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Trends in Health Care Costs and Spending

March 2009

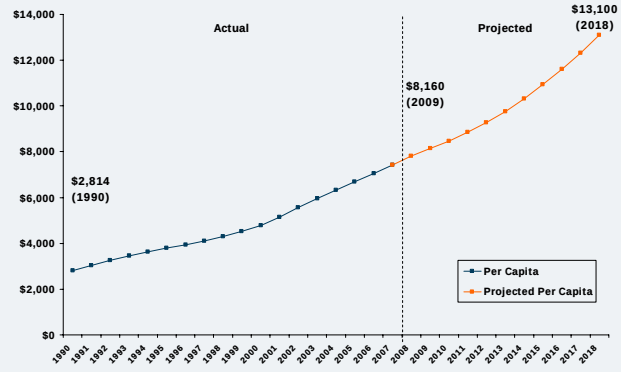
The high and growing cost of health care is a significant issue for people, businesses, and government. Spending on health care, which is a projected to be 17.6% of the U.S. gross domestic product (GDP) in 2009, has consistently grown faster than the economy overall since the 1960s. This fact sheet presents some of the key statistics about the level and growth of health care costs and spending in the U.S. Links to additional resources are provided at the end of the document.

Overall Spending

According to the Centers for Medicare and Medicaid Services (CMS), the U.S. is projected to spend over $2.5 trillion on health care in 2009, or $8,160 per U.S. resident (Exhibit 1).[1] Health spending in 2009 is projected to account for 17.6% of GDP.

- In 1970, U.S. health care spending was about $75 billion, or $356 per resident, and accounted for 7.2% of GDP.
- Health care spending has risen about 2.4 percentage points faster than GDP since 1970.
- CMS projects that by 2018, health care spending will be over $4.3 trillion, or $13,100 per resident, and account for 20.3% of GDP.

Exhibit 1: National Health Expenditures per Capita, 1990-2018



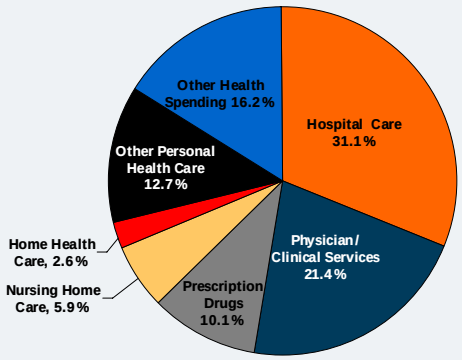
The U.S. devotes considerably more of its economy to health care than other developed countries. (Note that the Organization of for Economic Co-Operation and Development (OECD) uses a somewhat different classification for health care spending than CMS.)[2]

- U.S. health spending as a share of GDP in 2006 (15.3% in OECD accounting) was considerably higher than all other OECD countries, including Canada (10.0%), France (11.0%), Germany (10.6%), Japan (8.1%), and the United Kingdom (8.4%). Switzerland was a distant second to the U.S., devoting an estimated 11.3% of GDP to health care.

Distribution by Service

Just over one-half of national health spending is for hospital, and physician and clinical services (Exhibit 2).[3] Spending on prescription drugs accounts for about 10% of health expenditures.

Exhibit 2: Distribution of National Health Expenditures, by Type of Service, 2007



Concentration of Health Spending

While discussions about the costs of health care often focus on the average amount spent per person, spending on health services is actually quite skewed. About ten percent of people account for 63% of spending on health services; 21% of health spending is for only 1% of the population. At the other end of the spectrum, the one-half of the population with the lowest health spending accounts for just over 3% of spending.[4]

Sources of Health Spending

Health spending is fairly evenly split between the private and public sectors, with private health spending accounting for 54% of total health spending in 2007.[5]

- Spending by private health insurance comprises 64% of private health expenditures; 22% of private expenditures is out-of-pocket payments by individuals; the remainder (13%) is expenditures by other private sources (e.g., philanthropy).
- CMS projects that the private share of national health spending will fall to 49% by 2018, with public spending growing to 51% as the oldest baby boomers become eligible for Medicare.

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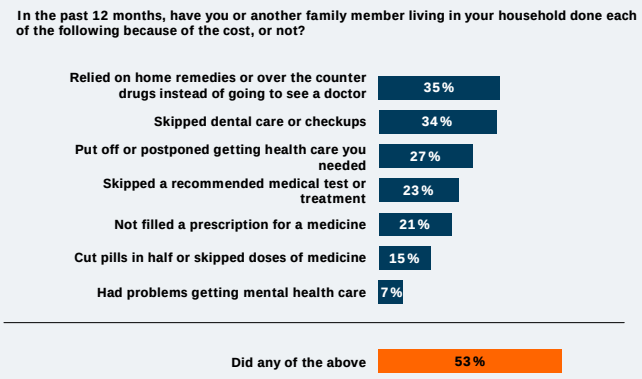
Impact on People and Businesses

The public experiences the cost of health care through the amounts they must pay out-of-pocket, including the premiums they pay for health insurance and the cost sharing (e.g., deductibles, copayments) that they must pay at the time that they receive care.

The consequences of medical care costs on families can be quite serious. A recent poll found that one in five (19%) said they experienced serious financial problems due to family medical bills. Families also experienced medical care-related consequences from health costs (Exhibit 3).[6]

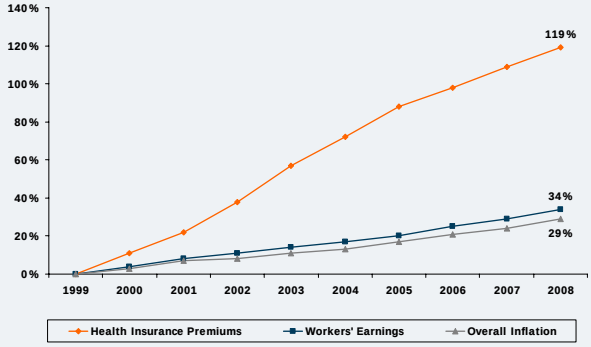
Exhibit 3: Consequences of Health Care Costs



Health insurance premiums have consistently grown faster than inflation or workers earnings in recent years. Between 1999 and 2008, the cumulative growth in health insurance premiums was 119%, compared with cumulative inflation of 29% and cumulative wage growth of 34% (Exhibit 4).[7]

- Although the share of total premiums that workers pay has remained fairly stable (16% for single coverage; 28% for family coverage in 2008) over the past decade, the rapid growth in overall premium levels means that workers are paying much higher amounts than they did a few years ago.[8]
- Almost one-in-five (18%) of nonelderly individuals were in families where health care spending for premiums and cost sharing exceeded 10% of family after-tax income in 2004; for families with incomes below poverty, the share was 28%.[9]

Exhibit 4: Cumulative Changes in Health Insurance Premiums, Inflation, and Workers' Earnings, 1999-2008



- The amounts people pay out-of-pocket for health care depend on several factors, including the quality of their health insurance (if any) and the type and amount of services they use. For people with health care expenses, the average share of total health care costs that are paid out-of-pocket was 33% in 2006. Because many insurance plans have limits on out-of-pocket expenses,[10] people who have high health total spending have relatively low out-of-pocket shares; e.g., the 1% of people with the highest health spending in 2006 (total costs more than $41,580) on average paid 7% of their costs out-of-pocket.[11]

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[1] Exhibit 1 Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at http://www.cms.hhs.gov/NationalHealthExpendData/ (Historical data from NHE summary including share of GDP, CY 1960-2007, file nhegdp07.zip; Projected data from NHE Projections 2008-2018, Forecast summary and selected tables, file proj2008.pdf).

[2] The methods of accounting for national health expenditures used by the OECD and CMS are largely but not entirely in accordance. For example, CMS accounting of national health spending includes the value of health-related research while OECD-reported data exclude this amount. Further, OECD accounting makes adjustments for the export and import of health services while CMS does not. For more information, see: Eva Orosz, "The OECD System of Health Accounts and the US National Health Accounts: Improving Connections through Shared Experiences," draft paper prepared for the conference "Adapting National Health Expenditure Accounting to a Changing Health Care Environment," Centers for Medicare & Medicaid Services, April 2005, http://www.cms.hhs.gov/NationalHealthExpendData/downloads/confpaperorosz.pdf.

[3] Exhibit 2 Source: Kaiser Family Foundation calculations using NHE data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at http://www.cms.hhs.gov/NationalHealthExpendData/ (see Historical; National Health Expenditures by type of service and source of funds, CY 1960-2007; file nhe2007.zip). Note: Other Personal Health Care includes, for example, dental and other professional health services, durable medical equipment, etc. Other Health Spending includes, for example, administration and net cost of private health insurance, public health activity, research, and structures and equipment, etc.

[4] Kaiser Family Foundation calculations using data from U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey (MEPS), 2006. MEPS is a national survey of individual members of households and their health care providers that produces nationally representative data on, among other things, health care use and spending. See http://www.meps.ahrq.gov/mepsweb/survey_comp/household.jsp. Estimates of national health spending obtained from the MEPS differ in several ways from the estimates from the NHEA, which is the source of data for most of the estimates in this document. The MEPS provides estimates for the civilian, noninstitutionalized population, which means that health spending by people in the armed forces or who are institutionalized for long periods (e.g., nursing home residents) are not included in MEPS estimates but are included in the NHEA. MEPS and the NHEA also differ in the way that they categorize certain health expenditures (e.g., hospital-based home health services). See Sing, Banthin, Selden, Cowan, and Keegan, "Reconciling Medical Expenditure Estimates from the MEPS and NHEA, 2002," *Health Care Financing Review*, vol. 28, no. 1, Fall 2006, http://www.cms.hhs.gov/HealthCareFinancingReview/.

[5] Ibid., National Health Expenditure Accounts, projected, http://www.cms.hhs.gov/NationalHealthExpendData/03_NationalHealthAccountsProjected.asp#TopOfPage.

[6] Exhibit 3 Source: Kaiser Health Tracking Poll (conducted Feb. 3-12, 2009), February 2009, http://www.kff.org/kaiserpolls/posr022509pkg.cfm.

[7] Exhibit 4 Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2008, http://ehbs.kff.org; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2008; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2008 (April to April). Note: Due to a change in methods, the cumulative changes in the average family premium are somewhat different from those reported in previous versions of the Kaiser/HRET Survey of Employer-Sponsored Health Benefits. See the Survey Design and Methods Section for more information, available at http://www.kff.org/insurance/7790/index.cfm.

[8] Ibid, 2008 Kaiser/HRET, http://ehbs.kff.org/.

[9] Jessica S. Banthin, Peter Cunningham, and Didem M. Bernard, "Financial Burdens of Health Care, 2001-2004," *Health Affairs*, vol.27, no.1, January/February 2008, pp.188-195.

[10] About 80% of covered workers with single or family coverage have an out-of-pocket maximum in 2008. However, some workers with no out-of-pocket limit may have low cost sharing. For example, 89% of covered workers in HMOs with no out-of-pocket maximum for single coverage have no general annual deductible, only 4% have coinsurance for hospital admissions, and only 2% have coinsurance for outpatient surgery; for covered workers in Point-of-Service plans, the shares are 76%, 6% and 8%, respectively.

[11] Kaiser Family Foundation calculations of data from 2006 Medical Expenditure Panel Survey. For a more complete discussion of the variation of out-of-pocket costs (using data from the 2003 Medical Expenditure Panel Survey), see "Distribution of Out-of Pocket Spending for Health Care Services," Kaiser Family Foundation, May 2006, http://www.kff.org/insurance/snapshot/chcm050206oth.cfm.

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