatory care services.³⁷ Moreover, per capita utilization rates, PHPs, and healthcare employment figures do not speak to the level of health literacy among the newly insured population, the subset of the population that would drive increases in

healthcare utilization. Unless accompanied by appropriate levels of health literacy, "*simply providing access to healthcare coverage may be an insufficient step towards achieving healthcare reform goals,*" due to limited understanding of the use of preventive services and treating conditions before a visit to the emergency room.³⁸ Among other effects, these barriers could limit the growth of PHPs and healthcare employment in the future by limiting healthcare utilization. The coming months will provide additional information on the ACA's effect on prices, employment, and healthcare utilization and further illuminate the underlying trends and issues in today's healthcare environment.

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- 18 "Hospitals, Market Share, and Consolidation" By David M. Cutler, Ph.D., and Fiona Scott Morton, Ph.D., *Journal of the American Medical Association*, Vol. 310, No. 18, November 13, 2013, p. 1967; "The Impact of Hospital Consolidation – Update" Robert Wood Johnson Foundation, June 2012, www.rwjf.org/content/dam/farm/reports/issue_briefs/2012/rwjf73261 (Accessed 8/7/14), p. 1, 4.

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- 20 "Health Sector Economic Indicators Labor Brief July 2014: Health Sector Job Growth Up in Second Quarter of 2014" Center for Sustainable Health Spending, Altarum Institute, July 10, 2014, altarum.org/sites/default/files/uploaded-related-files/CSHS-Labor-Brief_July2014.pdf (Accessed 8/6/14) p. 2.
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