The Affordable Care Act will expand health coverage to millions of Californians next year. But the underlying cost of health care is expected to continue to rise, driving up premium prices. The U.S. spends approximately $2.7 trillion per year on health care. Growth in that spending has slowed over the past three years, but it has continued to outpace both inflation and economic growth - and the rate of growth is expected to nearly double in 2014. In several areas, such as rising obesity rates, health plans, medical providers and individuals all play an important role in helping to lower costs.

Health Care Costs: $22,000 per year for a typical family of four

(EMPLOYER-SPONSORED PPO)

### Obesity & Chronic Disease

Cancer, heart disease, diabetes, and other chronic conditions account for $3 out of every $4 spent on health care, or an extra $6,100 per person per year.

- In California, **two in five adults have at least one chronic condition**, and one in five adults has multiple chronic conditions.
- **61% of adults in California are overweight or obese**, at a cost of $12.8 billion per year.
- **One out of three children in California is overweight or obese.**

### Prescription Drugs

Prescription drug spending in California nearly doubled from 1991 to 2009, reaching $24.4 billion (10.5% of all health care spending).

The rise of high-cost specialty medications to treat complex and rare conditions - such as rheumatoid arthritis, cancer, HIV, hepatitis, and multiple sclerosis - will outpace recent savings from the expanded use of generic drugs that treat common conditions like high cholesterol and high blood pressure.

### EXPENSIVE SPECIALTY MEDICATIONS WILL ACCOUNT FOR HALF OF ALL PRESCRIPTION DRUG SPENDING BY 2019.

- **Prescription Drug Spending, 2012**
  - 73% Traditional medicines
  - 27% Specialty

- **Prescription Drug Spending, 2019**
  - 50% Traditional medicines
  - 50% Specialty

The primary driver of specialty drug spending will be increased drug costs as newer, more-sophisticated therapies with price tags worth tens and hundreds of thousands of dollars are brought to market.
HEALTH CARE COST DRIVERS

Unnecessary Tests & Treatments

The Choosing Wisely campaign, representing 25 medical societies and 725,000 physicians, has so far identified more than 130 tests and procedures doctors and patients should question because they may be unnecessary and, in some instances, can cause harm.

TESTS & PROCEDURES THAT SHOULD BE QUESTIONED:
- CT scans & MRI for low back pain
- Antibiotics for sinusitis, bronchitis, sore throat, ear infections, and more
- Prescribing brand-name cholesterol drugs without trying generic versions
- Elective inductions before 41 weeks of pregnancy
- Preoperative testing for low-risk surgeries

As much as 30% of the nation’s health expenditures go to unnecessary tests, treatments, hospitalizations, and drugs.

$810 Billion in 2011 OF 2.7 TRILLION HEALTH CARE DOLLARS

12 of the most overused tests and treatments cost the U.S. $6.8 billion per year.

Among the many reasons to reduce the overuse of these tests and treatments:
- CT scans and MRIs can unnecessarily expose patients to excess radiation.
- Too many tests, screenings, and biopsies can result in false positives, creating unnecessary anxiety for patients and the need for additional tests.

Expensive New Technology

Medical technology can save lives and increase patients’ quality of life. But not all new technologies and treatments are safer, more effective, or medically appropriate for all patients. Some drive up costs without improving safety or patient outcomes.

Robotic-assisted hysterectomies (RAH) cost 33% more than other types of hysterectomy surgery. But RAH doesn’t offer better outcomes or lower risk. For example, both RAH and laparoscopic hysterectomy carry a low risk of complications (5.5% vs. 5.3%, respectively).

- One in nine women in the U.S. will undergo a hysterectomy.
- Use of RAH grew more than ten-fold from 2007 to 2010.
- Robot systems used for RAH cost $1.5 million apiece.

Advancements in medical technology account for 40%-60% of the growth in medical costs.

For more information, please go to www.calhealthplans.org
88¢ out of every $1 in premiums goes to direct medical costs

PRIVATE HEALTH CARE PREMIUM DOLLAR BREAKDOWN

U.S. AVERAGE, 2010

- Hospital Care: 34¢
- Physician & Clinical Services: 28¢
- Administration & Management Costs, Rebates & Dividends, Taxes, Reserves, Profits/Losses: 12¢
- Prescription Drugs & Durable Medical Equipment: 14¢
- Other Professional Services: 9¢
- Home Health & Other Long-Term Care Facilities & Services: 3¢

MEDICAL INFLATION VS. PREMIUM GROWTH

Linking premium rate changes to the Medical Consumer Price Index (CPI), or medical inflation, is misleading because medical CPI only measures the price change for a limited sample of medical goods and services. Medical CPI does not account for the full range of underlying costs that affect premium prices. It does not take into account the:

- Total cost to health plans for all medical goods and services
- Total volume of services used by health plan enrollees
- Types of services used by health plan enrollees
- Changes in benefits and new services available
- Changes in the amount health plans pay for goods and services in relation to enrollees’ out-of-pocket costs.

Health Plans Work to Reduce the Underlying Cost of Care

California health plans are dedicated to providing comprehensive and coordinated care to their members while seeking to reduce the cost of care. Among their many innovations to reduce costs and improve Californians’ health are:

- Managed care model - comprehensive, coordinated care services for a group or individual with a fixed premium and moderate copays and out-of-pocket costs.
- Preventive services - physicals, health screenings, mammograms, immunizations, and weight management programs.
- Disease management programs - case management, coordination of care between providers, and assistance in obtaining medical supplies and adhering to medications.
- Wellness Programs - premium discounts, cash rewards, gym memberships, and other incentives to promote healthy lifestyle changes.
- Bundled provider payments - pre-determined “lump sum” payments to doctors and hospitals for all costs associated with a specified episode of care (e.g., hip replacement) rather than separate payments for surgeon, anesthesia, drugs, hospital stay, etc.

The California Association of Health Plans (CAHP) is a statewide trade association representing 40 full-service health care plans. Through legislative advocacy, education, and collaboration with other member organizations, CAHP works to sustain a strong environment in which our member plans can provide access to products that offer choice and flexibility to the more than 21 million Californians they serve.