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august 14**The New York Times** | <http://nyti.ms/1P6lp2l>

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The Upshot

THE NEW HEALTH CARE

No, Giving More People Health Insurance Doesn't Save Money

AUG. 5, 2015

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In 2014, an estimated nine million people became newly insured thanks to Obamacare.

There's an oft-expressed view that getting all those people covered could actually save the health system money. The argument goes something like this: Once people have insurance, they'll go to the doctor instead of an expensive emergency room. Or: Prevention costs far less than a serious illness down the road.

In selling the Affordable Care Act, President Obama was fond of making these sorts of arguments. "There's no reason we shouldn't be catching diseases like breast cancer and colon cancer before they get worse," he said, in his big 2009 address to Congress, urging passage of the bill. "That makes sense, it saves money, and it saves lives." The White House was careful to describe the overall financial forecast for the law — the administration said the law would slow spending growth and not reverse it. But it has also argued forcefully and repeatedly about the financial value of preventive care.

This argument for the cost savings from universal health coverage makes some intuitive sense, but it's wrong. There's strong evidence from a variety of sources that people who have health insurance spend more on medical care than people who don't. It also turns out that almost all preventive health care costs more than it saves. Those facts don't mean that giving people health insurance is a waste of money, since those dollars spent may improve their health and financial security. But there are only a few situations in which giving someone more health care will actually end up saving money.

Last week, the government actuaries at the Centers for Medicare and Medicaid Services published their annual report on what it expects the nation to spend on health care over the next 10 years. Because of a long time lag in data collection, the actuaries still don't have hard numbers on health spending in 2014, when millions of people first got insurance.

But, based on available information, the actuaries estimated that health spending that year jumped by 5.5 percent, a bigger rise than the country had experienced in five years. That's actually not a huge increase by historical standards — average increases in health spending for the 30 years before the recent Great Recession were 9 percent a year. But it still marks the end of an era of record-low spending growth in the system. The slowdown seems to be over.

The actuaries cited three main reasons they think health spending is set to tick up. One is the aging of the population; people tend to get sicker as they age. Another is the improving economy, which will enable more people to afford medical care — or the time off from work it might take to attend to their health needs. But the third, and a big one, was Obamacare's coverage expansion.

There's evidence about the link between insurance status and health spending from many sources. A famous randomized study of health insurance, started in the 1970s by the RAND Corporation, was designed to answer this exact question. It found that the less expensive you made it for people to obtain medical care, the more of it they used. That follows the pattern for nearly every other good in the economy, including food, clothing and electronics. The cheaper they are for people,

the more they are likely to buy.

That finding was echoed recently by researchers who conducted another randomized controlled trial — this one of uninsured low-income people in Oregon. Low-income Oregonians who wanted to sign up for the state's Medicaid program were placed in a lottery. Only some got the insurance, but the researchers tracked both groups. In the first year, they found that the lottery entrants who were given Medicaid spent more on health care than those who remained uninsured.

Amy Finkelstein, a professor of economics at M.I.T. and one of the authors of the Oregon study, described this finding as their least surprising result. “There's overwhelming evidence from our study and others that when you cover people with health insurance, they use more health care,” she said.

But what about prevention? In certain situations, early spending on someone's health will stop an expensive disease in its tracks, reducing future spending. Giving people health insurance often enables them to get just this sort of preventive care — and Obamacare requires insurers to offer most preventive services without charging any co-payments. You might expect health spending to jump initially, then slow in future years as people benefit from new prevention. But research shows that even preventive care rarely ends up saving money.

Here's why: For the individual patient whose heart attack is prevented by a cholesterol screening, to give one example, that blood test is a cost-saver. But to prevent one heart attack, the health care system has to test hundreds of healthy people — and give about a hundred of them cholesterol-lowering drugs for at least five years. Added together, those prevention measures cost more than is saved on the one heart attack treatment. (My colleagues Aaron E. Carroll and Austin Frakt have written a helpful article on this concept, known in medicine as the “number needed to treat.”)

Joshua T. Cohen, the deputy director of the Center for Evaluation of Value and Risk in Health at Tufts Medical Center, said: “We've all heard it before: ‘An ounce of prevention is worth a pound of cure.’ It doesn't really play out when you analyze

the numbers, and the reason for that is that you have to give a lot of people those ounces of prevention to end up with one person who's going to get that pound of cure.”

There's also the unavoidable fact that every time you prevent people from dying from one disease, they are likely to live longer and incur future medical expenses. The patient who benefits from the cholesterol screening may go on to develop cancer, arthritis, Alzheimer's or some other costly illness.

There are some prevention measures that actually do seem to save money. Counseling on contraception is one because the costs of prenatal care, delivery and pediatric care associated with an unplanned pregnancy are so substantial. But a lot of the preventive health measures that we tend to value a lot — mammography, screening for diabetes — tend to cost more than they save. Researchers like Mr. Cohen, who study these trade-offs, say we need to think more broadly about the value of what our preventive spending buys, not the narrow question of whether it saves money.

That may be one way of thinking about the law's benefits for the newly insured, who had limited access to the health care system. For many, their new coverage means they can get free checkups and preventive disease screenings, and can more easily pay for big health care needs, like prescription drugs and operations. Early evidence suggests they are facing less financial stress as a result of their coverage.

Some are now managing chronic and potentially life-threatening health conditions. But those benefits don't mean we should be surprised by the actuaries' recent findings on spending growth. More people in the health care system means more dollars spent on health care. The increase doesn't mean that Obamacare is leading to runaway costs, or that it's failing to reform the health care system to make it more efficient. But it does mean that we can't think of the coverage expansion as free.

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