

Taking Account...

BEA economists look at nursing home care inflation

Appropriately measuring inflation in the health care industry is critical for policymakers and researchers to better understand the modern health care market. For this reason, the Bureau of Economic Analysis (BEA) recently released an alternate presentation of health care inflation, one that examines prices by disease, such as treatment of diabetes, rather than by place of service, such as a hospital stay.

However, this new health care account does not yet incorporate spending on nursing home care.

To fill this gap, a recent paper by Tina Highfill and David Johnson, both economists at BEA, calculated price indexes by disease for nursing home care for 2000–2009.

Spending on nursing home care represented more than 5 percent of all national health care expenditures, about \$149 billion, in 2011. And more than 1.4 million people were long-term residents of a nursing home in 2012.

In addition, almost 5 percent of all Medicare expenditures are spent on short-term nursing home stays, and more than 40 percent of long-term care spending is paid by Medicaid, representing almost one-third of Medicaid's total annual expenditures. To be sure, the demand for long-term care services will likely increase as the population continues to age.

Given the large scale of public spending in the nursing home sector and the number of people involved, proper measurement of inflation in the nursing home care sector is important to understand what is driving spending growth.

The paper analyzes such spending in the context of BEA's new health care satellite account, which estimates price growth by allocating spending to disease categories and calculating medical care expenditure (MCE) indexes.

An MCE index picks up shifts in the treatment of diseases that the official health care price index does not. For example, MCE indexes capture the effect of substitutions between places of service that occur from changes in technology or reimbursement, such as certain procedures shifting away from expensive hospital stays to less expensive outpatient ambulatory surgical centers.

Additionally, MCE indexes account for changes in insurance coverage that can impact the cost of care. This is important in the nursing home sector, where many nursing home residents shift from paying out of pocket to Medicaid coverage, which often reimburses nursing homes at lower rates. An MCE index captures this shift as a drop in price, whereas the current official method does not.

Incorporating this missing piece of health care spending will provide a more comprehen-

sive picture of the health care industry and the drivers of price growth. Indeed, one objective of the paper was to calculate MCE indexes for nursing homes that can be easily incorporated into BEA's health care account.

The paper found that prices in the overall nursing home sector grew at an average annual rate of only 0.9 percent during the period using MCE indexes. Price growth was slower for long-term nursing home residents (1.4 percent), compared with short-term residents (2.8 percent).

Diseases of the circulatory system were the most prevalent disease category, followed by mental illness for long-term residents and diseases of the musculoskeletal system and connective tissue for short-term patients. These three categories of diseases also received the largest allocations of spending, with the bulk going towards patients diagnosed with mental conditions. Overall, nursing home price growth in the 2000s was much slower than for other health care sectors.

Before nursing home care prices and expenditures data can be added to the BEA health care account, however, significant methodological and data challenges must first be addressed, the authors note.

(This summary was prepared by the SURVEY OF CURRENT BUSINESS staff in conjunction with the paper's authors. It is available on the [BEA Web site](#).)