

Health Care Spending in the United States:  
Unsustainable for Patients, Employers, and Taxpayers

Statement of  
Katie Martin, MPA  
President and CEO  
Health Care Cost Institute  
Washington, DC

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Chairman Guthrie, Ranking Member Eshoo, and Members of the House Energy and Commerce Health Subcommittee, it is an honor to join you today to share my understanding of health care spending in the United States. My name is Katie Martin. I am the President and CEO of the Health Care Cost Institute (HCCI). HCCI is an independent, nonpartisan, nonprofit organization founded in 2011 to foster greater understanding of health care spending trends and the drivers of health care cost growth among people with employer-sponsored insurance (ESI)—nearly half of people living the U.S.

Today, I will highlight the following key points regarding spending trends in the ESI population:

- Total per person health spending among people with ESI continues to increase after a slight dip in 2020. From 2017 to 2021, per person spending increased by 21%.
- Prices should continue to be an area of focus. They are the main driver of ESI spending growth, and we see substantial variation in prices by geography, site of service, and compared to Medicare rates.
- Decisionmakers—public and private—need information and data to identify and implement changes that can alter the trajectory of health care spending. Greater transparency is a necessary first step to understand the drivers of health system costs and to design and implement strategies to lower cost growth.

### **Background on HCCI and its Data and Analyses**

HCCI houses a unique multipayer dataset that covers about one-third of all ESI enrollees under age 65, or roughly 50 million people each year. We publish a flagship publication, an annual [Health Care Cost and Utilization Report](#), that provides year-over-year and cumulative trends in health care spending for the ESI population. We also have an online interactive tool, [Health Care Vitals](#), that examines use of key health care services, such as cancer screenings and telehealth, among people with ESI, Medicare, and

Medicaid. Our research briefs cover a range of key issues, including geographic variation in health spending, site of service, maternal health, and spending for populations with chronic conditions. To enable even more insights into the drivers of U.S. health care spending, we license our data to researchers. We are proud that the finest researchers and health policy analysts have chosen to use our data.

HCCI also provides health care price transparency tools to consumers at the national, state, and local levels. In 2015, HCCI launched Guroo, an easy-to-navigate, consumer-friendly website (now [HealthPrices.Org](#)) that allows consumers shopping for care to understand the average costs associated with common services, such as knee replacement and childbirth. This website has been realigned to include services included in the Hospital Transparency and Transparency in Coverage regulations. We also operate the State of Florida's, consumer-facing website, [Florida Health Price Finder](#), to provide health care price transparency to all Floridians.

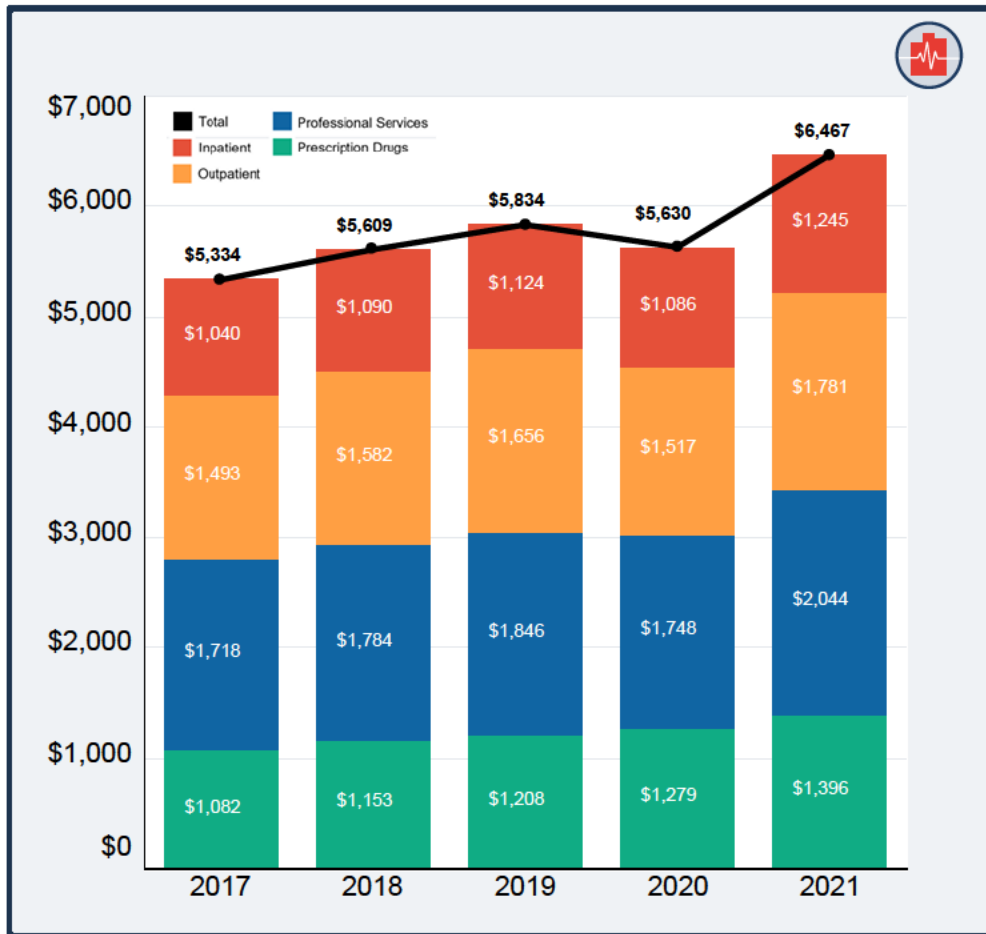
HCCI was the first organization—and remains one of a select group—to have been designated by CMS as a National Qualified Entity. Under this designation, HCCI receives 100 percent of Medicare fee-for-service data that it combines with its commercial data assets to advance public reporting on the quality and cost of care in the United States.

### **Health Care Spending in the ESI population**

High and rising health care spending challenges the budgets of governments, businesses, and families and forces each of them to make difficult tradeoffs. The rapid growth in health care spending leaves less room for other investments, and this pressure will only increase over time if expenditures continue to grow as projected.

At HCCI, our analysis focuses primarily on the ESI population, including workers, spouses, and dependents, who are generally younger and healthier than the U.S. population overall. Using the most recent HCCI data, we found that total spending per person in ESI plans averaged nearly \$6,500 in 2021, rebounding after a small decrease in 2020 (see Figure 1).<sup>1</sup> That amount captures payments by payers (employers and insurers) for health care goods and services and out-of-pocket costs paid by enrollees through deductibles, coinsurance, and co-payments; it does not include insurance premiums or insurers' administrative costs.

Figure 1. Annual Spending Per Person Per Service



<sup>1</sup> Health Care Cost Institute. "2021 Health Care Cost and Utilization Report." Available at [https://healthcostinstitute.org/images/pdfs/HCCI\\_2021\\_Health\\_Care\\_Cost\\_and\\_Utilization\\_Report.pdf](https://healthcostinstitute.org/images/pdfs/HCCI_2021_Health_Care_Cost_and_Utilization_Report.pdf)

In our analysis, we divided total spending into four broad categories:

- Inpatient spending, which consists primarily of acute care hospital stays, averaged \$1,245 per enrollee (19% of total spending).
- Services provided by outpatient facilities, which include services like emergency room (ER) visits and outpatient surgery, averaged \$1,781 per enrollee (27%).
- Spending on professional services – including physician visits, vaccines, physician-administered drugs, imaging services, and lab tests – averaged \$2,044 per enrollee (32%).
- Spending on prescription drugs – brand and generic – averaged \$1,396 (22%) not factoring in rebates.<sup>2</sup>

### **Spending Trends, 2017-2021**

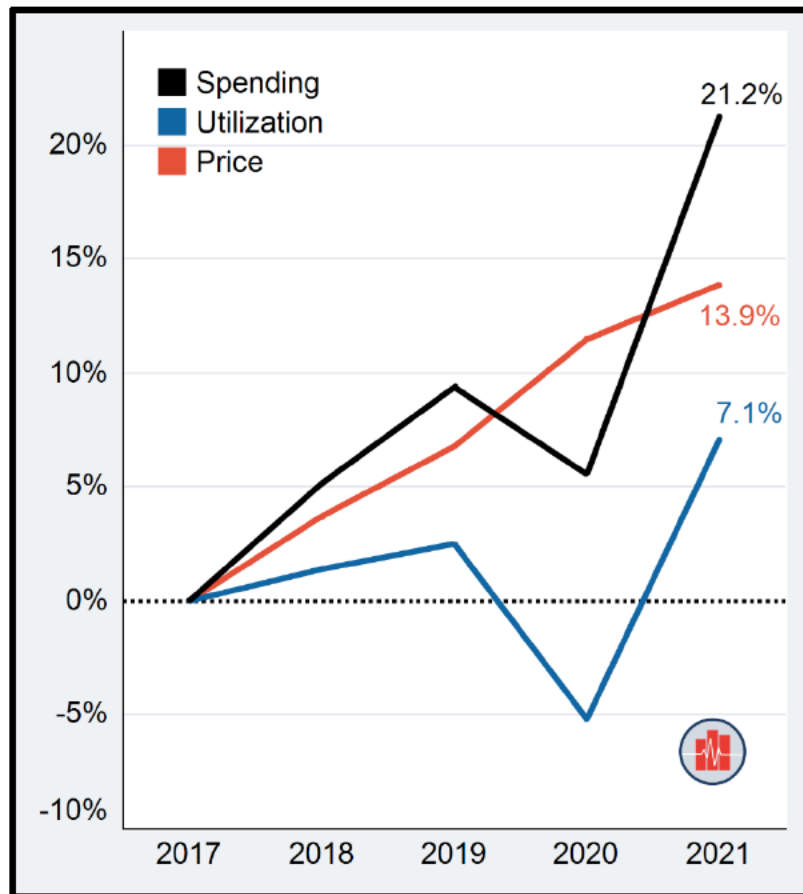
Figure 2 shows rates of growth in per person health spending from 2017 – 2021. Examining trends in spending growth, we found that per person spending grew steadily from approximately \$5,300 in 2017 to \$5,800 in 2019 (a 9% increase over that period). In 2020, spending decreased to about \$5,600, driven by a substantial drop in use of services that coincided with the early months of the COVID pandemic. In 2021, total per-person health care spending increased again, with growth that largely returned to pre-pandemic trends, with per capita spending in 2021 that was approximately 21% higher than it was in 2017.<sup>3</sup> Figure 1 shows that these trends are fairly consistent across types of health care services.

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<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

Figure 2. Cumulative Percent Change in Spending Per Person, Utilization, and Price



### Utilization is Not Driving Spending Growth

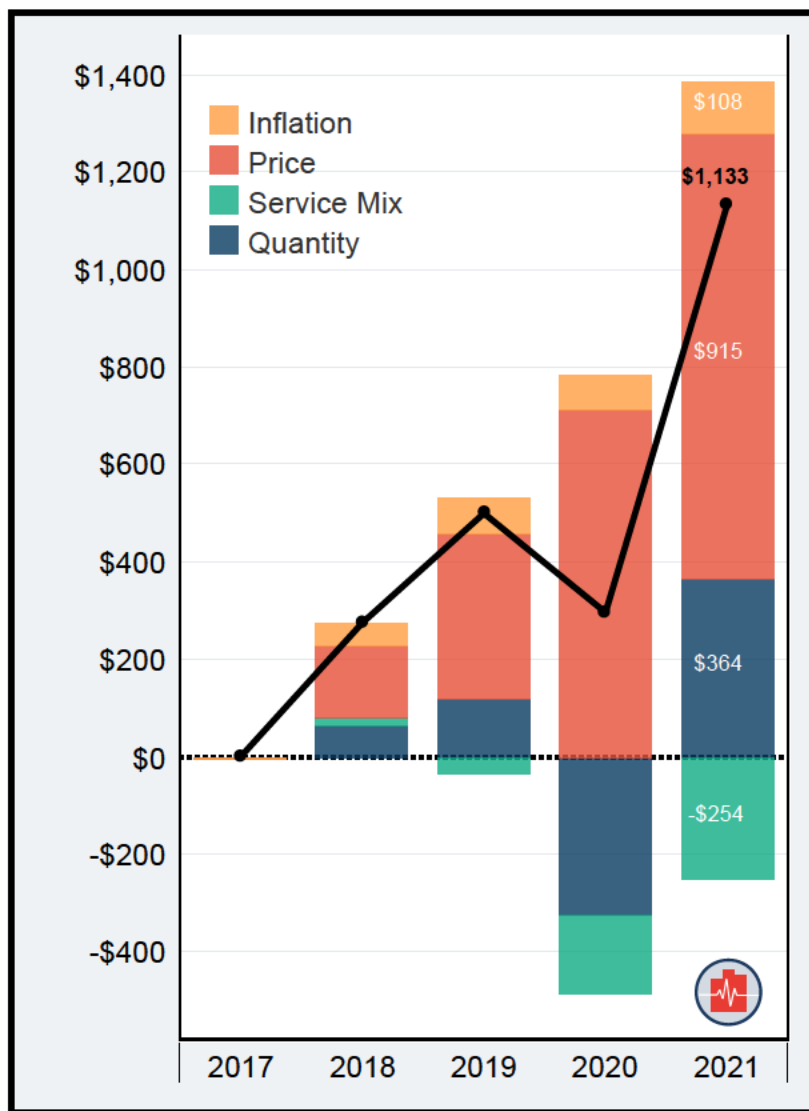
As described above, per person spending increased from 2017 to 2021 by \$1,133. To better understand what drove the changes in health care spending per person over that five-year period, we looked at four factors (See Figure 3):

- General inflation (using CPI-U)
- Quantity of services (utilization)
- Service prices
- Changes in the mix of services provided

In each year from 2017 through 2021, inflation and prices increased spending per person, but the impact

of service use and mixed varied by year.<sup>4</sup> Specifically, from 2017 to 2021, inflation accounted for \$108 of the \$1,133 of the spending change. The quantity of services provided accounted for \$364 of that increase. Prices accounted for \$915 of the change in spending – more than half of the spending increase. Since 2019, the change in the mix of services (within service category) has offset some of the growth in spending. This occurs when the mix of services used by the ESI population becomes less expensive, like switching from a 45-minute office visit to 30-minute office visits.

Figure 3. Cumulative Change in Total Spending Per Person and Contributing Factors



<sup>4</sup> Ibid.

## **The Price of Health Care Services in ESI Varies Substantially and Generally Exceeds Medicare Rates**

Within ESI, prices are the result of negotiations between providers and insurers and are influenced by a range of patient and market characteristics. Therefore, one service can have multiple prices. For example, in 2021, the price for vaginal childbirth was just over \$13,000 in Kansas City, MO, but was more than \$21,000 in New York City. Even within those metro areas, there was price variation. In both Kansas City and New York City, the average price for vaginal childbirth ranged by a factor of 1.5. Within Kansas City, the price ranged from \$10,000 to \$15,000. In New York City, the price ranged from nearly \$18,000 to nearly \$28,000.<sup>5</sup>

In fact, when we studied the median price of childbirth across 116 metro areas, we found that the median price at the most expensive hospital in a given area was nearly three times higher (2.6) than at the least expensive hospital. When we then looked at how the price of childbirth varied within the same hospital, we found that the 90<sup>th</sup> percentile price was, on average, twice as high as the 10<sup>th</sup> percentile price. This pattern held across delivery type and complexity; neither of those factors explained the difference in prices we observed across and within hospitals.<sup>6</sup>

In addition to varying geographically, ESI prices consistently are higher than rates paid by Medicare for the same service. Medicare payments are designed to reflect the cost of providing a particular service and are calculated with complexity, effort, and resource utilization in mind; they also adjust for geographic cost of living differences. Accordingly, they can be a useful benchmark. If we posit that the same service should cost roughly the same regardless of to whom it is provided, prices in ESI should not be dramatically higher than Medicare rates. Yet a great deal of research suggests that ESI prices frequently are multiples higher

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<sup>5</sup> Health Care Cost Institute. Healthprices.org, accessed January 28, 2024.

<sup>6</sup> Sen, A. et. al. (2023), "The Price of Childbirth Can be Twice as High Even in the Same Hospital." Health Care Cost Institute. <https://healthcostinstitute.org/hcci-originals-dropdown/all-hcci-reports/childbirth-price-twice-as-high-in-the-same-hospital>



than Medicare rates.<sup>7,8</sup> A recent HCCI study analyzed prices of outpatient services and found that, on average, ESI prices for outpatient services were 287%— nearly three times — higher than Medicare rates in 2021. That difference in service prices would translate to \$76 billion more in spending.<sup>9</sup>

### **Identifying potential cost drivers**

Transparency is a critical first step in understanding how money flows through the U.S. health care system. It also can reveal where health spending is growing disproportionately and point to what is causing unsustainable health spending increases. Existing data sources and research have suggested several causes of health care cost growth in recent years, including market concentration and site-specific pricing.

As noted above, market dynamics contribute to ESI prices and geographic variation in prices. Because competition is a critical component of those dynamics, HCCI has studied provider concentration in more than 180 metro areas across the country. In 2021, more than 76% of the metro areas we looked at had hospital markets that were highly or very highly concentrated. That is an increase from 2017 when 71% of the metro areas we studied were considered highly or very highly concentrated. More than two-thirds of the metro areas in our study became more concentrated from 2017 to 2021.<sup>10</sup>

At the same time, research has shown that the price for a given service can differ depending on where it is provided. HCCI's data show that prices for the same service provided in a hospital outpatient department

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<sup>7</sup> Johnson, W., et. al. (2020), "Comparing Commercial and Medicare Professional Service Prices." Health Care Cost Institute. <https://healthcostinstitute.org/hcci-originals-dropdown/all-hcci-reports/comparing-commercial-and-medicare-professional-service-prices>

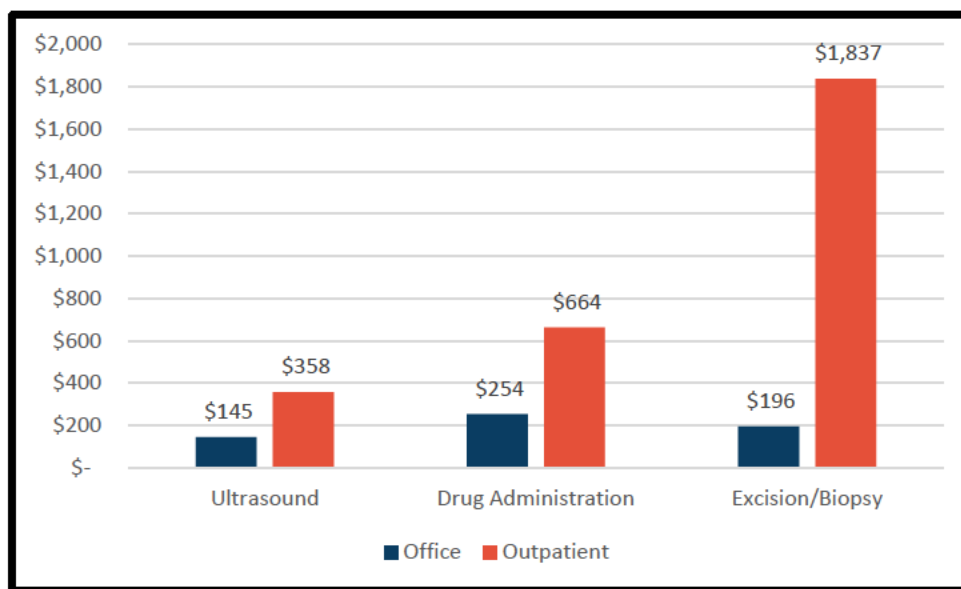
<sup>8</sup> Whaley, Christopher M., Brian Briscoombe, Rose Kerber, Brenna O'Neill, and Aaron Kofner, Prices Paid to Hospitals by Private Health Plans: Findings from Round 4 of an Employer-Led Transparency Initiative. Santa Monica, CA: RAND Corporation, 2022. [https://www.rand.org/pubs/research\\_reports/RRA1144-1.html](https://www.rand.org/pubs/research_reports/RRA1144-1.html).

<sup>9</sup> Health Care Cost Institute (2023). "On Average, ESI Pays Nearly 3 times Medicare for Hospital Outpatient Services." <https://healthcostinstitute.org/hcci-originals-dropdown/all-hcci-reports/comparing-medicare-and-esi-outpatient-prices>

<sup>10</sup> Health Care Cost Institute (2023). "Hospital Concentration Index: An Analysis of U.S. Hospital Market Concentration." <https://healthcostinstitute.org/hcci-originals/hmi-interactive#HMI-Concentration-Index>

(HOPD) tend to be higher than when that service is provided in a physician’s office. In an earlier HCCI study, we looked at prices of 46 services that can be provided in an outpatient setting or physician office. The price in the outpatient setting was higher for every service in every year of that study. For example, the price for an ultrasound provided in an HOPD averaged \$358, more than twice as much as the average in a physician office. An excision/biopsy performed in a physician’s office averaged \$196. In an HOPD, the average price for the same service was more than ten times that amount at \$1,837.<sup>11</sup> (See Figure 4.)

Figure 4. Average Prices for Select Services in Outpatient Departments vs. Offices



More recently, we looked at the price of laboratory tests provided in HOPDs compared to independent labs or physician offices. Overall, prices for lab tests were three times higher when provided in the outpatient department. This trend was consistent across all categories of lab tests, though the differential varied. For example, the average price for Vitamin D tests in outpatient settings was 2.9 times higher than in physician offices or independent labs, but the average price for Urinalysis tests in HOPDs was more than

<sup>11</sup> Hargraves, J. and J. Reiff (2019). “Shifting Care from Office to Outpatient Settings: Services are Increasingly Performed in Outpatient Settings with Higher Prices.” Health Care Cost Institute. <https://healthcostinstitute.org/hcci-originals-dropdown/all-hcci-reports/shifting-care-office-to-outpatient>

7.5 times higher.<sup>12</sup>

## **Conclusions**

Individuals and families with ESI coverage represent nearly half of the U.S. population, and our data suggest that health care spending for this population continues to grow and is contributing to unsustainable increases in health spending overall. Decisionmakers—public and private—need information and data to identify and implement changes that can alter the trajectory of health care spending. Information on how the U.S. health care system is performing, including in terms of cost and quality, is incomplete. Where it is available, it frequently is segmented with only certain stakeholders having access to a particular subset of data sources. The lack of definitive sources of information poses an obstacle to understanding what is driving health care costs and makes it difficult to develop effective solutions. HCCI’s work is just one example of how bringing data to bear on critical policy questions can help policymakers bring about change to rein in health care spending.

Although transparency alone likely is not sufficient to lower health care spending, more complete data, including on health care prices, can be used by employers, researchers, and policymakers to understand the drivers of health system costs and to design and implement strategies to lower cost growth, improve the value of health care spending, and increase the affordability of health care services. Better understanding of the causes and drivers of increased health care spending can contribute to meaningful policy decisions that continue to respect and reward innovation in health care within the parameters of a sustainable health care system.

Thank you for your time and the opportunity to discuss these critical issues with you today.

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<sup>12</sup> Chang, J. et. al. (2022). “Price Markups for Clinical Labs: Employer-based Insurance Pays Hospital Outpatient Departments 3X More Than Physician Offices and Independent Labs for Identical Tests.” Health Care Cost Institute. [https://healthcostinstitute.org/images/pdfs/HCCI\\_labprices\\_brief\\_051223.pdf](https://healthcostinstitute.org/images/pdfs/HCCI_labprices_brief_051223.pdf)