

SPENDING ON MEDICINES ACCOUNTS FOR A SMALL SHARE OF HOSPITAL SPENDING INCREASES

Jesse Ortendahl¹, Kata Bognar¹

¹ Partnership for Health Analytic Research, LLC, Beverly Hills, CA, USA

RESEARCH OBJECTIVE

United States (US) healthcare costs reached \$3.5 trillion in 2017 and is climbing.¹ The American Hospital Association (AHA) recently warned the public that hospitals' increased drug spending threatens access to high quality care.² We aim to assess how the growth in hospital drug expenses compares with the total increase in spending on hospital care in the US, to determine the extent to which growing drug costs are driving increased hospital spending.

STUDY DESIGN AND METHODS

- We assessed the share of drug expenses as a proportion of the total increase in spending on hospital care from 2015 to 2017 in the US.
- Separately, we examined increases in spending among California hospitals, which were selected due to data availability.
- The increase in US total spending on hospital care was based on National Health Expenditure Accounts.³
- Increased spending in California hospitals was based on Office of Statewide Health Planning and Development (OSHPD) data.⁴

CONTACT INFORMATION

Jesse Ortendahl
Kata Bognar
Partnership for Health Analytic Research, LLC
EMAIL jesse@pharllc.com
EMAIL kbognar@pharllc.com
www.pharllc.com

PRINCIPAL FINDINGS

US Hospitals, 2015-2017 (Fig. 1, Fig. 2)

- Total hospital care spending increased by \$108 billion (\$1,143 B – \$1,035 B).
- Hospitals paid \$11.0 billion (6,120 × \$1.8 M) more for pharmacy supplies.
- Spending on the average hospital increased by \$17.6 million (\$108 B ÷ 6,120 hospitals⁵).

California Hospitals, 2015-2017 (Fig. 3)

- Total hospital care spending increased by ~\$10 billion.
- 14.4% of the hospital spending increase was due to supplies (including drugs), below other categories of spending.

Fig. 1. Sources of hospital spending growth, 2015-2017

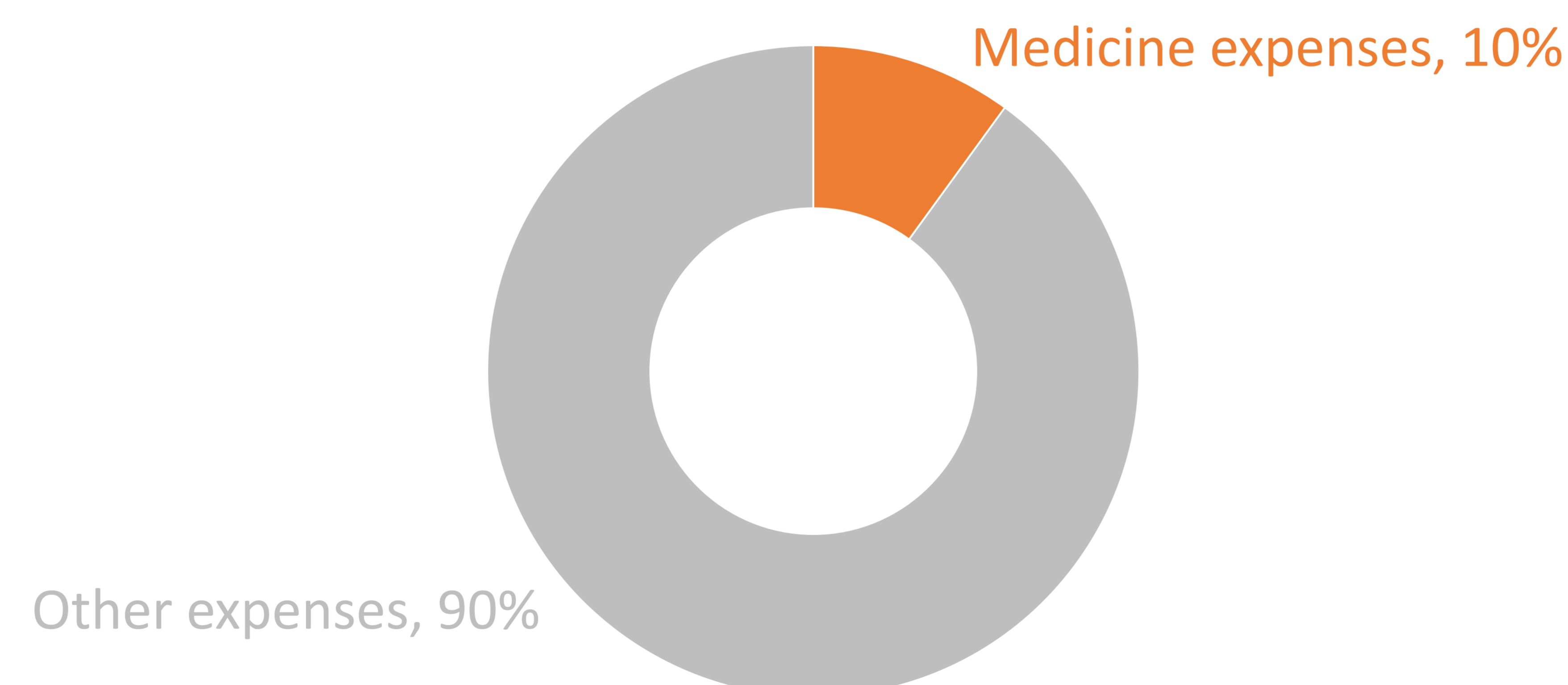


Fig. 2. Increase in expenditures at the average hospital, 2015-2017

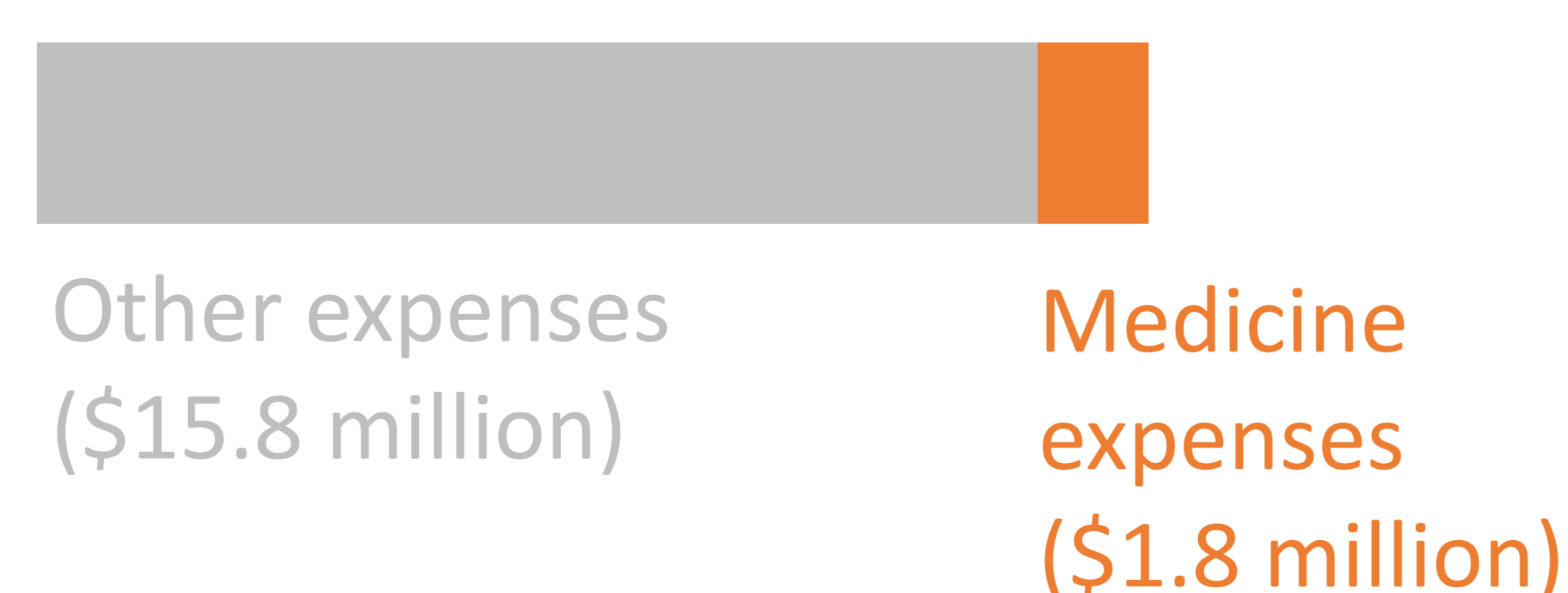
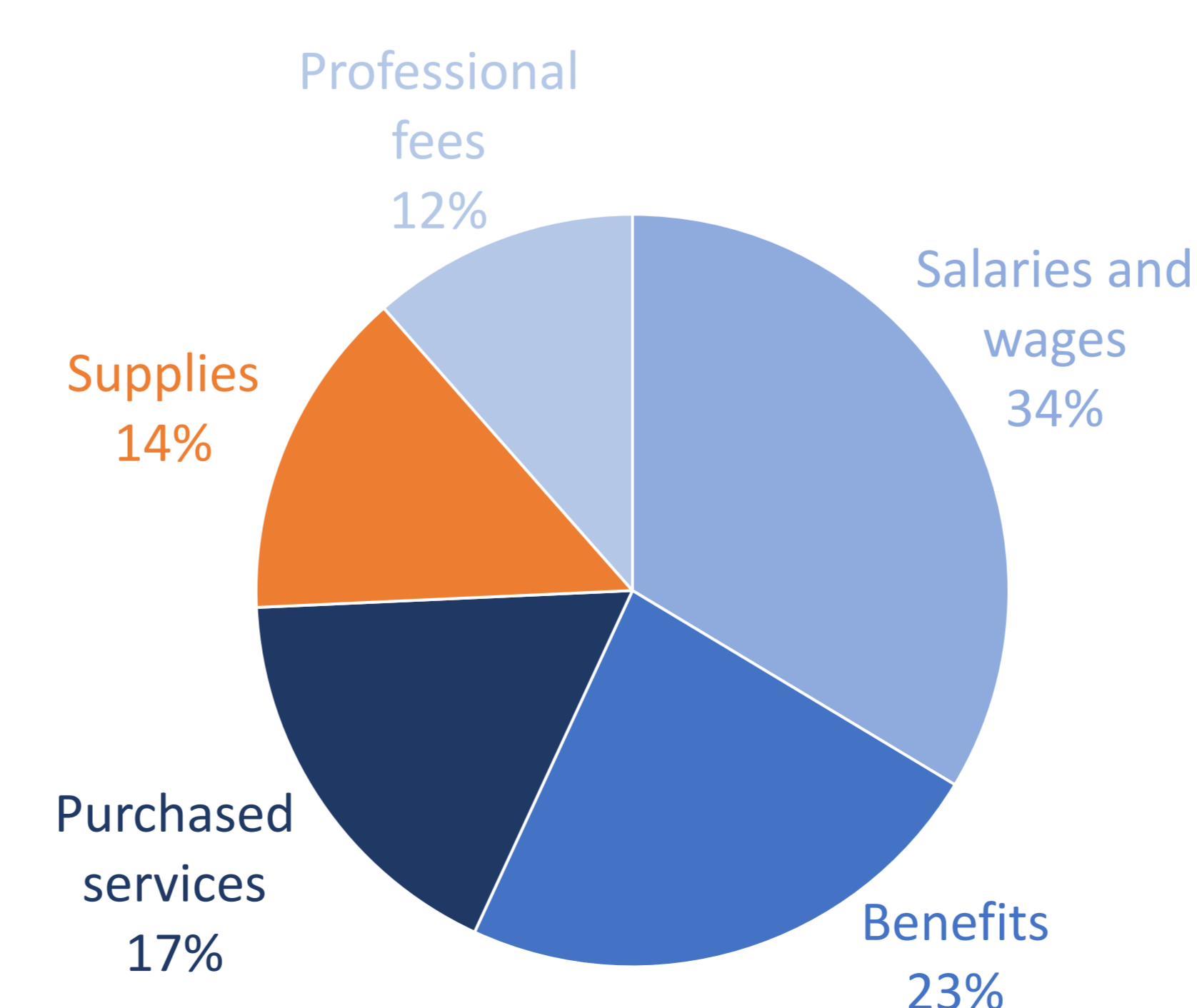


Fig. 3. Sources of hospital spending growth in California, 2015-2017



IMPLICATIONS FOR POLICY AND PRACTICE

To ensure that patients have sustainable access to high quality care, it is essential to understand the drivers of increased hospital spending and to develop policies addressing these drivers. If spending growth in one area greatly exceeds others, or is beyond the additional clinical benefits provided, it might indicate inefficiencies. Efforts aimed solely at scrutinizing increases in drug costs may fail to properly address current concerns about health care affordability and hospital sustainability, given they ignore the bulk of hospital spending growth.

CONCLUSION

Factors other than drug spending contributed to most of the increase in spending on hospital care. This is consistent both in hospitals nationwide, and when looking specifically at hospitals in California. The claim that medicine prices are a threat to sustainability ignores the magnitude of their growth compared with hospital revenues.

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