

Slowing the growth of health care costs

Aetna on the Issues

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In the United States, we spend more on health care than we do on food. In fact, we significantly outspend peer Organization for Economic Cooperation and Development (OECD) countries, with \$650 billion more health care spending than expected in 2006.ⁱ Several major factors drive U.S. health care spending, most prominently technological advances, utilization and misaligned incentives.

To slow the growth of health care costs, Aetna believes we must take a number of steps including advancing payment reform, incentives for primary care, health information technology, transparency and investments in population health.

The Aetna Perspective

Aetna believes a number of factors will be critical in slowing the growth of health care costs.

- **Payment reform:** To reduce our health care costs, we must consider alternative payment approaches including payments for episodes of care, performance bonuses and incentives to control costs and reward value.
- **Incentives for primary care practice:** Our system gives medical students incentive to specialize, yielding a lower number of primary care physicians than necessary and higher costs. One approach is to offer loan forgiveness to medical students choosing to practice primary care.
- **Health information technology:** Greater adoption of information technology, including electronic medical records, clinical decision support tools and ePrescribing tools, will enhance efficiency in our system and reduce costly medical errors.
- **Transparency and consumerism:** Aetna has already made great strides in enhancing transparency, and supports expansion of consumer-directed health plan offerings and price and quality transparency tools.
- **Population health:** Better management of chronic diseases and reduction of obesity and smoking will reduce short-term costs and improve the health and wellness of affected individuals.

Fast Facts

- The United States is expected to spend \$2.5 trillion on health care in 2009, representing 17.6% of our gross domestic product (GDP).ⁱⁱ
- While premiums went up 114% between 1999 and 2007, wages increased only 27%.ⁱⁱⁱ
- Premium growth has closely mirrored cost growth. In 2007, the cost of health care services grew at an annual rate of 6.4%, while premiums grew at a rate of 6.1%.^{iv}

What drives health care costs?

If U.S. health care spending continues along current trends, our total spending will reach \$4.3 trillion by 2018.^v The McKinsey Global Institute (MGI) estimates that about 68% of U.S. excess health care spending (as compared to peer OECD countries) results from outpatient care. Other key drivers include drug costs, inpatient care, health administration, higher physician compensation and investments in health, although collectively these factors do not reach two-thirds of the level of outpatient care. Interestingly, while administrative costs are often highlighted as a major cost driver, health insurance and administration represent only 14% of excess U.S. spending.^{vi}

For further detail, please see reverse.

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A number of factors play a critical role in driving U.S. health care costs.

Technological innovation is a significant cost driver and is reflected, in part, in our high level of spending on outpatient care. Unlike other industries where technology typically lowers costs, technological innovation in health care usually takes place at the higher end of the market, where new technology can generate higher income.^{vii} While innovation can be important in improving health outcomes, it should also be targeted at those who will benefit from it.

Utilization is another major factor in U.S. health care costs. The supply of high-cost care (e.g., specialists, new technology) can fuel demand for this care. For example, the 60% higher utilization of health care in high-cost regions than in low-cost regions can be explained by higher frequency of physician visits, tests and minor procedures, and increased use of specialists and hospitals.^{viii} But higher utilization does not necessarily result in better quality. States with a higher proportion of specialists actually tend to have higher spending and lower quality.^{ix} Expanded use of certain treatments

also fuels cost growth, as outcomes improve and non-economic costs (e.g., pain) associated with these treatments decrease.^x

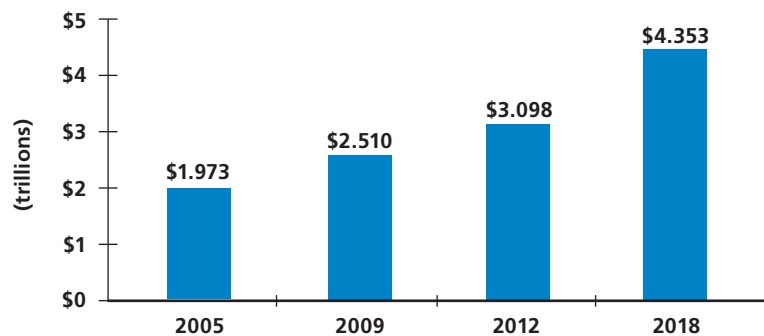
Misaligned incentives within the health care system also raise costs. The widespread fee-for-service reimbursement system for outpatient care encourages the delivery of both more services and more expensive services. In addition, higher utilization is driven in part by physician ownership of technology, with higher referral rates for procedures when physicians own the facilities in which those procedures take place.^{xi}

Lack of transparency is reflected in the disconnection between the price of care and patients' demand for it, yielding little price competition among providers. The insured are largely insulated from the true cost of care; in fact, out-of-pocket expenses for outpatient care reach only about 15% of total spending.^{xii}

High prices for drugs, technology and physicians also drive U.S. health care costs. Drug prices are 50% higher in the U.S. than they are for comparable products in peer OECD countries.^{xiii} For the top five inpatient medical devices, the U.S. spends 54% more than OECD countries.^{xiv} Physician compensation is also higher in the United States.

Population health is an important factor in health care costs, although, in 2006, the U.S. did save \$57 billion to \$70 billion in medical costs as compared to peer countries because of lower disease prevalence.^{xv} Even so, the most common chronic diseases cost our economy over \$1 trillion annually in direct and indirect costs.^{xvi}

Health expenditures are expected to reach \$4.3 trillion by 2018



Source: National Health Statistics Group; National Health Expenditures Projections: 2008 – 2018, CMS (Centers for Medicare and Medicaid Services).

To learn more, please visit www.aetna.com/about/america

ⁱKaiser Family Foundation, "Trends in Health Care Costs and Spending," March 2009.

ⁱⁱGary Claxton, Samantha Hawkins, Jeremy Pickreign, et al., "Employee Health Benefits: 2007 Annual Survey," Kaiser Family Foundation and Health Research and Education Trust, September 2007.

ⁱⁱⁱPrice Waterhouse Coopers, "The Factors Fueling Rising Healthcare Cost 2008," Prepared for America's Health Insurance Plans, December 2008.

^{iv}McKinsey Global Institute, "Accounting for the Cost of U.S. Health Care: A New Look at Why Americans Spend More," December 2008.

^vCenters for Medicare and Medicaid Services, "National Health Expenditure Projections: 2008-2018," March 2009.

^{vi}McKinsey Global Institute.

^{vii}McKinsey Global Institute.

^{viii}Paul Ginsburg, "High and Rising Health Care Costs: Demystifying U.S. Health Care Spending," Research Synthesis Report No. 16, Robert Wood Johnson Foundation, October 2008.

^{ix}Katherine Baicker and Amitabh Chandra, "Medicare Spending, the Physician Workforce, and Beneficiaries' Quality of Care," Health Affairs, April 7, 2004.

^xGinsburg, October 2008.

^{xi}Paul Ginsburg, "Don't Break Out the Champagne: Continued Slowing of Health Care Spending Growth Unlikely to Last," Health Affairs, January/February 2008.

^{xii}McKinsey Global Institute.

^{xiii}McKinsey Global Institute.

^{xiv}Ginsburg, October 2008.

^{xv}McKinsey Global Institute.

^{xvi}Ross DeVol, Armen Bedroussian, Anita Charuworn, et al., "An Unhealthy America: The Economic Burden of Chronic Disease Charting a New Course to Save Lives and Increase Productivity and Economic Growth," Milken Institute, October 2007.

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