

## Facts on Health Care Spending and Costs

The cost of health care is growing rapidly. On the national level, health care spending is growing as a share of gross domestic product, and hospital and physician services now account for more than half of that spending. On the individual level, the growth in health care costs is reflected in increases in health insurance premiums, which have exceeded rises in wages and overall inflation; declines in employer-offered health coverage, and the growing number of people who are under- or uninsured.

### National Health Spending

National spending on health care has grown rapidly over the past four decades.

- In 1965, \$42.2 billion (or \$187 billion in 2005 dollars) was spent on health care.<sup>1,2</sup>
- In 2006, national spending on health care reached \$2.1 trillion (an increase of almost 97 percent over the past 10 years).<sup>3</sup>
- The current national health spending of \$2.1 trillion accounts for 16 percent of the gross domestic product.<sup>4</sup>

This trend in health spending is projected to continue, reaching \$4.3 trillion in 2017.<sup>5</sup>

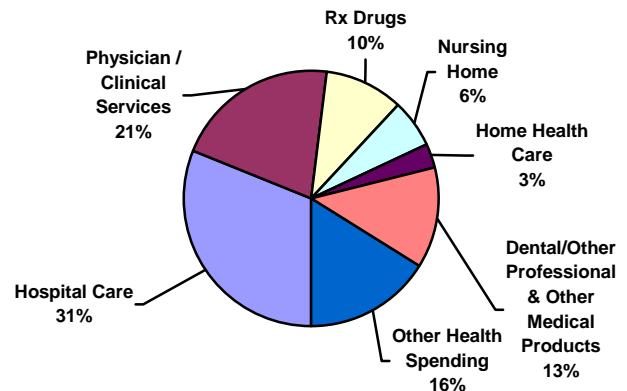
#### What do we spend the money on?

- Of the \$2.1 trillion spent on health care, hospital and physician services account 52 percent of total expenditures, while spending on other personal health care<sup>6</sup> accounts for 32 percent (Figure 1).
- By payer source, public funds, including Medicare and Medicaid, account for 46 percent of health spending.<sup>7</sup>
- This leaves most spending financed by the private sector through private

health insurance and out-of-pocket costs.

The category of spending projected (through 2017) to increase fastest is prescription drugs, which now account for 10 percent of total health spending.<sup>8</sup>

**Figure 1: Health Spending Distribution by Category, 2006**



Source: Centers for Medicare and Medicaid Services. Office of the Actuary.

### Individual Health Spending

The growth in health care costs is reflected in health insurance premiums, which have exceeded the growth in wages and overall inflation.

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- From 2007 to 2008, health insurance premiums increased an average of 5 percent, compared to an increase of 3.5 percent for workers' earnings and 3.9 percent for overall inflation.<sup>9</sup>
- Between 2000 and 2008, the average total premium for single and family coverage increased 95 percent and 97 percent, respectively.<sup>10</sup>
- In 2008, the average annual premium was \$4,704 for single coverage and \$12,680 for family coverage (Figure 2).<sup>11</sup>

The growth in health care costs is also fueling declines in the number of employers that offer health coverage, growth in the number of underinsured and uninsured, and a rise in the number of people incurring medical debt.

Although the share of large employers offering coverage has remained steady, the share of small employers offering coverage declined 6 percentage points from 2000 to 2008.<sup>12</sup> In addition, the number of people who are spending more than 10 percent of their family income on health care continues to grow.

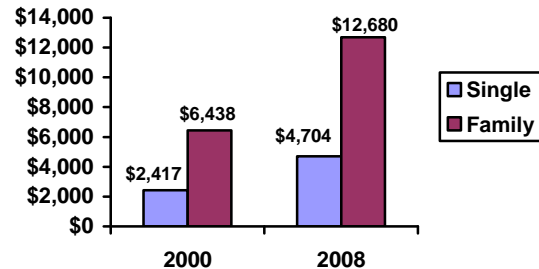
- In 2007, 14 percent, or 25.2 million, of the under 65 population was underinsured,<sup>13</sup> compared with 9 percent, or 15.6 million, in 2003 (Figure 3).

High out-of-pocket spending coupled with slow growth in incomes has contributed to the rise in medical debt.<sup>14</sup>

- In 2007, an estimated 72 million adults under age 65 reported medical bill problems or accumulated medical debt.<sup>15</sup>
- Those who are uninsured or underinsured are the most likely to report problems (Figure 4).

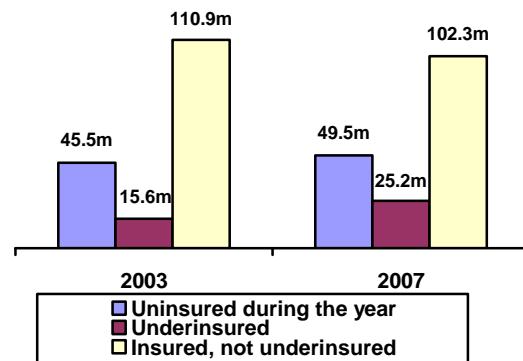
**Figure 2: Rise in Health Insurance Premiums**

Average Annual Premium for Single and Family Coverage, 2000 and 2008



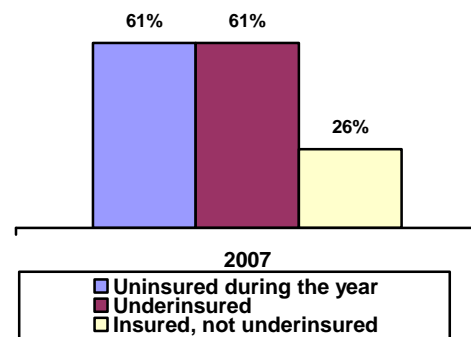
Source: HRET/Kaiser Family Foundation, Employer Health Benefits Survey.

**Figure 3: Rise of Under- and Uninsured Adults under Age 65 (in millions)**



Source: 2007 Commonwealth Fund Biennial Health Insurance Survey.

**Figure 4: Share of Uninsured and Underinsured Adults under Age 65 Reporting Medical Bill Problems or Debt**

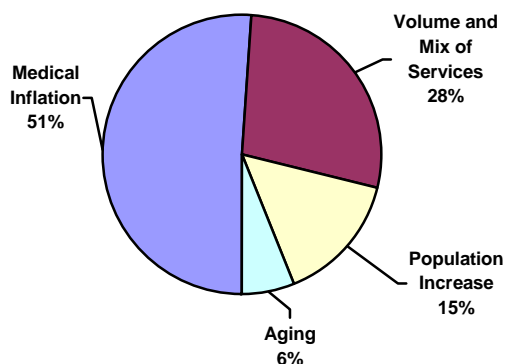


Source: 2007 Commonwealth Fund Biennial Health Insurance Survey.

## Factors Driving Health Care Costs

Much of what is driving the cost of health care is the widespread use of new medical technologies. Advances have introduced treatments for conditions previously untreatable and new categories of spending.<sup>16</sup> These advances also translate into increased functional levels and life expectancy for people with chronic conditions. Other factors, such as rising personal income, payment structure, and aging of the population also contribute to the cost of health care, but to a much lesser extent. The effect of an aging population (rising numbers of beneficiaries) on the future growth in federal spending on Medicare and Medicaid is smaller than the effect of rising health care costs per beneficiary.<sup>17,18</sup> Published estimates show that the aging of the population accounts for only about 6 percent of the spending growth (Figure 5).

**Figure 5: Drivers of Spending Growth, 2006**



Source: California HealthCare Foundation. Snapshot, Health Care Costs 101, 2008.

## Opportunities for Controlling Growth

Getting a full handle on what is driving health care spending provides opportunities to control cost growth. The

following are some opportunities to control the growth in health care costs:

- Improve care for the chronically ill through prevention activities and care management.
- Implement evidence-based guidelines and conduct comparative effectiveness research to underpin benefit design and clinical practice.
- Standardize and simplify administrative processes and adopt health information technology throughout the system to lower administrative overhead, reduce medical errors, and improve quality.
- Drive value and promote wise use of prescription drugs.
- Change incentives for health providers to be based on performance and episodes of care through payment reform.

As we seek opportunities to control the growth in health care costs and spending, we need to keep the following in mind:

- Health care is a top tier concern for Americans.
- Americans are concerned about rising health care costs and their effect on wages and family budgets.
- Americans understand the importance and value of getting the quality health care they need, when they need it.

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<sup>1</sup> Centers for Medicare and Medicaid Services. Office of the Actuary.

<sup>2</sup> Congressional Budget Office. *Growth in Health Care Costs*. Washington, DC: January 31, 2008.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Other personal health care includes dental/other professional, prescription drugs, nursing home, home health care, and other medical products.

<sup>7</sup> Centers for Medicare and Medicaid Services. Office of the Actuary.

<sup>8</sup> Ibid.

<sup>9</sup> HRET/Kaiser Family Foundation. Employer Health Benefits Survey, 2008.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Underinsured is defined as having health insurance all year but experiencing one of the following: (1) medical expenses totaling more than 10 percent of family income; (2) for families with incomes below 200 percent of poverty level, medical expenses totaling more than 5 percent of family income; or (3) health insurance plan deductibles that are more than 5 percent of family income.

<sup>14</sup> Michelle Doty et al. *Seeing Red: The Growing Burden of Medical Bills and Debt Faced by U.S. Families*. The Commonwealth Fund. August 2008.

<sup>15</sup> Ibid.

<sup>16</sup> Congressional Budget Office. *Growth in Health Care Costs*. Washington, DC: January 31, 2008.

<sup>17</sup> Congressional Budget Office. Presentation at American Enterprise Institute. "It's the cost per enrollee...." June 27, 2008.

<sup>18</sup> Congressional Budget Office. *Accounting for Sources of Projected Growth in Federal Spending on Medicare and Medicaid*. Economic and Budget Issue Brief. Washington, DC: May 28, 2008.