

CALIFORNIA HEALTH CARE ALMANAC



Health Care Costs 101: Reaching a Spending Plateau?

NOVEMBER 2015

Introduction

With an increase of just 3.6% in 2013, the lowest growth rate in half a century, US spending on health care continued its slow growth, a trend that began in 2009. Still, US health spending, which totaled \$2.9 trillion in 2013, far exceeded that of other developed countries — both per capita and as a percentage of gross domestic product (GDP).

Health Care Costs 101: Reaching a Spending Plateau?, which relies on the most recent data available, details how much is spent on health care in the US, which services are purchased, and who pays.

KEY FINDINGS INCLUDE:

- Health spending and the economy experienced similar growth rates, which resulted in health care’s share of the economy remaining stable at 17.4%.
- Public health insurance was the predominant payer, accounting for 39% of health care spending, while private health insurance accounted for 33%.
- Even prior to ACA expansion, Medicaid had the highest growth rate of all major payers at 6.1%.
- Households financed 28% of health spending through out-of-pocket costs, insurance premiums, and payroll taxes.
- Health spending is projected to increase at an average rate of 5.8% from 2014 to 2023, about two percentage points higher than recent growth rates.

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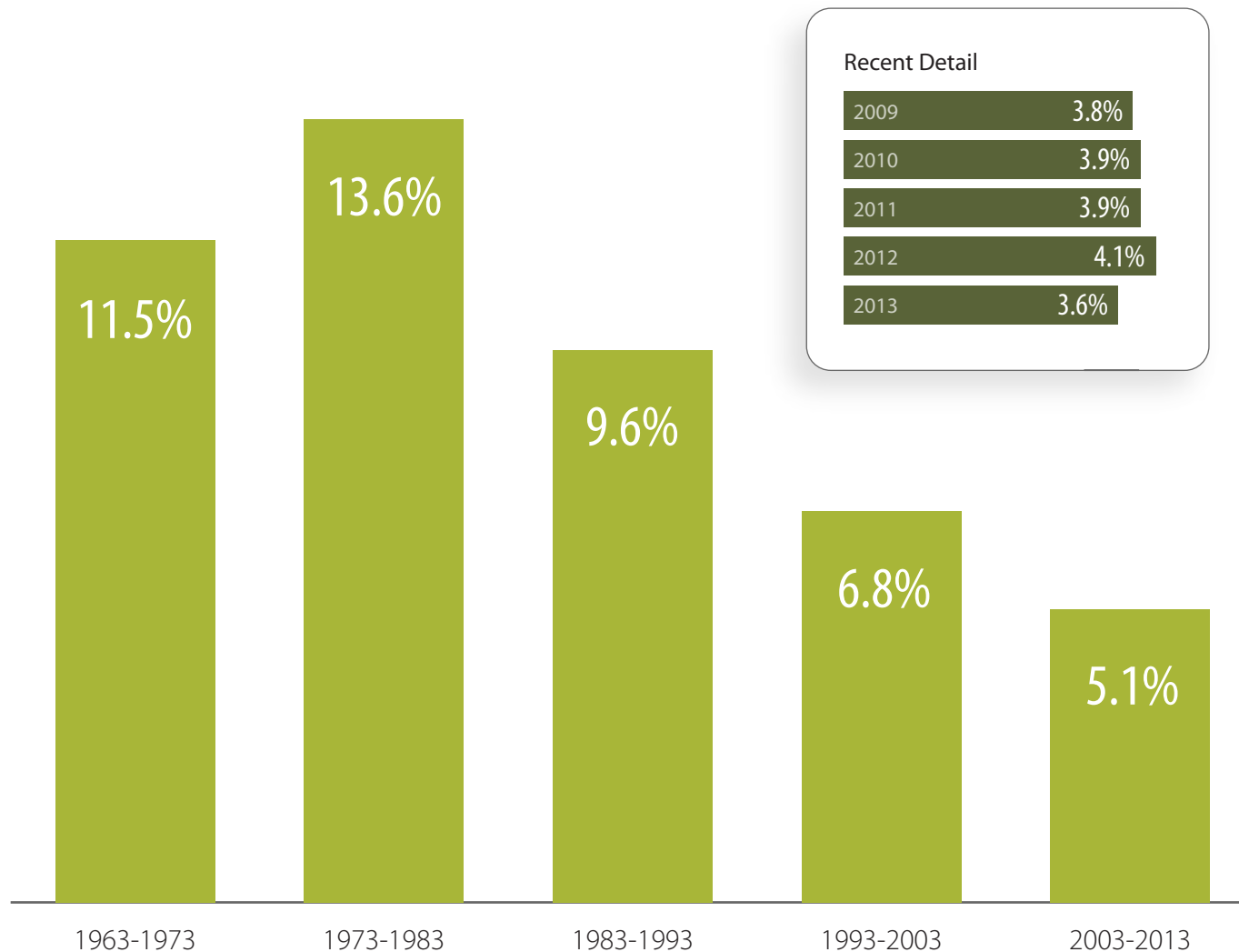
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Average Annual Growth Rates in Health Spending

United States, 1963 to 2013



Note: *Health spending* refers to national health expenditures.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

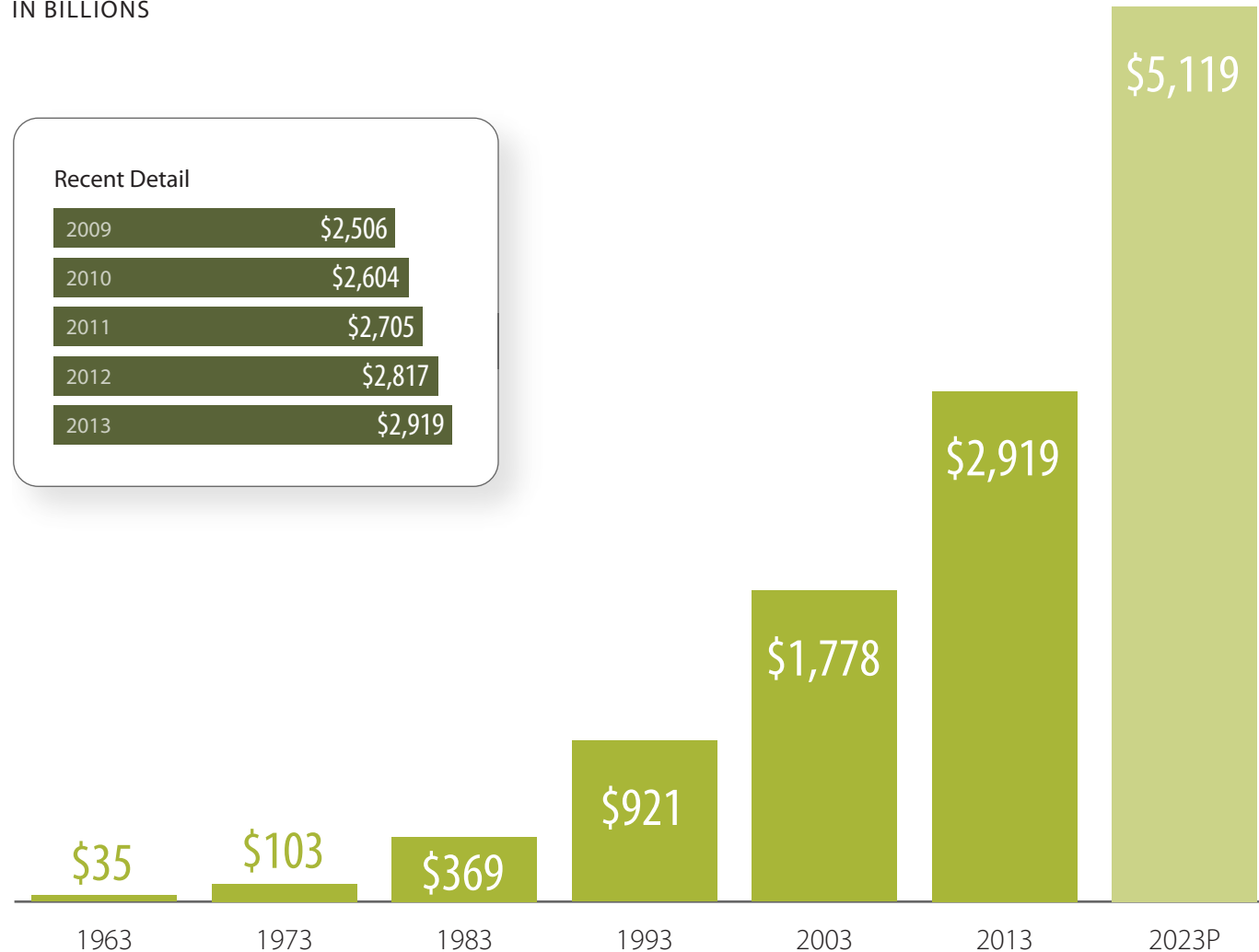
Spending Levels

Growth in health spending has slowed over the past three decades. The average annual increase from 2003 to 2013 dropped to 5.1%.

Health Spending

United States, 1963 to 2023, Selected Years

IN BILLIONS



Health Care Costs 101

Spending Levels

National health spending reached \$2.9 trillion in 2013 and is projected to increase to \$5.1 trillion by 2023. Between 2014 and 2023, health spending is expected to grow at an average rate of 5.8% per year, about two percentage points higher than recent growth rates.

Notes: *Health spending* refers to national health expenditures. Projections shown as P.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014 (historical) and 2015 (projections), www.cms.gov.

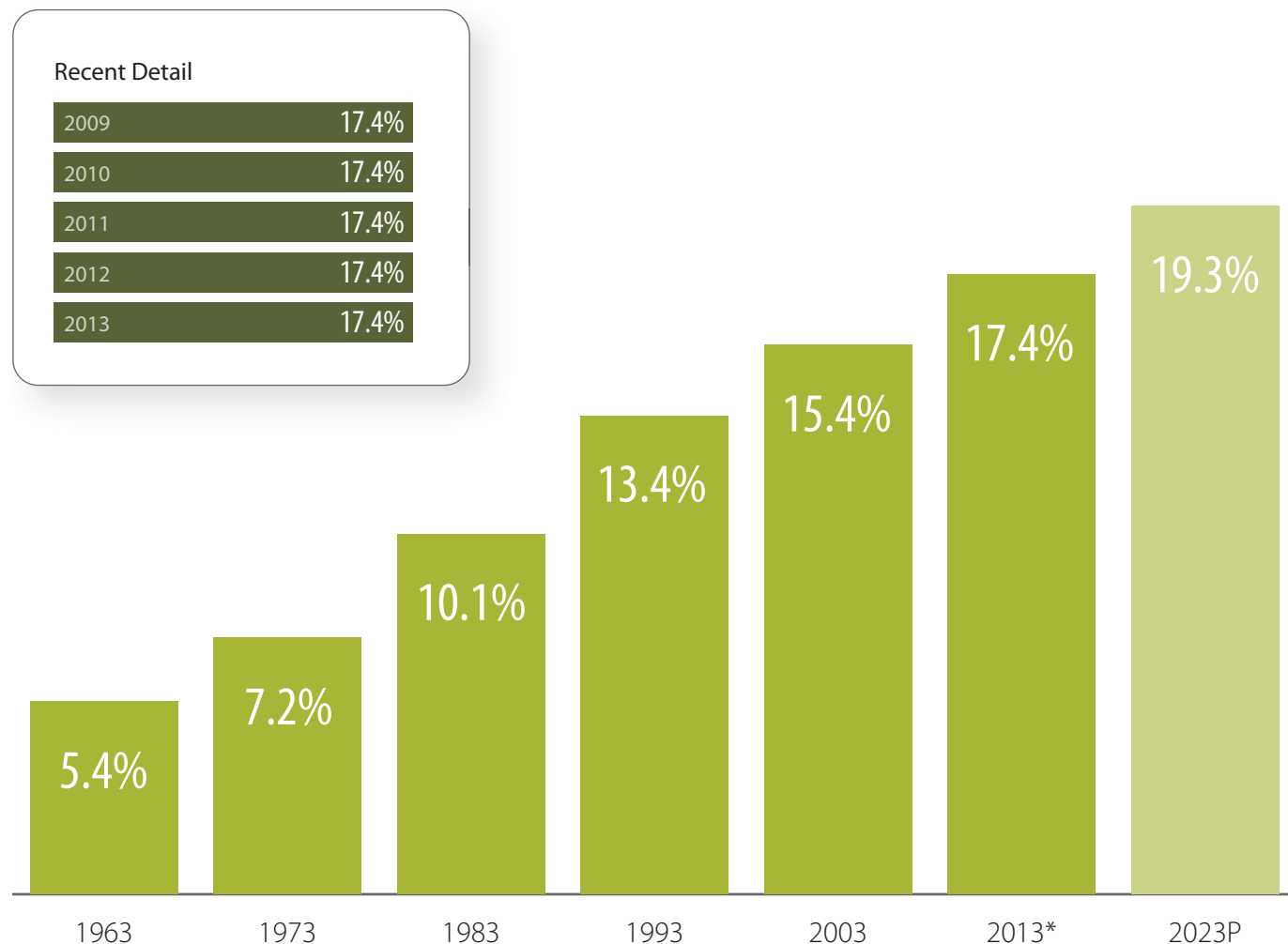
Health Spending as a Share of GDP

United States, 1963 to 2023, Selected Years

Health Care Costs 101

Spending Levels

Over the past five years, health care spending as a share of the economy remained stable at just over 17%. However, it is projected to increase to 19% by 2023.



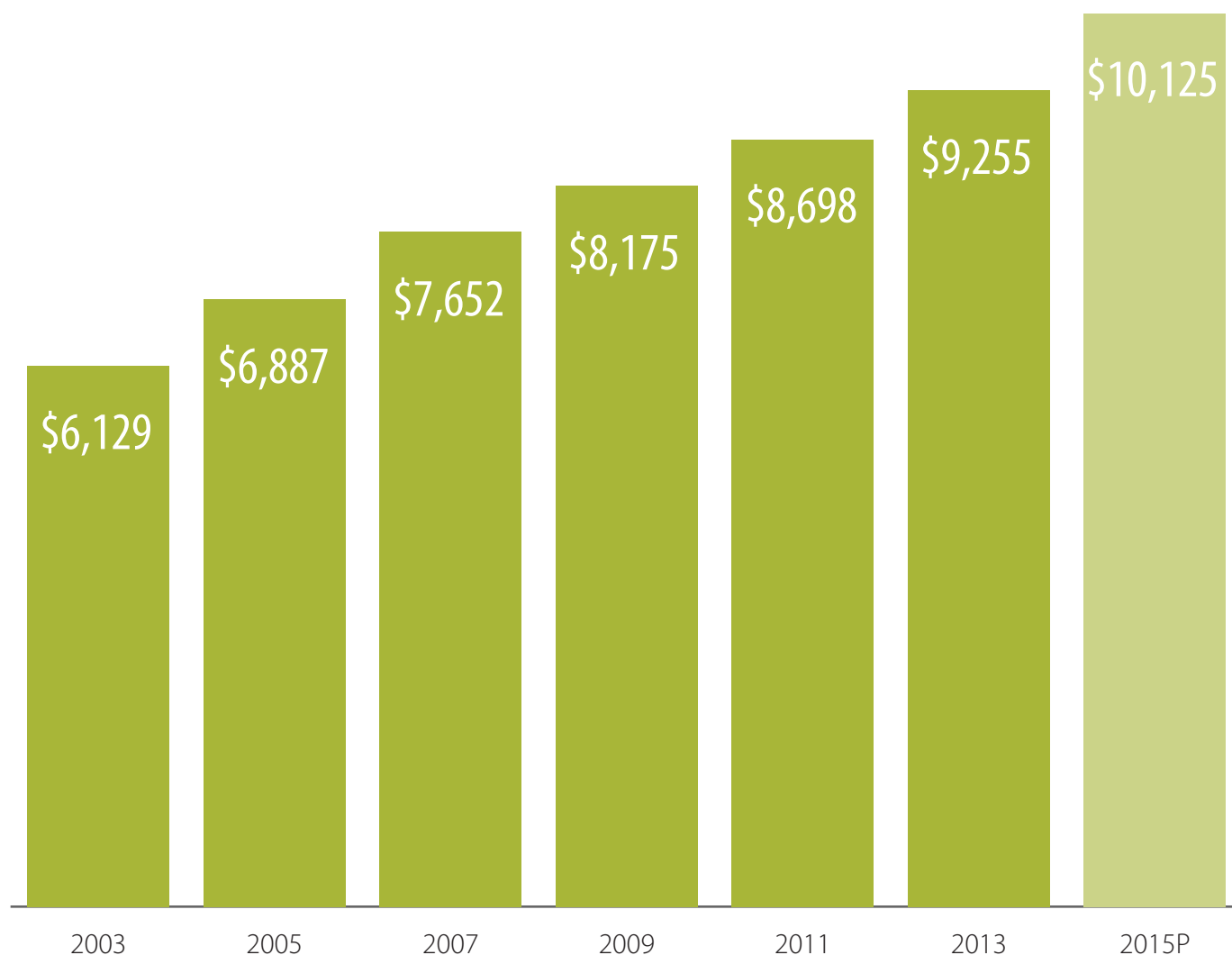
*2013 figure reflects a 3.1% increase in gross domestic product (GDP) and a 3.6% increase in national health spending over the prior year. See page 27 for a comparison of economic growth and health spending growth.

Notes: *Health spending* refers to national health expenditures. Projections shown as *P*.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014 (historical) and 2015 (projections), www.cms.gov.

Health Spending per Capita

United States, 2003 to 2015, Selected Years



Notes: *Health spending* refers to national health expenditures. Projections shown as *P*.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014 (historical) and 2015 (projections), www.cms.gov.

Health Care Costs 101

Spending Levels

Health spending per capita increased 51% between 2003 and 2013, or an average of 4.2% annually. In 2015, US health spending is projected to reach \$10,125 per person.

Health Insurance Spending per Enrollee

United States, 2013 vs. 2015

Medicare



Medicaid



Employer-Sponsored Insurance



Projected Growth*	2013-2015
Medicare	1.8%
Medicaid	0.7%
Employer-Sponsored Insurance	4.4%

Health Care Costs 101

Spending Levels

Compared to public programs, employer-sponsored insurance spending is projected to experience larger growth in per enrollee spending between 2013 and 2015, largely due to anticipated increases in insurance premiums. Medicare spending per enrollee, however, is expected to remain two times higher than employer-sponsored per enrollee spending due to the greater care needs of the senior population.

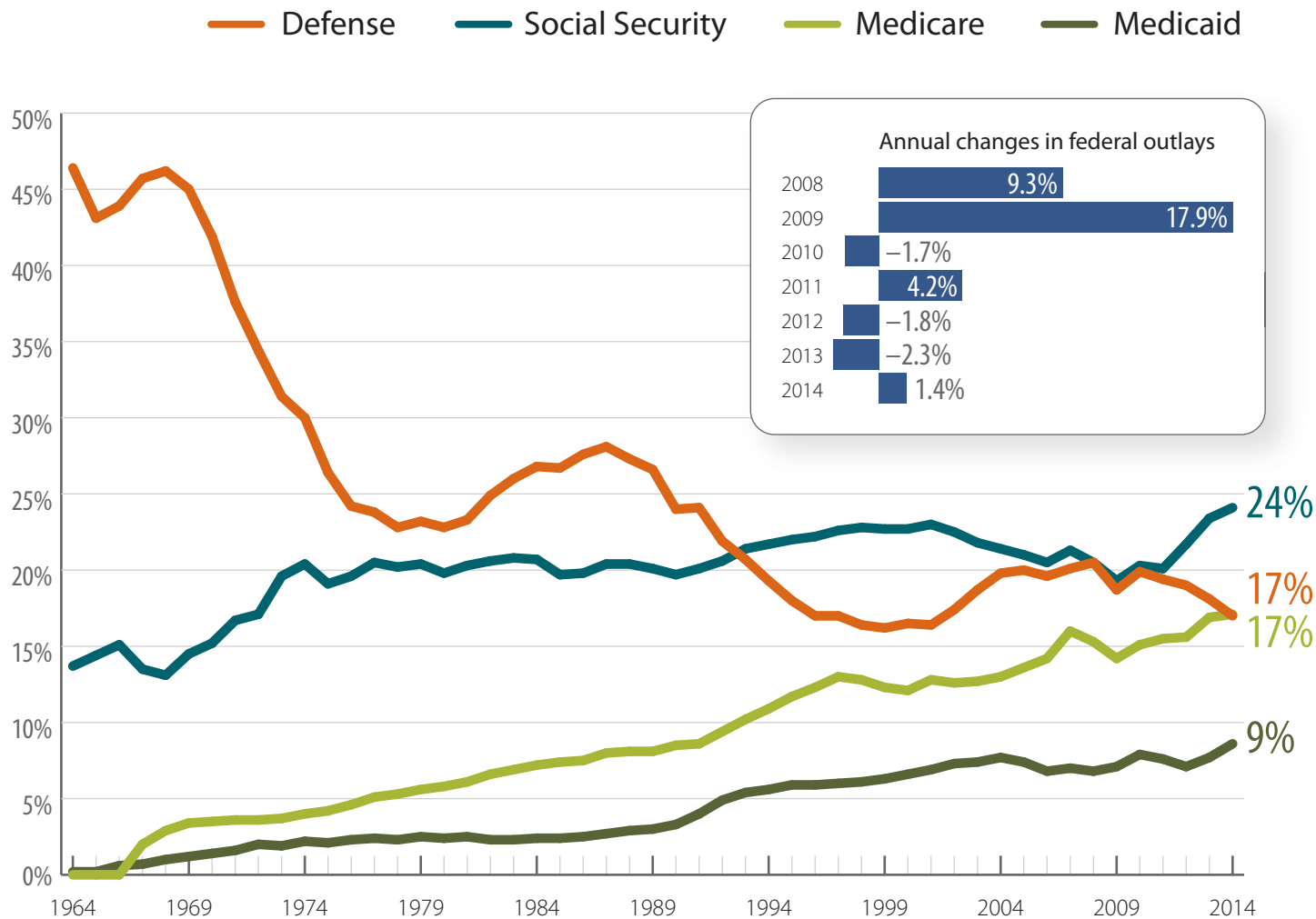
*Projected growth calculations are average annual figures per enrollee.

Note: Projections shown as P.

Source: "National Health Expenditure Data, Projected," Centers for Medicare & Medicaid Services (CMS), 2015, www.cms.gov.

Major Programs as a Share of the Federal Budget

United States, 1964 to 2014



Health Care Costs 101

Spending Levels

For the first time since the introduction of the Medicare program, spending on Medicare and defense consumed the same share (17%) of federal outlays.

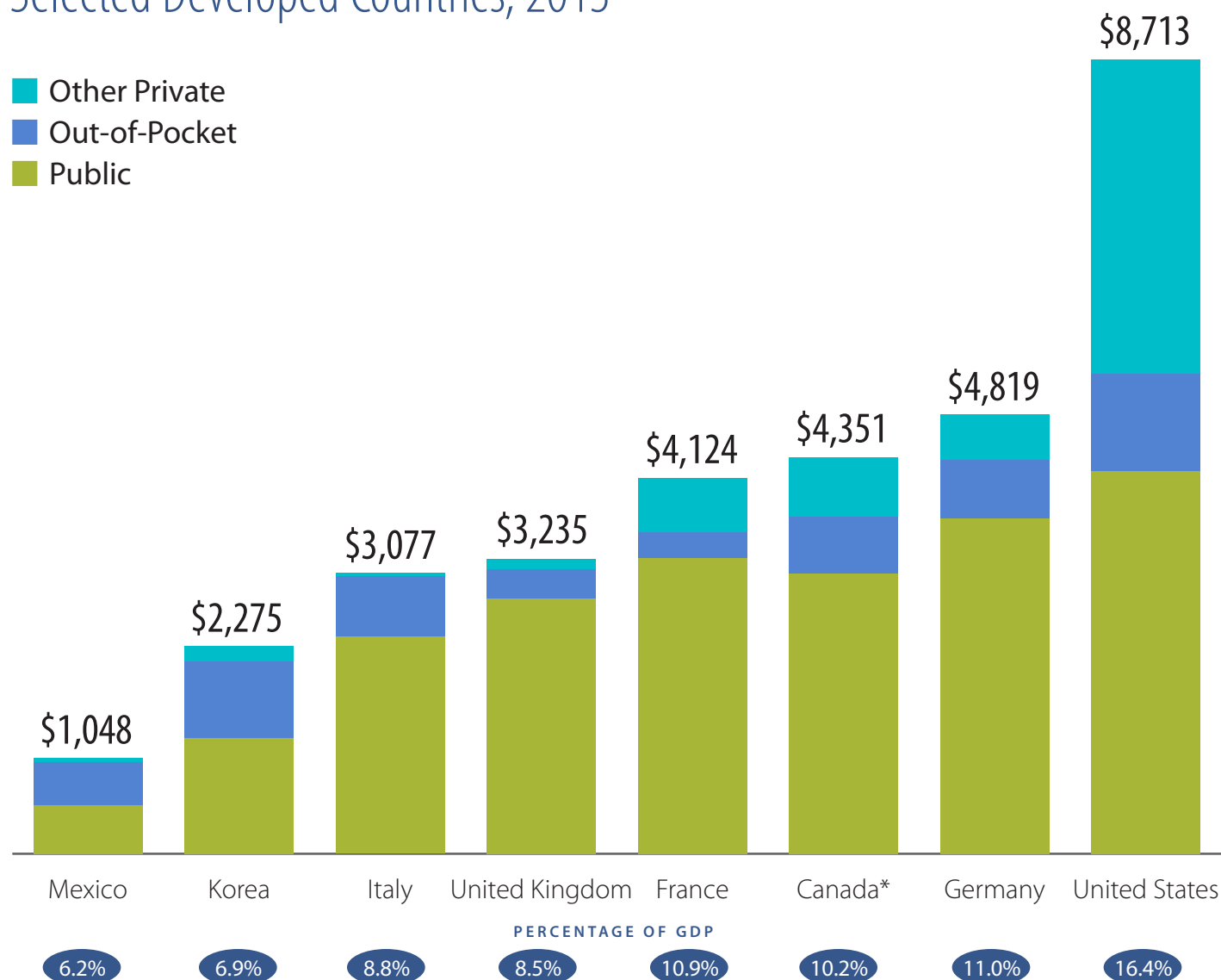
Notes: Spending shares computed as a percentage of federal outlays. All outlays reflect federal spending only (i.e., Medicaid outlays shown reflect federal portion).

Sources: *The Budget and Economic Outlook: 2015 to 2025*, Congressional Budget Office (CBO), January 2015, www.cbo.gov and *The Budget and Economic Outlook: Fiscal Years 2003 to 2012*, CBO, January 2002, www.cbo.gov.

Health Spending per Capita and as a Share of GDP

Selected Developed Countries, 2013

■ Other Private
■ Out-of-Pocket
■ Public



*Estimate.

Note: US spending per capita as reported by OECD differs from figures reported elsewhere in this report.

Source: "OECD Health Statistics 2015, Frequently Requested Data," Organisation for Economic Co-operation and Development, last updated July 7, 2015, www.oecd.org.

Health Care Costs 101

Spending Levels

Health spending in the US far exceeded that of other developed countries, both in per capita spending and as a percentage of GDP. Unlike the US, in most developed countries, the public sector dominated health spending.

PAYER DEFINITIONS

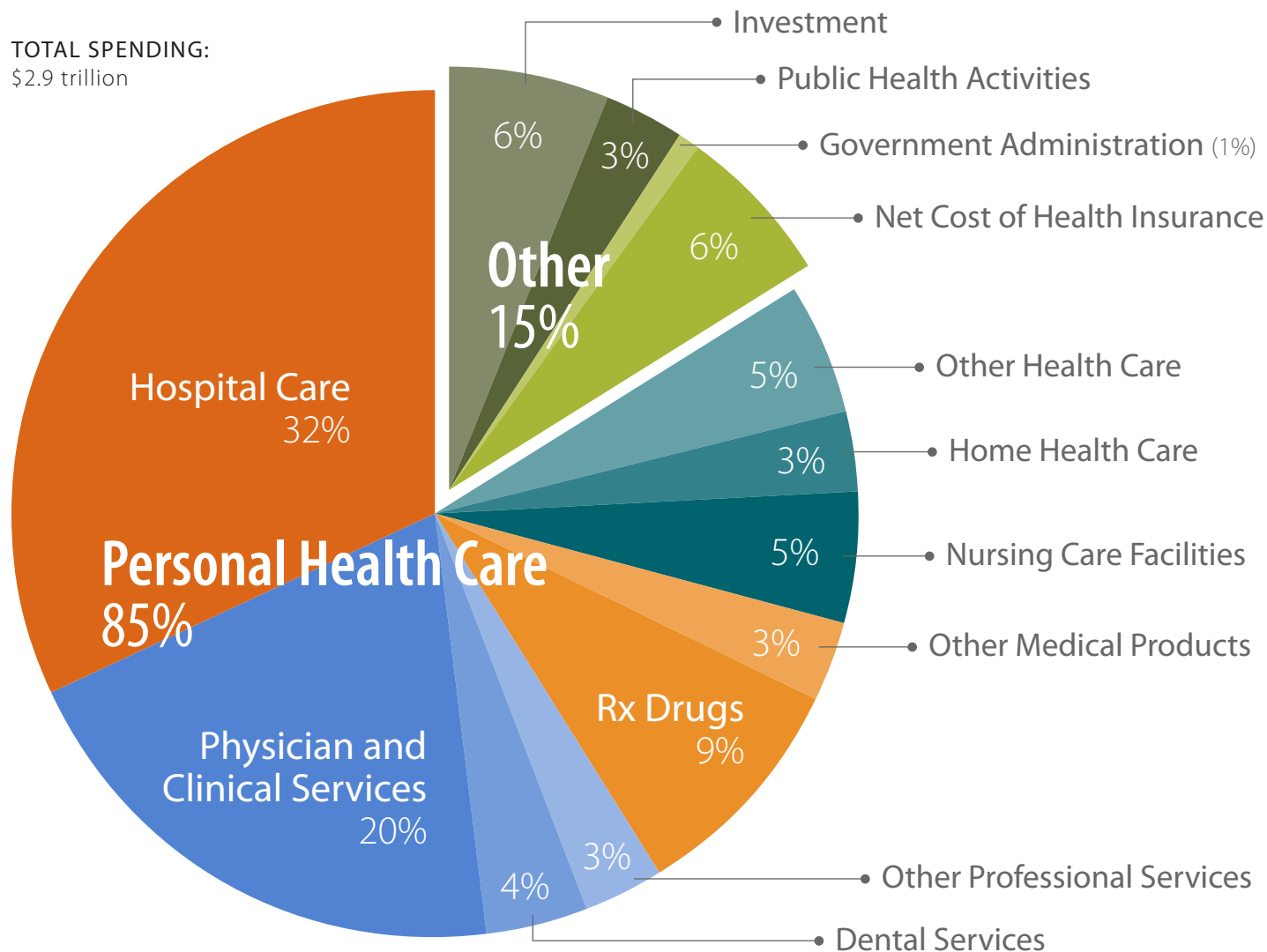
Out-of-pocket is consumer spending on copays, deductibles, and goods and care not covered by insurance; it does not include premiums.

Other private is computed as total spending less public spending and out-of-pocket spending.

Health Spending Distribution, by Category

United States, 2013

TOTAL SPENDING:
\$2.9 trillion



Notes: *Health spending* refers to national health expenditures. For additional detail on spending categories, see Appendix A. Further definitions available at www.cms.gov. Segments may not total 100% due to rounding.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Spending Levels

Hospital and physician services combined accounted for just over half of health care spending. Prescription drugs, the third largest category, accounted for another 9%.

SPENDING CATEGORY DEFINITIONS

Government administration includes the administrative costs of government health care programs such as Medicare and Medicaid.

Net cost of health insurance reflects the difference between benefits and premiums for private insurance.

Other health care refers to the category other health, residential, and personal care.

Other medical products refers to durable medical equipment and nondurable medical products.

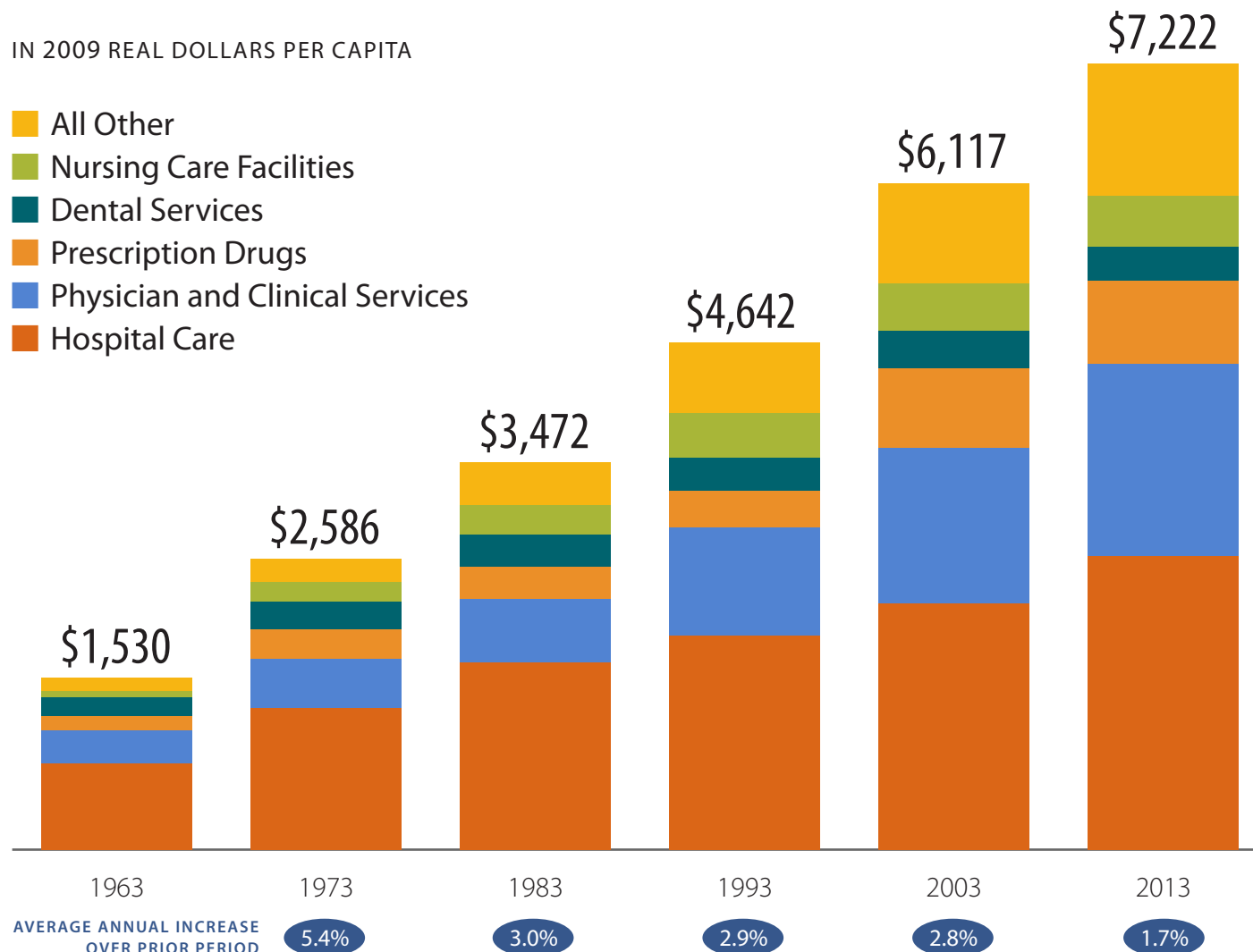
Investment includes research, structures, and equipment.

Personal Health Care Spending, Adjusted for Inflation

United States, 1963 to 2013, Selected Years

IN 2009 REAL DOLLARS PER CAPITA

- All Other
- Nursing Care Facilities
- Dental Services
- Prescription Drugs
- Physician and Clinical Services
- Hospital Care



Notes: Because aggregate categories are deflated using chain-weighted price indexes, the sum of real spending for the deflated categories will not equal the totals. *Personal health care spending* excludes government administration, the net cost of health insurance, research, and investment. For additional detail on spending categories, see Appendix A.

Source: Author calculation using "National Health Expenditure Data", Centers for Medicare & Medicaid Services (CMS), 2014, including unpublished CMS data (complete 1960-2013 series), associated with Table 23, "National Health Expenditures; Nominal Dollars, Real Dollars, Price Indexes, and Annual Percent Change: Selected Calendar Years."

Health Care Costs 101

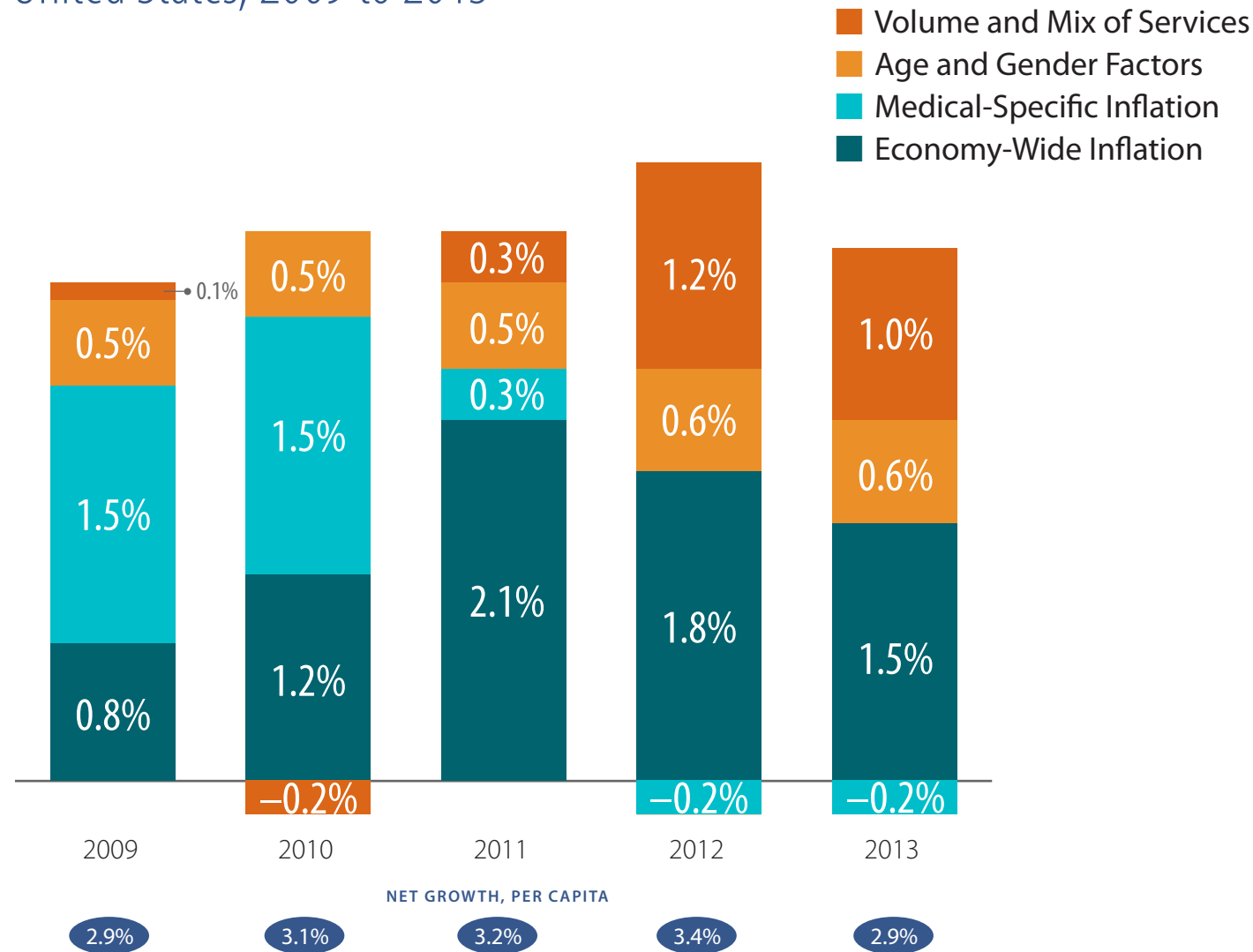
Spending Levels

In inflation-adjusted dollars,* spending grew from \$1,530 per person in 1963 to \$7,222 in 2013, nearly a five-fold increase. Reasons for this growth include changes in prices, the volume and mix of services, technological advances, increase in use of services, and shifts in the age and gender mix of the population.

*Inflation adjustments remove the impact of changes in health care prices. For further information on price deflators, see CMS' *Definitions, Sources, Methods and NHE Deflator Methodology* at www.cms.gov.

Factors Contributing to per Capita Spending Growth

United States, 2009 to 2013



Health Care Costs 101

Spending Levels

Overall growth in per capita spending remained relatively stable from 2009 to 2013. However, the factors contributing to the growth changed. Medical-specific inflation was the largest contributor to the spending growth in 2009 and 2010, but slightly reduced growth in 2012 and 2013.

Notes: Price factors (economy-wide and medical-specific inflation) and nonprice factors (demographic shifts and use and intensity of services) contribute to spending growth. Use and intensity, also referred to as volume and mix of services, was computed as a residual and includes any measurement error. The impact of population growth is removed.

Sources: Anne B. Martin et al., "National Health Spending in 2013: Growth Slows, Remains in Step with the Overall Economy," *Health Affairs* 34, No. 1 (2015): 150-160; unpublished data points related to article's Exhibit 4, Centers for Medicare & Medicaid Services (CMS). Office of the Actuary, National Health Statistics Group.

Health Spending Summary, by Category

United States, 1993 to 2013, Selected Years

	SPENDING LEVEL (IN BILLIONS)			DISTRIBUTION			GROWTH RATE*	
	1993	2012	2013	1993	2012	2013	1993-2013	2012-2013
National Health Expenditures	\$921.5	\$2,817.3	\$2,919.1	100%	100%	100%	5.9%	3.6%
Hospital Care	315.7	898.5	936.9	34%	32%	32%	5.6%	4.3%
Physician and Clinical Services	202.7	565.3	586.7	22%	20%	20%	5.5%	3.8%
Dental Services	39.2	110.0	111.0	4%	4%	4%	5.3%	0.9%
Other Professional Services	23.2	76.8	80.2	3%	3%	3%	6.4%	4.5%
Nursing Care Facilities	56.0	152.2	155.8	6%	5%	5%	5.2%	2.4%
Home Health Care	22.8	77.1	79.8	2%	3%	3%	6.5%	3.4%
Other Health Care	34.0	140.1	148.2	4%	5%	5%	7.6%	5.8%
Prescription Drugs	49.6	264.4	271.1	5%	9%	9%	8.9%	2.5%
Other Medical Products	37.9	95.0	98.9	4%	3%	3%	4.9%	4.1%
Net Cost of Health Insurance	43.1	165.3	173.6	5%	6%	6%	7.2%	5.0%
Government Administration	9.2	34.2	37.0	1%	1%	1%	7.2%	8.2%
Public Health Activities	26.8	74.8	75.4	3%	3%	3%	5.3%	0.8%
Investment	61.2	163.7	164.6	7%	6%	6%	5.1%	0.5%

*Growth rate for 1993-2013 is average annual; 2012-2013 is the increase of 2013 over 2012 levels.

Notes: *Health spending* refers to national health expenditures. For additional detail on spending categories, see Appendix A. Further definitions available at www.cms.gov.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Spending Levels

Health spending in 2013 grew at a slower pace than the average annual growth rate over the last 20 years. Spending on prescription drugs and dental services slowed substantially. Hospital care and physician and clinical services remained the largest categories of spending, although their combined share has slipped from 56% to 52% from 1993 to 2013.

SPENDING CATEGORY DEFINITIONS

Government administration includes the administrative costs of government health care programs such as Medicare and Medicaid.

Net cost of health insurance reflects the difference between benefits and premiums for private insurance and includes administrative expenses, premium taxes, and profits.

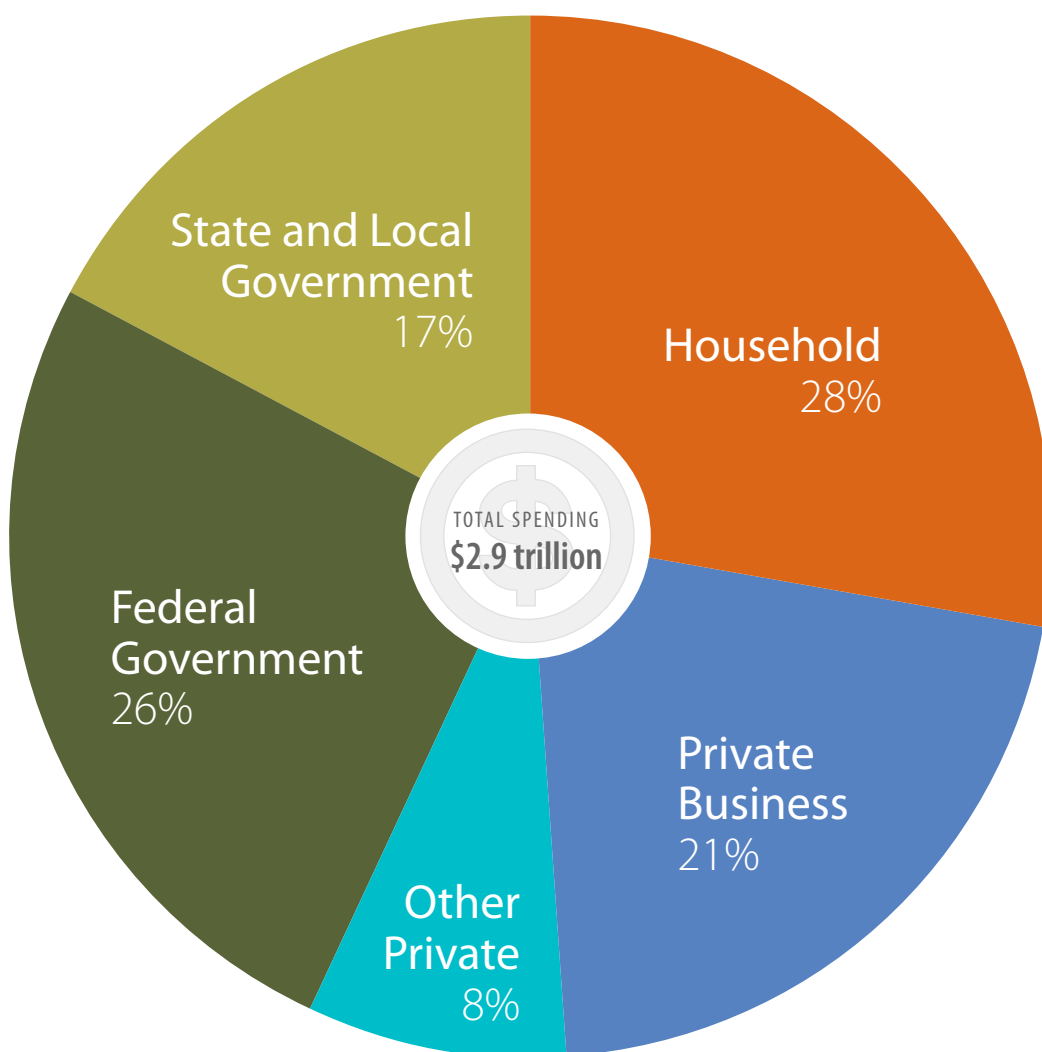
Other health care refers to the category other health, residential, and personal care.

Other medical products refers to durable medical equipment and nondurable medical products.

Investment includes research, structures, and equipment.

Health Spending Distribution, by Sponsor

United States, 2013



Notes: *Health spending* refers to national health expenditures. *Sponsors* are the entities that are ultimately responsible for financing the health care bill. Figures may not sum due to rounding. See page 16 for trend data.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Sponsors

Sponsors finance the nation's health care bill by paying insurance premiums, out-of-pocket expenses, and payroll taxes, or by directing general tax revenues to health care. In 2013, households were the largest sponsors of health spending.

SPONSOR DEFINITIONS

Federal government sponsors health care via general tax revenues, plus payroll tax and employer contributions to health insurance premiums for workers.

Households sponsor health care through out-of-pocket costs, health insurance premiums, and payroll taxes.

Other private contributions include philanthropy, privately funded structures and equipment, and investment income.

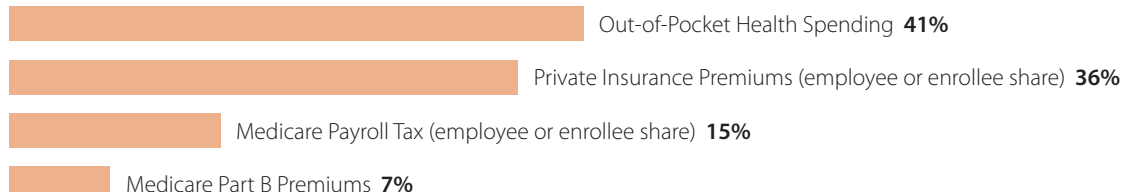
Private business sponsors health care through employer contributions to health insurance premiums and payroll taxes.

State and local government sponsors health care programs and pays payroll taxes and health insurance premiums for its workers.

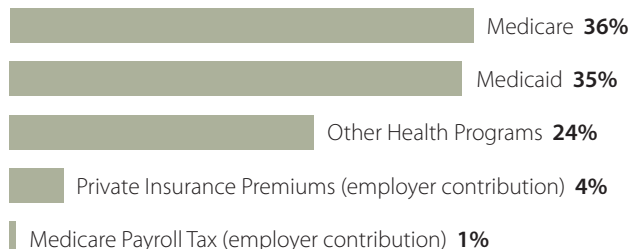
Health Spending Distribution, Sponsor Detail

United States, 2013

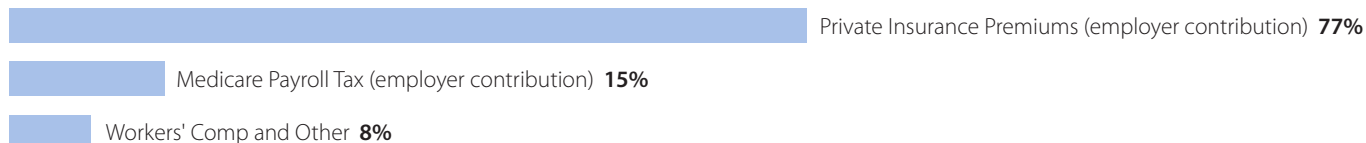
Households \$823.8



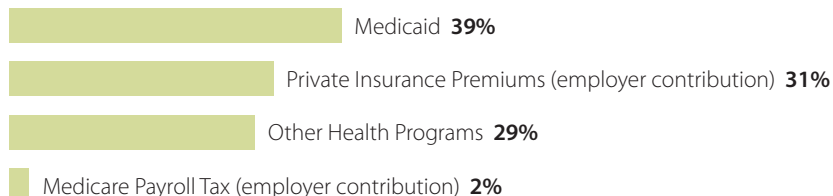
Federal Government \$757.5



Private Business \$610.9



State and Local Government \$508.8



Notes: *Health spending* refers to national health expenditures. *Sponsors* are the entities that are ultimately responsible for financing the health care bill. *Other health programs* includes Department of Defense and Veterans Affairs health care, maternal and child health, and Children's Health Insurance Program (CHIP). Not shown: other private revenues (\$218.1 billion), which includes philanthropy, investment income, and private investment in research, structures, and equipment. Medicaid buy-in premiums for Medicare are reflected under Medicaid. Figures may not sum due to rounding.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

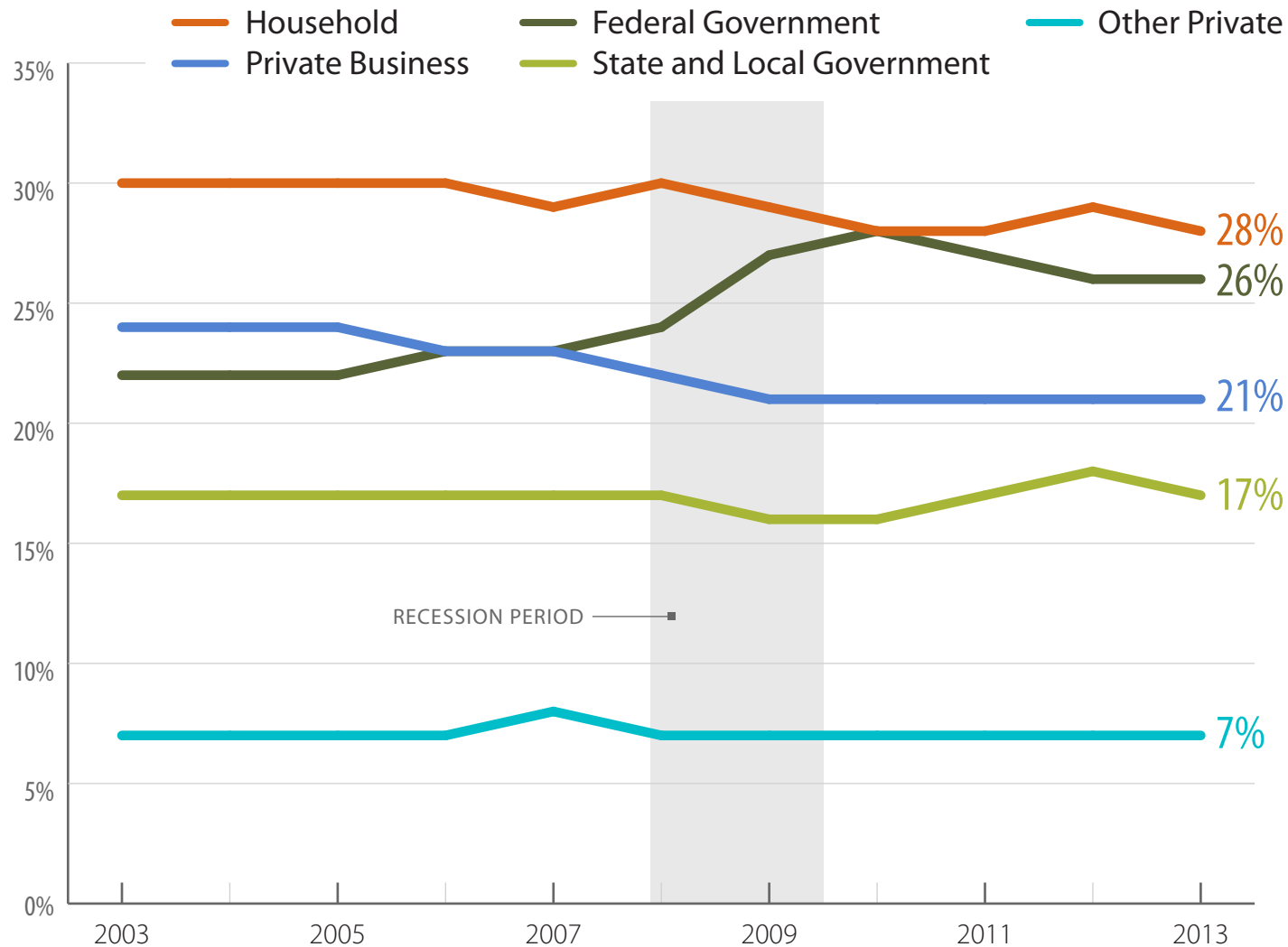
Health Care Costs 101

Sponsors

The majority of private business spending on health care consisted of employer contributions to workers' insurance premiums (77%). In contrast, households spent the most on out-of-pocket items — copays, coinsurance, and items not covered by insurance — while private insurance premiums (36%) represented their second-largest expense.

Health Spending Distribution, by Sponsor

United States, 2003 to 2013



Notes: *Health spending* refers to national health expenditures. *Sponsors* are the entities that are ultimately responsible for financing the health care bill. Figures may not sum due to rounding.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Sponsors

Between 2007 and 2010, the federal government's sponsorship of health care increased from 23% of spending to 28%. Since then, the share has decreased primarily due to the expiration of enhanced Medicaid payments to states.

Health Spending Summary, by Sponsor

United States, 1993 to 2013, Selected Years

	SPENDING LEVEL (IN BILLIONS)			DISTRIBUTION			GROWTH RATE*	
	1993	2012	2013	1993	2012	2013	1993-2013	2012-2013
National Health Expenditures	\$921.5	\$2,817.3	\$2,919.1	100%	100%	100%	5.9%	3.6%
Household	291.0	801.5	823.8	32%	28%	28%	5.3%	2.8%
Private Business	220.3	587.3	610.9	24%	21%	21%	5.2%	4.0%
Federal Government	193.6	731.5	757.5	21%	26%	26%	7.1%	3.5%
State and Local Government	145.6	493.1	508.8	16%	18%	17%	6.5%	3.2%
Other Private Revenue	71.0	203.9	218.1	8%	7%	7%	5.8%	7.0%

*Growth rate for 1993-2013 is average annual; 2012-2013 is the increase of 2013 over 2012 levels.

Notes: *Health spending* refers to national health expenditures. *Sponsors* are the entities that are ultimately responsible for financing the health care bill. Figures may not sum due to rounding.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

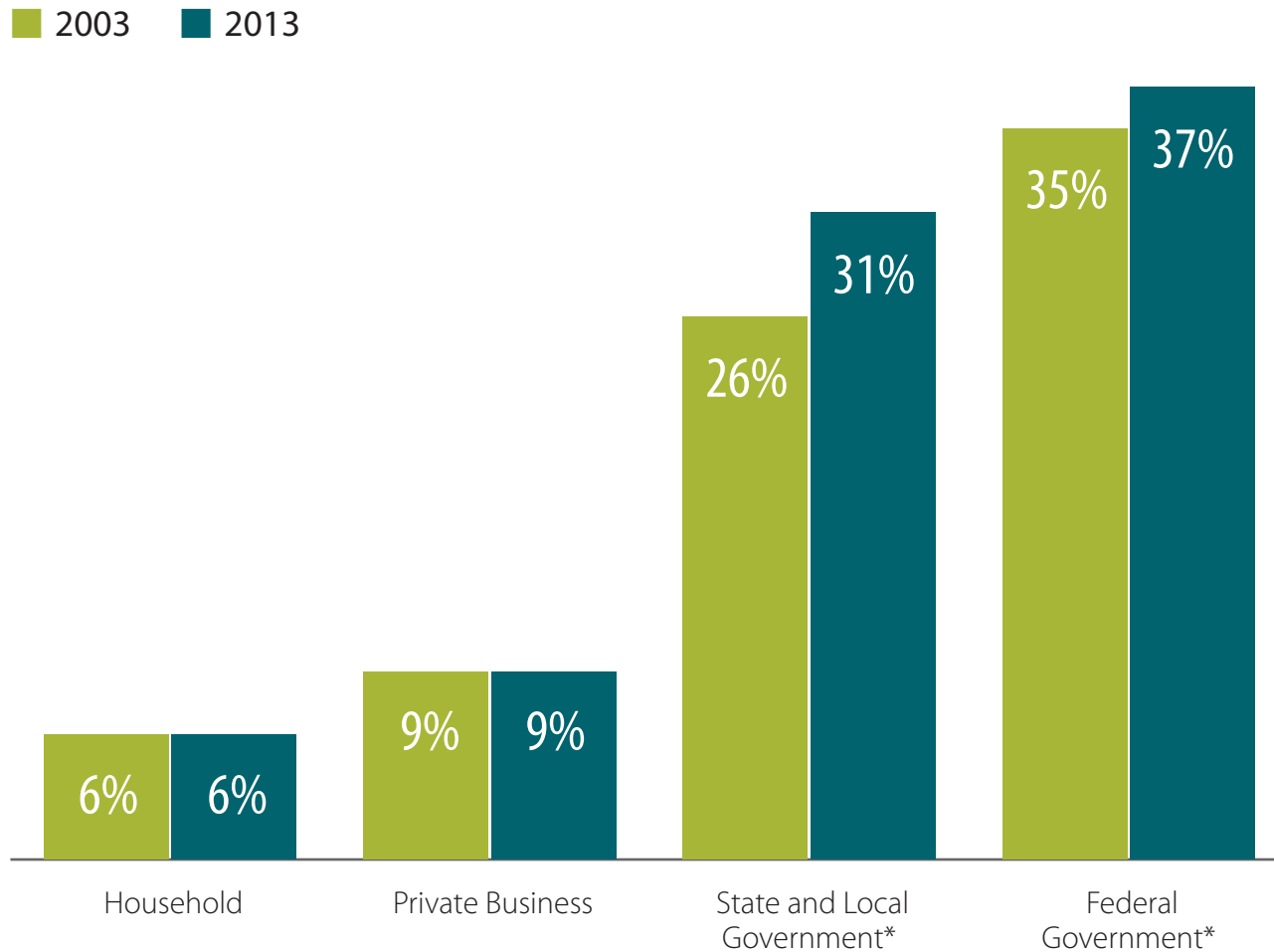
Health Care Costs 101

Sponsors

In 2013, overall health spending grew by 3.6%, a slower rate than the 5.9% average annual growth of the past 20 years. Over the past two decades, federal government sponsorship nearly quadrupled and had the highest annual growth (7.1%) due to an increase in spending on Medicare.

Health Care's Consumption of Sponsor Resources

United States, 2003 vs. 2013



*Government revenues are receipts minus contributions for government social insurance; due to borrowing, federal government revenues are less than outlays.

Notes: Health care's share of federal spending has declined sharply since its 2009 peak of 54%. Sponsors are the entities that are ultimately responsible for financing the health care bill.

Source: "National Health Expenditures by Type of Sponsor: Business, Households, and Governments," Centers for Medicare & Medicaid Services (CMS), 2013.

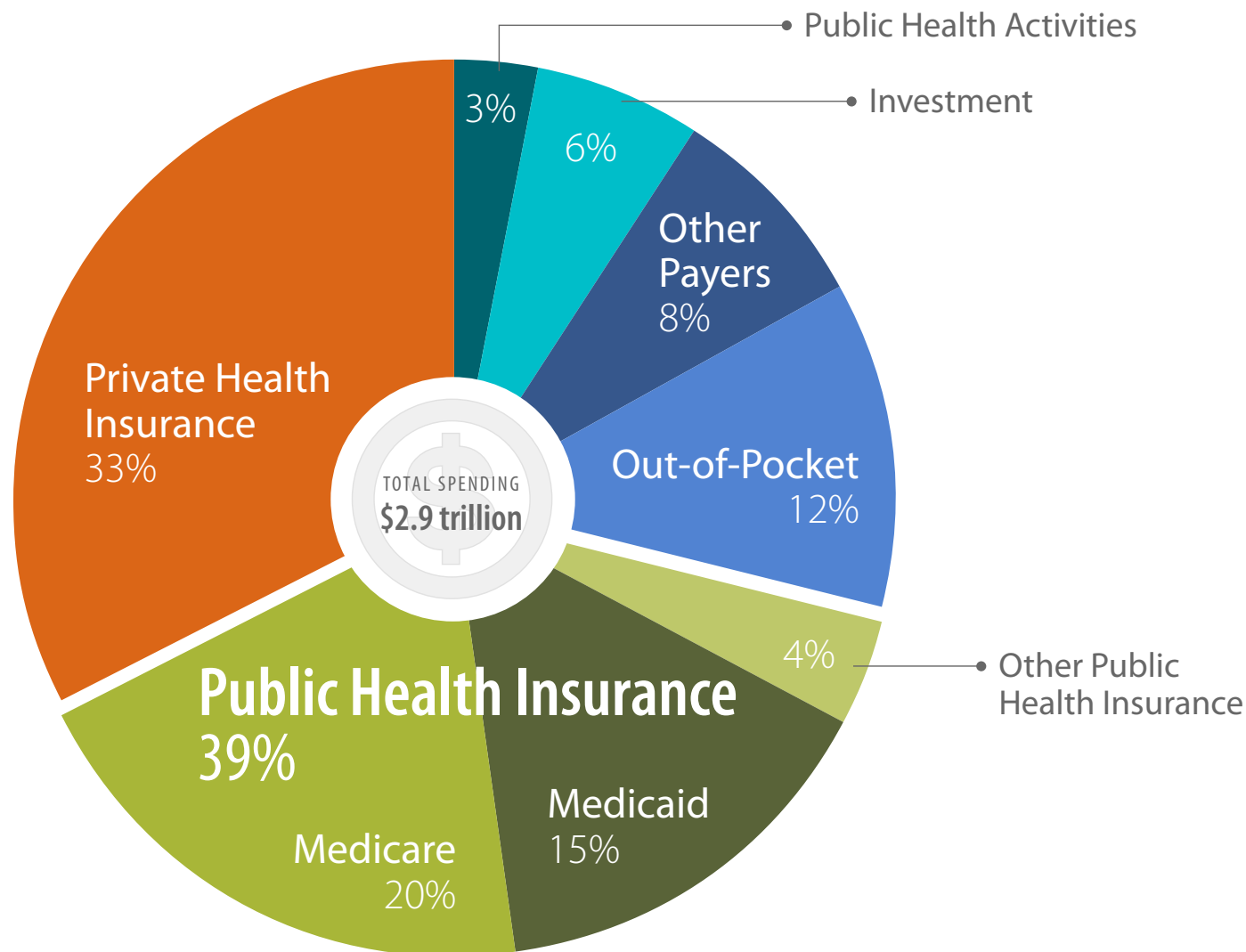
Health Care Costs 101

Sponsors

In 2013 health care consumed a larger share of state and local government revenues than it did a decade earlier.

Health Spending Distribution, by Payer

United States, 2013



Notes: *Health spending* refers to national health expenditures. See page 20 for historical distribution. Figures may not sum due to rounding.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Payment Sources

In 2013 public insurance paid for the largest share of health care costs (39%). Private health insurance paid for 33% of health spending, while consumers' out-of-pocket spending accounted for 12%.

PAYER DEFINITIONS

Other payers includes worksite health care, Indian Health Services, workers' compensation, maternal and child health, and vocational rehabilitation.

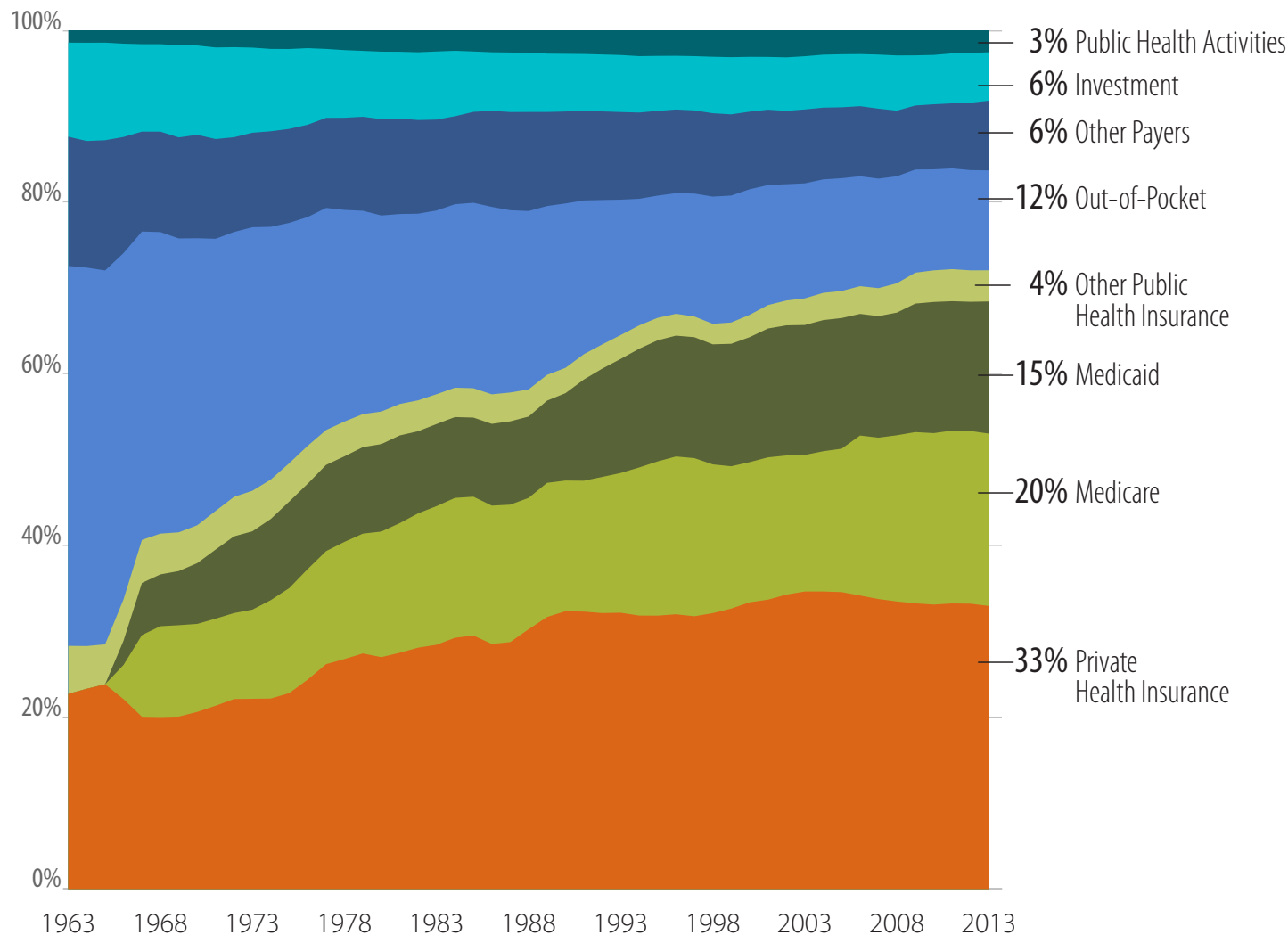
Other public health insurance includes Departments of Defense and Veterans Affairs health care and the Children's Health Insurance Program (CHIP).

Out-of-pocket includes consumer spending on copays, deductibles, and goods and care not covered by insurance; it does not include premiums.

Investment includes research, structures, and equipment.

Payment Sources

United States, 1963 to 2013



Note: *Health spending* refers to national health expenditures. Segments may not total 100% due to rounding.
Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Payment Sources

Out-of-pocket spending, as a share of all health spending, has shrunk dramatically over time as the share of spending by Medicare and Medicaid has expanded. The distribution of spending among payers has remained relatively stable since 2009.

PAYER DEFINITIONS

Other payers includes worksite health care, Indian Health Services, workers' compensation, maternal and child health, and vocational rehabilitation.

Other public health insurance includes Departments of Defense and Veterans Affairs health care and the Children's Health Insurance Program (CHIP).

Out-of-pocket includes consumer spending on copays, deductibles, and goods and care not covered by insurance; it does not include premiums.

Health Spending Distribution, by Payer

United States, 2013 to 2023, Selected Years

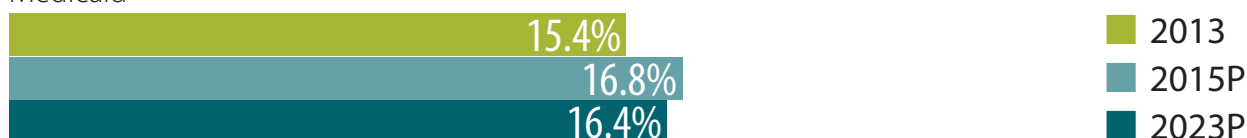
Private Health Insurance



Medicare



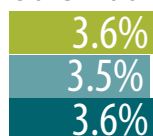
Medicaid



Out-of-Pocket



Other Public Health Insurance



■ 2013
■ 2015P
■ 2023P

Health Care Costs 101

Payment Sources

The 2015 share of out-of-pocket spending is projected to decrease slightly as private insurance and Medicaid's share of spending increases. This is due, in part, to increased enrollment as a result of the Affordable Care Act (ACA). In the longer term, the aging of the population will increase Medicare's share of spending.

Notes: *Health spending* refers to national health expenditures. Projections shown as *P*. The following payers are not shown: other payers, public health activities, and investment, which totaled 16.3%, 15.5%, and 15.3% in 2013, 2015P, and 2023P, respectively.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014 (historical) and 2015 (projections), www.cms.gov.

Health Spending Summary, by Payer

United States, 2013

	SPENDING LEVEL (IN BILLIONS)			DISTRIBUTION			GROWTH RATE*	
	1993	2012	2013	1993	2012	2013	1993-2013	2012-2013
National Health Expenditures	\$921.5	\$2,817.3	\$2,919.1	100%	100%	100%	5.9%	3.6%
Out-of-Pocket	145.3	328.8	339.4	16%	12%	12%	4.3%	3.2%
Private Health Insurance	296.3	935.7	961.7	32%	33%	33%	6.1%	2.8%
Medicare	150.0	566.6	585.7	16%	20%	20%	7.0%	3.4%
Medicaid	122.4	423.7	449.4	13%	15%	15%	6.7%	6.1%
Other Public Health Insurance	25.6	103.1	106.1	3%	4%	4%	7.4%	2.9%
Other Payers	94.0	220.9	236.8	10%	8%	8%	4.7%	7.2%
Public Health Activities	26.8	74.8	75.4	3%	3%	3%	5.3%	0.8%
Investment	61.2	163.7	164.6	7%	6%	6%	5.1%	0.5%

*Growth rate for 1993-2013 is average annual; 2012-2013 is the increase of 2013 over 2012 levels.

Notes: *Health spending* refers to national health expenditures. Figures may not sum due to rounding.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Payment Sources

For most payers, spending growth was slower in 2013 than the average annual spending over the past 20 years. Between 1993 and 2013, the share of out-of-pocket spending fell, while the share of spending by Medicare and Medicaid increased.

PAYER DEFINITIONS

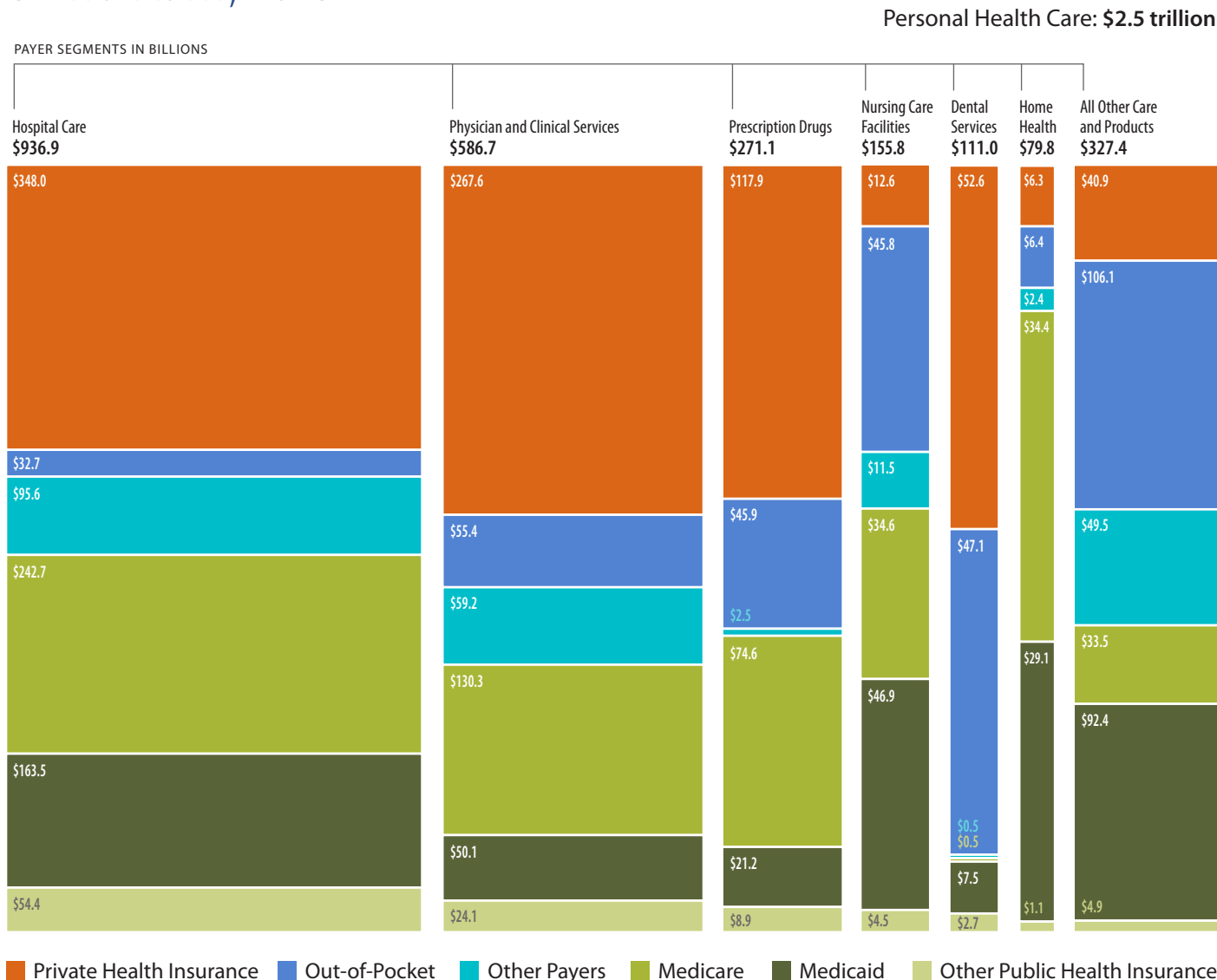
Other payers includes worksite health care, Indian Health Services, workers' compensation, maternal and child health, and vocational rehabilitation.

Other public health insurance includes Departments of Defense and Veterans Affairs health care and the Children's Health Insurance Program (CHIP).

Out-of-pocket includes consumer spending on copays, deductibles, and goods and care not covered by insurance; it does not include premiums.

Payer Mix, by Service Category

United States, 2013



Notes: *All other care and products* consists of durable medical equipment, nondurable medical products, other professional services, and other health, residential, and personal care. Segments may not sum due to rounding. For additional detail on spending categories, see Appendix A. Further definitions available at www.cms.gov.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Payment Sources

Private insurance paid for approximately 45% of physician services and prescription drugs, while Medicare and Medicaid paid for the majority of home health care. A substantial portion of spending on dental services was paid for out-of-pocket by consumers.

For an interactive look at how the payer mix by service category has changed over time, visit www.chcf.org/hcc101.

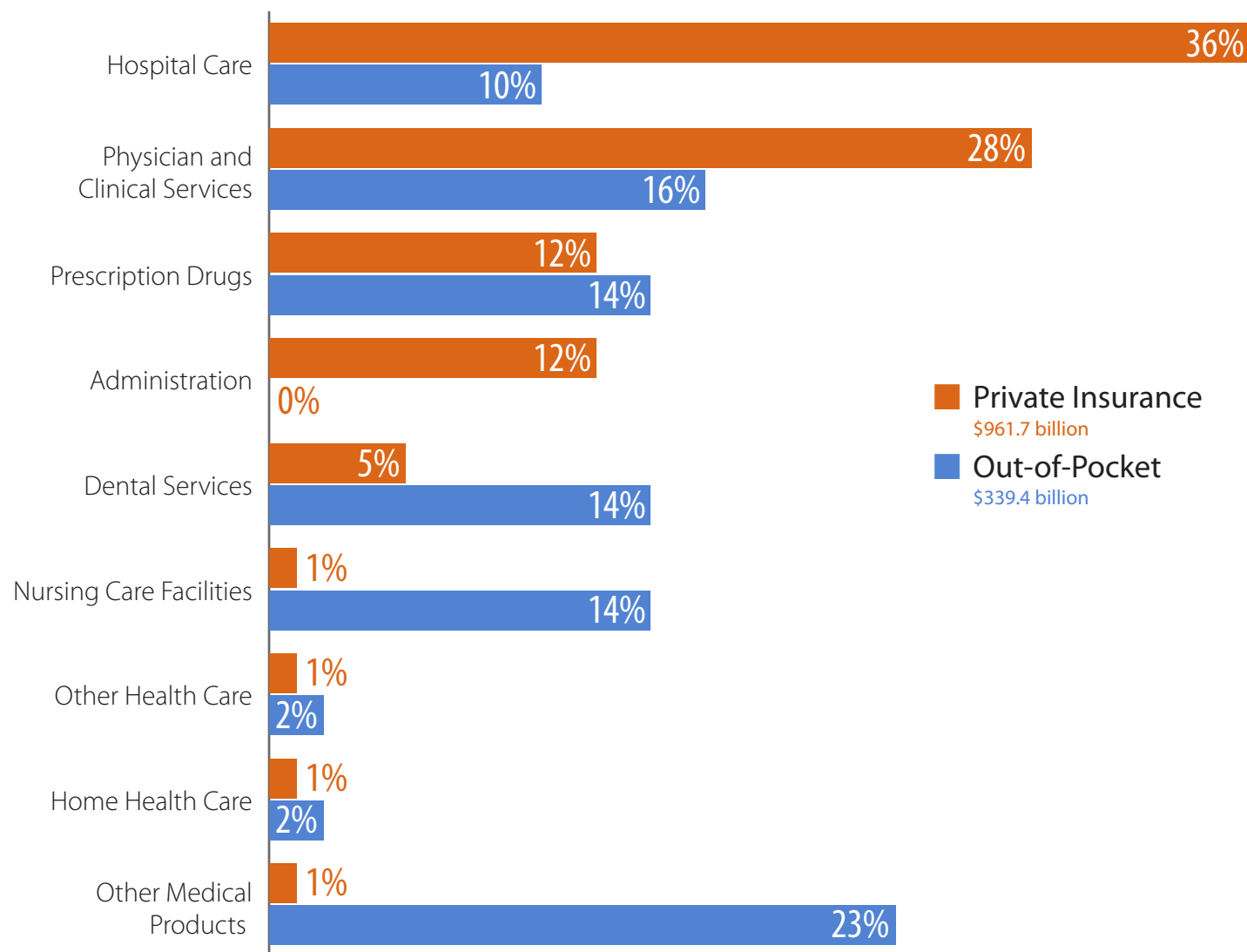
PAYER DEFINITIONS

Other payers includes worksite health care, Indian Health Services, workers' compensation, maternal and child health, and vocational rehabilitation.

Other public health insurance includes Departments of Defense and Veterans Affairs health care and the Children's Health Insurance Program (CHIP).

Out-of-pocket includes consumer spending on copays, deductibles, and goods and care not covered by insurance; it does not include premiums.

Spending Distribution, Private Insurance vs. Out-of-Pocket United States, 2013



Notes: *Health spending* refers to national health expenditures. Not shown: other professional services (3% of private health insurance and 6% of out-of-pocket). For additional detail on spending categories, see Appendix A. Further definitions available at www.cms.gov.
Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Payment Sources

Hospital care was the largest expense category for private health insurance, accounting for 36% of total private insurance spending. In contrast, other medical products, which includes items such as eyeglasses and over-the-counter medications, was the largest category for out-of-pocket spending.

SPENDING CATEGORY DEFINITIONS

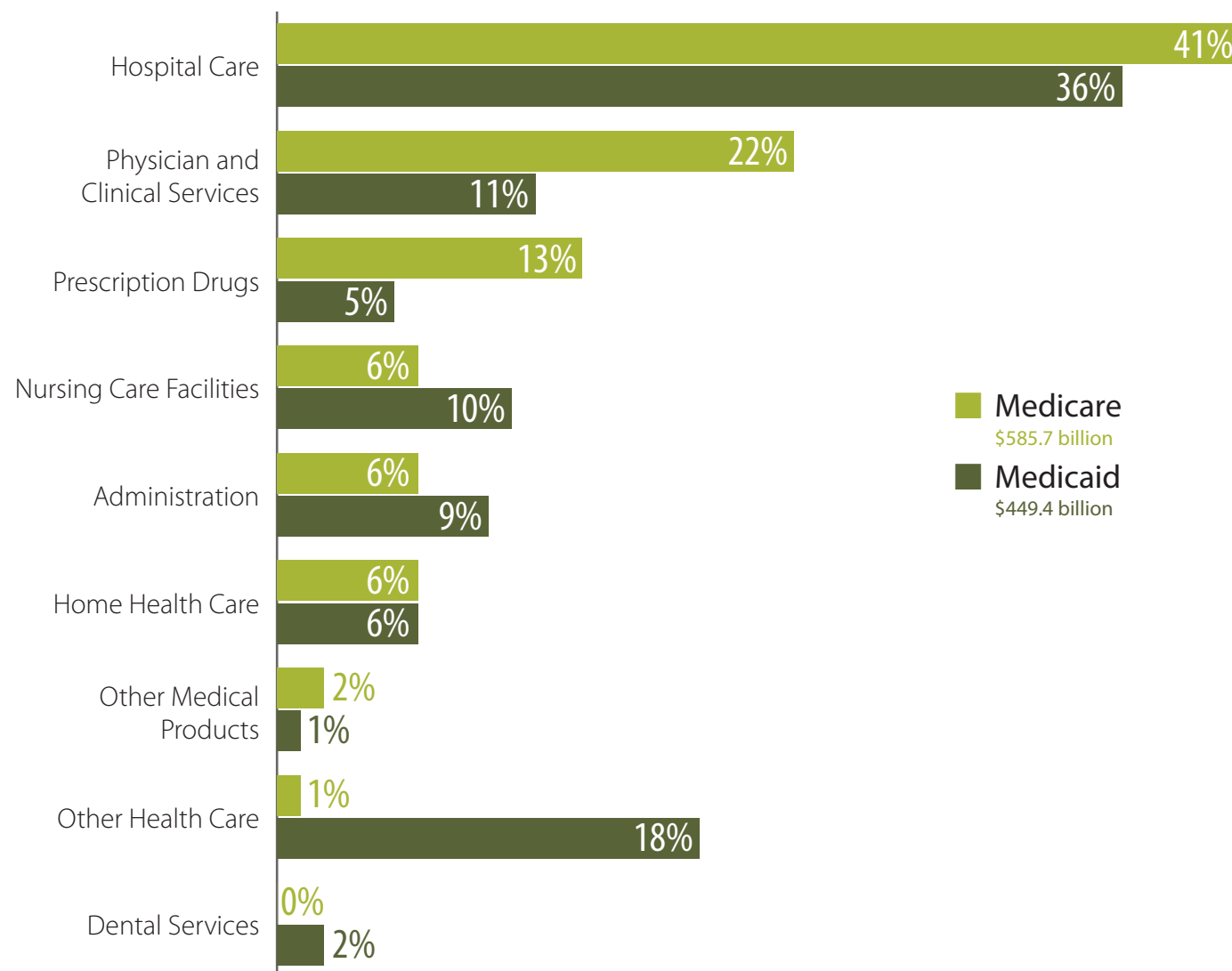
Administration includes the administrative costs of government health care programs such as Medicare and Medicaid as well as the net cost of health insurance.

Other health care refers to the category other health, residential, and personal care.

Other medical products refers to durable medical equipment and nondurable medical products.

Spending Distribution, Medicare vs. Medicaid

United States, 2013



Notes: *Health spending* refers to national health expenditures. Not shown: other professional services (3% Medicare; 1% Medicaid). For additional detail on spending categories, see Appendix A. Further definitions available at www.cms.gov. Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Payment Sources

The largest expense category for both Medicare and Medicaid was hospital care. Medicaid's second-largest spending category, at \$82 billion or 18% of spending, was other health care, which includes the Medicaid home and community-based waiver programs that provide care alternatives for those who would otherwise require long-term institutional services.

SPENDING CATEGORY DEFINITIONS

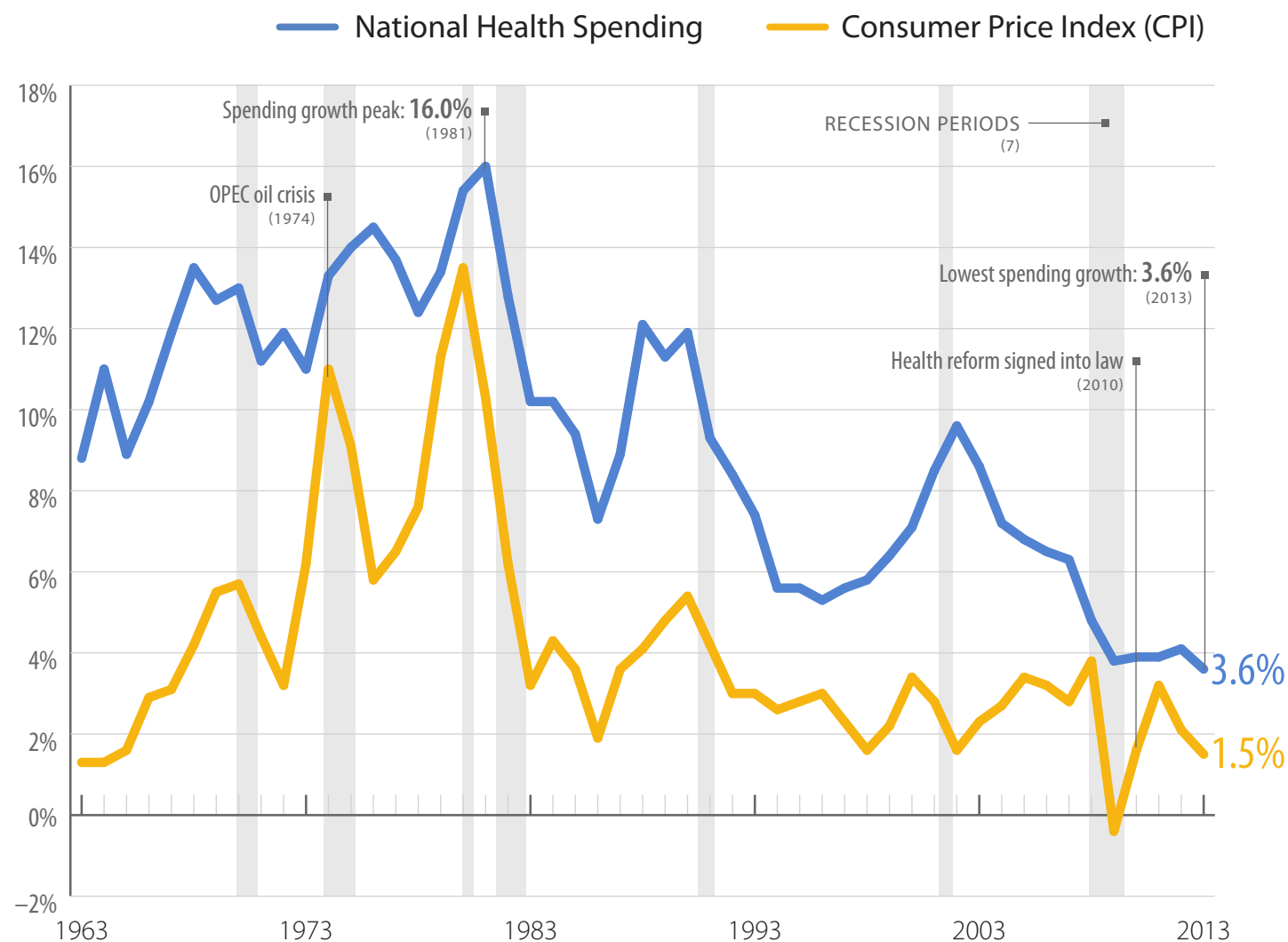
Administration includes the administrative costs of government health care programs such as Medicare and Medicaid as well as the net cost of health insurance.

Other health care refers to the category other health, residential, and personal care.

Other medical products refers to durable medical equipment and nondurable medical products.

Annual Growth Rates, Health Spending vs. Inflation

United States, 1963 to 2013



Notes: Health spending refers to national health expenditures. Growth in per capita health spending in 2012 (2.9%) was also greater than inflation (1.5%).

Sources: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov; CPI-U, US city average, annual figures, Bureau of Labor Statistics.

Health Care Costs 101

Growth Trends

Over the past 50 years, health spending growth has consistently outpaced inflation. This gap persists, even though recent increases in health spending have been at record lows.*

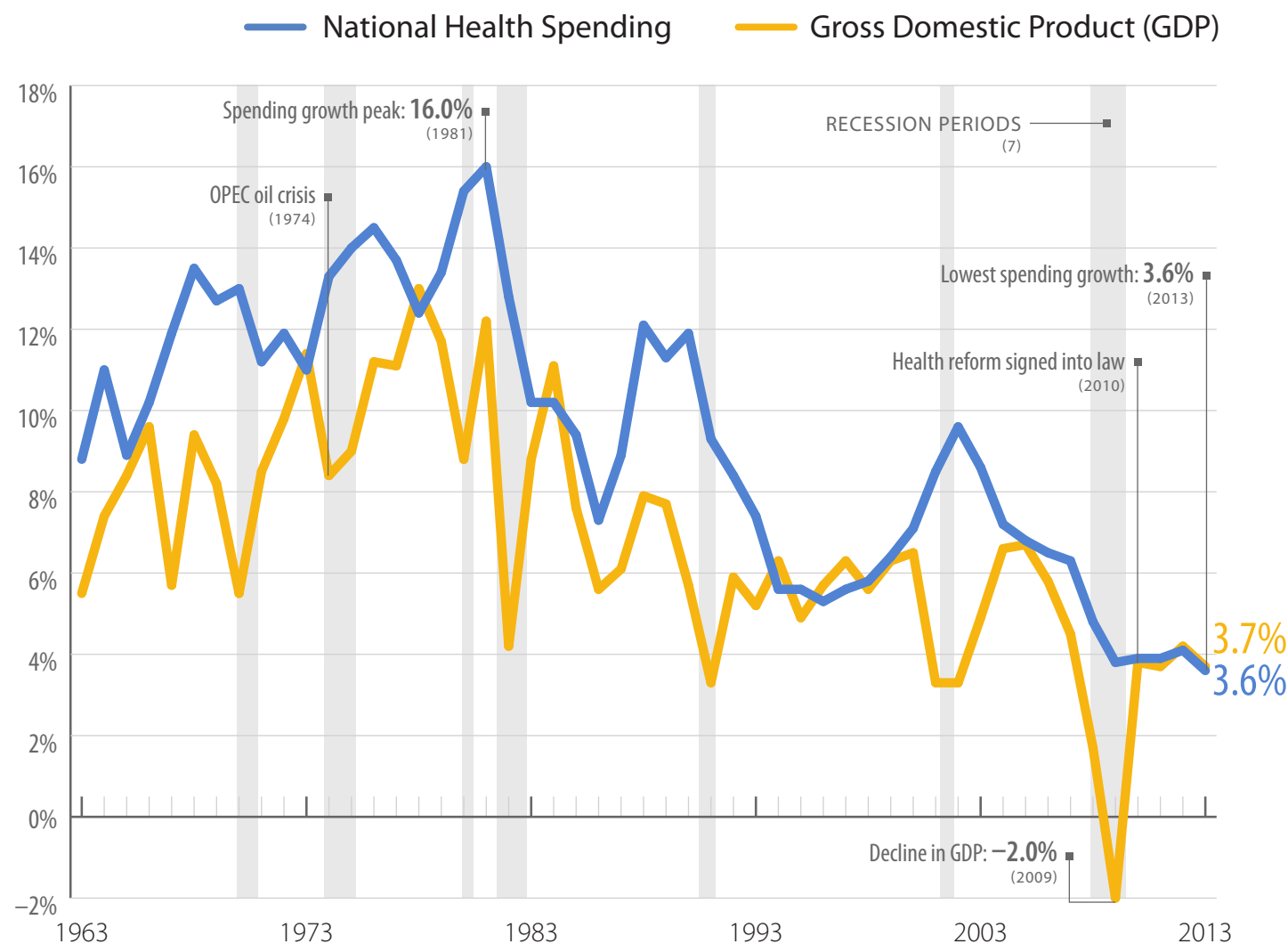
*See page 12 for detail on the components of health spending growth.

Annual Growth Rates, Health Spending vs. the Economy United States, 1963 to 2013

Health Care Costs 101

Growth Trends

Health spending and the overall economy experienced similar growth rates from 2010 to 2013. This was a result of low health care spending growth coinciding with economic recovery.

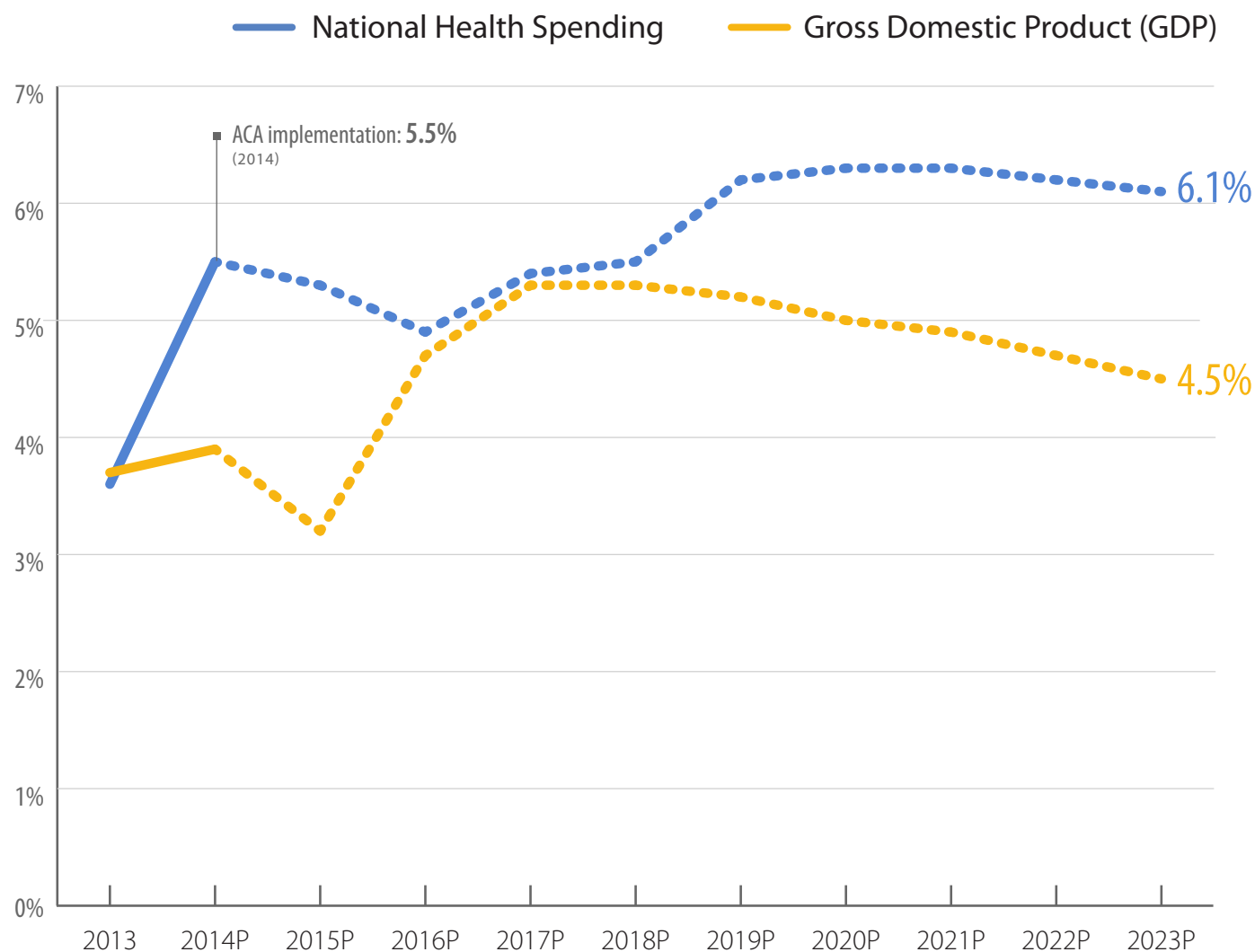


Notes: Health spending refers to national health expenditures. See page 28 for projected growth rates.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Annual Growth Projections, Health Spending vs. the Economy

United States, 2013 to 2023



Note: Health spending refers to national health expenditures. Projections shown as P.

Source: "National Health Expenditure Data, Projected," Centers for Medicare & Medicaid Services (CMS), 2015, www.cms.gov.

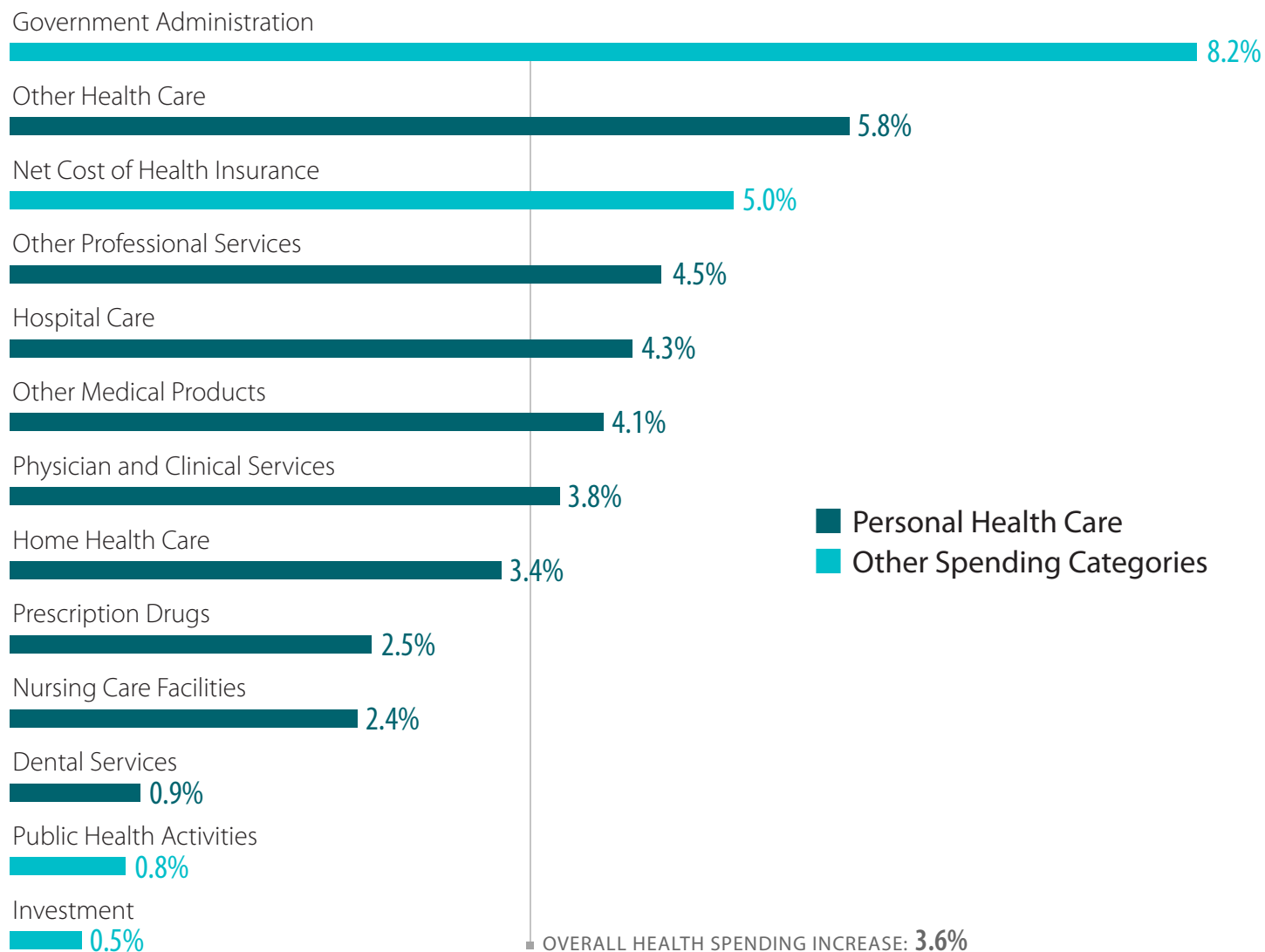
Health Care Costs 101

Growth Trends

Between 2014 and 2023, health spending is projected to increase at an average annual rate of 5.8%, compared to the expected 4.7% growth in gross domestic product (GDP). Based on these projections, health spending is expected to reach 19.3% of GDP in 2023.

Growth Rates, by Spending Category

United States, 2013



Notes: For additional detail on spending categories, see Appendix A. Further definitions available at www.cms.gov.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Growth Trends

Administrative costs of government health programs, such as Medicare and Medicaid, had the largest growth of all spending categories in 2013. The slow growth in the investment category was due to declining spending in noncommercial research by nonprofits and government entities.

SPENDING CATEGORY DEFINITIONS

Other health care refers to the category other health, residential, and personal care.

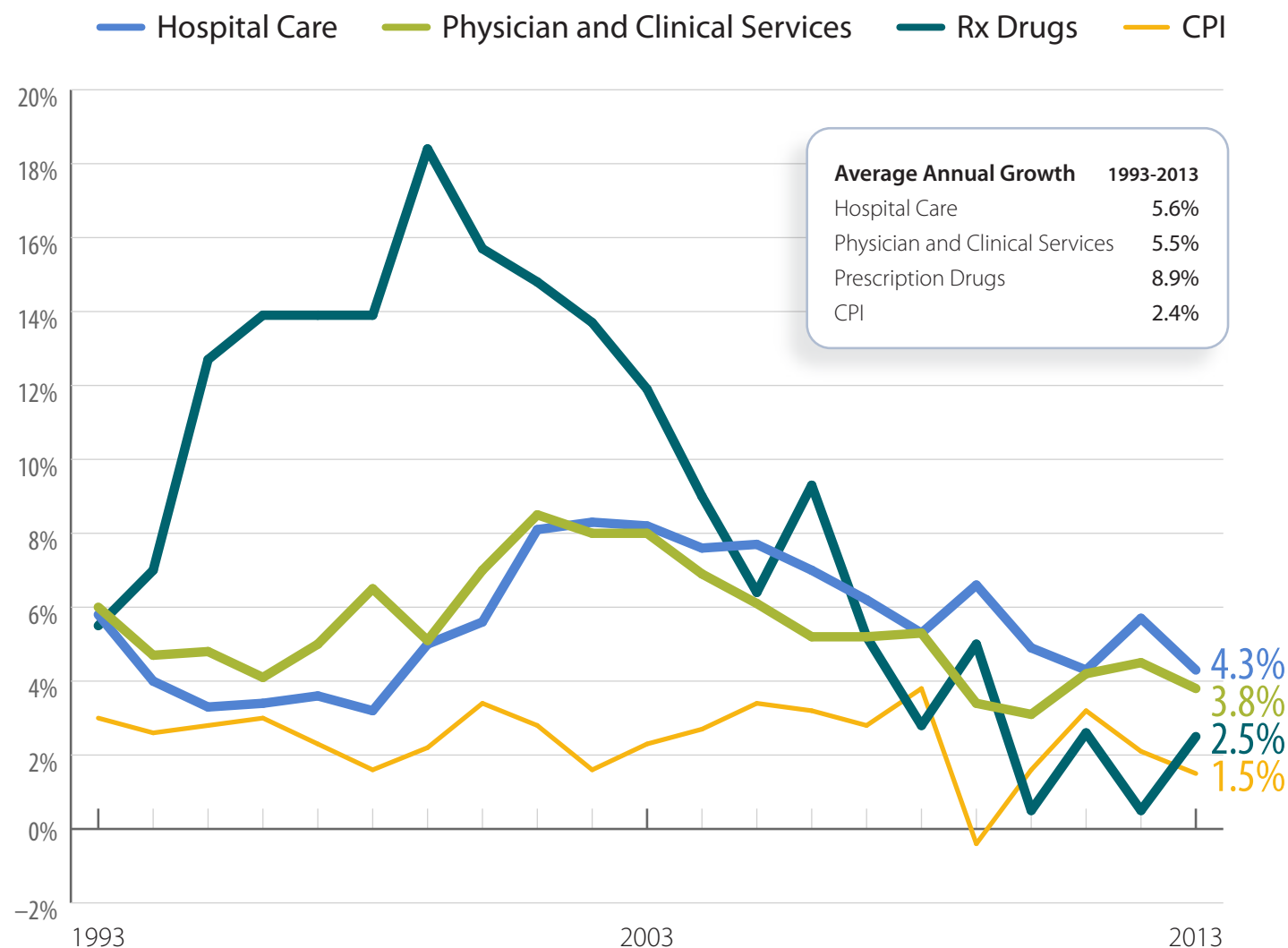
Other medical products refers to durable medical equipment and nondurable medical products.

Other professional services consists of care provided in establishments operated by health care providers other than physicians or dentists, such as chiropractors, podiatrists, and speech therapists.

Government administration includes the administrative costs of health care programs such as Medicare and Medicaid.

Annual Growth Rates, Largest Spending Categories

United States, 1993 to 2013



Notes: Health spending refers to national health expenditures. CPI is Consumer Price Index.

Sources: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov; CPI-U, US city average, annual figures, Bureau of Labor Statistics.

Health Care Costs 101

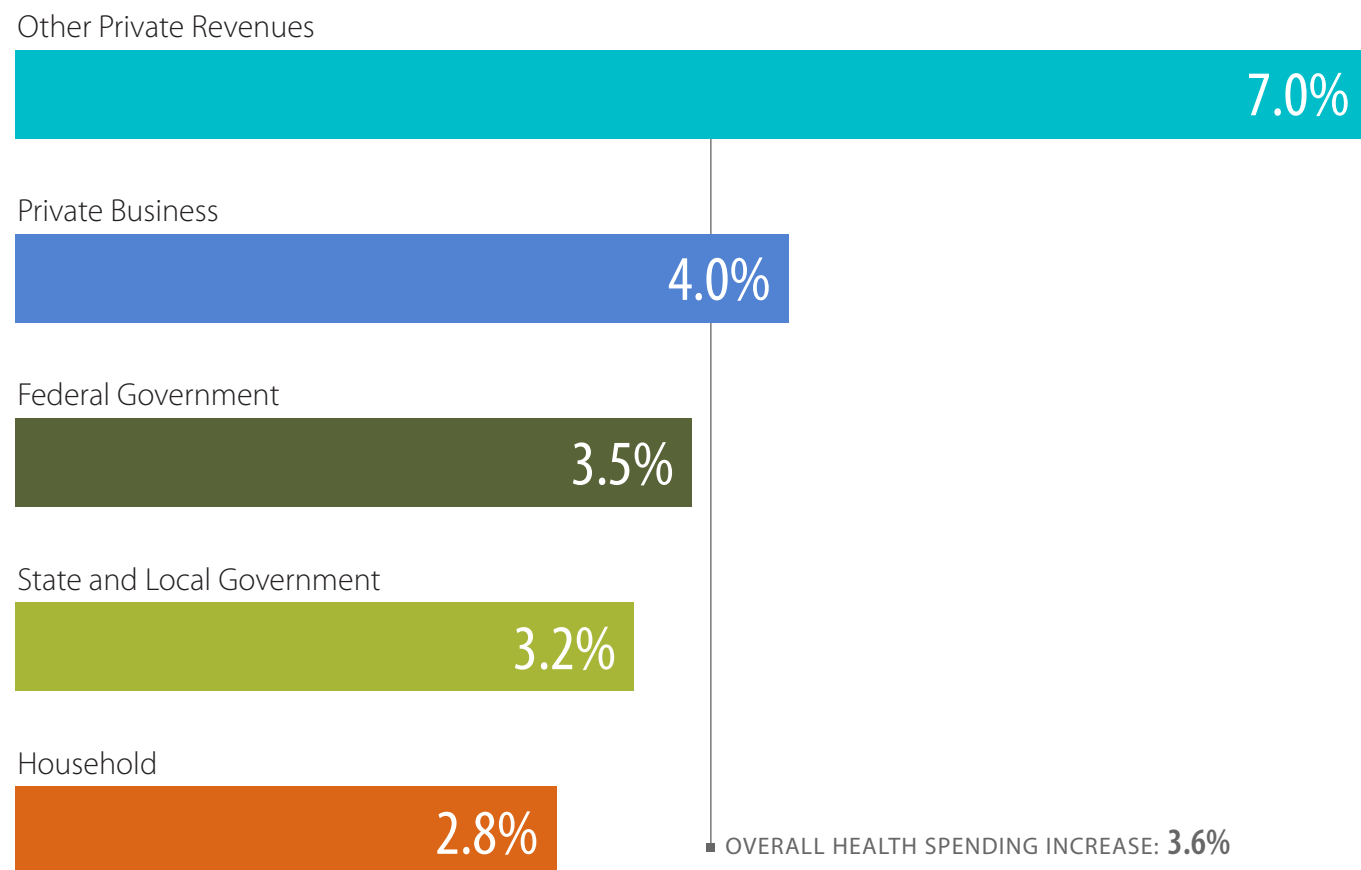
Growth Trends

Growth in the three largest health spending categories, especially prescription drugs, has slowed in recent years. Drug spending's peak growth in 1999, and its record low growth in 2012, are tied to the lifecycles of popular brand-name patented drugs.* This trend, however, is not expected to continue as prescription drug spending is projected to have an average annual increase of 6.4% over the next 10 years (not shown).

*Including Lipitor, Plavix, and Singulair.

Annual Growth in Health Spending, by Sponsor

United States, 2013



Health Care Costs 101

Growth Trends

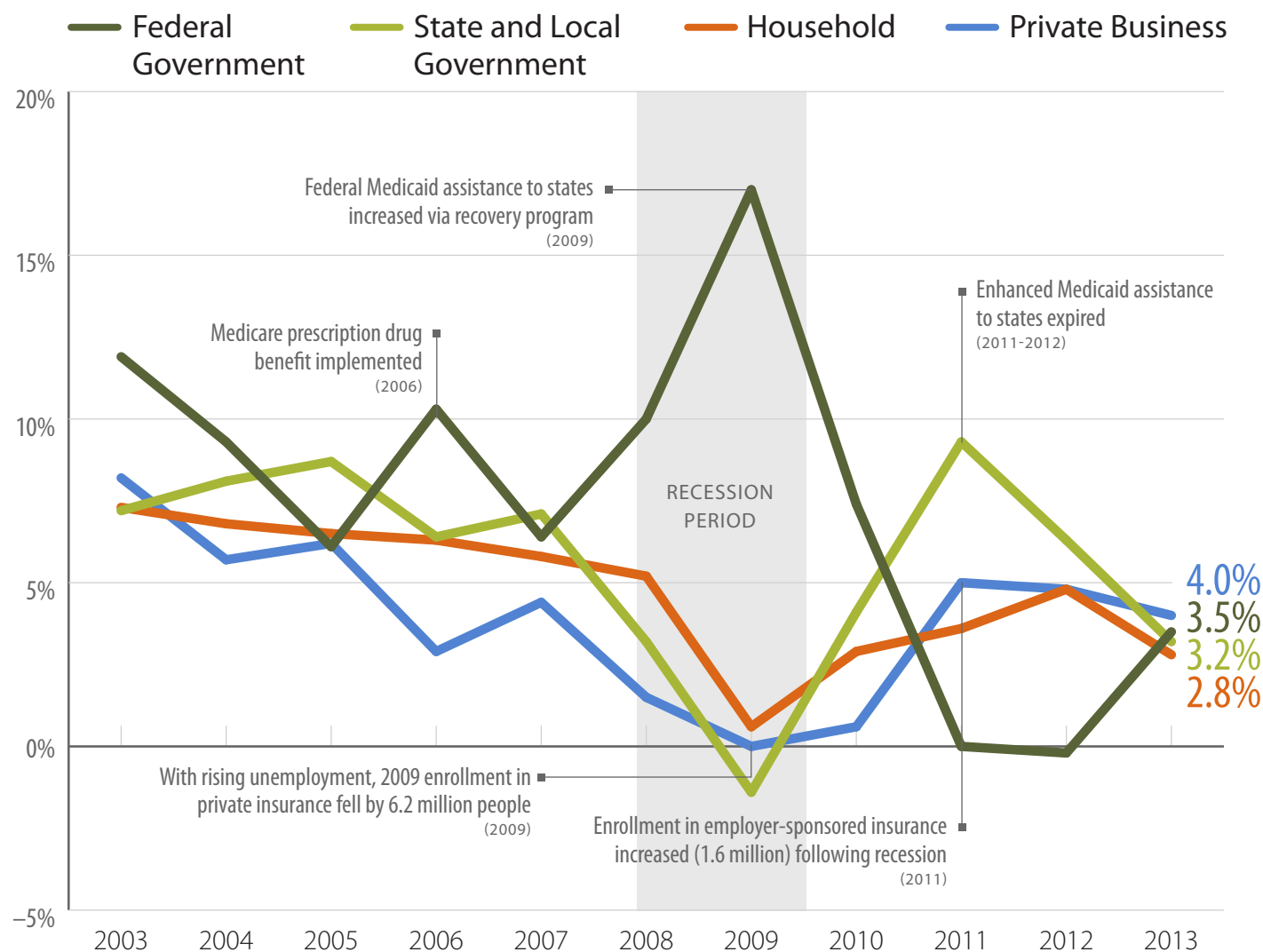
Health spending by the “other private revenues” sponsor category, which includes philanthropy, investment income, and structures and equipment that are privately funded, increased by 7% in 2013. Spending by households grew the slowest, due in part to low rates of growth in employee contributions for premiums.

Notes: *Health spending* refers to national health expenditures. *Sponsors* are the entities that are ultimately responsible for financing the health care bill. *Other private revenues* includes philanthropy, privately funded structures and equipment, and investment income. See page 14 for detail on how sponsors finance health care spending.

Source: “National Health Expenditure Data,” Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Annual Growth in Health Spending, by Sponsor

United States, 2003 to 2013



Notes: Health spending refers to national health expenditures. Sponsors are the entities that are ultimately responsible for financing the health care bill. Not shown: other private revenues.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

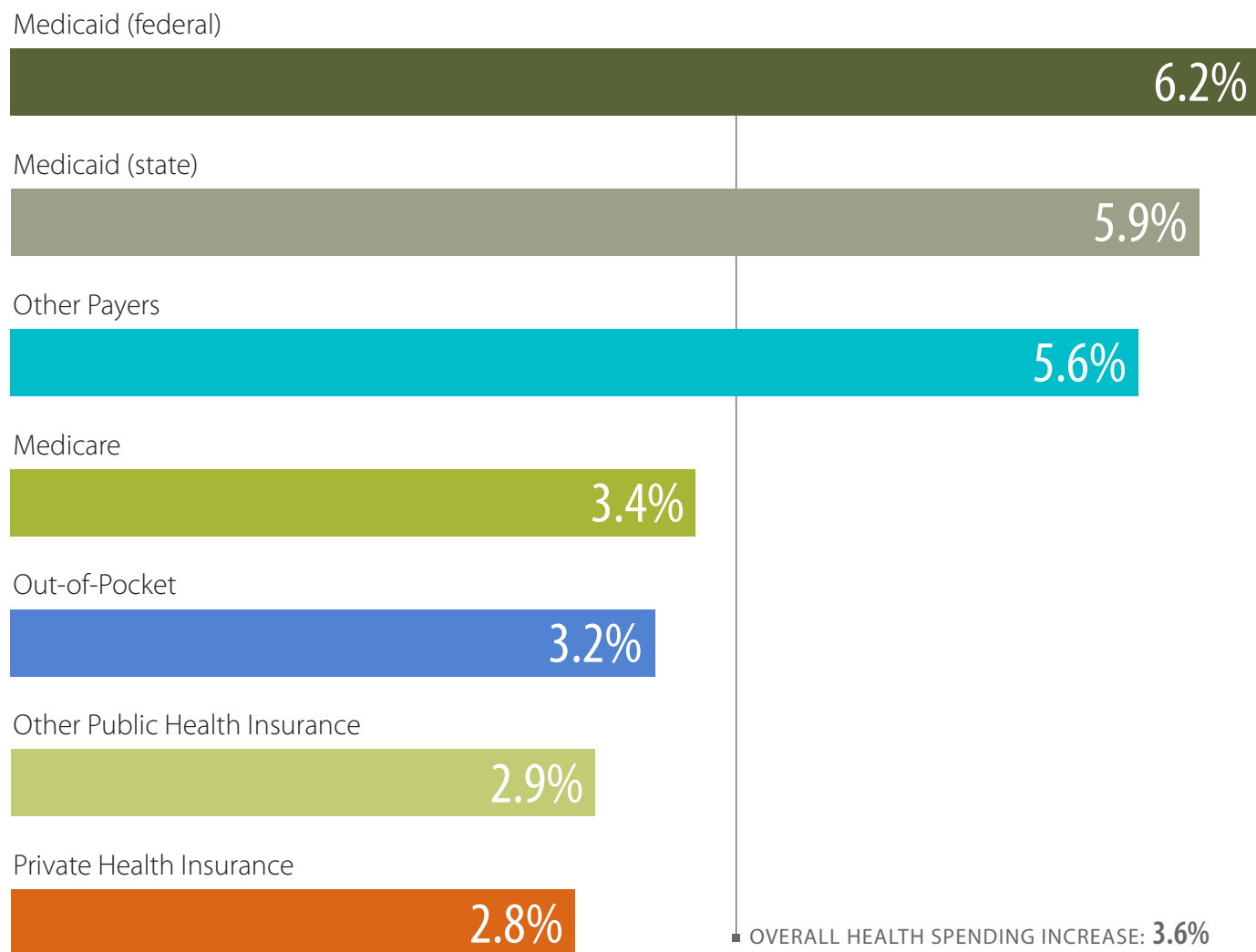
Health Care Costs 101

Growth Trends

Over the last 10 years, the federal government's sponsorship of health care has grown tremendously, at an average rate of 6.9%, while private business sponsorship had the slowest growth at 3.5%. Growth in federal sponsorship was more volatile, reflecting its use as an instrument of policy and economic relief during the recession.

Annual Change in Health Spending Levels, by Payer

United States, 2013



Notes: *Health spending* refers to national health expenditures. Not shown: public health activities (0.8%) and investment (0.5%).

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Growth Trends

Spending by Medicaid, both federal and state, experienced the highest growth rate of all payers in 2013.

Private health insurance spending experienced slow growth, due in part to low growth in spending for hospital and physician services and prescription drugs.

PAYER DEFINITIONS

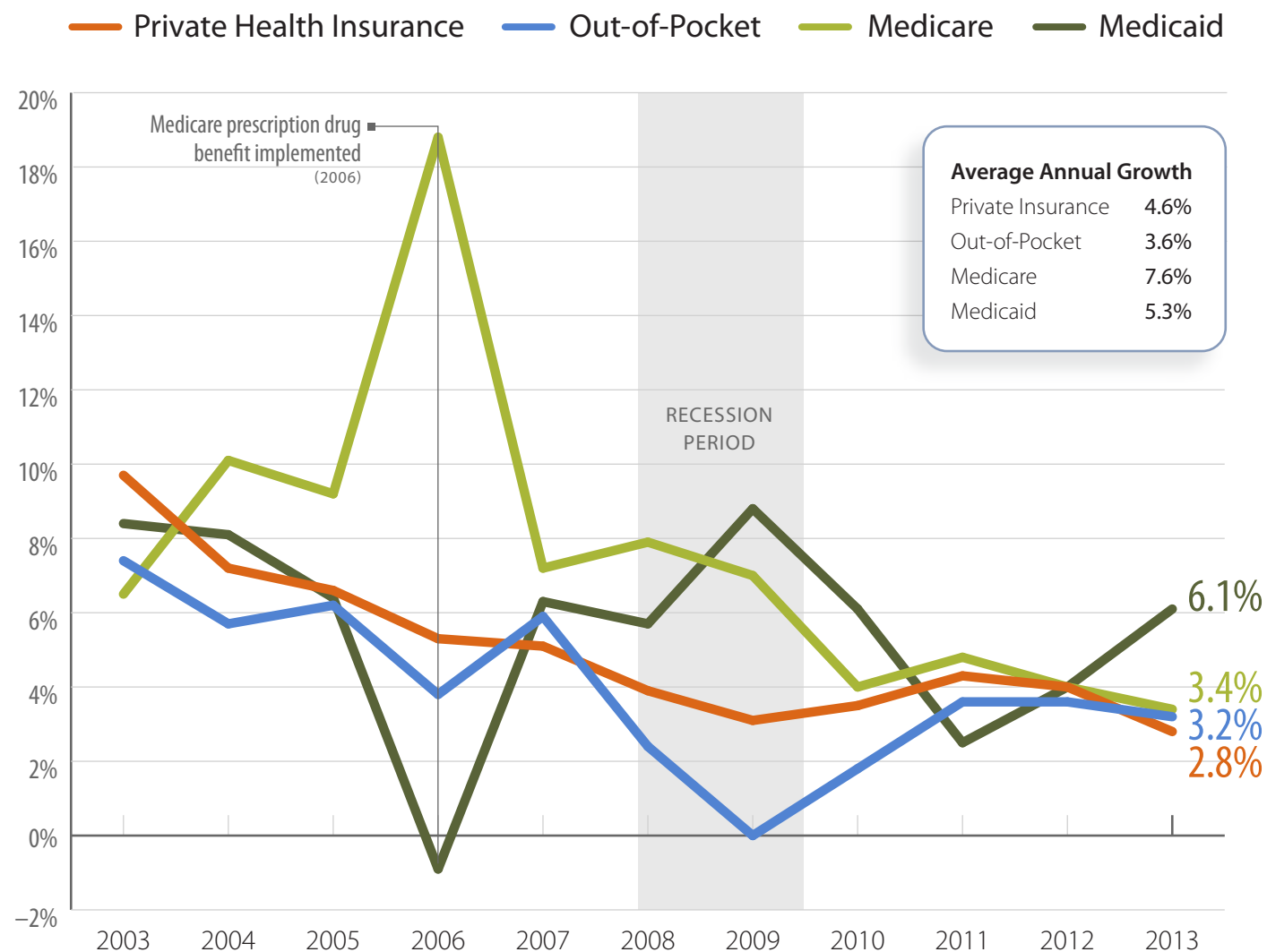
Other payers includes worksite health care, Indian Health Services, workers' compensation, maternal and child health, and vocational rehabilitation.

Other public health insurance includes Departments of Defense and Veterans Affairs health care and the Children's Health Insurance Program (CHIP).

Out-of-pocket includes consumer spending on copays, deductibles, and goods and care not covered by insurance; it does not include premiums.

Annual Growth Rates, by Payer

United States, 2003 to 2013



Notes: Not shown: other public health insurance, other payers, public health activities, investment. See page 35 for projected growth rates.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Growth Trends

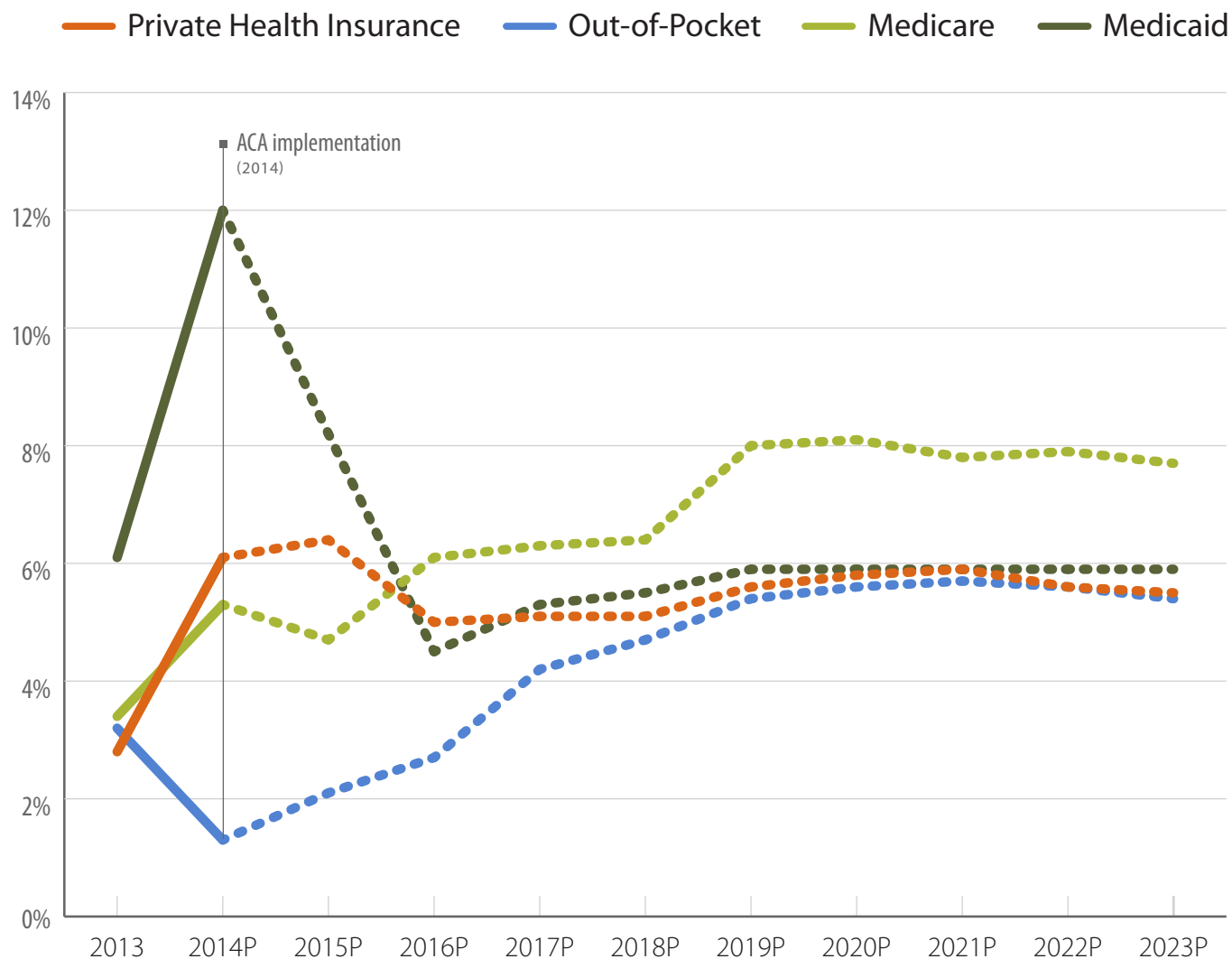
Spending growth for all payers has slowed over the past 10 years. Medicare spending had the fastest growth over this period and also posted the highest single-year increase.

PAYER DEFINITION

Out-of-pocket includes consumer spending on copays, deductibles, and goods and care not covered by insurance; it does not include premiums.

Annual Growth Projections, by Payer

United States, 2013 to 2023



Note: Projections shown as P.

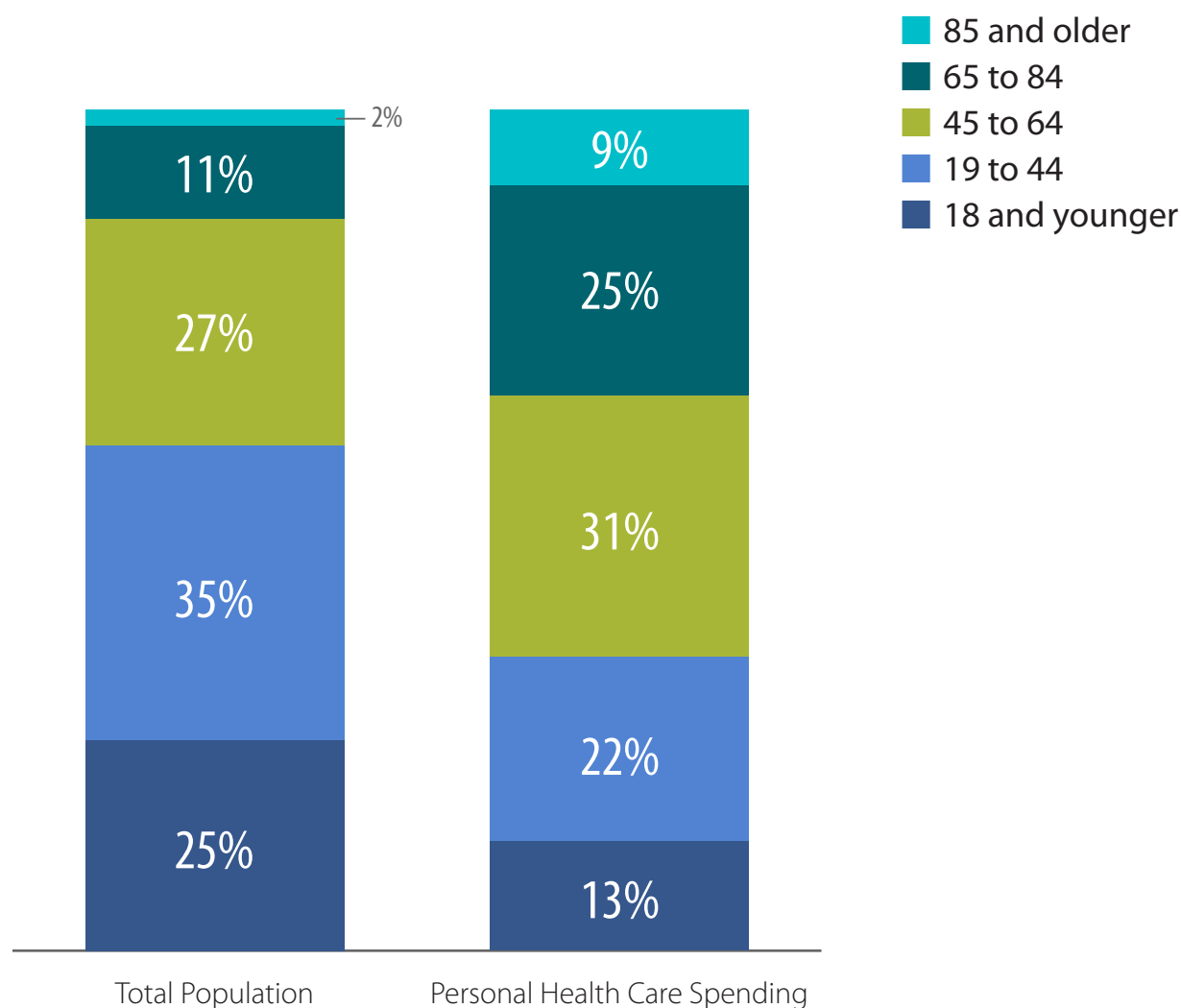
Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2015, www.cms.gov.

Health Care Costs 101

Growth Trends

2014 Medicaid and private insurance health spending are expected to accelerate as people gain insurance through health reform implementation. Of all payers, Medicaid spending is expected to increase the most in 2014 — up to 12.0% from 6.1% in 2013. During the same time, out-of-pocket expenses are projected to decrease.

Share of Population vs. Personal Health Care Spending by Age Group, United States, 2010



Health Care Costs 101

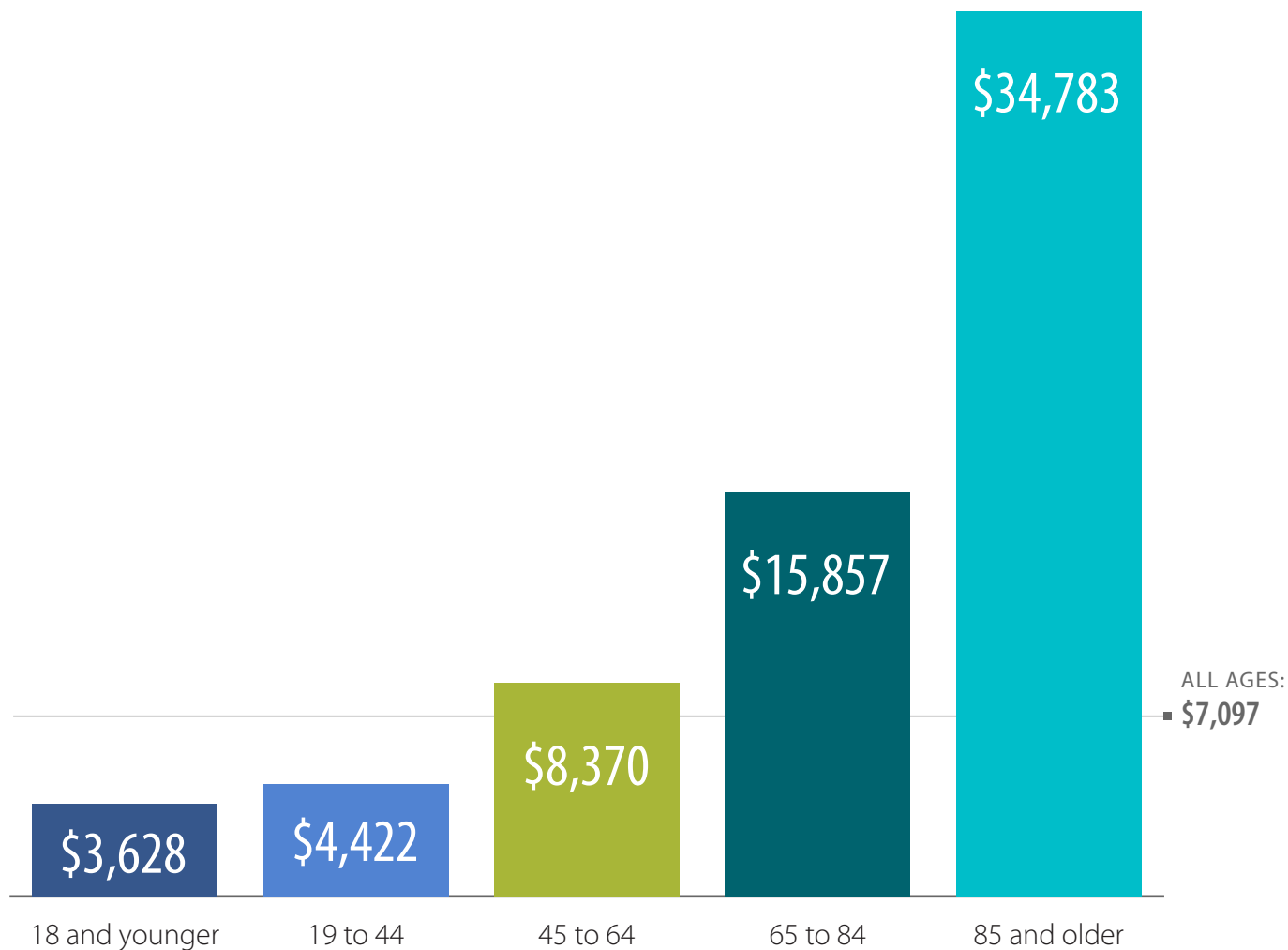
Age and Gender

The elderly population, 65 and over, accounted for one-third of personal health care spending but made up 13% of the population. In contrast, children made up 25% of the population and accounted for only 13% of personal health care spending.

Notes: *Personal health care spending* excludes net cost of health insurance, government administration, public health activities, and investment. See Appendix B for spending category detail by age group and gender.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Personal Health Care Spending per Capita by Age Group, United States, 2010



Notes: *Personal health care spending* excludes net cost of health insurance, government administration, public health activities, and investment. Per capita spending for all people age 65 and older was \$18,424. See Appendix B for spending category detail by age group and gender.

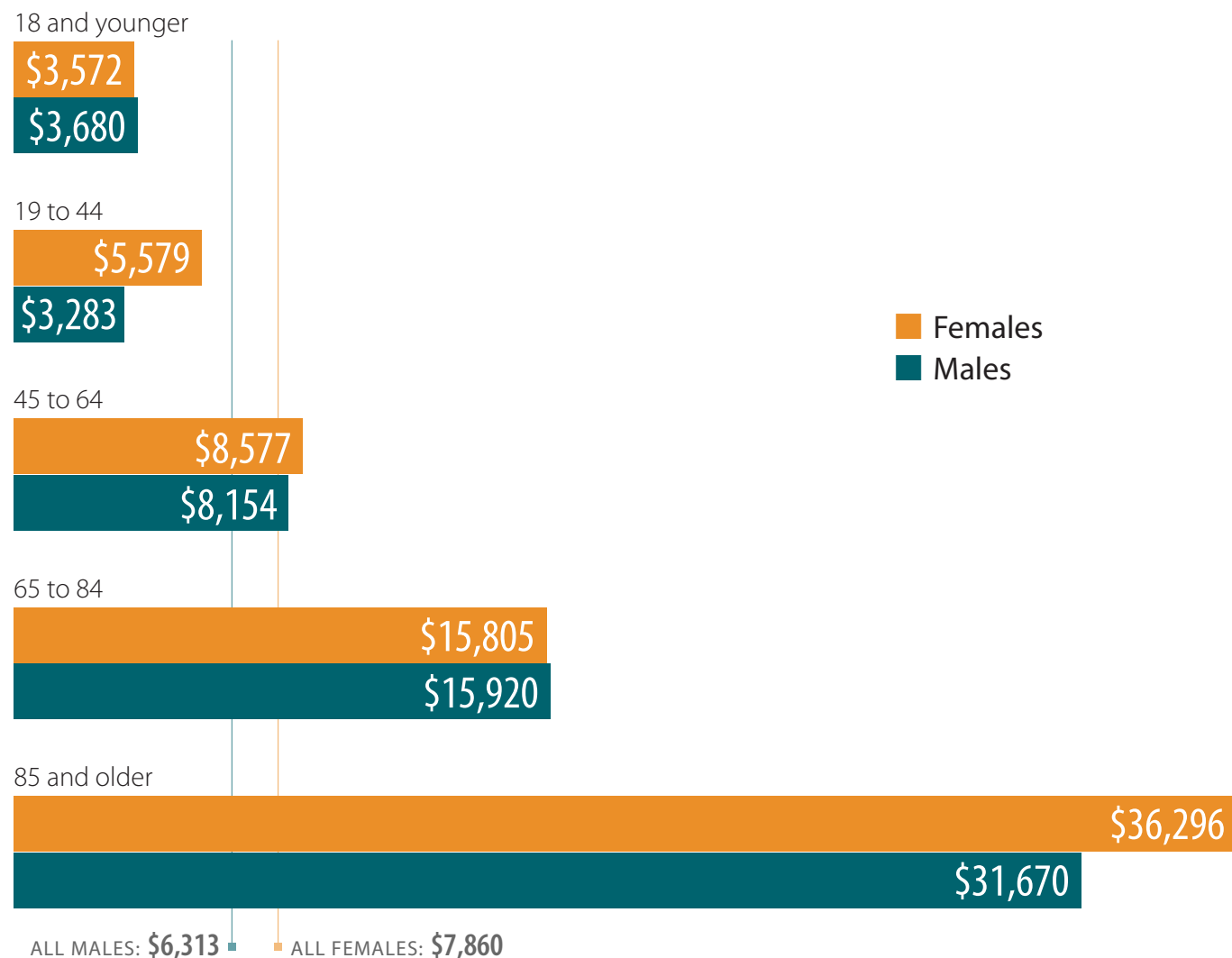
Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

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Age and Gender

Per capita spending illustrates the relationship between health spending and age. Young working-age adults (19 to 44) spent \$4,422 per person in 2010 on personal health care, 20% more than children, but half as much as older working adults. Those age 85 and over spent nearly \$35,000 per person.

Personal Health Care Spending per Capita by Gender and Age Group, United States, 2010



Notes: *Personal health care spending* excludes net cost of health insurance, government administration, public health activities, and investment. Per capita spending for all people age 65 and older was \$18,424 (\$19,110 for females and \$17,530 for males). See Appendix B for spending category detail by age group and gender.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Health Care Costs 101

Age and Gender

Overall, females spent 25% more than males, a difference of \$1,547 per year. Gender differences were greatest for women of childbearing age due to increased hospital and physician services, and for women age 85 and older, due largely to more nursing facility care.

Personal Health Care Spending per Capita by Category and Age Group, United States, 2010

	18 AND YOUNGER	19 TO 44	45 TO 64	65 TO 84	85 AND OLDER	ALL AGES
Personal Health Care	\$3,628	\$4,422	\$8,370	\$15,857	\$34,783	\$7,097
Hospital Care	\$1,538	\$1,696	\$3,001	\$5,887	\$10,405	\$2,630
Physician and Clinical Services	\$972	\$1,272	\$2,035	\$3,281	\$4,342	\$1,680
Dental Services	\$375	\$241	\$427	\$377	\$311	\$341
Other Professional Services	\$103	\$176	\$281	\$459	\$672	\$226
Nursing Care Facilities	\$11	\$28	\$224	\$1,782	\$10,690	\$463
Home Health Care	\$85	\$66	\$143	\$736	\$3,640	\$230
Other Health Care	\$244	\$366	\$494	\$622	\$1,307	\$415
Prescription Drugs	\$229	\$432	\$1,398	\$1,886	\$1,935	\$827
Other Medical Products	\$70	\$145	\$366	\$827	\$1,481	\$286

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Age and Gender

Spending on health services varied with age. For example, those 85 and older differed from those age 65 to 84 largely in their use of hospital care, nursing care facilities, and home health care.

Note: *Personal health care spending* excludes net cost of health insurance, government administration, public health activities, and investment.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Data Resources

Economic Data

- Consumer Price Index, Bureau of Labor Statistics: www.bls.gov/cpi
- Gross Domestic Product, Bureau of Economic Analysis: www.bea.gov
- Historical Budget Data, as presented in Congressional Budget Office, "The Budget and Economic Outlook, 2015 to 2025" (January 26, 2015), www.cbo.gov; and *The Budget and Economic Outlook, Fiscal Years 2003-2012* (January 2002) edition, Appendix F, www.cbo.gov (PDF).
- Organisation for Economic Co-operation and Development. "OECD Health Statistics 2015: Frequently Requested Data," July 2015, www.oecd.org.

Journal Publications Authored by CMS Staff

- Hartman, Micah, et al. "National Health Spending in 2013: Growth Slows Remains in Step with the Overall Economy." *Health Affairs* 34, no. 1 (January 2015): 1-11, healthaffairs.org.
- Keenan, Sean P., et al. "National Health Expenditure Projections, 2014-24: Spending Growth Faster Than Recent Trends." *Health Affairs* 34, no. 8 (August 2015): 1407-17, healthaffairs.org.
- Lassman, David, et al., "US Health Spending Trends by Age and Gender: Selected Years 2002-10," *Health Affairs* 33, no. 5 (May 2014): 815-822, www.healthaffairs.org.

National Health Expenditures

AGE AND GENDER

- Data and Resources: www.cms.gov

HISTORICAL INFORMATION / OVERVIEW

- Data by Service Category, Payer, and Sponsor: www.cms.gov
- Definitions, Sources, Methods: www.cms.gov (PDF)
- Overview of National Health Expenditure Resources: www.cms.gov
- Quick Reference Definitions: www.cms.gov
- Summary of Benchmark Changes: www.cms.gov

PROJECTIONS

- Data: www.cms.gov
- Methodology: www.cms.gov (PDF)
- Forecast Summary and Selected Tables: www.cms.gov (PDF)

Health Care Costs 101

ABOUT THIS SERIES

The California Health Care Almanac is an online clearinghouse for data and analysis examining the state's health care system. It focuses on issues of quality, affordability, insurance coverage and the uninsured, and the financial health of the system with the goal of supporting thoughtful planning and effective decisionmaking. Learn more at www.chcf.org/almanac.

FOR MORE INFORMATION



CALIFORNIA
HEALTHCARE
FOUNDATION

California HealthCare Foundation
1438 Webster Street, Suite 400
Oakland, CA 94612
510.238.1040
www.chcf.org

Appendix A: Category Breakdown

	SPENDING LEVEL (IN BILLIONS)				DISTRIBUTION				GROWTH RATE*		
	1993	2003	2012	2013	1993	2003	2012	2013	1993–2013	2003–2013	2012–2013
National Health Expenditures	\$921.5	\$1,778.3	\$2,817.3	\$2,919.1	100%	100%	100%	100%	5.9%	5.1%	3.6%
Health Consumption Expenditures	\$860.3	\$1,668.1	\$2,653.6	\$2,754.5	93%	94%	94%	94%	6.0%	5.1%	3.8%
▶ Personal Health Care	\$781.2	\$1,482.1	\$2,379.3	\$2,468.6	85%	83%	84%	85%	5.9%	5.2%	3.8%
▶ Hospital Care	315.7	526.2	898.5	936.9	34%	30%	32%	32%	5.6%	5.9%	4.3%
▶ Professional Services	265.1	491.0	752.0	777.9	29%	28%	27%	27%	5.5%	4.7%	3.4%
▶ Physician and Clinical Services	202.7	368.0	565.3	586.7	22%	21%	20%	20%	5.5%	4.8%	3.8%
▶ Dental Services	39.2	76.3	110.0	111.0	4%	4%	4%	4%	5.3%	3.8%	0.9%
▶ Other Professional Services	23.2	46.7	76.8	80.2	3%	3%	3%	3%	6.4%	5.6%	4.5%
▶ Nursing Care Facilities	56.0	100.3	152.2	155.8	6%	6%	5%	5%	5.2%	4.5%	2.4%
▶ Home Health Care	22.8	39.8	77.1	79.8	2%	2%	3%	3%	6.5%	7.2%	3.4%
▶ Other Health Care	34.0	83.6	140.1	148.2	4%	5%	5%	5%	7.6%	5.9%	5.8%
▶ Retail Outlet Sales	87.5	241.2	359.4	370.0	9%	14%	13%	13%	7.5%	4.4%	2.9%
▶ Prescription Drugs	49.6	177.0	264.4	271.1	5%	10%	9%	9%	8.9%	4.4%	2.5%
▶ Other Nondurable Medical Products	23.7	36.2	53.7	55.9	3%	2%	2%	2%	4.4%	4.4%	4.0%
▶ Durable Medical Equipment	14.1	28.0	41.3	43.0	2%	2%	1%	1%	5.7%	4.4%	4.2%
▶ Administration	52.4	131.8	199.5	210.6	6%	7%	7%	7%	7.2%	4.8%	5.6%
▶ Net Cost of Health Insurance	43.1	107.3	165.3	173.6	5%	6%	6%	6%	7.2%	4.9%	5.0%
▶ Government Administration	9.2	24.5	34.2	37.0	1%	1%	1%	1%	7.2%	4.2%	8.2%
▶ Federal Government Administration	6.1	15.1	24.8	27.2	1%	1%	1%	1%	7.7%	6.1%	9.6%
▶ State and Local Government Administration	3.1	9.4	9.4	9.8	0%	1%	0%	0%	5.9%	0.4%	4.5%
▶ Public Health Activities	26.8	54.2	74.8	75.4	3%	3%	3%	3%	5.3%	3.3%	0.8%
Investment	\$61.2	\$110.2	\$163.7	\$164.6	7%	6%	6%	6%	5.1%	4.1%	0.5%
▶ Noncommercial Research	16.5	34.9	48.0	46.7	2%	2%	2%	2%	5.4%	3.0%	-2.6%
▶ Structures and Equipment	44.7	75.3	115.7	117.9	5%	4%	4%	4%	5.0%	4.6%	1.9%

*Growth rates for the 1993–2013 and the 2003–2013 periods are average annual; 2012–2013 is the increase of 2013 over 2012 levels.

Notes: *Health spending* refers to national health expenditures. Further definitions available at www.cms.gov.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.

Appendix B: Personal Health Care Spending, by Gender, Age, and Category, 2010

	FEMALES						MALES						TOTAL					
	0 to 18	19 to 44	45 to 64	65 to 84	85+	ALL	0 to 18	19 to 44	45 to 64	65 to 84	85+	ALL	0 to 18	19 to 44	45 to 64	65 to 84	85+	ALL
PER CAPITA	\$3,572	\$5,579	\$8,577	\$15,805	\$36,296	\$7,860	\$3,680	\$3,283	\$8,154	\$15,920	\$31,670	\$6,313	\$3,628	\$4,422	\$8,370	\$15,857	\$34,783	\$7,097
Hospital Care	1,548	2,205	2,728	5,429	10,076	2,763	1,528	1,195	3,284	6,445	11,080	2,493	1,538	1,696	3,001	5,887	10,405	2,630
Physician and Clinical Services	937	1,741	2,279	3,150	3,935	1,911	1,005	810	1,782	3,440	5,179	1,441	972	1,272	2,035	3,281	4,342	1,680
Dental Services	404	285	464	376	309	374	348	197	388	379	313	307	375	241	427	377	311	341
Other Professional Services	102	229	342	478	669	269	105	124	217	435	677	182	103	176	281	459	672	226
Nursing Care Facilities	9	24	206	2,003	12,379	602	14	32	243	1,512	7,218	320	11	28	224	1,782	10,690	463
Home Health Care	80	83	161	869	3,909	289	90	49	124	575	3,087	170	85	66	143	736	3,640	230
Other Health Care	223	319	464	678	1,408	404	263	413	525	553	1,099	426	244	366	494	622	1,307	415
Prescription Drugs	199	514	1,537	1,937	1,994	919	257	350	1,254	1,823	1,814	734	229	432	1,398	1,886	1,935	827
Other Medical Products	70	178	397	885	1,617	330	72	112	336	758	1,203	240	70	145	366	827	1,481	286
AGGREGATE (BILLIONS)	\$137.2	\$298.9	\$358.1	\$302.8	\$133.7	\$1,230.7	\$147.9	\$178.9	\$328.1	\$250.6	\$56.8	\$962.2	\$285.1	\$477.7	\$686.2	\$553.4	\$190.5	\$2,192.9
Hospital Care	59.5	118.1	113.9	104.0	37.1	432.6	61.4	65.1	132.2	101.4	19.9	379.9	120.9	183.2	246.0	205.5	57.0	812.6
Physician and Clinical Services	36.0	93.3	95.2	60.4	14.5	299.3	40.4	44.1	71.7	54.2	9.3	219.7	76.4	137.4	166.9	114.5	23.8	519.0
Dental Services	15.5	15.3	19.4	7.2	1.1	58.5	14.0	10.7	15.6	6.0	0.6	46.9	29.5	26.0	35.0	13.2	1.7	105.4
Other Professional Services	3.9	12.3	14.3	9.2	2.5	42.1	4.2	6.8	8.7	6.8	1.2	27.8	8.1	19.0	23.0	16.0	3.7	69.8
Nursing Care Facilities	0.4	1.3	8.6	38.4	45.6	94.2	0.5	1.7	9.8	23.8	12.9	48.8	0.9	3.0	18.4	62.2	58.5	143.0
Home Health Care	3.1	4.5	6.7	16.6	14.4	45.3	3.6	2.7	5.0	9.1	5.5	25.9	6.7	7.1	11.7	25.7	19.9	71.2
Other Health Care	8.6	17.1	19.4	13.0	5.2	63.2	10.6	22.5	21.1	8.7	2.0	64.9	19.2	39.6	40.5	21.7	7.2	128.1
Prescription Drugs	7.6	27.6	64.2	37.1	7.3	143.8	10.3	19.1	50.5	28.7	3.3	111.8	18.0	46.6	114.6	65.8	10.6	255.7
Other Medical Products	2.7	9.5	16.5	16.9	6.0	51.7	2.9	6.1	13.5	11.9	2.2	36.6	5.6	15.6	30.1	28.9	8.1	88.2
DISTRIBUTION	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Hospital Care	43%	40%	32%	34%	28%	35%	42%	36%	40%	40%	35%	39%	42%	38%	36%	37%	30%	37%
Physician and Clinical Services	26%	31%	27%	20%	11%	24%	27%	25%	22%	22%	16%	23%	27%	29%	24%	21%	12%	24%
Dental Services	11%	5%	5%	2%	1%	5%	9%	6%	5%	2%	1%	5%	10%	5%	5%	2%	1%	5%
Other Professional Services	3%	4%	4%	3%	2%	3%	3%	4%	3%	3%	2%	3%	3%	4%	3%	3%	2%	3%
Nursing Care Facilities	0%	0%	2%	13%	34%	8%	0%	1%	3%	9%	23%	5%	0%	1%	3%	11%	31%	7%
Home Health Care	2%	1%	2%	5%	11%	4%	2%	1%	2%	4%	10%	3%	2%	1%	2%	5%	10%	3%
Other Health Care	6%	6%	5%	4%	4%	5%	7%	13%	6%	3%	3%	7%	7%	8%	6%	4%	4%	6%
Prescription Drugs	6%	9%	18%	12%	5%	12%	7%	11%	15%	11%	6%	12%	6%	10%	17%	12%	6%	12%
Other Medical Products	2%	3%	5%	6%	4%	4%	2%	3%	4%	5%	4%	4%	2%	3%	4%	5%	4%	4%

Note: *Personal health care spending* excludes net cost of health insurance, government administration, public health activities, and investment.

Source: "National Health Expenditure Data," Centers for Medicare & Medicaid Services (CMS), 2014, www.cms.gov.