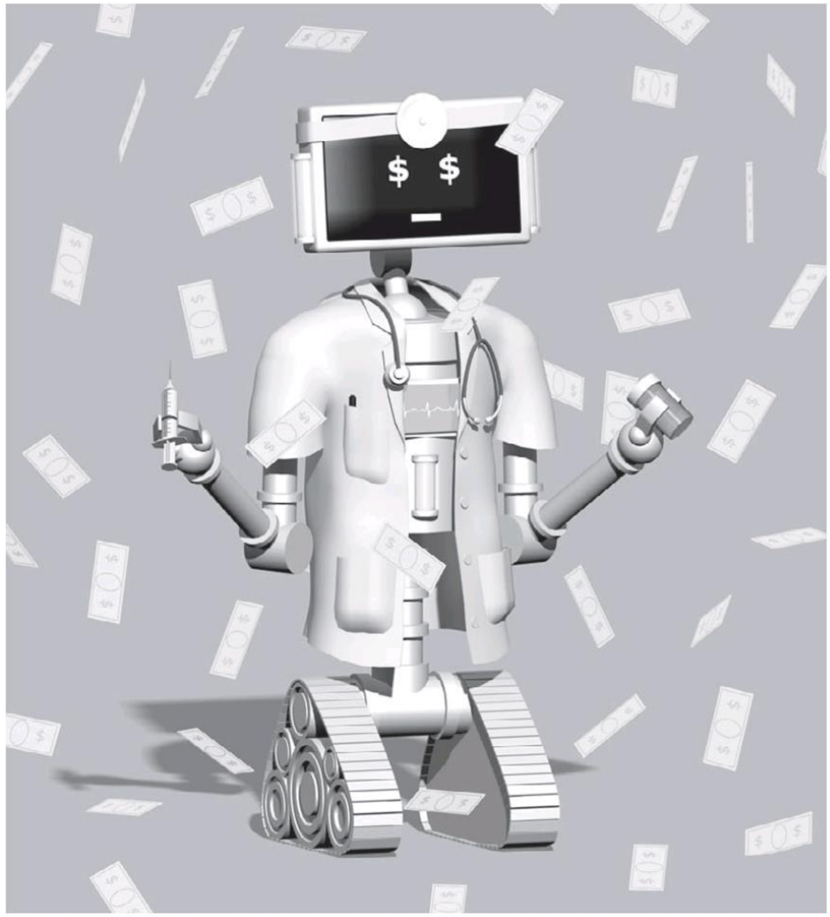
A Big Culprit of Increased Health Spending? Technology

By AUSTIN FRAKT



ERIK BLAD

American life spans are rising, and as they are, health care spending is, too. But longevity is not contributing to the spending increase as much as you might think.

The median age in the United States will rise to about 40 by 2040, up from 37.7 today. That's partly because the average American lives three years longer today — reaching nearly 79 years old — than in 1995. The Congressional Budget Office credits population aging for a substantial portion of its projected increase in health care spending — from 5.5 percent of the economy today to almost 9 percent by 2046.

But research suggests that living longer, by itself, isn't a big driver of rising health care spending. Because the baby boom generation is so large — members of it are now in their 50s to late 60s — the average age of Americans would rise even if life expectancy didn't. For every 100 working-age American today, there are about 25 Americans over 65. By 2040 there will be 37.

Older people need more health care, and they spend more. Compared with the working-age population (people 19 to 64 years old), those 65 to 74 spend two times as much; those 75 to 84 spend four times as much; and those 85 and older spend six times as much. And the growth in health care spending is faster for retirees than for younger Americans.

The real culprit of increased spending? Technology.

Every year you age, health care technology changes — usually for the better, but always at higher cost. Technology change is responsible for at least one-third and as much as two-thirds of per capita health care spending growth. After accounting for changes in income and health care coverage, aging alone can explain only, at most, a few percentage points of spending growth — a conclusion reached by several studies.

Some health care technology helps us live longer. The vast majority of the seven years of life expectancy gains in the latter half of the 20th century were because of better — and more costly — treatments for premature infants and cardiovascular disease, according to analysis by the Harvard health economist David Cutler and his colleagues. But recent work led by the Stanford economist Raj Chetty reminds us that factors outside the health system — like smoking rates and education levels — also influence longevity.

Just how much longer life spans boost spending depends on how many of those extra years are spent in good health versus poor health. Several studies warn that Americans will spend more of those years in poor health and with disability, which would push health spending higher.

But other analysis suggests that the leading causes of death, including cancer, heart disease and stroke, are being pushed off until later in life, giving us more years of good health. A recent study by Mr. Cutler and researchers from Harvard and the National Bureau of Economic Research found that between the early 1990s and the late 2000s, the elderly population gained more disability-free years than years with disability.

Perhaps some of the additional money we pour into the health system each year is doing some good. "Certainly we must address the problems associated with financing health care spending and health disparities," said Michael Chernew, a Harvard health economist and a co-author on the study. "But we can take some solace in evidence that more people are living longer and better."

These findings are consistent with other work showing that higher health care spending by older patients has more to do with their proximity to death than with their age. One study found that hospital expenses grow 1,000 percent in the last five years of life, but increase only 30 percent from 65 years old to 80. Another study found that a majority of Americans over age 85 have no limitations to their daily activities because of health, suggesting that age is a poor marker of health.

A decade ago, in a study published in Health Policy, two German health economists calculated how much incorporating the effect of shifting the spending near death could reduce health care spending projections. They took an extreme approach by assuming all of the increase in health care spending as one ages is in the proximity to death (none to greater age). So imagine that instead of incurring high costs and dying at, say, 75, one lives five more years in relative health, shifting those higher costs to just before age 80. The effect, according to their study, is to reduce estimates of health care spending because of aging by 40 percent.

In other words, living longer doesn't increase spending so much as it delays the large amount spent near death. Some health care spending is associated with those intervening, relatively healthy years, just not much comparatively.

Living longer offers many benefits. That it isn't, by itself, a major contributor to health care spending is a nice bonus.

Austin Frakt is a health economist with several governmental and academic affiliations.