

Health care spending surges in first quarter

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Health care spending rose at the fastest pace since 1980 in the first quarter as the new health insurance law prompted many more Americans to visit doctors and hospitals. Analysts say the sharp increase reflects other trends that should continue to drive up both medical spending and costs in 2014 after years of slow growth.

Health care expenditures climbed at a 9.9% annual rate last quarter, mostly because of increased spending at hospitals, the Bureau of Economic Analysis said last week. That's the biggest jump since 1980's third quarter, and it followed a 5.6% increase in the fourth quarter.

The higher health outlays made up more than half of last quarter's 3% increase in consumer spending and helped prop up a generally weak economy. The economy grew just 0.1% in the quarter and would have shrunk by about a percentage point if not for the surge in health-related spending.

Most of the increase can be traced to the roughly 8 million Americans who signed up for health insurance under the Affordable Care Act mandate since late last year, says George Miller, a fellow at the Altarum Institute's Center for Sustainable Health

Spending. Many probably began visiting doctors and hospitals, though it's unclear how many of the 8 million were previously uninsured.

Further increases in health spending are likely in the second quarter, in part because the ACA's sign-up deadline was extended to as late as April 15 for many people, says economist Omair Sharif of the Royal Bank of Scotland. Sharif is concerned that consumer spending could slow this year as the number of new insurance enrollees levels off.

Some analysts say other factors will continue to push up spending and costs. Faster job growth is leading to more health-related spending for many Americans who went without insurance or used few medical services while unemployed, says Dan Mendelson, CEO of consulting firm Avalere Health.

"The improved economy could result in individuals having the resources to spend on health care services," American Hospital Association spokeswoman Jennifer Schleman says.

Also, Mendelson says, upward pressures on health care costs, such as the growth of expensive high-tech treatments, are re-emerging after falling for several years. Costs had fallen because the ACA gave hospitals incentives to be more efficient, and insurance companies shifted more costs to patients, prompting many to visit doctors sparingly, he says.

The amount consumers pay for health care also may drift higher. Annual medical inflation has fallen since the recession and was well under 1% in March. The decline was partly due to the expiration of a large number of drug patents in 2011 and 2012, causing expensive branded drugs to be replaced by cheaper generics. Fewer patents will expire in the next two years, so drug prices will increase, says Paul Dales of Capital Economics.

<http://www.usatoday.com/story/money/business/2014/05/03/health-care-spending-gdp/8570053/>