What are the Biggest Drivers of Health Care Costs?

According to the Kaiser Family Foundation, the three biggest drivers of rising health care costs are (1) technology, (2) prescription drugs, and (3) chronic disease. In 2008, the Congressional Budget Office (CBO) stated:[14]

"... On the basis of a review of the economic literature, [the CBO] concludes that about half of all growth in health care spending in the past several decades was associated with changes in medical care made possible by advances in technology.... Major advances in medical science have allowed health care providers to diagnose and treat illnesses in ways that were previously impossible. Many new services are very costly; others are relatively inexpensive but raise aggregate costs quickly as ever-growing numbers of patients use them."

Spending on prescription drugs will continue to be a cost issue, related to the aging population and the costs of prescription drugs. According to the Kaiser Family Foundation, the increases in prescription drug costs *"have outpaced other categories of health care spending, rising rapidly throughout the latter half of the 1990s and early 2000s. While the rate of growth in spending has slowed somewhat, it is projected to exceed the growth rates for hospital care and other professional services in 2010 and through 2019."*[15]

According to the Milken Institute, *"More than 109 million Americans report having at least one of the seven [chronic] diseases, for a total of 162 million cases....The total impact of these diseases on the economy is $1.3 trillion annually....On our current path, in 2023 we project a 42 percent increase in cases of the seven chronic diseases....Lower obesity rates alone could produce productivity gains of $254 billion and avoid $60 billion in treatment expenditures per year."*[16]

Defensive Medicine in the ER

According to the PricewaterhouseCoopers' Health Research Institute,[17] the top three areas of waste in the health care system are (1) defensive medicine (estimated at $210 billion nationally/year), (2) inefficient claims processing (up to $210 billion nationally/year), and (3) care spent on preventable conditions related to obesity ($200 billion nationally/year).[18]

Reducing the practice of defensive medicine in emergency departments could result in significant cost savings. Emergency departments care for the most severely ill and injured patients who are most at risk of dying. In order to avoid potential lawsuits, physicians will order a test out of fear of being sued for NOT ordering the test. Nearly 50 percent of emergency physicians responding to an ACEP poll said diagnostic testing was the largest expense on a patient's emergency department bill, and nearly half (44 percent) said the fear of lawsuits is the biggest challenge to cutting emergency department costs.[19]

Medical liability reform would help cut costs by reducing the amount of defensive medicine practiced by emergency physicians and other physicians treating patients in emergency departments. Liability issues are especially relevant in New Jersey, as the American College of Emergency Physicians gave our state an "F" for its malpractice environment in The National Report Card on the State of Emergency Medicine.[20]

[1] "The Emergency in Emergency," Ackermann, P., *Inside New Jersey,* 2011.
[2] "Trends and Characteristics of U.S. Emergency Department Visits, 1997-2007," *JAMA*, 304: 6, August 11, 2010.
[3] "Increasing Rates of Emergency Department Visits for Elderly Patients in the United States, 1993 to 2003," Roberts, D.C., McKay, M.P., Shaffer, A. *Annals of Emergency Medicine*, 2007, 51:3, 291-298.
[4] ACEP Poll, 2011.
[5] "Medical Expenditure Panel Survey," Department of Health and Human Services, Agency for Healthcare Research and Quality, 2008, http://tinyurl.com/489fao6.
[6] "National Health Expenditure Projections 2008-2018," Department of Health and Human Services Office of the Actuary, Centers for Medicare & Medicaid Services, 2010, https://www.cms.gov/NationalHealthExpendData/downloads/tables.pdf.
[7] "Hospital Capacity, Patient Flow, and Emergency Department Use in New Jersey," DeLia, D., Rutgers Center for State Health Policy, 2007.
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[9] "The Emergency in Emergency," Ackermann, P., *Inside New Jersey,* 2011.
[10] Emergency Medical Treatment and Labor Act, 1986, https://www.cms.gov/EMTALA/.
[11] American Medical Association poll, 2003.
[12] "Virtually Every State Experienced Deteriorating Access to Care for Adults over the Past Decade," Kenney, G. M., Robert Wood Johnson, 2012.
[13] "Decreasing Reimbursements for Outpatient Emergency Department Visits Across Payer Groups From 1996 to 2004," Hsia, R.Y.; MacIsaac, D; Baker, L.C.; *Annals of Emergency Medicine.* 51:3; 265-274.
[14] "Technological Change and the Growth of Health Care Spending," Congressional Budget Office, January 2008.
[15] "Prescription Drug Costs," Kaiser Family Foundation, 2010.
[16] "An Unhealthy America: The Economic Burden of Chronic Disease — Charting a New Course to Save Lives and Increase Productivity and Economic Growth," Milken Institute, October 2007.
[17] "The Price of Excess: Identifying Waste in Healthcare Spending," Pricewaterhouse-Coopers LLP Health Research Institute, 2008.
[18] "The Price of Excess: Identifying Waste in Healthcare Spending," Pricewaterhouse-Coopers LLP Health Research Institute, 2008.
[19] ACEP Poll, 2011.
[20] ACEP National Report Card on the State of Emergency Medicine, 2008.

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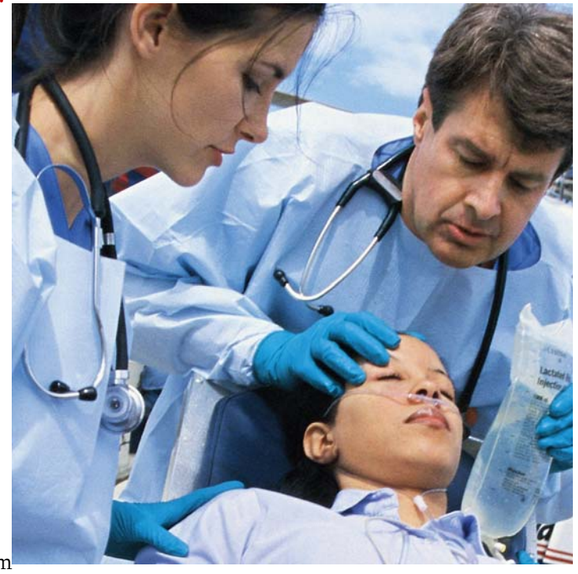
How is Emergency Care different?

Emergency care is a unique form of medical care, different from many other medical specialties. Emergency physicians utilize multiple resources on a daily basis within a hospital, such as diagnostic testing and consultation by other medical specialists, to respond to the emergency at hand. These physicians set the course of a patient's diagnosis and treatment, including what happens after a patient has been admitted to the hospital, and coordinate the further care of patients who can be discharged home directly from the emergency department.

However, the reality of the nation's population demographics, as well as physician shortages and an analysis of those seeking emergency care, show that dissuading patients from using emergency departments is not likely to be an effective strategy. Emergencies are *not* scheduled events. Policymakers and health care stakeholders must take patient needs into account during these emergencies as they develop new paradigms for how health care will be provided in the future.

Are Most Emergency Visits Really "Unnecessary"?

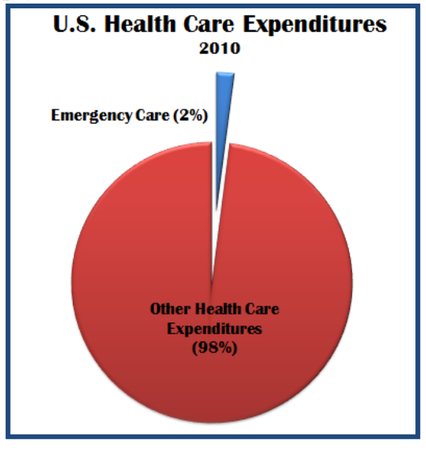


Emergency medicine is essential to New Jersey, providing lifesaving and critical care to millions of patients within the state each year, and most of the visits are necessary. In 2010, there were nearly 4 million visits to the state's 73 emergency departments. This was a 7% increase between 2009 and 2010.[1] Many of these visits occurred after business hours and on weekends and holidays when doctors' offices were closed.

In general, 92% of emergency visits are from very sick patients who need care within 1 minute to 2 hours.[2] The number of emergency patients seeking care for nonurgent medical conditions dropped to less than 8% in 2007 and has continued to drop since 2005 when it was at 13.9 percent. The Centers for Disease Control and Prevention (CDC) defines "nonurgent" as "needing care in 2 to 24 hours." According to the CDC, "The term 'nonurgent' does not imply an unnecessary visit."

The fastest-growing segment of the U.S. population is patients over age 85. The rates of emergency visits by the elderly are increasing more rapidly than for any other group, and research has predicted this will lead to catastrophic overcrowding within our emergency departments.[3] Elderly patients tend to be sicker and are more likely to be admitted from the emergency department to the hospital than other emergency patients.

Patients are often sent to the emergency department by their primary care doctors. Ninety-seven percent of emergency physicians responding to an ACEP poll reported that patients are referred daily to their ERs by primary care physicians.[4]



What Percentage of Health Care Expenditures is Emergency Care?

The need to reduce health care costs is clear. Health care expenditures currently represent more than 16 percent of the U.S. gross domestic product. Between 1990 and 2008, health care expenditures increased more than three times.

Yet there are misconceptions about the costs and efficiencies of emergency rooms and "unnecessary" care. According to U.S. government statistics, emergency care represents less than 2 percent (1.9 percent)[5] of the $2.4 trillion spent on health care. [6] While it may cost more for patients to visit an emergency department than to visit a physician's office, the total cost is small relative to the entire health care system. Unlike a physician's office, emergency departments have all the diagnostic resources available 24 hours a day, seven days a week, 365 days a year, and the availability and use of this equipment contribute to the costs of care.

Breaking Down the Costs of a Visit to the ER

The costs of providing emergency care correspond to the severity of a patient's illness or injury. The expenses will be higher when extensive diagnostic testing is necessary, such as when an emergency physician must treat a patient quickly without knowing the person's medical history (e.g., allergies, medical problems, recent medical procedures), which is often the case.

In New Jersey, over 58% of hospital inpatient admissions originated in the emergency department.[7] The resulting expenses may include fees for on-call specialists, the pharmacy and other hospital services involved in the diagnosis and treatment of a patient. Physician consultations and medical tests are expedited and conducted in a few hours (instead of a patient being referred to multiple medical providers over several days or weeks). With all of these components in mind, the major line items within an emergency department invoice is not directly comparable to an invoice from a primary care physician's office. The expenses will include charges for all services provided in the emergency department, including physician services. The fee for an emergency physician's services on an emergency department invoice is typically about 20 to 25 percent of the total charges for a visit. Hospital facility fees usually represent about two-thirds of the expense.

Charity Care and the Emergency Room

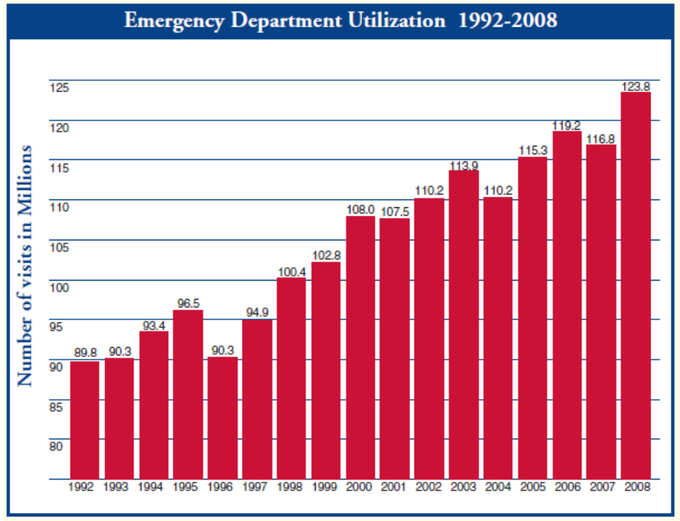
New Jersey has over 1,000 emergency medicine physicians[8] who treat patients of all ages and all incomes. Unlike other medical providers, emergency physicians never turn patients away, primarily because of a moral and ethical obligation — but also because the federal government mandates that all patients receive treatment regardless of their ability to pay.[9] Since the passage of the Emergency Medical Treatment and Labor Act in 1985,[10] the most significant economic issue in emergency medicine has been uncompensated care.

Emergency physicians provide 4 to 10 times more charity care than any other physician specialist

According to the American Medical Association, emergency physicians provide four to 10 times more charity care than any other physician specialist.[11] Charity care provided to uninsured patients and poor reimbursement by insurance plans, both private and public, strain ERs that care for increasing numbers of patients. In 2010, approximately 20.6% of nonelderly adults in New Jersey did not have health insurance.[12] Therefore, it is not surprising that nearly half of emergency services go uncompensated.[13]

How Does the Health Exchange Impact Emergency Patients?

The new health care reform law will add more people to the Medicaid rolls in New Jersey, which could reduce the rate of uninsured patients visiting emergency departments. However, since health insurance coverage does not guarantee access to medical care, many more people may seek care in emergency departments if they cannot find physicians who accept Medicaid. Finding physicians in any specialty who accept Medicaid will likely become more difficult due to New Jersey Medicaid low reimbursement rates.



Urgent Care Centers vs. Emergency Department

Despite the growth of urgent care centers in America, emergency visits continue to increase. Part of the reason is because urgent care centers are not substitutes for emergency care. While urgent care centers can treat common medical problems when a physician's office is closed or unable to provide an appointment, they don't have the same equipment or trained staff that emergency departments keep ready on demand.