

THE COST OF CARING

SOURCES OF GROWTH IN SPENDING ON PATIENT CARE IN HOSPITALS

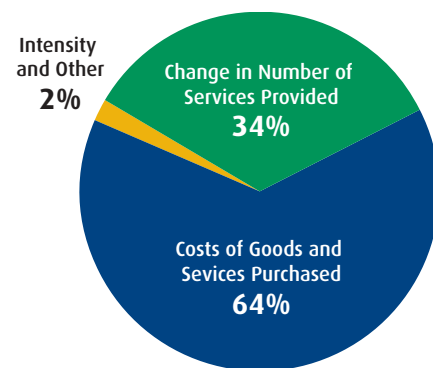
As the place where the most complex care is provided for ill and injured patients, hospitals account for the largest share (33 percent) of the health care dollar. Although spending on hospital care has grown more slowly than spending on other health care services, it is still the most significant driver of overall growth in health care spending.

An understanding of the factors driving this growth is critical to the debates about health care costs and affordability. These factors include increasing demand for care, the rising costs to hospitals of the goods and services needed to provide care, and growing intensity of care needs.

Rising costs to hospitals for the goods and services purchased to provide care accounted for 64 percent of overall growth in spending on hospital care from 2004 to 2008. About two-thirds of

Higher costs of caring are a bigger factor in spending growth than increased demand for care.

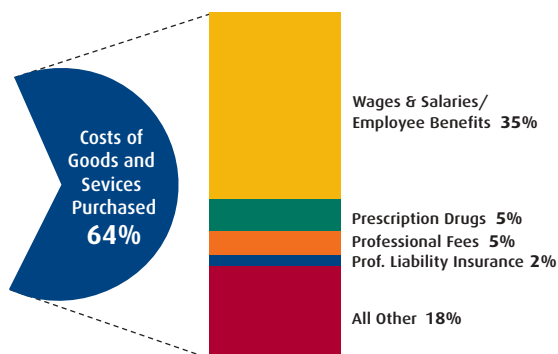
Share of Hospital Cost Growth Explained by Various Factors 2004-2008



Source: AHA analysis of American Hospital Association Annual Survey data, 2004-2008, for community hospitals; Centers for Medicare and Medicaid Services, Office of the Actuary.

Growth in labor costs is the most important single factor driving up the cost of hospital care.

Share of Cost Growth Explained by Key Components of Hospital Costs 2004-2008



Source: AHA analysis of American Hospital Association Annual Survey data, 2004-2008, for community hospitals; Centers for Medicare and Medicaid Services, Office of the Actuary.

every dollar spent by hospitals goes to the wages and benefits of caregivers and other staff. Not surprisingly, the increase in labor costs is the most important single driver of spending growth for hospitals, accounting for about 35 percent of overall growth and more than half of the growth in the costs of purchased goods and services.

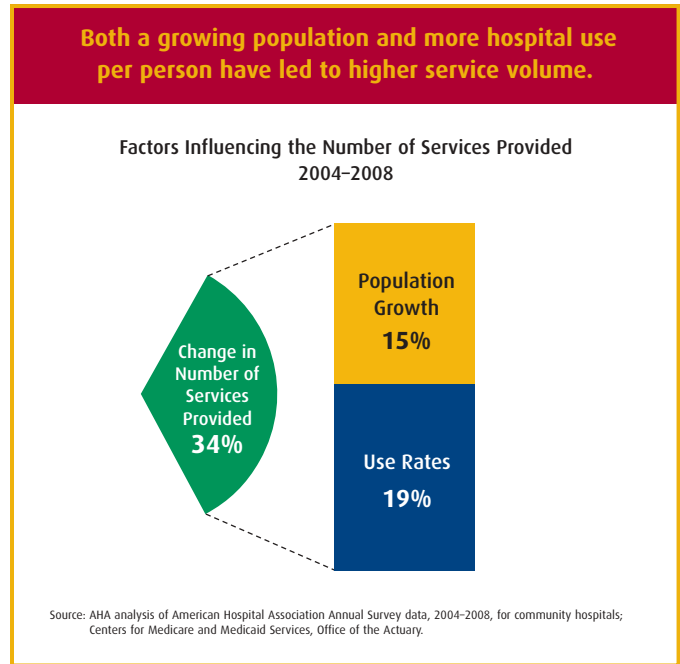
Hospitals face continuing shortages of registered nurses, pharmacists, medical technicians and other clinical workers. High vacancy rates for registered and licensed practical nurses are largely a result of a declining number of students seeking careers in nursing and competition with non-hospital employers. Continued workforce shortages during a period of rising service demand likely will put further cost pressure on hospitals.

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Rising demand for care accounted for about 34 percent of the overall growth in spending on hospital care between 2004 and 2008.

Demand is rising because the population is growing and each person, on average, is using more hospital services. These trends reflect underlying changes in the demographics and health status of America's population. Our aging population is driving some of the increase—as people age they use more health services. Between 2000 and 2050, the population aged 65 and older is expected to grow from 12 percent to 21 percent, as the “baby boomer” population ages and life expectancy continues to rise. At the same time, the population is getting sicker. More and more people today are suffering from chronic diseases than ever before, driven by lifestyle factors, such as obesity.

But rising volumes also reflect advances in medicine. Each year ill and injured patients have more options to meet their needs—new diagnostic techniques, procedures and treatment regimens. These advances lead to longer and better lives but add to the number of hospital services provided and drive up spending.



Finally, the remainder of the growth—about 2 percent—is due to other factors including increased intensity of hospital care, i.e., hospitals are using more resources to care for each patient. Increased intensity can be attributed to a variety of factors, including sicker, more complex patients as well as the high costs of advances in technology.