



Partnership for Health
Analytic Research

Are medicines driving hospital spending increases?

Jesse D. Ortendahl, MS

Katalin Bognar, PhD

Michael S. Broder, MD, MSHS

Summary: A recent report by the American Hospital Association states that hospitals are experiencing significant increases in expenses related to drugs, creating financial challenges for hospitals and health systems. National Health Expenditure data indicate that between 2015 and 2020, national hospital expenditures increased by \$280 billion. However, an analysis of prescription drug spending reports found that only 1.1% – \$3.1 billion – of the increase in hospital expenditures was attributable to spending on drugs. Considering these data points, we found that medicines were not a major driver of overall hospital spending growth. In fact, the share of total hospital spending attributable to medicines has actually decreased from 3.7% to 3.1% over the past 5 years.

Background

Within the last few years, increasing healthcare expenditures have moved to the forefront of the US health policy debate. As of 2020, US healthcare spending reached \$4.1 trillion¹ and continues to steadily grow. Increased spending on effective therapies improves patient outcomes but the perceived excess cost of prescription medications has also raised affordability concerns. To ensure access to high quality care, it is essential to understand the drivers of increased spending and to develop policies addressing these drivers.

The American Hospital Association (AHA) has consistently placed blame on prescription medicines as the source of hospital spending growth and subsequent affordability challenges.

“. . . [D]rug companies’ decisions to raise the prices of their drugs are simply an unsustainable practice.”

— AHA²

This analysis considers the share of total hospital spending attributable to drugs, as well as the increase in spending on medicines, as a proportion of the total growth in hospital expenditures.

Findings

From 2015 to 2020, total spending on hospital care in the US increased from \$989.0 billion to \$1,270.1 billion, an increase of \$281.1 billion.³ US hospital spending on prescription medications increased from \$36.1 billion to \$39.2 billion, growing by \$3.1 billion, just 1% of hospital spending growth, during this period.⁴ Using these two values, the calculated proportion of total hospital spending attributable to medicines decreased from 3.7% to 3.1%, despite a dramatic increase in total hospital spending over this period (Figure 1). Some of the increased hospital spending growth between 2019 and 2020 may be due to the COVID-19 pandemic, although the trends in hospital spending growth and fairly static hospital drug spending predate the start of the pandemic in 2020.³

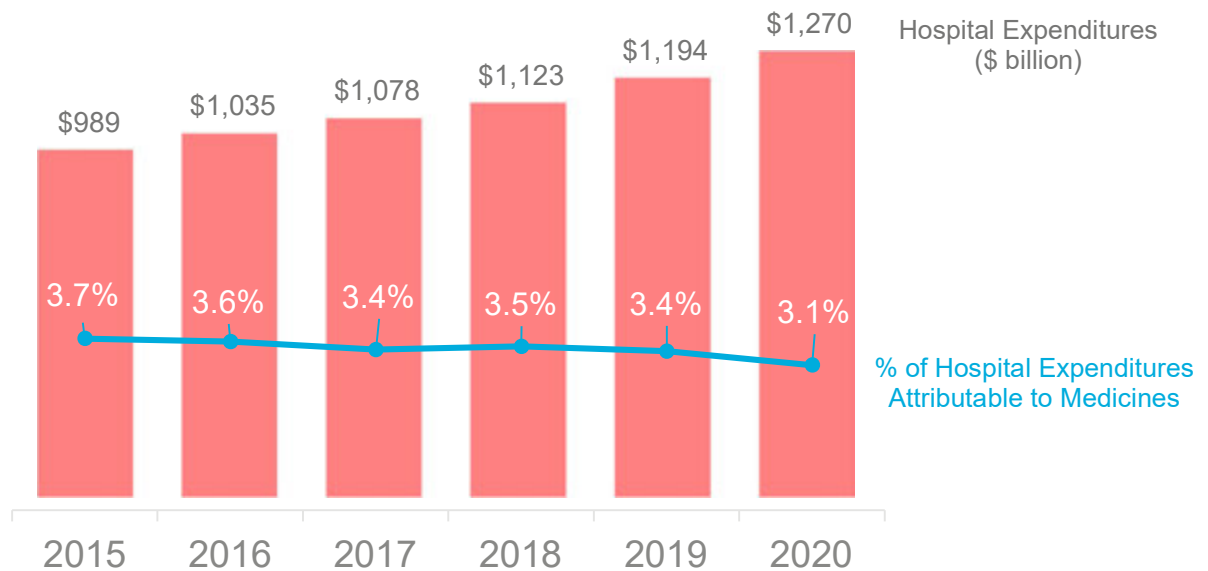
¹ CMS National Health Expenditure Fact Sheet. Available at: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet>

² American Hospital Association. Massive Growth in Expenses and Rising Inflation Fuel Continued Financial Challenges for America’s Hospitals and Health Systems. Available at: <https://www.aha.org/system/files/media/file/2022/04/2022-Hospital-Expenses-Increase-Report-Final-Final.pdf>

³ National Health Expenditure Data. Centers for Medicare and Medicaid Services. Accessed 8/22/2022

⁴ Unpublished analysis of IQVIA data. Obtained 6/21/2022

Figure 1: Growth in Hospital Expenditures and Proportional Spending on Medicines, 2015-2020



When examining the increase in hospital spending, we found that only \$3.1 billion of the \$281.1 billion increase between 2015 and 2020 can be explained by increases in drug expenditures while the remaining \$278 billion must be associated with increases in other expenditures or in hospital profit margins.

Medicine expenses accounted for only 1.1% of hospital expenditure growth in the US from 2015 to 2020.

Methods

The increase in total spending on hospital care in the US was calculated based on National Health Expenditure Accounts. Specifically, CMS reports \$989.0 billion and \$1,270.1 billion of hospital care spending in 2015 and 2020, respectively. Thus, total hospital care spending increased by \$281.1 billion (= 1270.1 – 989.0) between 2015 and 2020. The increase in spending on pharmacy supplies by hospitals was based on IQVIA data and included prescription drug spending in both federal and non-federal facilities. The observed spending increased from \$36.1 billion to \$39.2 during the same period.

The proportion of total hospital spending attributable to medicines was calculated for each year in the period by dividing the total spent on drugs by the health expenditures. The proportion of the increase attributable to drugs was calculated by dividing the increase in drug spending at hospitals (\$3.1 billion) by the total increase in overall hospital expenditures (\$281 billion).

Limitations

From the national data, we have identified the proportion of hospital spending attributable to increased drug expenditures; however, further research is needed on the other drivers possibly contributing to the rising costs of hospital care. Additionally, our analysis is focused on total spending and does not consider whether spending increases are attributable to price increases, changes in utilization or drug mix, growth in patient volume, or other potential factors.