The Affordable Care Act and the U.S. Economy
A Five-Year Perspective

Cathy Schoen

FEBRUARY 2016

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The Affordable Care Act and the U.S. Economy: A Five-Year Perspective

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ABSTRACT
Despite fears that the Affordable Care Act's health coverage expansions and market reforms would cost jobs or accelerate health care inflation, the U.S. economy has grown steadily, if slowly, since the law's passage in 2010. The level of overall economic output and employment is currently well above the peaks prior to the 2008–09 recession. Jobs have increased by more than 13 million since 2010—5 million more than at the pre-recession peak. All of the net gain has been in full-time, private-sector jobs. Furthermore, the marked slowdown in health care cost growth that started during the recession has continued, although recent indicators show this trend may be waning. In reviewing evidence over the past five years, this report concludes that the ACA has had no net negative economic impact and, in fact, has likely helped to stimulate growth by contributing to the slower rise in health care costs.

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EXECUTIVE SUMMARY

This report provides a five-year perspective on the impact the Affordable Care Act (ACA) has had on the U.S. economy since the law's enactment. It discusses trends in economic growth, employment, and health care costs since 2010, as well as the national experience prior to that time, and compares the recovery in the United States with that in other high-income countries.

Although it is impossible to state with absolute certainty the full extent to which the ACA's reforms have contributed to the nation's recovery from one of the worst economic crises of recent decades, the news has been, on balance, positive. To date, there is no evidence that the ACA has had a negative impact on economic growth or jobs or that its reforms have undermined full-time employment—effects that the law's opponents had warned about. To the contrary, evidence indicates that the ACA has likely acted as an economic stimulus, in part by freeing up private and public resources for investment in jobs and production capacity. Moreover, the law's payment and other cost-related reforms appear to have contributed to the marked slowdown in health spending growth seen in recent years.

Following are highlights of this report's review of economic, job, and health cost trends since the ACA's enactment:

- The U.S. economy has gained nearly 14 million private sector jobs over five years. All of the net gain in employment has been in full-time work.
- There are 5 million more people working now than during the peak level prior to the recession, and the unemployment rate has plummeted. Recent annual gains in jobs have been faster than gains in any year since the 1990s.
- Still, labor force participation rates have yet to return to their pre-recession peak.
- Inflation-adjusted economic growth in the United States in recent years has rivaled or exceeded that of many other high-income nations.
- Health care spending growth per person—both public and private—has slowed for five years.
- A number of ACA reforms, particularly related to Medicare, have likely contributed to the slowdown in health care spending growth by tightening provider payment rates and introducing incentives to reduce excess costs.
- Faster-than-expected economic growth and slower-than-expected health care spending have led to multiple downward revisions of the federal deficit and projected deficits.
- These trends have also been a boon to state and local government budgets, as job growth has improved state tax revenues while cost growth in health care programs has slowed. At the same time, expanding insurance to millions of people who were previously uninsured has supported local health systems and enhanced families' ability to pay for necessities, including health care.

The accrued savings in health care spending relative to their projected growth prior to the ACA are substantial: Medicare alone is now projected to spend $1 trillion less between 2010 and 2020.

However, without targeted efforts to sustain slow growth, in the near future market forces could reverse these positive trends. In particular, rising drug costs, higher prices resulting from consolidation among providers and insurers, and rising administrative complexity could put the United States back on a path where costs increase faster than the economy and people's incomes, further undermining the affordability of insurance and health care.

Five years after passage of the ACA, we have evidence that it is possible to secure affordable coverage for all citizens, improve health outcomes, and slow cost growth—all to the benefit of families, businesses, and the economy. Looking to the future, the trillion-dollar question is this: What actions will be necessary to keep health spending growth at the same level as or below economic growth, while also maintaining health care access and quality?

The Affordable Care Act and the U.S. Economy: A Five-Year Perspective

BACKGROUND

At the time of the Affordable Care Act's (ACA) enactment in 2010, policymakers were grappling with the effects of the most severe recession in the United States since the Great Depression. Some feared that by undertaking an ambitious expansion of health insurance coverage and setting new requirements for health benefits provided by employers, the new law might limit job growth and economic recovery. Others predicted that ACA provisions targeted at slowing growth in health care costs, coupled with reforms to increase the number of people with health insurance, would instead stimulate the economy—by freeing up resources to add jobs and increase wages and by expanding consumer demand for goods and services beyond health care.[1]

To provide a five-year perspective on the ACA's impact on the U.S. economy, this report summarizes trends in economic growth, job creation, and health care costs from 2010 through 2015 and compares them with the national experience prior to that time. The analysis also compares U.S. economic growth to the recovery in other high-income countries.

U.S. ECONOMIC GROWTH SINCE 2010: SLOW BUT STEADY

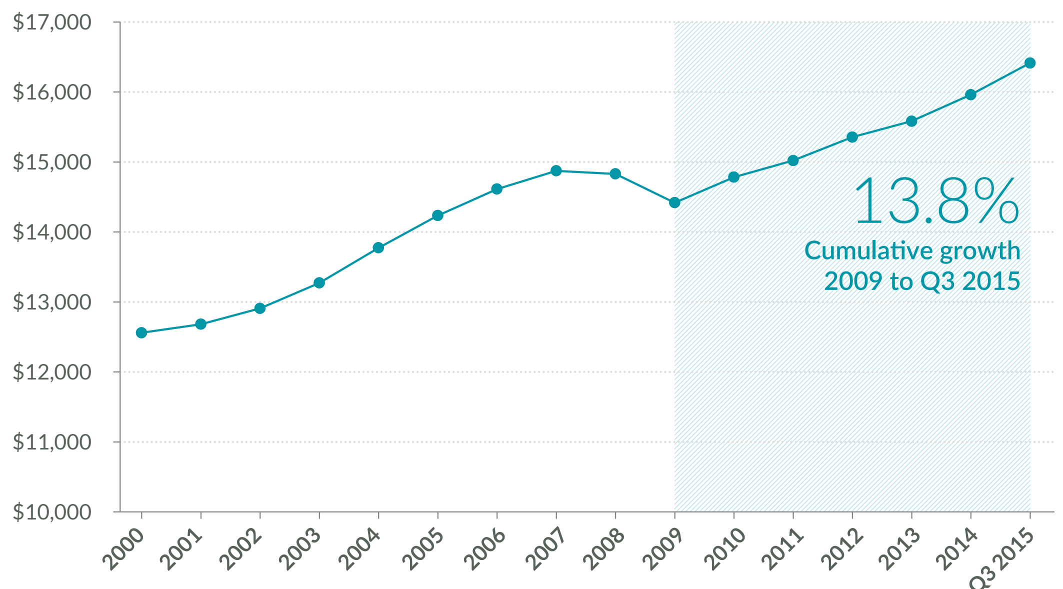
Since 2010, the U.S. economy has been growing—slowly but steadily. Especially in light of continued global economic turmoil, the news has been quite positive indeed. In terms of change in gross domestic product (GDP), the nation's economy grew by 21 percent over the five years through 2015, with inflation-adjusted cumulative "real" growth exceeding 13 percent by the third quarter of 2015. Total economic output is now well above the peak levels reached before start of the recession. (Exhibit 1).

Adjusted for inflation, gross private domestic investment through 2015, including factory and building expansion, has continued to grow faster than GDP (Exhibit 2). Such investment—an important signal that views of the economy remain positive—could pave the way for continued growth.

Notably, GDP growth rates accelerated from 2012 through 2014, the years during which the ACA's major

Exhibit 1

Steady U.S. Economic Growth After a Severe Recession



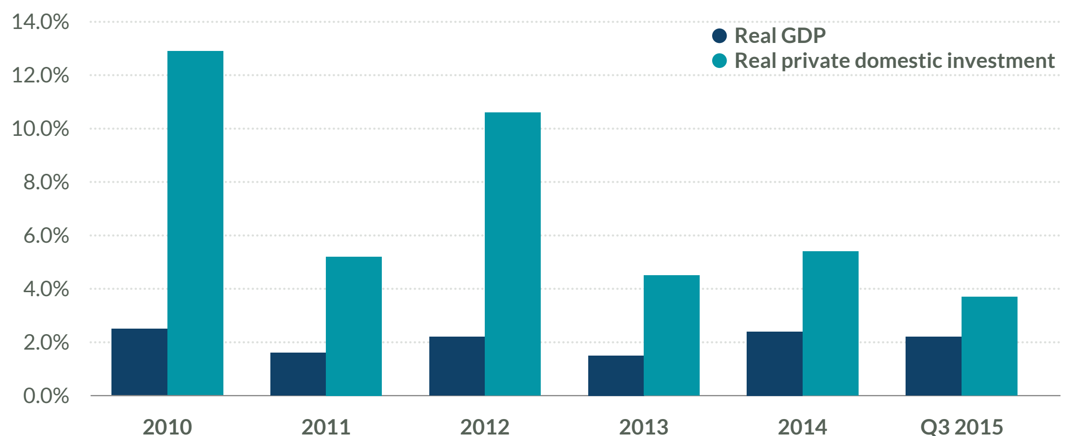
Data Source: Bureau of Economic Analysis, Annual to Q3 2015 revised Dec 22, 2015

health insurance provisions, including the marketplaces and the Medicaid expansion, took hold. In fact, U.S. economic growth rates since 2011 have rivaled or exceeded those of other high-income countries struggling to recover from the worldwide recession (Exhibit 3). To gain access to the faster-growing North American market, foreign corporations have been increasing their acquisitions in the United States in recent years.[2]

Exhibit 2

Annual Inflation-Adjusted Growth in U.S. Economy and Private Investment, 2010 to 2015

Inflation-adjusted growth (percent)



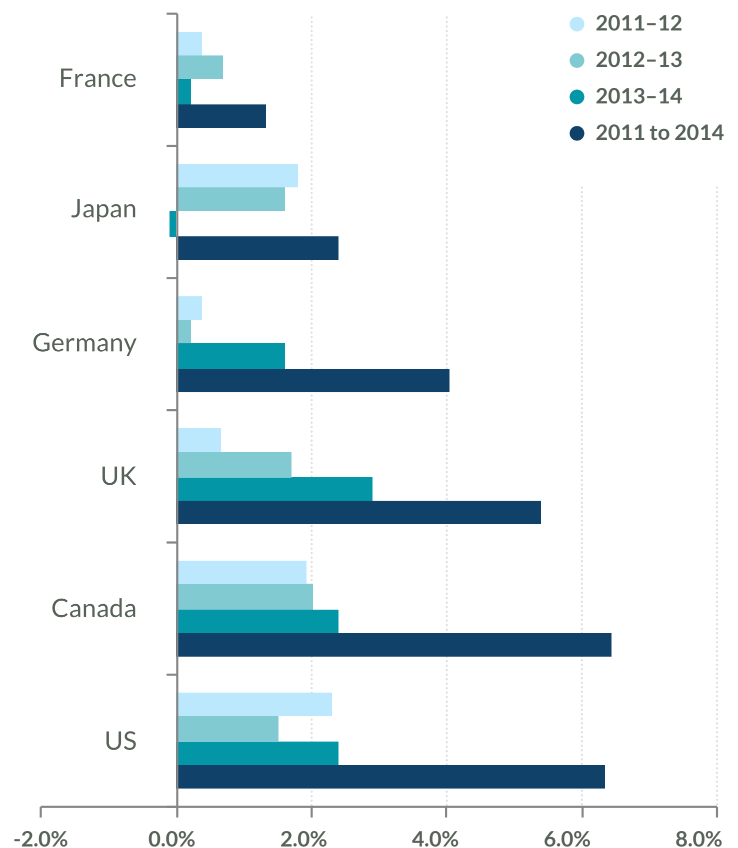
Source: U.S. Bureau of Economic Analysis. Inflation-adjusted. Dec. 22, 2015.
Notes: GDP = gross domestic product. Annual rate 2010 to 2014; Q3/Q3 2014/15 annual.

Given the positive indicators for U.S. production capacity as well as job growth (see below), the Congressional Budget Office (CBO) now projects that, over the next few years and next decade, actual GDP will reach its potential levels.[3]

Exhibit 3

U.S. Economic Growth Rivals or Exceeds Other High-Income Countries

Real GDP growth rates, 2011–14



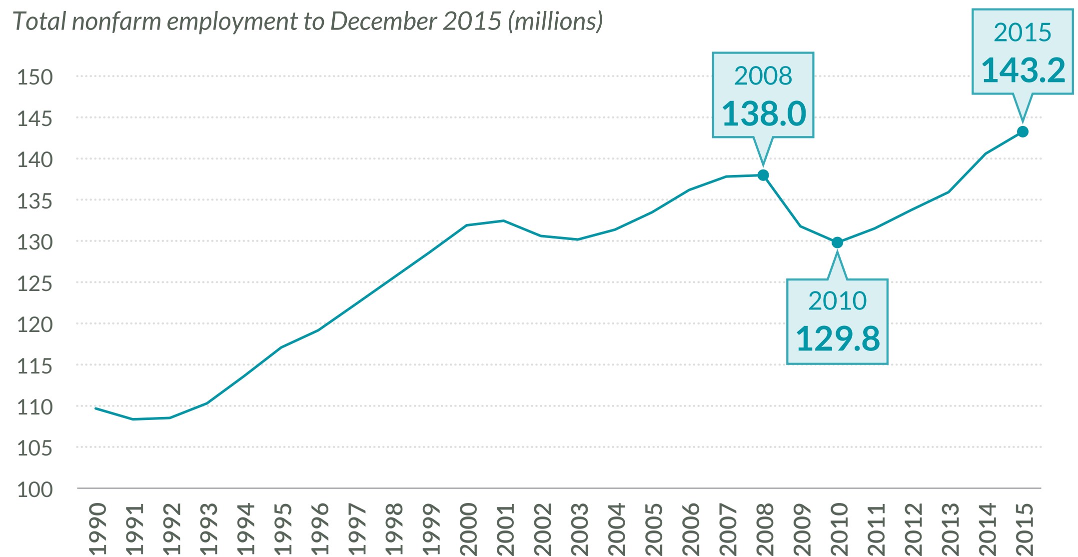
Source: World Bank database; accessed Sept. 2015.
Real GDP = Inflation-adjusted gross domestic product. U.S. GDP is revised.

EMPLOYMENT GROWTH UP MORE THAN 13 MILLION SINCE 2010; FULL-TIME PRIVATE-SECTOR JOBS ACCOUNT FOR ALL OF NET GAIN

By December 2015, 13.4 million more people were employed than in March 2010, when the ACA was enacted. Total nonfarm employment now stands well above the peak levels seen before the recession, with 5.3 million additional people now working. The job expansion was particularly strong in 2014 and 2015, with the economy adding an average of 200,000 jobs a month for two years—an annual increase of 3 million jobs that exceeds the gains seen in any single year since the 1990s (Exhibit 4). The five-year cumulative increase is more than double the eight-year growth in employment from 2000 to 2008.

Exhibit 4

U.S. Jobs Up More than 13 Million Since 2010, 5 Million Above Pre-Recession Peak



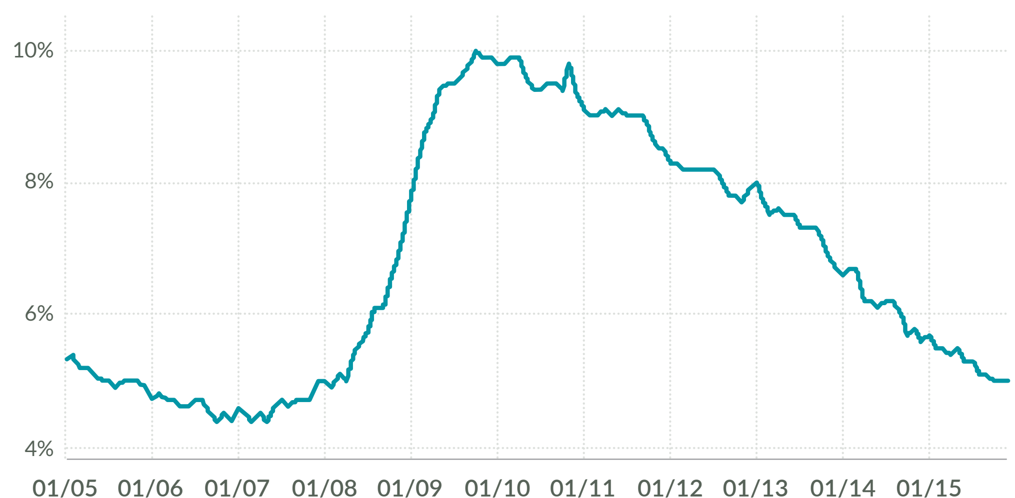
Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Establishment, Release 1/8/16.

With these job gains, the unemployment rate has fallen from 9.9 percent to 5 percent (Exhibit 5). It must be noted, however, that the percentage of people who are no longer seeking employment—and thus not counted as unemployed—remains above pre-recession levels. Despite many more people working now than before the recession, labor force participation rates for women and men age 20 and older have not returned to their earlier highs.[4]

Exhibit 5

Unemployment Rate Drops from 9.9% to 5% by 2015

U.S. unemployment rate (percent)



Source: U.S. Bureau of Labor Statistics. Monthly seasonally adjusted household to Dec. 2015. Released Jan. 8, 2015.
Figure generated online, http://www.bls.gov/ces/data.htm.

All Job Gains Private and Full-Time Employment

All of the net gain in employment has been in the

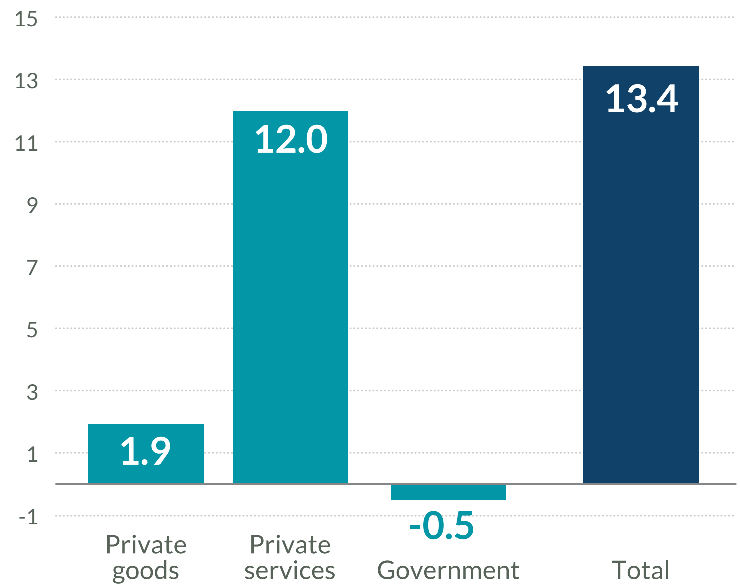
private sector. As private firms invested in new production capacity, they added nearly 14 million jobs between March 2010 and December 2015 (Exhibit 6). Despite concerns that the ACA would expand government, public-sector employment is down since 2010.

Full-time jobs have accounted for all of net job growth since March 2010 (Exhibit 7). Although some critics feared that employers would convert full-time positions to part-time ones to avoid the health insurance requirements that apply to full-time employees, the share of the workforce with full-time jobs has improved markedly. Moreover, the number of people working part-time who would prefer full-time work has declined by 3 million since 2010. By the end of 2015, 1 million fewer people were working part-time involuntarily than a year earlier. The continued decline in this population is notable, since 2015 was the year the ACA's employer mandate for firms with 50 or more workers began to take hold.

Exhibit 6

U.S. Private Jobs Increased by Nearly 14 Million, While Public Employment Declined

Change in employment, March 2010 to December 2015 (millions)



Source: U.S. Bureau of Labor Statistics. Nonfarm employment, seasonally adjusted. Released Jan 8, 2016.

Exhibit 7

Full-Time Jobs Account for All Net Job Growth from March 2010 to End of 2015

People employed (millions)

Source: U.S. Bureau of Labor Statistics. Household series, nonfarm employment, seasonally adjusted, Release Jan 2016.
Notes: Part-time work is 34 hours or less. "Part-time economic reason" includes unable to find full-time work or poor business conditions.

There has also been concern that the ACA's employer mandate might induce firms to reduce the number of people they employ directly—particularly firms just above the 50-employee threshold.[5] The ACA requires employers with 50 or more workers to provide health benefits to all full-time workers or pay a penalty if an employee becomes eligible for a marketplace plan tax credit. Firms with fewer than 50 workers are exempt from the mandate. (The ACA also provides premium tax credits for low-wage firms that have fewer than 25 employees.)

To date, however, job growth has been about equal across firms of all sizes (Exhibit 8). Firms employing from 50 to 99 workers have hired at a rate similar to that for smaller and larger employers. Indeed, rather than jobs shifting to small firms, or from permanent to contract workers, employment at large firms (500 employees or more) has expanded slightly—by 1 percent—as a share of the private, nonfarm workforce, with 6 million people joining their ranks. Meanwhile, the

percentage of U.S. workers employed by the smallest firms (those with nine or fewer employees) has declined.[6]

SLOW WAGE GROWTH: CONTINUATION OF A LONG-TERM TREND

Although the number of people working full-time has risen well above pre-recession levels, there has been little improvement in average weekly pay or income for working families. Average wages in the private sector have barely kept up with inflation over the past five years. More recently, inflation-adjusted pay has picked up—with a one-year gain of 2.1 percent through October 2015—but this likely reflects lower energy costs for consumers (Exhibit 9).[7]

With no significant increases in wages for the majority of the nation's workforce, particularly middle- and low-wage employees, there has been little or no improvement in median incomes since 2010.[8,9] This represents a continuation of a longer-term pattern that began well before the recession. By 2007, before the recession hit, median income adjusted for inflation was below the level in 1999.[10] Even in relatively tight labor markets, median incomes have for two decades failed to keep up with inflation. The gains from economic growth have instead accrued mainly to the top 5 percent of the income distribution.[11]

By 2015, a spreading movement to increase the minimum wage has started to raise the wage floor in labor markets. Reflecting this and perceived mounting upward pressures on wages, the CBO, among other forecasters, predicts that wages will pick up in future years as employers compete for new workers.[12]

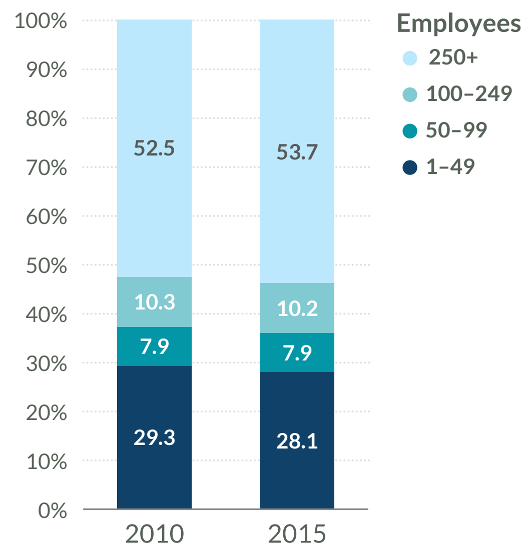
HEALTH CARE COSTS: SLOWDOWN IN GROWTH EXTENDS TO A FIFTH YEAR

A key goal of the Affordable Care Act is to slow growth in the costs of health care while enhancing access and health outcomes. With abundant evidence of waste and inefficiency throughout the U.S. health system, the ACA's framers looked to incentivize providers and payers to achieve better health outcomes at lower cost.[13] Lower cost inflation would reduce the federal government's costs for Medicare and the insurance expansion, make private insurance more affordable, and free up private and public resources for other needs. Critics worried, however, that ACA's tools for addressing cost were relatively weak and that setting

Exhibit 8

Job Growth Has Been Similar for Firms of All Sizes

Percent distribution of private jobs, by number of employees

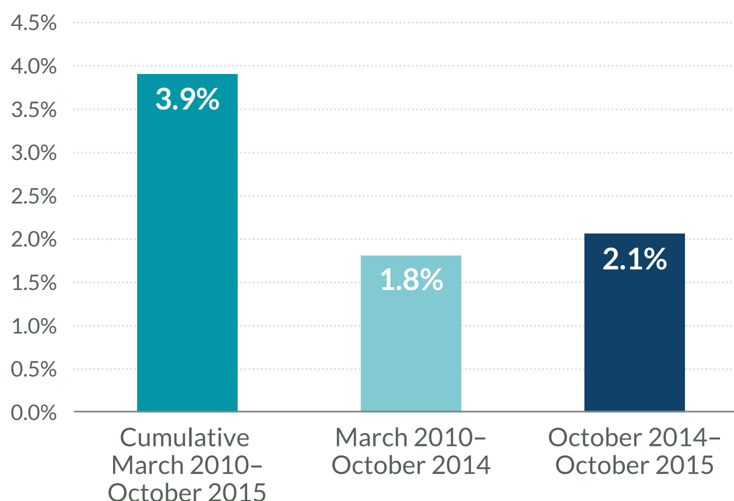


Source: U.S. Bureau of Labor Statistics. Business Employment Dynamics through Q1 2015. Modified Nov 2015. Distribution of private sector employees by firm size.

Exhibit 9

Little Growth Seen in Inflation-Adjusted Average Weekly Wages, but 2015 Pace Picks Up

Change in real weekly wages (percent)



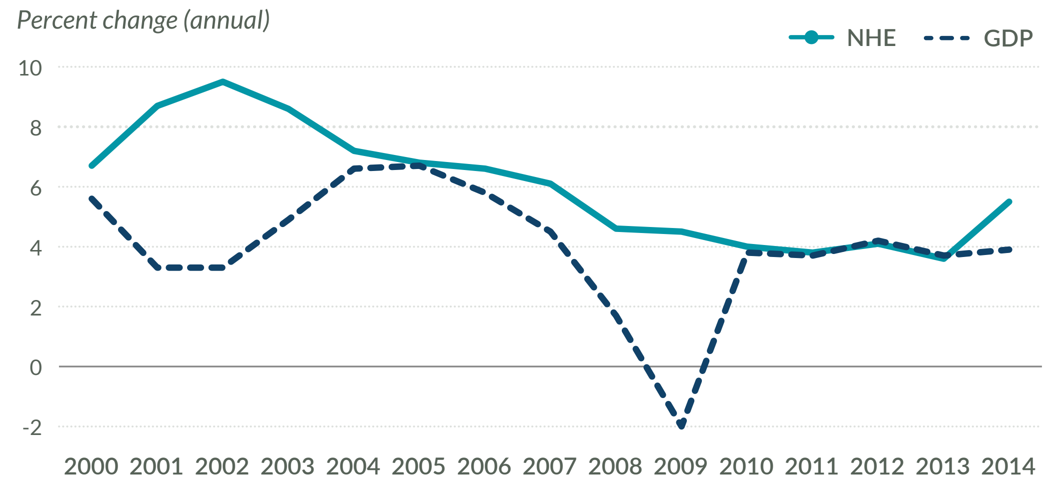
Source: U.S. Bureau of Labor Statistics. Real weekly earnings, seasonally adjusted for private nonfarm employment. Series uses urban consumer
price index to adjust wages for inflation. Data released Nov. 17, 2015.

standards for health insurance benefits might increase the cost of coverage.

Contrary to critics' fears, the slowdown in health care spending that began during the recession, before passage of the ACA, has continued well into the economic recovery. As illustrated by Exhibit 10, growth in national health expenditures slowed to the rate of overall economic growth for four years, from 2009–10 through 2013–14. This represents a break from the pattern seen when the economy has emerged from past recessions.

Exhibit 10

Annual Health Spending Growth Slows to Rate of GDP Growth for Four Years (2010–13), But Rises in 2014



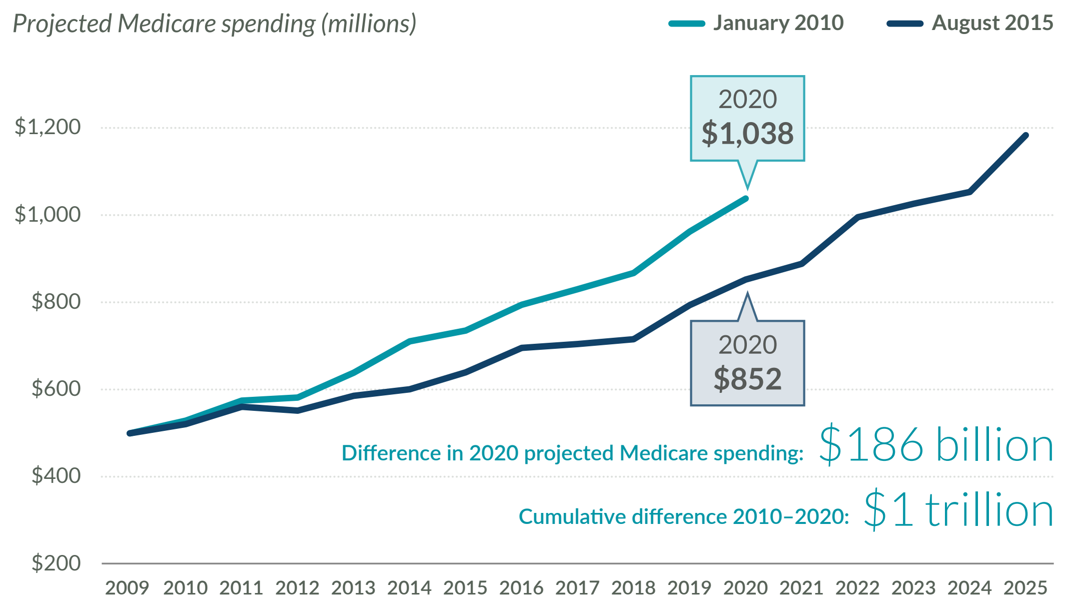
NHE = national health expenditures.
Source: Centers for Medicare and Medicaid Services, Historic and Projected National Health Expenditures. Updated July 2015.

Indeed, the slower pace of private as well as Medicare spending through 2014 has led to multiple revisions of the CBO's federal budget projections. As employers have spent more on jobs and less on health benefits than initially forecast, and as Medicare and insurance expansion costs have come in lower than expected, the CBO has revised upward its federal revenue projections and lowered its projections of federal health care spending. This in turn has led to downward revisions of projected federal deficits (March 2015 and August 2015).

Of special significance is the reduction in Medicare spending per beneficiary, which is now below the rate of inflation. According to the CBO's most recently revised projection, Medicare spending by 2020 will be $186 billion below the level projected in January 2010, for a 10-year cumulative savings of $1 trillion (Exhibit 11). And because actual Medicare costs through 2014 came in well below 2013

Exhibit 11

Lower 10-Year CBO Medicare Projections, August 2015 vs. January 2010



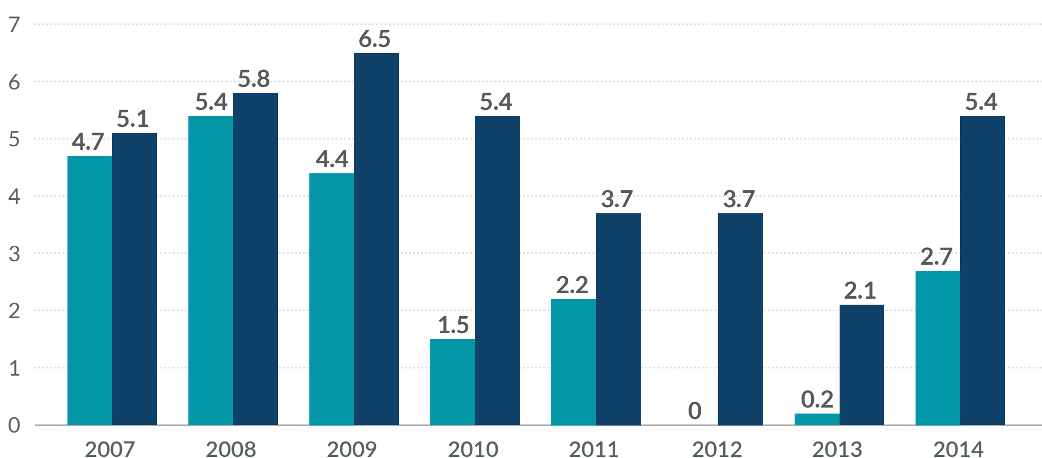
Sources: Congressional Budget Office (CBO), The Budget and Economic Outlook: 2010 to 2020, Jan. 2010; *CBO, An Update to the Budget and Economic Outlook: 2015 to 2025*, updated Aug. 25, 2015.

projections, the CBO also recently revised downward its 10-year federal spending projection for 2015–2025.[14]

Spending for privately insured enrollees in marketplace plans also has slowed markedly, although growth rates per person have continued to exceed Medicare's (Exhibit 12). This slower-than-expected growth has led the CBO in each of the past two years to lower its estimates of the federal cost of providing insurance subsidies. The slowdown has also benefited employers. Because of lower insurance cost growth in 2013 and 2014, the CBO in March 2015 revised its January 2015 10-year estimate of federal budget deficits downward by $431 billion. The agency explained that the revisions reflected increased revenues expected from taxable wage and salary growth—as employers spent less on health benefits and shifted a portion of employee compensation to salaries—as well as the decreased cost of federal marketplace subsidies.[15] In August 2015, the CBO revised its 10-year deficit projection downward by another $200 billion, largely based on positive economic news.[16]

Exhibit 12

Marked Slowdown in Medicare and Private Spending Growth per Enrollee



Source: Centers for Medicare and Medicaid Services, Office of the Actuary, Table 17, July 30, 2015, with projections.

IMPACT OF PROVIDER PAYMENT REFORMS AND NEW INCENTIVES

Analysis of the decline in health care spending growth indicates it has been driven partly by changes in the way health care is being delivered and paid for. Although it remains unclear how much of this phenomenon can be attributed to the Affordable Care Act, it seems clear that payment and delivery system changes set in motion by the ACA have made a significant contribution to lower cost growth as well as improvements in care.

Among the ACA reforms that appear to be contributing to recent trends are:

- A tightening of Medicare's hospital "productivity adjustment," which lowered the prices paid by the program.
- Adjustments to Medicare's annual updates of provider payment rates.
- Lower payment rates for private Medicare Advantage plans.
- Strong incentives to reduce hospital readmission rates and infections.
- New payment methods for holding health care providers and systems more accountable for the quality and cost of care they provide.

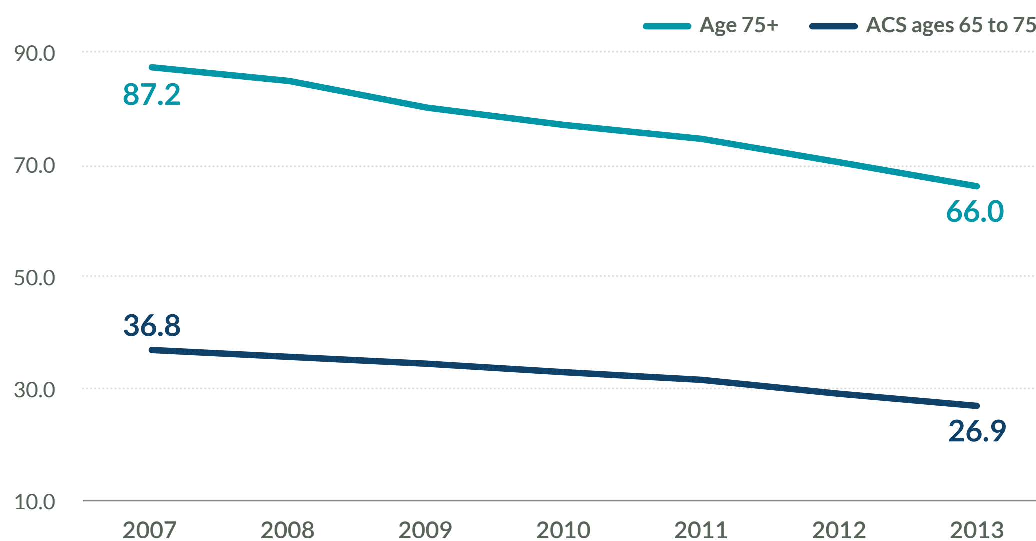
The ACA's reforms targeting Medicare, including a tightening of payments to hospitals and lower excess payments to private plans participating in Medicare, have directly contributed to lower program spending. Other reforms created incentives for providers to redesign their care delivery systems.

Providing evidence that tighter payment rates are not the only factor in Medicare's lower rate of spending are the significant reductions in hospitalizations for conditions that can be treated with timely primary care and lower hospital readmisson rates. For Medicare beneficiaries, such "ambulatory care–sensitive" admissions have fallen 25 percent since 2010, continuing a decline that began prior to the ACA (Exhibit 13). Meanwhile, rates of hospital readmission within 30 days have fallen from more than 19 percent to 17 percent, after years of failing to improve.[17] Tighter payments along with incentives have together contributed to the remarkable Medicare spending slowdown. Indeed, in 2012 and 2013, there was essentially no increase in spending per beneficiary (Exhibit 12).

Exhibit 13

Medicare Hospital Admissions for Potentially Preventable Conditions Down 25 Percent

Ambulatory care–sensitive hospital admissions per 1,000 beneficiaries



Source: Centers for Medicare and Medicaid Services, Public Use File.

Early participants in a Medicare accountable care organization (ACO) program known as the Pioneer ACOs achieved $385 million savings for Medicare over the first two years (2012–13) relative to fee-for-service-based medical groups, according to published analyses.[18] To lower hospital readmissions for patients discharged to postacute care settings, incentives provided to ACOs, along with other targeted incentives, have led hospitals in communities around the country to select nursing homes that have a track record of lower infection rates and higher quality.[19] Readmissions for medical conditions that could have been avoided with appropriate care drive up health costs and put elderly patients at risk.[20]

Emphasis on Primary Care

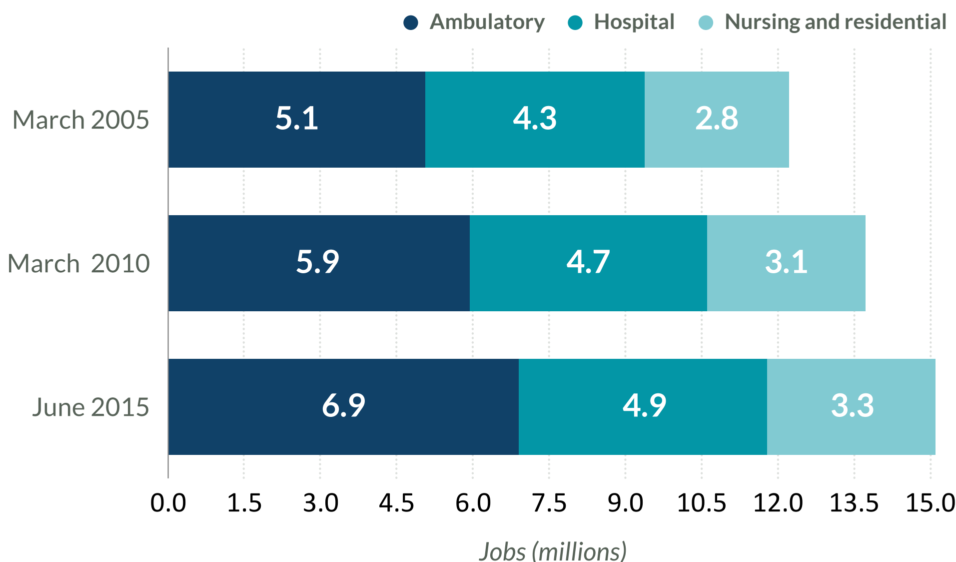
Other ACA payment provisions create incentives to strengthen primary care, particularly for people with chronic illnesses and complex conditions.[21] The goal is improved management of health conditions and complex prescription drug regimens, as well as prevention of complications that lead to hospital and nursing home stays. For example, Medicare and Medicaid, along with many private insurers, are promoting "patient-centered medical homes" and the use of care teams, with expanded roles for nurses and nurse aides.

With these and other changes to medical care practice, the bulk of new jobs in health care delivery since 2010 has been in ambulatory care settings, not in hospitals—a reflection of longer-term shifts in care delivery[22] as well as recent coverage and payment reforms (Exhibit 14). To the extent that physicians and hospitals continue to respond to the new incentives, potentially entire communities could benefit from the availability of more timely, more coordinated care and reduced acute care spending.

Many state Medicaid programs are following suit and adopting similar payment and delivery system changes. With Medicaid and Medicare accounting for nearly 40 percent of total national health care spending and 43 percent of hospital spending, their policies have the potential to leverage further health system change across the country.[23]

Exhibit 14

Health Care Sector Gained 1.4 Million Jobs Since March 2010, Mainly in Ambulatory Care



Source: U.S. Bureau of Labor Statistics. Seasonally adjusted establishment, June 2015 Preliminary, July 5, 2015.

Change in the Private Sector

In the private sector, payers have embraced many of the same reforms the ACA has instituted in Medicare, including bundled or episode-based payments, ACOs, and enhanced payment for primary care medical homes. (The ACA, in fact, specifically encourages the private sector to join in Medicare's payment initiatives.) Notably, private hospital use also has been in decline, a trend that has helped to moderate increases in health insurance costs.[24] Indeed, studies show that reforms in the public and private health care markets have had positive spillover effects—in both directions.[25,26]

Also of note is the ACA's "minimum loss ratio" requirement, which caps the portion of insurance premiums that can allocated for administrative costs and profits. The rule has yielded more than $5 billion in benefits to consumers from 2011 through 2013, either through the rebates paid by insurance companies or through reduced spending on overhead.[27]

In sum, the moderation in health costs growth through 2014 has benefited federal, state, and local governments, private employers, and workers and their families. Yet, as discussed later in this paper, the slowdown is unlikely to continue without further action to address the market forces that drive costs higher.

POTENTIAL IMPACT OF LOWER COST GROWTH ON LABOR MARKETS AND WORKFORCE PRODUCTIVITY

In most of the years leading up to the ACA's enactment, health care spending and private health insurance costs rose faster than economic growth, often exceeding it by 2 percent or more. As a result, for people with employer-based insurance, rising health care costs consumed a larger share of their total compensation—suppressing wages and providing strong incentives for employers to avoid adding full-time workers to their payrolls. Studies indicate that this "excess inflation" cost jobs, suppressed wages, and expanded reliance on employee overtime. One study estimated that every 10 percent increase in health insurance costs reduced the likelihood of being employed by 1.6 percent and, for workers with health benefits, decreased wages by 2.3 percent.[28] Another study found that to retain their company-provided health coverage, employees had to surrender wages (or forgo wage increases) or other benefits.[29]

The reversal of this trend over the past five years has likely stimulated economic growth. With payments for employee health insurance premiums rising more slowly than before, businesses have had additional resources to invest in production and jobs—even if this has yet to be matched by rising wages and salaries for the majority of the workforce.

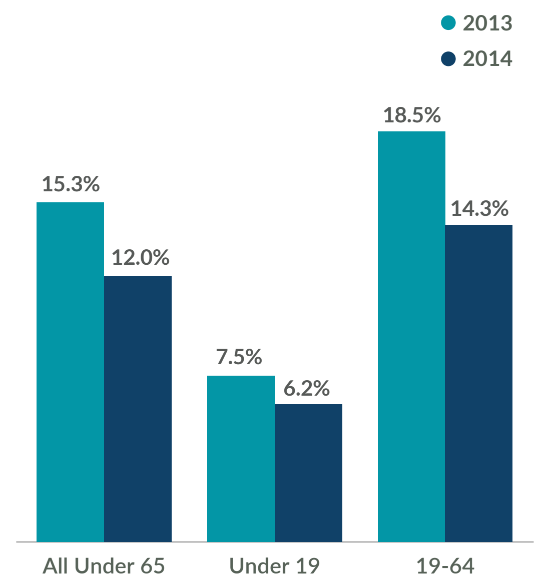
Over the longer term, the ACA's changes to the standards governing health insurance markets, including guaranteed access to coverage and a ban on preexisting condition exclusions, hold promise to enhance the ability of people to make career decisions, change jobs, or take the risk of opening a new business without fear that coverage will be unavailable or unaffordable because of age, gender, or health. Assured that health coverage will always be available to them, people can now more easily make the move from one job to another, reduce their hours, or take time off to obtain new skills. Entrepreneurs, no longer tethered to a job for need of its health benefits, have more freedom to start a new business. This reduction in "job lock" should benefit people throughout their work lives and may benefit the economy over the long term.[30]

For many working women, men, and families who previously were uninsured or experienced frequent gaps in coverage, the ACA's coverage expansions provide a new level of access to preventive and primary care and the potential for improved health, quality of life, and economic productivity. Since marketplaces opened in 2014 and Medicaid expanded in 31 states, 16 million to 17 million people have gained coverage—this in addition to the 1 million to 3 million young adults who have gained coverage under their parents' plans since 2012.[31] Between 2013 and 2014, the proportion of the nonelderly population without insurance dropped sharply, from 15.3 percent to 12 percent, with 8.8 million fewer people uninsured, according to the U.S. Census Bureau (Exhibit 15). Uninsured rates decreased in every state and for all age groups under 65, as both public and private insurance expanded. Moreover, each of the major studies tracking trends into 2015 finds continued decreases in the numbers of uninsured.[32]

Finally, recent studies by the Institute of Medicine find that the United States lags other high-income countries in population health despite spending far more than any other country.[33] If the ACA is able to reduce barriers to people receiving timely care and improve the safety and effectiveness of care, this health gap may finally begin to close.

Exhibit 15

Sharp Drop in Uninsured in All Nonelderly Age Groups Following Affordable Care Act's Insurance Expansions



Source: U.S. Bureau of the Census, *Health Insurance Coverage in the U.S.: 2014*, Current Population Reports, Sept. 2015.

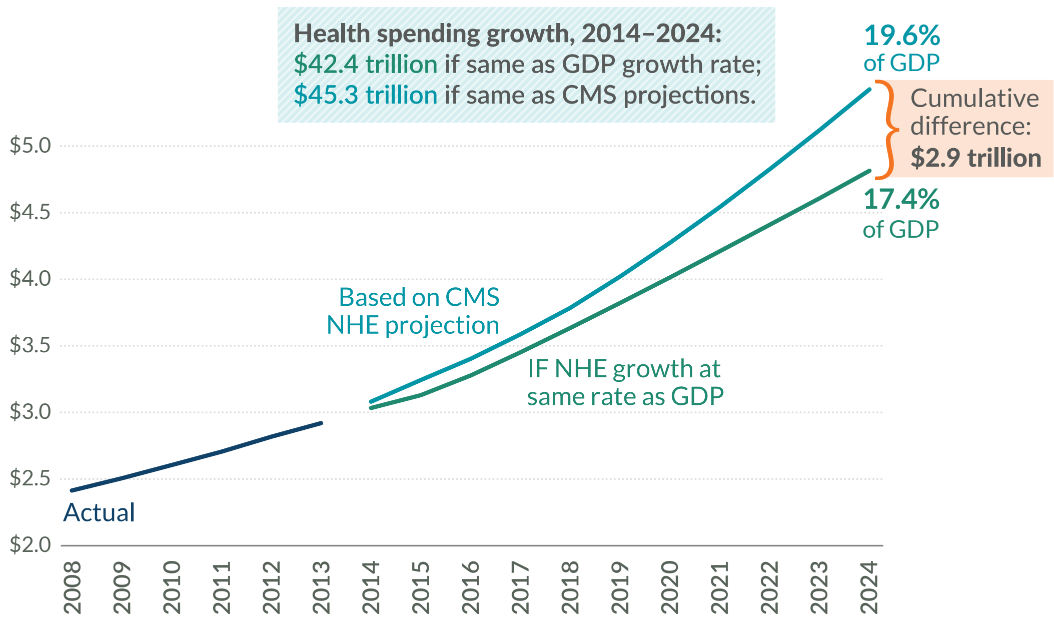
THE TRILLION DOLLAR QUESTION: WILL THE SLOW RISE IN HEALTH CARE COSTS CONTINUE?

Looking forward, the key concern is whether and how the nation will sustain the slow growth in health care expenditures while maintaining access to quality care. For four years, national health spending has risen at the same pace as, or slightly lower than, growth in the economy as measured by GDP. The most recent projections, however, have health expenditures returning to their previous levels, rising 1.1 percent faster than GDP through 2024.[34] If the country were instead able to hold the rate of increase to no more than GDP growth, the cumulative savings would amount to $2.9 trillion over the decade (Exhibit 16). The challenge is how to design payment and other policies to sustain slow health care cost growth rates.

Exhibit 16

What if Future Increases in U.S. National Health Expenditures Are Limited to Rate of Economic Growth?

National health expenditures (trillions)



Source: Author's analysis based on data from Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, 2014-2024 National Health Expenditures (NHE), projected July 2015; http://cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html.

Across the country, there is a shift away from payment based on the volume of services provided to payment based on the value of care delivered, along with a renewed commitment to eliminating the provision of duplicative, excessive, and unsafe care. Still, several market developments could increase health care prices and costs and offset savings from improved access to care and a better-functioning delivery and payment system. These developments include:

- *Rising costs of prescription drugs.* A lull in development of new breakthrough prescription drugs and the expiration of patents for several high-cost medications during recent years have both contributed to the spending slowdown in the first part of this decade.[35] But there are multiple warning signs that this trend may be ending, including the $82,000 price tag for treatment with an effective new drug for hepatitis C, the availability of new cancer drugs, and rapid increases in prices for even generic medications.[36,37] A key question is whether the United States will be able to implement more value-pricing for existing and new drugs while also promoting innovation and limiting monopolistic pricing.

- *Consolidation of providers and insurers though mergers and acquisitions.* Vertical or horizontal provider consolidation—for example, mergers of hospitals or drug companies—could push prices up, even if use of health services decreases. This is especially true in markets with multiple, nondominant payers. The greater market power achieved through consolidation also could help providers maintain the higher prices from private insurers gained in previous years.[38] At the same time, mergers of insurers pose the danger of raising premiums and the prices paid for care.[39]

- *Administrative layers and complexity.* Public and private health care payers and regulatory agencies use different, often changing payment methods and require separate reporting on an expanding array of metrics. There is concern that the proliferation of payment changes and reporting requirements are adding to administrative costs

and diverting time and resources away from the delivery of care.[40] The U.S. health system already has among the highest administrative costs in the world; the challenge is how to reduce the excess costs stemming from the U.S. health insurance system's inherent fragmentation.[41]

Although Medicare has the purchasing power to influence the prices it pays for medical and hospital services, it is currently barred from negotiating prices with prescription drug companies. However, private insurers must contend with both the market power of increasingly consolidated providers and the rising costs of prescription drugs.

Moreover, fragmented payment policies make it difficult to convey consistent pricing signals to markets and providers. Payment reforms undertaken by any one payer may be undermined by the lack of haromonization of incentives among Medicare, Medicaid, and private insurers. Looking forward, coherent, targeted efforts across payers aimed at the common factors contributing to high or rising costs will likely be necessary to sustain slow cost growth in ways that benefit all families and businesses.

With creative action to address these and other underlying factors driving up costs, the nation has the potential to hold health care cost growth to growth in the overall economy. Still to be determined are the types of actions at the private, state, or national level that will be needed to achieve this aspirational goal.

The Affordable Care Act affirmed a national commitment to expanding the availability of affordable health insurance to all citizens. The law aimed to finance and sustain this commitment by building a platform to lower health care costs and reduce future increases. Five years after its passage, there are strong indicators that the ACA has had a postive impact on the economy as well as insurance coverage. The longer-term impact on the economy and the nation's ability to maintain the ACA's achievements will likely depend on what happens to health care costs and whether effective policies evolve to sustain slow cost growth.

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