

# Drug Spending Raises US Health Care Tab

By KEVIN FREKING

WASHINGTON (AP) – Seniors and the disabled flocked to the pharmacy counter in 2006 with their new Medicare drug cards, fueling a 6.7 percent increase in health spending, the federal government reported Monday.

In most other areas of health care, there was a welcome slowdown in spending. It still cost more to go to the hospital or doctor, but the increase was not as great as in the previous year.

The \$2.1 trillion spent on health care in 2006 came to an average of \$7,026 a person. Health care represents 16.1 percent of the economy.

The increase in drug spending occurred even as consumers relied more on generic drugs and as prices remained relatively stable for many brand-names. Nearly two out of every three prescriptions filled were generics, which helped restrain drug expenditures.

But that restraint was offset by the new Medicare benefit. Those with insurance are more likely to access the health care system. Under the drug benefit, people who once had to forgo or cut back on medicine had the means to fill more prescriptions in 2006, thanks to the new government subsidy.

Also, under the drug benefit, many of the poorest beneficiaries were moved from Medicaid into Medicare, where private plans administer the drug benefit. Those private plans failed to negotiate discounts as large as those that the states got. Officials said the discounts drug manufacturers were required to give states typically lowered costs by about 30 percent. Meanwhile, the private plans typically negotiated discounts of 5 percent to 10 percent.

Spending on prescription drugs increased 8.5 percent in the drug benefit's first year – compared to 5.8 percent the year before.

Overall, health care makes up a growing share of the nation's economy – a trend that many analysts worry will eventually harm the economy as businesses, the government and consumers have to divert resources from other priorities to pay health bills.

"Costs continue to grow faster than income, and there's no reason to believe this won't continue," said Paul Ginsburg, president of the Center for Studying Health System Change, a research organization.

Ginsburg said the government and private sector is not helpless when it comes to lowering health bills. Medicare and the private sector can put more emphasis on encouraging healthy lifestyles and reducing obesity rates, he said. They can also focus

their payments so that there is not such a huge incentive for doctors to order extra tests, imaging scans and various other procedures.

The report by economists from the Centers for Medicare and Medicaid Services, published in the journal Health Affairs, showed that spending on:

\*Home health care rose 9.9 percent in 2006. In each of the previous two years, home health spending increased 12.3 percent.

\*Nursing home care rose 3.5 percent.

\*Wheelchairs, walkers, artificial limbs and other such medical equipment rose 2.3 percent.

Spending on hospitals and physician services accounts for about half of each dollar spent on health care in the U.S. Spending for both slowed slightly in 2006. Spending rose 7 percent for hospital care – versus 7.3 percent the year before. Spending for physician services rose 5.9 percent – versus 7.4 percent the year before.

Ginsburg said he anticipates that spending on hospitals will accelerate in coming years as they add operating rooms and beds. Those additions are focused on specialties that generate the most profit, such as cardiac care.

Drug spending represented the most significant exception to the slowdown in medical bills. Another important exception was the cost of private health insurance, up 8.8 percent in 2006, more than double the increase that occurred the previous year.

Medicare economists said the increase occurred because millions of people left traditional Medicare to enroll in private plans subsidized by the government. Medicare's economists said they could not say whether such a transfer led to greater health spending overall in the U.S. But they did note that the government spends about \$10,133 per enrollee in the private plans versus about \$9,538 per enrollee in traditional Medicare.

Democratic lawmakers say lowering payments to the insurers would reduce Medicare expenses and lessen the need for increasing taxes or cutting benefits later on when millions of baby boomers enter the system. But Republican lawmakers said lowering payments to Medicare Advantage plans means that insurers would simply cut benefits for those 8 million enrollees in Medicare Advantage.