CALIFORNIA HEALTH CARE ALMANAC





Health Care Costs 101

APRIL 2010

Introduction

In 2008, national health care spending grew at the slowest pace seen in almost 50 years. The 4.4 percent increase over prior year spending extended a slowing trend that has been underway since 2003. However, with the nation in the grip of recession, 2008's modest growth in health spending still outpaced the economy, and health care's share of GDP rose to 16.2 percent. Total health care spending in 2008 reached \$ 2.3 trillion, or \$7,681 per person.

Health Care Costs 101, now published as part of the California HealthCare Foundation's "California Health Care Almanac," provides general background on U.S. health spending. It details how much we spend, on which services, and what proportion is paid directly by consumers.

HIGHLIGHTS INCLUDE:

- Health spending grew 4.4 percent in 2008, the smallest annual increase on record.
- Prescription drug spending grew 3.2 percent, an all-time low, and the smallest increase of any health care goods and services category.
- Projections indicate that the recession-driven contraction in the economy, coupled with a modest increase in health spending, will raise health care's share of the economy for 2009 to 17.3 percent, a record increase over 2008's 16.2 percent.
- Spending for health care is shared broadly throughout the economy, constituting some 6 percent of personal income, 8 percent of total compensation paid by private business, 36 percent of federal government revenues, and 24 percent of state and local government revenues.

Note: This report is based on 2008 national data, the latest information on health spending available from the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), Office of the Actuary. Projections do not include the impact of the recently enacted federal health reform law. California HealthCare Foundation also prepares a California-specific snapshot based on CMS' state level data (last released in 2006, based on 2004 data, the most recent available at the state level).

Health Care Costs 101

Overview

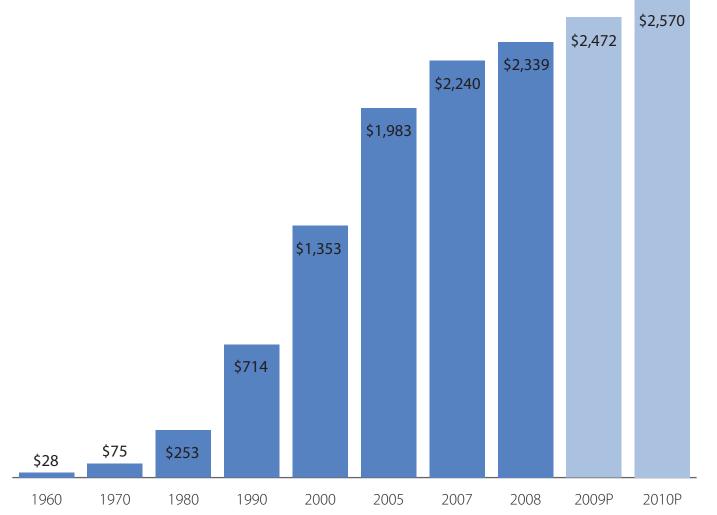
< RETURN TO CONTENTS

Ο Ν Τ Ε Ν Τ S

National Health Spending Trends as a Share of GDP Per Person	4
Major Programs as a Share of Federal Budget	
Health Care Spending in Developed Countries.	7
Spending Distribution, by Category	8
Spending Summary, by Category	9
Spending Distribution, by Contributors	. 10
Health Care's Share of Resources	. 11
Contributors to Health Care Spending	. 12
Health Care Sources of Payment	. 13
Historic Payment Sources	. 14
Spending Distribution, by Payer	. 15
Distribution of Payers, by Age Group	. 16
Share of Spending Paid with Public Dollars	. 17
Spending Distribution Private vs. Public Private Insurance vs. Out-of-Pocket	
Average Annual Growth Rates in Spending Spending vs. Inflation Spending vs. the Economy by Categories	. 21 . 22
Growth in Per Enrollee Spending for Common Benefits, Medicare vs. Private Insurance	
Cumulative Impact of Growth Rates	. 25
Prescription Drugs, by Sources of Payment	. 26
Impact of Medicare Part D	. 27
Annual Out-of-Pocket Spending Per Person	. 28
Category Breakdown	. 29
Data Resources	. 30

National Health Spending, 1960–2010*

IN BILLIONS



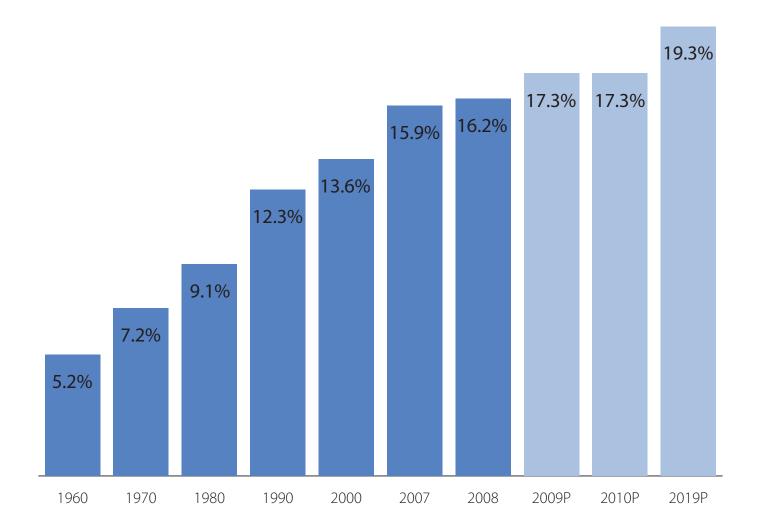
Health Care Costs 101 Spending Levels << RETURN TO CONTENTS

Health spending exceeded \$2.3 trillion in 2008 and is projected to surpass \$2.5 trillion in 2010.

©2010 CALIFORNIA HEALTHCARE FOUNDATION

*Selected rather than continuous years of data shown prior to 2007. Years 2009 forward are CMS projections.

National Health Spending as a Share of GDP, 1960–2019*



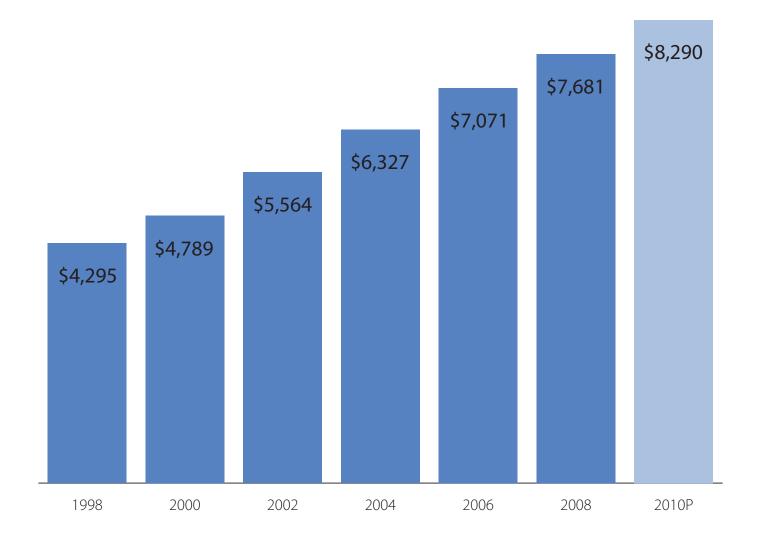
Health Care Costs 101 Spending Levels << RETURN TO CONTENTS

Once again, health care spending accounted for a larger share of the economy than it did in 2007, reaching 16.2 percent of GDP in 2008.

Although health spending's growth hit a record low (see slide 20), it nevertheless outpaced 2008's stalling economy. The continued recession in 2009 is projected to result in a record jump in health care spending's share of GDP.

*Selected rather than continuous years of data shown prior to 2007. Years 2009 forward are CMS projections. The 2009 CMS projections reflect a 5.7 percent increase in health spending and a 1.1 percent decrease in GDP, expected to result in the largest one-year increase in history of health spending as a share of GDP; NHE's 2010 projected share of GDP reflects a 3.9 percent growth in NHE and 4.0 percent growth in GDP. The full projection period, 2009 to 2019, reflects CMS assumptions of an average annual increase of 4.4 percent in GDP and 6.1 percent in national health spending.

National Health Spending Per Person, 1998–2010*

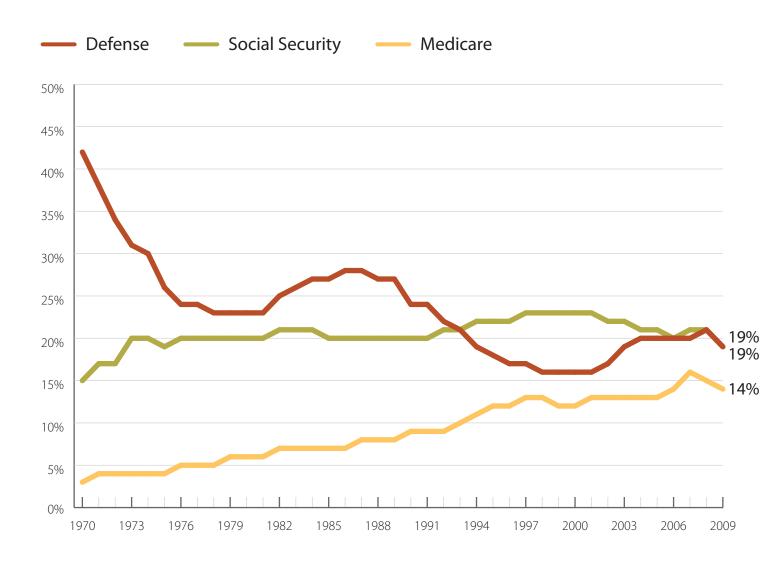


Health Care Costs 101 Spending Levels << RETURN TO CONTENTS

The annual amount spent per person on health care increased 79 percent between 1998 and 2008.

*Selected rather than continuous years of data shown. 2010 is a projection.

Major Programs as a Share of the Federal Budget, 1970–2009

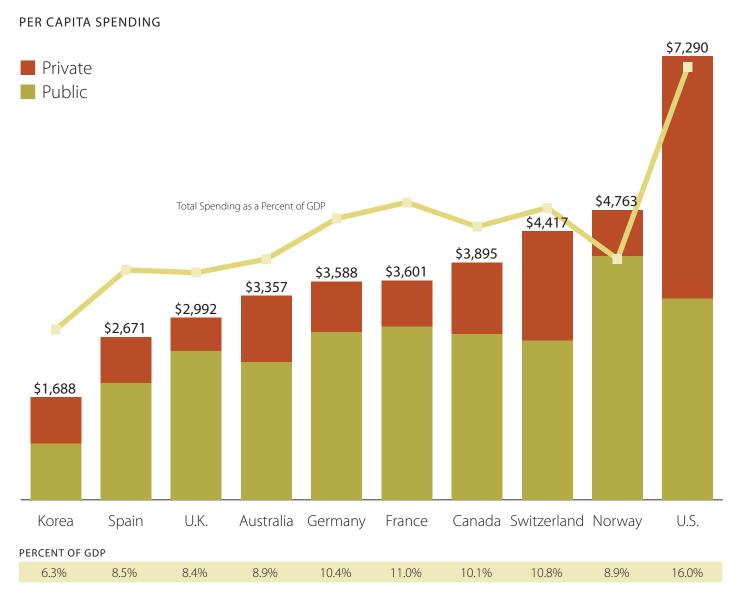


Health Care Costs 101 Spending Levels << RETURN TO CONTENTS

Medicare's share of the federal budget is gaining on Social Security. With federal government outlays rising to combat recession, the share accounted for by all three major programs actually fell.

Source: Congressional Budget Office.

Health Care Spending in Selected Developed Countries, 2007



Health Care Costs 101 Spending Levels << RETURN TO CONTENTS

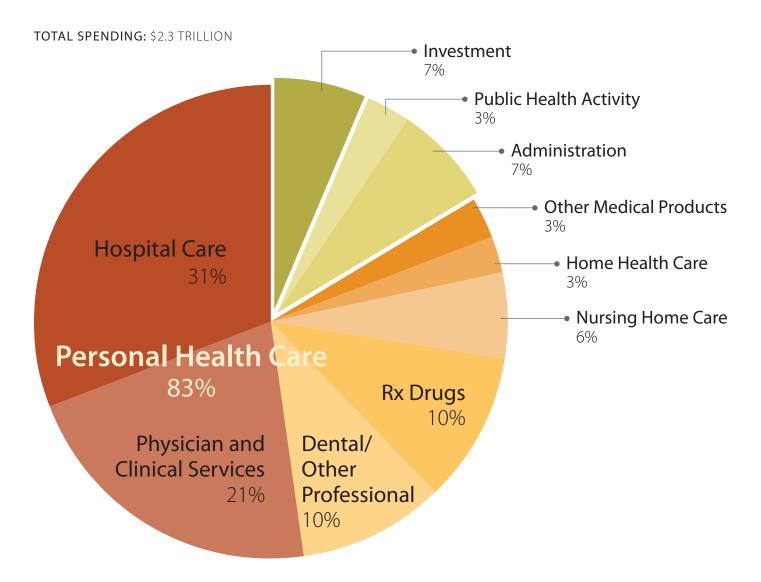
U.S. health spending far exceeds that of other developed countries, both in per capita spending and as a percent of GDP.

Unlike the United States, the public sector accounts for the majority of health spending in most developed countries.

Note: U.S. per capita as reported by OECD differs from CMS figures reported elsewhere in this report.

Source: Organization for Economic Co-Operation and Development, OECD Health Data 2009, December 2009.

Spending Distribution, by Category, 2008



Health Care Costs 101 Spending Categories << RETURN TO CONTENTS

Hospital and physician services take the largest share of the health care dollar. Prescription drugs account for 10 percent.

Note: See the Appendix for details on category breakdowns and definitions. Figures may not add to 100 percent due to rounding. Total spending represents national health expenditures. Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

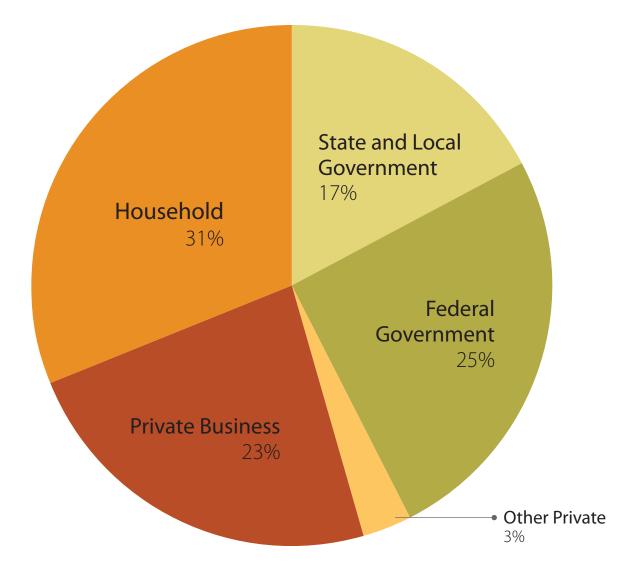
Spending Summary, by Category, Selected Years

	SPENDING LEVELS (in billions)			D	GROWTH		
	2008	2007	1988	2008	2007	1988	2008/2007
NATIONAL HEALTH EXPENDITURES	\$2,339	\$2,240	\$574	100%	100%	100%	4.4%
Hospital Care	\$718	\$688	\$207	31%	31%	36%	4.5%
Physician and Clinical Services	\$496	\$473	\$127	21%	21%	22%	5.0%
Dental/Other Professional	\$235	\$225	\$49	10%	10%	9%	4.5%
Nursing Home Care	\$138	\$132	\$40	6%	6%	7%	4.6%
Home Health Care	\$65	\$59	\$8	3%	3%	1%	9.0%
Prescription Drugs	\$234	\$227	\$31	10%	10%	5%	3.2%
Other Medical Products	\$66	\$63	\$29	3%	3%	5%	4.1%
Administration	\$160	\$158	\$27	7%	7%	5%	0.7%
Public Health Activity	\$69	\$65	\$15	3%	3%	3%	7.1%
Investment	\$157	\$150	\$39	7%	7%	7%	5.0%

Health Care Costs 101 Spending Categories << RETURN TO CONTENTS

In the last 20 years, the share of health care dollars spent on hospital care has declined, while the share spent on prescription drugs has grown.

Spending Distribution, by Contributors,* 2008



*Estimates of spending by contributor are organized according to the underlying entity (business, households, and government) financing the health care bill payer. CMS refers to these contributors as "sponsors." Reflects spending on health services and supplies.

Note: Figures may not add to 100 percent due to rounding.

Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Health Care Costs 101 Contributors << RETURN TO CONTENTS

Households, businesses, and government all contribute significantly to the financing of health care, with households contributing the greatest portion of the funds at 31 percent.

CONTRIBUTOR BREAKDOWN

Household contributions include out-of-pocket costs, health insurance premiums, and payroll taxes.

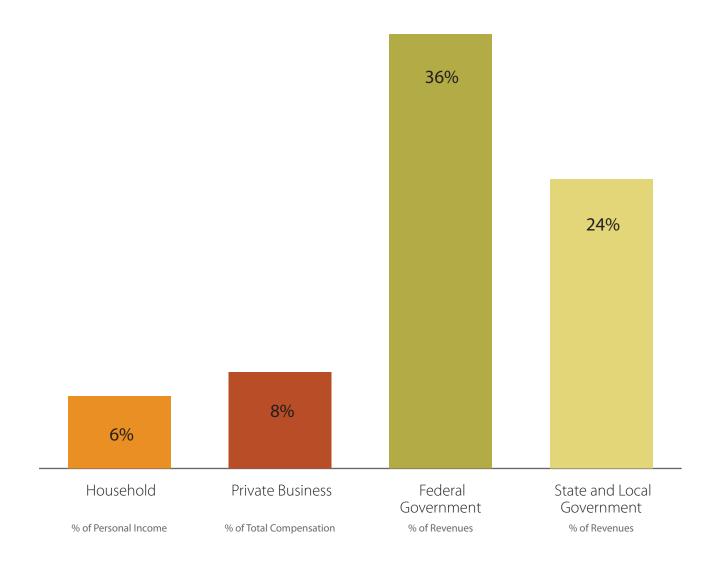
Private business contributions include health insurance premiums for workers and payroll taxes.

Other private contributions include philanthropy.

Federal government contributions include general tax revenues, plus payroll tax and private health insurance for its workers.

State and local government contributions include general tax revenues, plus payroll tax and private health insurance for its workers.

Health Care's Share of Resources, 2008



Health Care Costs 101 Contributors << RETURN TO CONTENTS

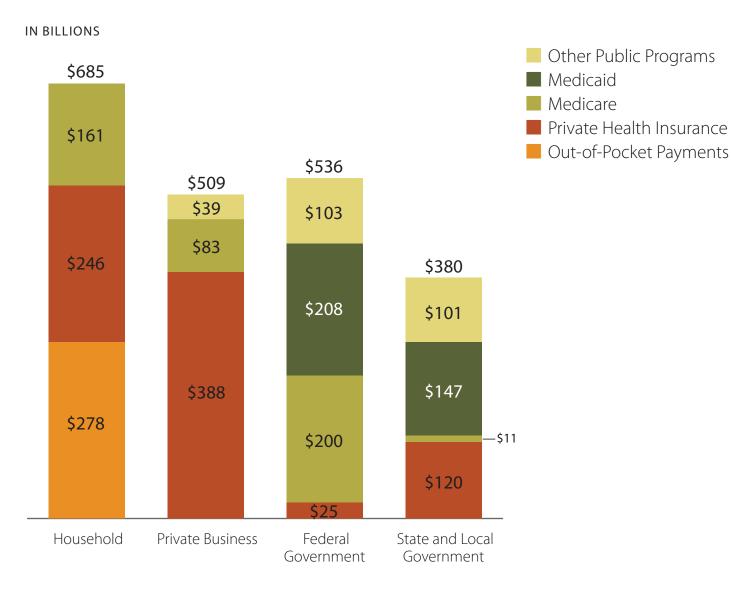
Spending for health care is shared broadly across society, taking a significant bite out of household, business, and government resources.

Note: Figures represent health care's share of resources from the four major contributors to health care's financing. CMS refers to these contributors as "sponsors." Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Contributors to Health Care Spending, Detail, 2008

Medicare

Private Health Insurance



Note: Figures reflect health services and supplies. Not shown: other private sources of payment, including philanthropy (\$70.6 billion). Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary,

Health Care Costs 101 Contributors

Contributors to health care buy services directly, purchase private insurance, and fund public programs.

CONTRIBUTOR BREAKDOWN

Other Public Programs: For private business, consists of workers' compensation and temporary disability plus industrial in-plant health services. For federal government, includes Veterans and Defense health programs. For state and local governments, includes county health programs.

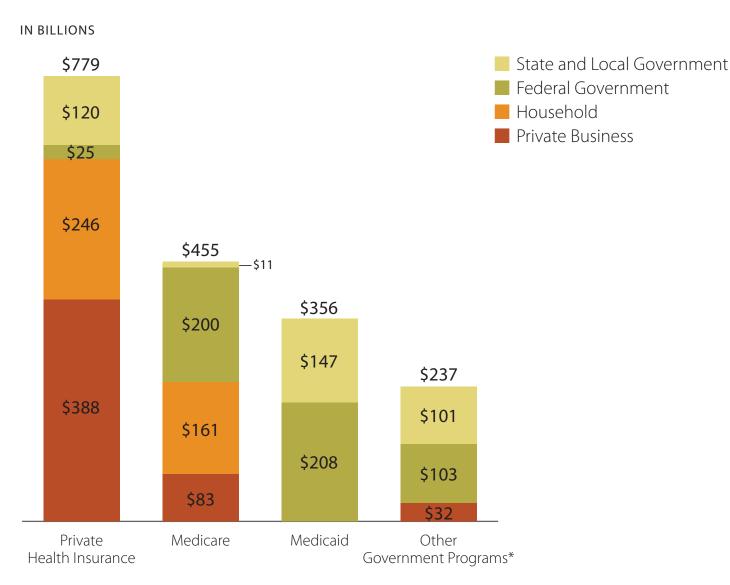
Medicaid: Contributions from federal and state spending from general tax revenues.

Medicare: Receives contributions from three main sources: 1) payroll tax on earnings funds Part A (hospital insurance). 2) beneficiary premiums for Part B (supplementary medical insurance), and 3) federal general tax revenues. For households, includes both payroll tax and Part B premiums. For private business, as well as state and local government, consists of employer share of payroll tax. For federal government, consists primarily of general tax revenue spending plus payroll taxes for federal workers.

Private Health Insurance: For households, consists of worker contributions to employer-sponsored coverage plus premium payments for individual insurance. For private business and government, consists of employer contributions to workers' health insurance.

Out-of-Pocket: Household spending for deductibles, copayments, and services not covered by insurance.

Health Care Sources of Payment, by Contributor, 2008



*Includes Veterans and Defense health spending, public health activities, SCHIP, maternal and child health, and hospital subsidies.

Notes: Figures reflect health services and supplies. Not shown: out-of-pocket (\$278.0 billion); other private sources of payment, including philanthropy (\$70.6 billion); and in-plant industrial health services (\$6.6 billion). Segments may not sum to total due to rounding.

Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Health Care Costs 101 Contributors << RETURN TO CONTENTS

Health care payers receive their funds from a variety of contributors.

CONTRIBUTOR BREAKDOWN

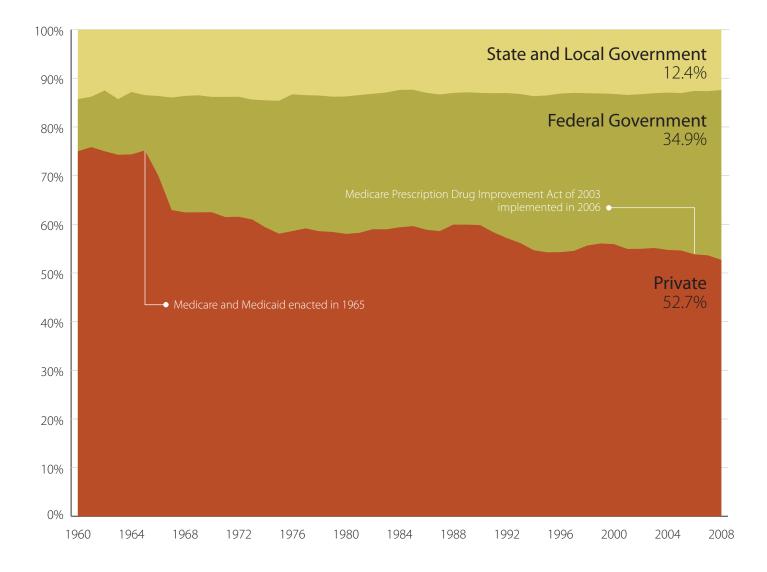
State and local governments contribute private insurance premiums on behalf of government workers; the employers' share of payroll taxes for Medicare; state tax revenues to finance a share of Medicaid; and state and local tax revenues for county health programs.

Federal government contributes private insurance premiums on behalf of government workers; general tax revenues to finance a share of Medicaid and Medicare; and support for other programs, such as Veterans and Defense health.

Private business contributes employers' share of private insurance premiums and payroll taxes for Medicare and contributes to government programs through Workers' Compensation and temporary disability insurance.

Households contribute to private health insurance through employees' share of private insurance premiums and purchase of individual policy premiums. Households contribute to Medicare via payroll taxes and Part B premiums.

Historic Payment Sources, 1960–2008



Health Care Costs 101
Payment Sources
<< RETURN TO CONTENTS

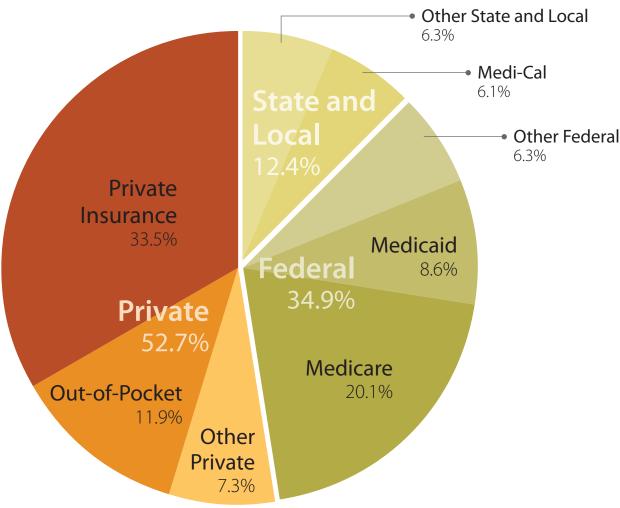
Over time, the share of federal spending has increased, most dramatically following the creation of Medicare and Medicaid. The 2006 implementation of Medicare prescription drug coverage has had a

more modest impact on the distribution of spending.

Notes: Chart reflects national health expenditures (NHE) by source of funds. 2008 recession relief measure increased federal government's portion of Medicaid. Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Spending Distribution, by Payer, 2008

TOTAL SPENDING: \$2.3 TRILLION

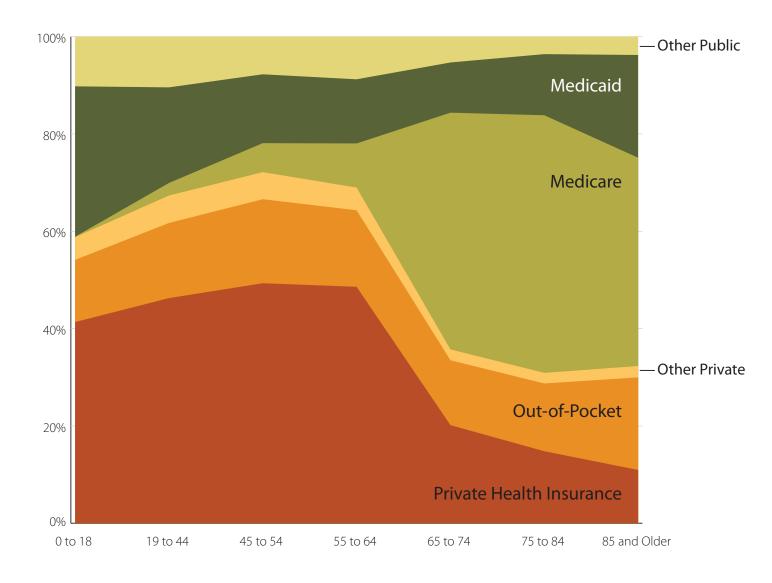


Health Care Costs 101
Payment Sources
<< RETURN TO CONTENTS

U.S. health care is financed in near equal shares by private and public sectors. Public funds currently account for 47 percent of health spending.

Notes: "Other Federal" includes Veterans and Defense health spending. "Other State and Local" includes public health activity, county hospitals, and Workers' Compensation. "Other Private" includes philanthropy and in-plant industrial health services. Figures may not add to 100 percent due to rounding. Total spending represents national health expenditures. Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Distribution of Payers, by Age Group*

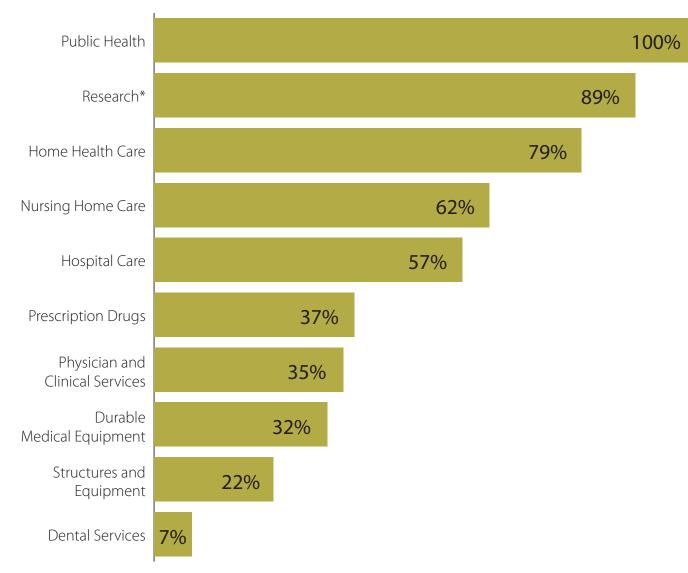


Health Care Costs 101
Payment Sources
<< RETURN TO CONTENTS

Public spending is greatest for children and the elderly. Despite near-universal Medicare coverage for the elderly, private dollars account for nearly 40 percent of health spending for the elderly.

*Reflects 2004 Personal Health Care figures, the most current CMS spending data by age. Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

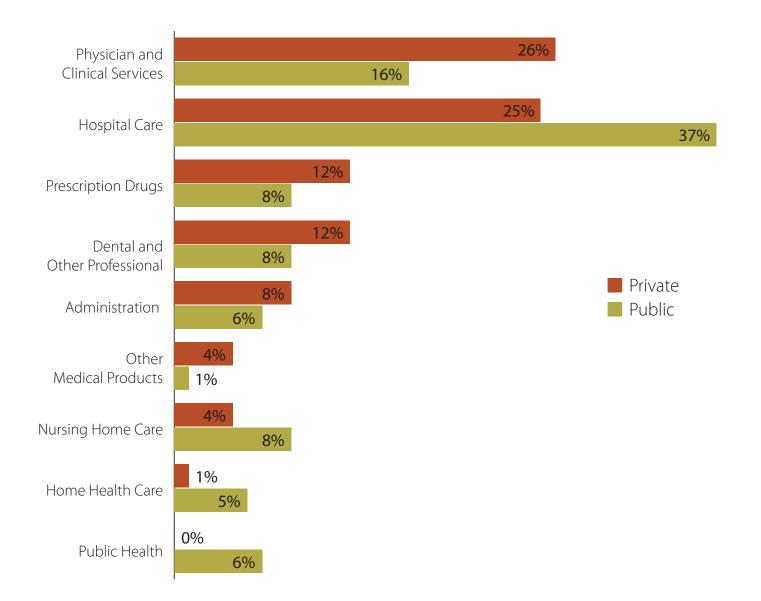
Share of Spending Paid with Public Dollars, by Category, 2008



*Research and development expenditures of drug companies and medical suplies and equipment manufacturers are included in the the expenditures class in which the product falls. Source: Centers for Medicare and Medicard Services (CMS), Office of the Actuary. Health Care Costs 101 Payment Sources << RETURN TO CONTENTS

The share of spending paid by government varies depending on the type of service or product. For example, government finances just 7 percent of dental services, but pays much larger portions of most other services.

Spending Distribution, Private vs. Public, 2008

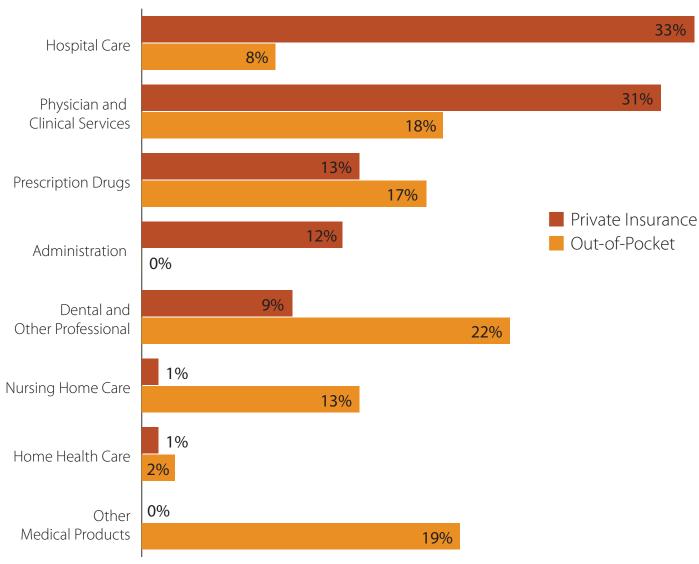


Health Care Costs 101 Payment Sources << RETURN TO CONTENTS

The public sector spends more of its dollar on hospital care and long term care than the private sector. For example, over 35 percent of government health care dollars go for hospital care, compared to 25 percent of private health care spending.

Notes: Figures reflect health services and supplies. See the Appendix for details on category breakdowns. Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Spending Distribution, Private Insurance vs. Out-of-Pocket, 2008



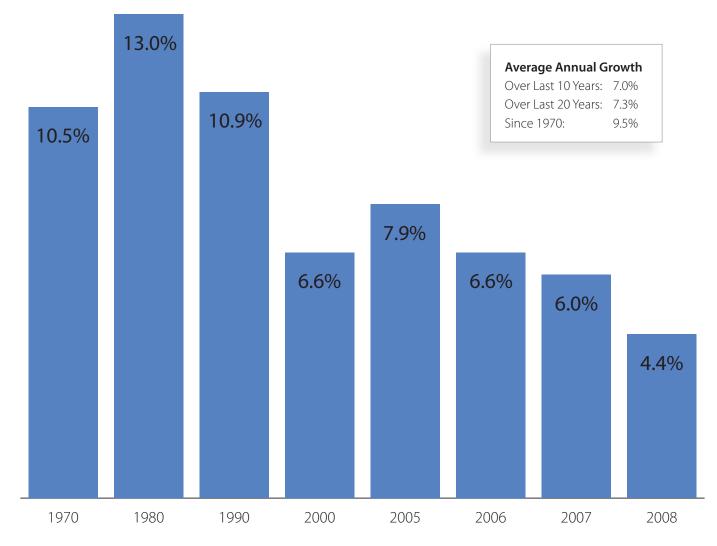
Health Care Costs 101
Payment Sources
<< RETURN TO CONTENTS

Private insurance spending is concentrated in hospital and physician services, accounting for 33 and 31 percent of spending. Consumers' out-of-pocket spending, by contrast, is concentrated in prescription drugs, dental, and other professional services.

Notes: Out-of-pocket spending includes copays, deductibles, and care not covered by insurance; it does not include premiums. Figures reflect health services and supplies. See the **Appendix** for details on category breakdowns.

Average Annual Growth Rates in National Health Spending, 1970–2008*

PERCENT INCREASE OVER PRIOR PERIOD



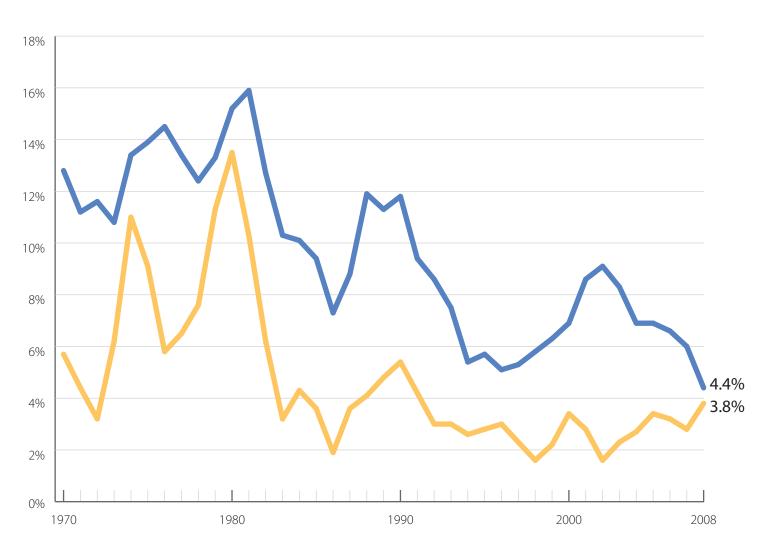
*Selected rather than continuous years of data shown prior to 2005. The 1970 figure represents the average annual increase since 1960. Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary. Health Care Costs 101 Growth Trends

Growth in health spending slowed to its lowest rate on record. With the economy in recession the entire year, the 4.4 percent growth in health spending nevertheless outpaced both the economy and inflation.

Annual Growth Rates, Spending vs. Inflation, 1970–2008

— National Health Spending

— Consumer Price Index



Health Care Costs 101 Growth Trends << RETURN TO CONTENTS

In 2008, the continued slowdown in health spending growth brought it close to levels seen in consumer prices overall.

Sources: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary; Bureau of Labor Statistics (CPI-U, U.S. city average, annual figures).

Annual Growth Rates, Spending vs. the Economy, 1990–2010*

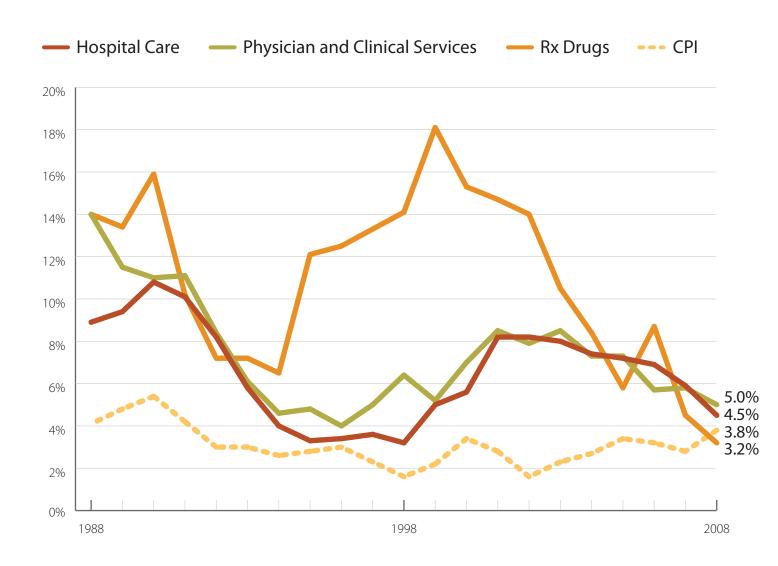
National Health Spending Gross Domestic Product (GDP) 14% 12% 10% 8% 6% 4.0% 4% 3.9% (NHE) 2% 0% 2010P 2008 1990 1992 1994 1996 1998 2000 2002 2004 2006

Health Care Costs 101 Growth Trends << RETURN TO CONTENTS

With the 2008 economy in recession, health spending advanced at a historically low pace. The gap between health spending and the economy is projected to have widened in 2009 due to the continued downturn.

*Health spending for 2009 forward represents CMS projections. GDP for this period reflects CMS assumptions based on available information at the time of data release. Sources: Center for Medicare and Medicaid Services (CMS), Office of the Actuary; Bureau of Labor Statistics (CPI-U, U.S. city average, annual figures).

Annual Growth Rates, by Health Spending Categories, 1988–2008



Health Care Costs 101 Growth Trends << RETURN TO CONTENTS

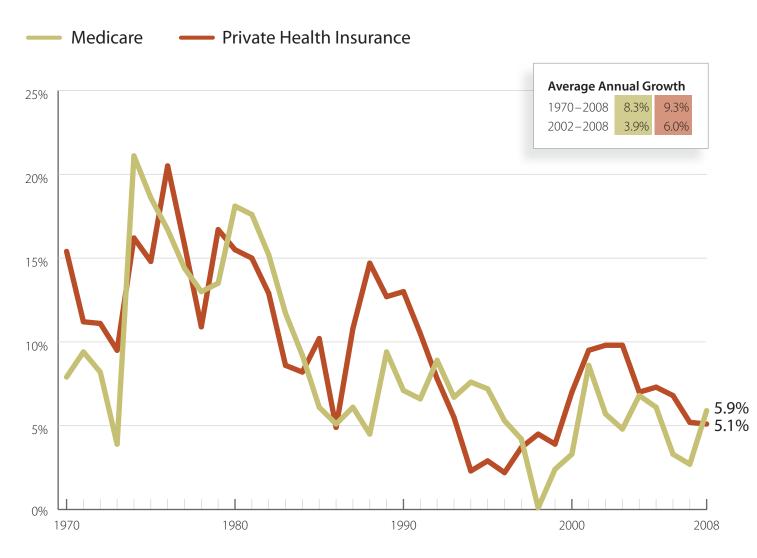
Growth in major spending categories continued to slow during the 2008 recession. Prescription drug spending slowed to its lowest growth rate on record, falling even below the CPI increase.

Note: CPI is Consumer Price Index.

Sources: Center for Medicare and Medicaid Services (CMS), Office of the Actuary; Bureau of Labor Statistics (CPI-U, U.S. city average, annual figures).

Growth in Per Enrollee Spending for Common Benefits,*

Medicare vs. Private Health Insurance, 1970–2008



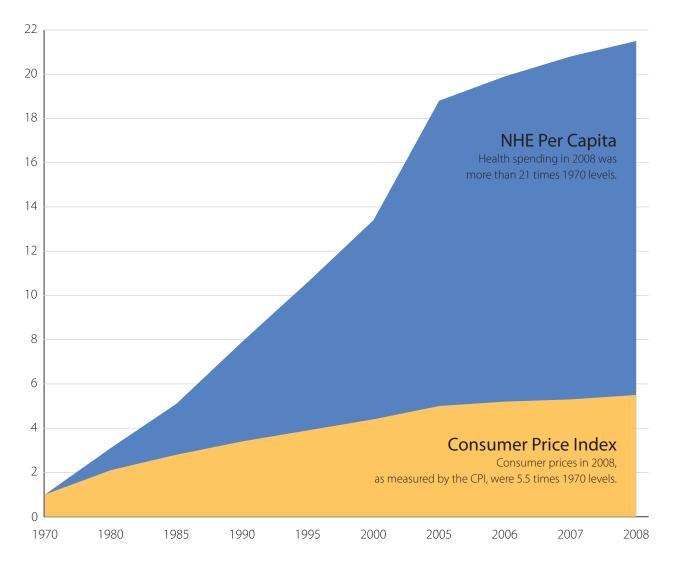
Health Care Costs 101 Growth Trends << RETURN TO CONTENTS

While both Medicare and private insurance experienced per enrollee growth in spending that exceeded growth in consumer prices, Medicare's growth rates were somewhat lower — both in recent years and in the post-1970 era overall.

*Common benefits refers to benefits commonly covered by Medicare and private health insurance. These benefits are hospital services, physician and clinical services, other professional services, and durable medical products.

Cumulative Impact of Growth Rates, 1970–2008*

TIMES MORE EXPENSIVE THAN IN 1970



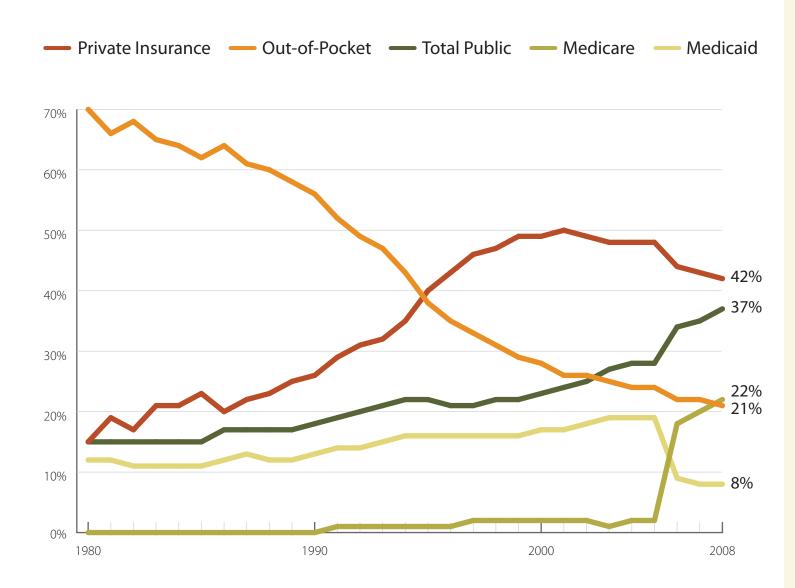
Health Care Costs 101 Growth Trends << RETURN TO CONTENTS

The impact of consistently higher growth rates in health care spending is seen in the comparison to 1970 levels.

*Selected rather than continuous years of data shown prior to 2005.

Sources: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary; Bureau of Labor Statistics (CPI-U, U.S. city average, annual figures).

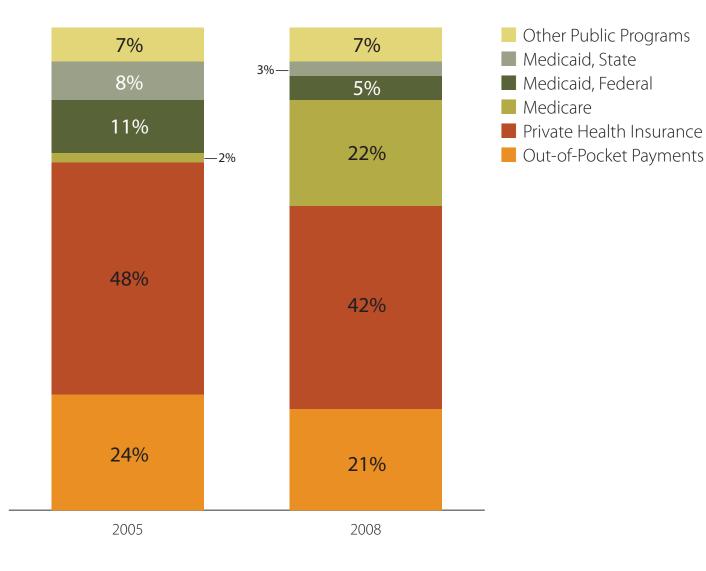
Prescription Drugs, by Sources of Payment, 1980–2008



Health Care Costs 101 Spending Trends << RETURN TO CONTENTS

In the 1980s and 90s, private insurers accounted for an increasing share of prescription spending. With the implementation of Medicare's Part D drug coverage in 2006, a larger share of drug spending is now being paid for by the public sector. In addition, Part D has resulted in a reallocation of drug spending from Medicaid to Medicare.

Impact of Medicare Part D, Prescription Drug Payer Distribution, 2005 vs. 2008



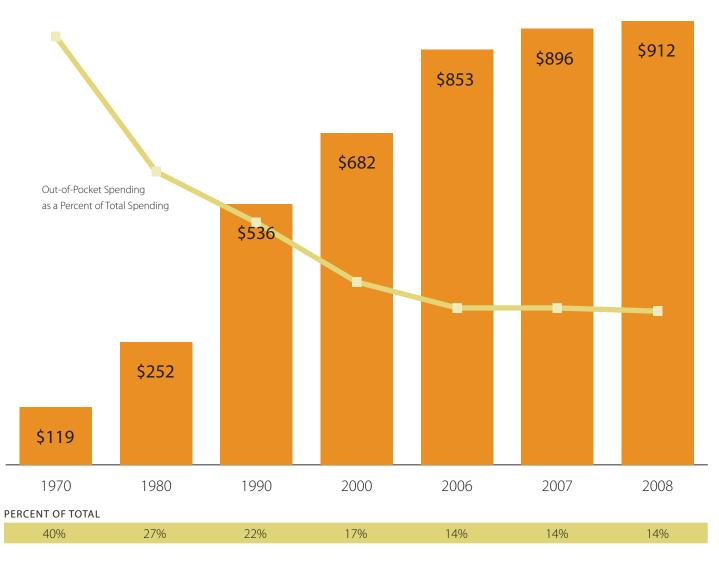
Health Care Costs 101 Spending Trends << RETURN TO CONTENTS

A major shift in payers for prescription drugs occurred with the implementation of Medicare Part D in 2006.

Medicare's share rose dramatically as it absorbed drug spending once paid out-of-pocket, by private insurance, or by Medicaid (on behalf of those eligible for both Medicaid and Medicare programs).

Note: Figures don't add to 100 percent due to rounding.

Annual Out-of-Pocket Spending Per Person, 1970–2008*



Health Care Costs 101 Spending Trends << RETURN TO CONTENTS

Although out-of-pocket costs for consumers continue to rise, they have declined as a share of overall health spending and are now flat at about 14 percent.

*Selected rather than continuous years of data are shown prior to 2006. Out-of-pocket spending includes direct spending by consumers for all health care goods and services, such as coinsurance, deductibles, and any amounts not covered by insurance. Out-of-pocket premiums paid by individuals are not counted here but are counted as part of private health insurance. Out-of-pocket share computed as a percent of Personal Health Care; see **Appendix** for spending detail.

Category Breakdown

	SPENDI	NG LEVELS (in n	DISTRIBUTION	GROWTH	
	2008	2007	1988	2008	2008/2007
NATIONAL HEALTH EXPENDITURES	\$2,338,746	\$2,239,710	\$573,999	100%	4.4%
Health Services and Supplies	2,181,256	2,089,670	534,659	93%	4.4%
 Personal Health Care 	1,952,254	1,866,405	492,215	83%	4.6%
 Hospital Care 	718,360	687,565	207,431	31%	4.5%
 Physician and Clinical Services 	496,165	472,574	127,367	21%	5.0%
 Dental/Other Professional 					
Dental Services	101,230	96,360	27,325	4%	5.1%
Other Professional Care	65,700	62,193	14,293	3%	5.6%
Other Personal Health Care	68,083	66,334	7,236	3%	2.6%
 Nursing Home Care 	138,447	132,376	40,461	6%	4.6%
Home Health Care	64,665	59,316	8,426	3%	9.0%
Retail Outlet Sales					
Prescription Drugs	234,073	226,758	30,646	10%	3.2%
Other Non-Durable Medical Products	38,975	37,415	19,372	2%	4.2%
Durable Medical Equipment	26,556	25,515	9,658	1%	4.1%
 Administration 	159,571	158,434	27,177	7%	0.7%
Public Health Activity	69,431	64,831	15,267	3%	7.1%
Investment	157,490	150,040	39,340	7%	5.0%
► Research	43,616	42,492	10,836	2%	2.6%
 Structures and Equipment 	113,874	107,548	28,504	5%	5.9%

Note: Totals may not add due to rounding.

Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Health Care Costs 101

Appendix

< RETURN TO CONTENTS

Administration includes government program administration and the net cost of private health insurance. Administrative costs incurred by providers and suppliers, such as hospital and physician insurance billing expenses or marketing costs for prescription drugs, are reflected in the service categories (hospital, physician, and prescription drugs, respectively, for these examples).

Research reflects that of nonprofit or government entities. Research by commercial enterprises is reflected in their spending categories, e.g., research by pharmaceutical manufacturers is included in the amount spent on prescription drugs.

Structures and equipment reflects construction costs for medical establishments, e.g., a new hospital wing or medical office building, and investment in capital equipment for medical establishments, e.g., new imaging equipment or hospital beds.

Data Resources

Economic Data

- Congressional Budget Office, Historical Budget Data: www.cbo.gov/budget/historical.shtml
- Consumer Price Index, Bureau of Labor Statistics: www.bls.gov/cpi
- Organization for Economic Development. OECD Health Data: Statistics and Indicators for 30 Countries, "Frequently Requested Data", November 2009. www.oecd.org/document/30/0,3343,en_2649_33929_12968734_ 1_1_1,00.html

Journal Publications Authored by CMS Staff

- Hartman, Micah, Anne Martin, Olivia Nuccio, Aaron Catlin, et al. "Health Spending Growth at a Historic Low in 2008." *Health Affairs*, Vol. 29, No. 1 (2010): 147–155.
 www.healthaffairs.org
- Truffer, Christopher J., Sean Keehan, Sheila Smith, Jonathan Cylus, Andrea Sisko, et al. "Health Spending Projections Through 2019: The Recession's Impact Continues." *Health Affairs*, Vol. 29, No. 3 (2010): 522 – 529.
 (Published online February 4, 2010.) www.healthaffairs.org

National Health Expenditures

HISTORICAL INFORMATION/OVERVIEW

- Data: www.cms.gov/nationalhealthexpenddata/02_nationalhealthaccounts historical.asp#topofpage
- Definitions, Sources, Methods: www.cms.gov/nationalhealthexpenddata/downloads/dsm-08.pdf
- Health Expenditures by Sponsors: Business, Household and Government: www.cms.gov/nationalhealthexpenddata/06_nationalhealthaccounts businesshouseholdgovernment.asp#topofpage
- Overview of National Health Expenditure Resources: www.cms.gov/nationalhealthexpenddata
- Quick Reference Definitions: www.cms.gov/nationalhealthexpenddata/downloads/quickref.pdf
- Summary of Benchmark Changes: www.cms.gov/nationalhealthexpenddata/downloads/benchmark.pdf
- Tables (PDF): www.cms.gov/nationalhealthexpenddata/downloads/tables.pdf

PROJECTIONS

- Data: www.cms.gov/nationalhealthexpenddata/downloads/proj2009.pdf
- Methodology: www.cms.gov/nationalhealthexpenddata/downloads/projections-methodology.pdf
- Tables (PDF): www.cms.gov/nationalhealthexpenddata/downloads/proj2009.pdf

Health Care Costs 101

<< RETURN TO CONTENTS

GIVE US YOUR FEEDBACK

Was the information provided in this report of value? Are there additional kinds of information or data you would like to see included in future reports of this type? Is there other research in this subject area you would like to see? We would like to know.



FOR MORE INFORMATION



California HealthCare Foundation

1438 Webster Street, Suite 400

Oakland, CA 94612

CALIFORNIA 510.238.1040 HEALTHCARE FOUNDATION WWW.chcf.org