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POLICY NOTE

Overview of who uses health care and incurs what percentage of health care costs

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Key Findings

1. Meaningful health care reform should not only address the insurance issue, but should also consider who uses health care and at what cost.
2. The people who actually use health care and have expenditures are not the same individuals year after year.
3. Eighty five percent of the U.S. population used health care in 2014.
4. In 2014, the top one percent of health care users accounted for 23 percent of total expenditures, at an average individual cost of $107,000. The bottom 50 percent of users accounted for three percent of expenditures, at an average individual cost of $264.
5. Research confirms that older people in general use more health care and consequently have more expenditures than younger individuals.
6. Health care reform should strive for health insurance that offers accessible, low-cost, broad-coverage plans that would get as many people as possible into the risk pool.

Introduction

President Trump, and many of his fellow Republicans, campaigned on repealing and replacing the Affordable Care Act (ACA), also known as Obamacare. The ACA became law in 2010 and the massive legislation has not met its two main goals of providing universal health insurance coverage and controlling health care costs.

Health care spending accounted for 18 percent of the U.S. economy or $3.2 trillion in 2015, the last year of complete data. Moving forward, meaningful health care reform should not only solve the problem of providing insurance coverage, it should also consider who uses health care and at what cost. This Policy Note examines the most recent information on the groups in society that use medical care and their expenditures.

Health care spending by social group

The Agency for Healthcare Research and Quality (AHRQ) is a branch of the U.S. Department of Health and Human Services. The AHRQ conducts routine analysis of health care spending using the Medical Expenditure Panel Survey (MEPS), which is one of the most complete gatherings of national health care spending information available. The most recent data was released by AHRQ in November, 2016 and provides numbers from 2014.[1]

The researchers looked at information from a specific year, 2014. The people who actually use health care and have expenditures are not the same individuals year after year.

Eighty-five percent of the U.S. population used health care in 2014. The top one percent of health care users accounted for 23 percent of total expenditures, at an average individual cost of $107,000. The top five percent accounted for 50 percent of expenditures, at an average individual cost of $47,000. The bottom 50 percent of users accounted for three percent of expenditures, at an average individual cost of $264.

The researchers also looked at expenditures by age group. Children under 18 years of age made up 23 percent of the U.S. population and accounted for 10 percent of total expenditures. Young adults, age 18 to 44, made up 35 percent of the population and accounted for 20 percent of health care expenditures. Individuals age 45 to 64 made up 26 percent of the population and accounted for 36 percent of expenditures. Seniors over the age of 64 made up 15 percent of the population and accounted for 34 percent of health care expenditures.

1 "Concentration of health care expenditures in the U.S. noninstitutionalized population, 2014," by Emily Mitchell, Agency for Healthcare Research and Quality, November 2016 at https://meps.ahrq.gov/data_files/publications/st497/stat497.pdf

Not surprisingly, the data confirm that older people in general use many more health care services and consequently incur more expenditures than younger individuals. However, the data also show that the top five percent of health care users 65 years of age and older accounted for 33 percent of expenditures. In the group under 65 years of age, the top five percent accounted for 50 percent of expenditures. This suggests that health care spending is more concentrated in a smaller percentage of patients in the younger population than in the senior group.

Health care reform

The AHRQ research shows that in any one year, a relatively small number of people use the majority of health care resources. The goal of health care reform, and of specifically insurance reform, should be to get as many people as possible to share the risks and expenditures of medical care.

Reform should strive for health insurance that offers accessible, low-cost, broad-coverage plans that would get as many people as possible into the risk pool. Mandate-light or mandate-free, catastrophic, major-medical insurance plans coupled with tax-free health savings accounts for day-to-day medical expenses would attract the largest number of people.

For the specific very high-cost and high-users of health care and for people with pre-existing conditions, high risk pools would provide coverage while holding down insurance costs for the vast majority of Americans.[2] There are various funding mechanisms for high risk pools, but the important point is that they can isolate this small percent of people who have high medical needs.

Distortions caused by the third-party payer system

For the past 70 years, the United States has had a health care system where a third party, either an employer or the government, pays for the vast majority of health expenditures. This has created a dis-connect between the patient as a consumer of health care and the entity that pays the costs of that care.

For example, one of the largest health care expenditures is end-of-life care.[3] In 2014, 25 percent of Medicare spending was devoted to end-of-life care. Much of this spending was for expensive in-hospital care. If patients and their families controlled their own health care dollars, they would very likely make different decisions regarding end-of-life care.

The motivator for cost awareness in health care for patients as consumers would be to eliminate third-party payer systems and allow patients to control their own health care dollars, along with low-cost catastrophic insurance plans. This would increase competition, increase innovation at lower costs, assure quality and improve access to services. It is arrogant for opponents of consumer empowerment to argue that people cannot become wise consumers of health care, just as people are in other important areas of life.

2 "Health care reform: lowering costs by putting patients in charge," by Roger Stark, MD, Policy Brief, Washington Policy Center, July 6, 2015 at http://www.washingtonpolicy.org/publications/detail/health-care-reform-lowering-costs-by-putting-patients-in-charge

3 "10 FAQs: Medicare's role in end-of-life care," The Henry Kaiser Family Foundation, September 26, 2016 at http://kff.org/medicare/fact-sheet/10-faqs-medicares-role-in-end-of-life-care/

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Published by
Washington Policy Center

washingtonpolicy.org
206-937-9691

Conclusion

Research shows that health care spending is concentrated on a small percentage of people in the U.S. These are not the same people year after year. The most effective health care reform would allow the greatest number of people to participate voluntarily in the broadest insurance risk pool, using mandate-light or mandate-free catastrophic health insurance plans, while providing subsidized high risk pools for very high-cost users of health care.