

# Health Care

## Economic Impact of Caring for Geriatric Patients



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### KEYWORDS

- Health care expenditure • Gross domestic product • Health care economics
- Third party payer • Medicare

### KEY POINTS

- Health care costs represent a larger percentage of the US gross domestic product (GDP) than those of any other developed nation in the Organization for Economic Co-operation and Development. Economists estimate a 4% to 7% per annum increase, which could approach 30% of GDP by 2035 if unchecked.
- Medicare (part A) payments exceed committed payroll tax revenue, and if they continue to increase at current rates, the Trust Fund assets will be depleted by 2017.
- The world's population is aging more rapidly than at any time in the past, in part because of prolongation of life expectancy; in the United States, the number of Americans older than 65 years will more than double in the next several decades.
- Although the elderly comprise only 13% of the US population, nearly half of all health care dollars spent are on the elderly.

### INTRODUCTION: TRENDS IN US HEALTH CARE ECONOMY

With a gross domestic product (GDP) of \$15 trillion, the US economy is the largest in the world, representing 20% of all global economic activity. US health care costs represent a larger percentage of this GDP than any other developed nation in the Organization for Economic Co-operation and Development (OECD) and result in the highest national per capita spending (\$8233) in the world.<sup>1</sup> Historically, US health care expenditures have progressively outpaced growth in real income and have consistently exceeded GDP expansion by an average of 2.5% since 1975.<sup>2,3</sup> US health care spending increased from \$27.1 billion (5.3% of GDP) in the pre-Medicare era of 1960 to \$2.6 trillion in 2010 (17.6% of GDP).<sup>1</sup> Over the same period,

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the percentage of health care costs paid for by the US government (federal and state) progressively increased, such that public sources account for nearly 50% of all payments.<sup>3</sup>

Economists project that health care costs will continue to increase at a rate of 4% to 7% per annum (forecasts are highly dependent on public policy and legislative action), a rate that if unabated will expand health care spending as a percentage of GDP to 30% by 2035 and will exceed 50% of all US economic transactions in aggregate by 2080. Federal financing of health care is already facing profound shortfalls, with Medicare Part A payments exceeding committed payroll tax revenue. If Medicare costs continue to increase at contemporary rates, the Trust Fund assets will be depleted by 2017. Given simple economics, it is evident that the increasing costs of health care may represent the single greatest threat to the economic security of the US population.

### KEY DRIVERS OF HEALTH CARE SPENDING

There is increasing consensus that the disproportionate increase in health care costs is unsustainable and must be controlled given realistic expectations for associated growth in GDP. Although the major factors that contribute to cost acceleration can be reasonably well identified and agreed, there is more controversy regarding the relative magnitude and economic importance of the various components. The aging of the baby boomer generation is commonly believed to be a major driving force for the increase in overall health care expenditures. However, despite the increasing proportion of the elderly and the higher per capita spending incurred by this group, most economists attribute only about 3% of the cumulative increase in health care spending to this 1 driver.

Health care as a commodity is effectively a surrogate for the underlying associated values, which are the quality of health itself and the desire to maximize both individual and collective welfare. There is little doubt that in many cases, health care spending and resource allocation can be directly translated into the development of productive technological developments, the prolongation of life, the relief of suffering, and a measurable improvement in the quality of health. However, cost, quality, and well-being are not always directly related. From the perspective of economic efficiency and the appropriate allocation of scarce resources, this nonlinear relationship necessitates the distribution of our scarce resources within the broader context of efficacy, cost-effectiveness, comparative analysis, and efficiency.

### *Technology*

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As the United States has transitioned from its manufacturing-based industrial revolution to an economy that is 80% service oriented, Americans have grown accustomed to rapid disruptive innovation and the development of advanced technological breakthroughs that fundamentally alter the structure and function of markets. In no sector is this phenomenon more evident than in health care. The development of new drugs, devices, services, procedures, and applications not only affects treatment paradigms but in many cases also expands possible treatments to new populations. Technological advances often outpace our ability to adequately study their effectiveness, and evidence-based strategies designed to rationally apply them are often replaced by their rapid and unsystematic adoption with unpredictable incorporation into medical practice. Although the potential exists for innovative technological advancements to decrease the cost of health care by reducing hospitalization or avoiding associated morbidity, most experts agree that most medical technological developments

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