Total health-related spending in the United States has increased year after year throughout the 50 years that the national health expenditure accounts have been kept. By 2010, the most recent year of data now available, spending had reached $2.594 trillion, or more than $8,400 for each person in the country (Figure 1). This spending now accounts for almost 18 percent of our total gross domestic product (GDP).

By way of comparison, the highest spending levels observed in Canada and many European countries hover in the range of 11 to 12 percent of GDP. Reflecting primarily the anticipated economic rebound, the coverage expansions of the Affordable Care Act, and our aging population, the U.S. Actuary projects that national health spending will grow at an average rate of 5.8 percent each year through 2020. If these projections hold true, we will be spending $4.6 trillion and 19.8 percent of our GDP on health care in 2020.

The vast majority of the 2010 spending — 84 percent — went to pay for personal health care services, which...
encompasses items ranging from complex inpatient hospital care to routine over-the-counter drugs and other medical sundries (Figure 2). These personal health care expenditures were incurred through private insurance plans; Medicare and Medicaid; other government insurance programs such as the Children’s Health Insurance Program and the Departments of Defense and Veterans Affairs; a variety of government and private sector programs including the Indian Health Service, vocational rehabilitation, school health, and worksite health care; and out-of-pocket payments from patients. The remaining 16 percent of national health spending supported government public health activities, the costs of administering public and private insurance, and public and private investments in research, structures and equipment.

**FIGURE 1. TRENDS IN TOTAL NATIONAL HEALTH SPENDING**

While annual changes in health spending have always been positive over the past 50 years, reflecting continuous growth, the rate of change has varied considerably depending on the specific time period under examination. After two decades of an overall upward trend between 1961 and 1981, the rate of annual spending growth has trended downward, albeit with some significant upticks (Figure 3). Growth has slowed consistently since the early part of this century — declining from a high of 9.5 percent growth between 2001 and 2002 to 3.9 percent growth from 2009 to 2010.

Strikingly, the growth rates observed in the past three years are the lowest

**FIGURE 2. COMPONENTS OF NATIONAL HEALTH SPENDING PER CAPITA, 2010**

[84% of spending is for personal health care services]

<table>
<thead>
<tr>
<th>Hospital Care</th>
<th>Dental &amp; Other Professional Services</th>
<th>Prescription Drugs, DME &amp; Other Medical Products</th>
<th>Public Health</th>
<th>Public Program Administration and Net Cost of Private Health Insurance</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,637</td>
<td>1,670</td>
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<td>267</td>
<td>483</td>
<td>8,402</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
seen in the history of the accounts. Much of this slowdown can be attributed to the recent recession as job losses reduced employer-sponsored health insurance and broader economic precariousness left people less able and/or less willing to spend money on health care, even if they still had insurance. But it is important to realize that the spending slowdown is part of a longer trend that preceded the recession and to acknowledge that other policy changes and systematic influences might also be playing a role. Such factors include an ongoing shift to value-based purchasing, the expiration of patents for numerous blockbuster drugs coupled with continued movement toward use of generics, and reductions in provider payment rates by Medicare and Medicaid. Whether there has been a fundamental shift in how we consume medical care and whether this change and other factors will be sustainable over the longer term are open questions.3

EXCESS GROWTH IN HEALTH SPENDING

With only a few minor exceptions, health spending has grown more quickly than the economy each year (Figure 3), a phenomenon known as excess growth in health spending. While an excess growth rate of 2 percent is commonly discussed in policy circles, Figure 4 shows that the specific excess growth rate depends on the category of spending and time frame considered. Consistent with the downward trend in the rate of spending growth seen in Figure 3, the gap between health

FIGURE 3. TRENDS IN ANNUAL GROWTH OF HEALTH SPENDING AND GDP

![Graph showing trends in annual growth of health spending and GDP.](image)

NIHCM Foundation analysis of data from the National Health Expenditure Accounts.

FIGURE 4. EXCESS GROWTH IN HEALTH SPENDING, BY TIME PERIOD AND PROGRAM

![Bar chart showing excess growth in health spending.](image)

NIHCM Foundation analysis of information presented in CBO’s “The Long-Term Budget Outlook.” Revised August 2011.
spending and economic growth has narrowed slightly in more recent periods. Nonetheless, it remains true that we have consistently been unable to generate sufficiently strong economic growth to keep up with the ongoing increases in health spending.

**SECTORS DRIVING INCREASED SPENDING**

Over the five-year period from 2006 to 2010, national health spending rose by almost 20 percent – from $2.162 trillion to $2.594 trillion. About one-fifth of this increase was due to our growing population. When we remove this factor by examining per-capita spending, we find a five-year growth rate of almost 16 percent, with all component categories of spending experiencing growth (Figure 5).

Hospital care not only accounted for the largest portion of total spending to begin with (Figure 5) but also grew more rapidly than the overall growth rate during this period, rising by $451 per person or nearly 21 percent. The combined impact of a large base and rapid growth was that this sector alone accounted for almost 40 percent of the total change in per-capita spending between 2006 and 2010 (Figure 6). The approximately $200 per person increases in spending for physician and clinical services and for home health and other long-term care facilities and services each accounted for another 17 percent of the total change in per-capita spending over the period.
PUBLIC VS. PRIVATE SPENDING

In the past 25 years, there has been a gradual but nearly steady trend toward increased reliance on public sources of financing within our health care system (Figure 7). In 1987, about one-third of all spending was from government sources. By 2010, this figure stood at 45 percent. The U.S. Actuary expects this trend to continue, projecting that the share of government financing will reach 49 percent by 2020.2

Nearly all of the growth in public spending between 1987 and 2010 came from higher spending at the Federal level. Over the period, Federal spending on the Medicare program nearly tripled as a share of

FIGURE 7. TRENDS IN SHARE OF NATIONAL HEALTH SPENDING FROM PUBLIC VS. PRIVATE SOURCES

FIGURE 8. A CLOSER LOOK AT PUBLIC & PRIVATE HEALTH CARE SPENDING, 2010

Private Sources (55%)

Total Spending by Private Sources $1,430 B

Private Business (20.6%)

Private Health Insurance Premiums $414.1
Medicare Payroll Taxes $79.7
Workers Compensation, Disability Insurance $40.7
& Worksite Health

Households (28.0%)

Private Health Insurance Premiums $263.1
Medicare Payroll Taxes and Premiums $162.8
Out-of-Pocket Spending $299.7

Other Private Sources (6.6%)

Philanthropy, Investment, Etc. $169.9

Public Sources (45%)

Total Spending by Public Sources $1,164 B

Federal Government (28.6%)

Private Health Insurance Premiums $28.5
Medicare Payroll Tax $4.0
Direct Medicare Program Spending $254.0
Direct Medicaid Program Spending $278.1
All Other Health Spending $178.0

State/Local Government (16.2%)

Private Health Insurance Premiums $134.1
Medicare Payroll Tax $11.4
Direct Medicaid Program Spending $135.9
All Other Health Spending $139.6

Source: NIHCM Foundation analysis of data from the National Health Expenditure Accounts.
overall spending (from 3.4 percent to 9.8 percent) and Federal Medicaid spending doubled as a share of total spending (from 5.4 percent to 10.7 percent — data not shown). At the same time, the share of national health spending borne by private business and, especially, households declined.

For a further appreciation of public and private spending, it is helpful to understand that the amounts contributed by public vs. private sources are not the same as the amounts spent via public vs. private insurance and other programs (Figure 8). Rather, a portion of our Medicare program spending is derived from private business and households through the Medicare payroll tax and beneficiary payment of Medicare premiums. Conversely, governments at all levels make contributions to private insurance plans on behalf of public-sector workers. And, of course, all public sector financing is ultimately borne by private citizens through taxes and borrowing that must be repaid.

CONSUMER OUT-OF-POCKET SPENDING

While consumers are increasingly being called upon to pay larger amounts for their health care at the point of service through copayments and deductibles, the reliance on out-of-pocket payments has actually declined dramatically over time as public and private insurance have taken on greater roles. As Figure 9 shows, per-person out-of-pocket spending was nearly $1000 in 2010, considerably higher than the $70 expense incurred in 1960 and some 88 percent higher than the 1960 level even after adjusting for inflation. When we consider out-of-pocket payments as a percent of total spending for personal health care services,
however, a very different picture emerges of the burden placed on consumers (Figure 10). In 1960, more than half of all personal health care spending was paid for directly by consumers out of pocket. The advent of Medicare and Medicaid in the mid-1960s sharply reduced this burden, and it has continued to shrink over time as these public programs and private insurance have grown in importance. By 2010, less than 14 percent of all personal health care spending was from out-of-pocket payments.

This precipitous decline in the relative importance of out-of-pocket payment for personal health care services is a major reason why the household share of national spending has fallen over time (Figure 7) despite rising household outlays for health insurance premiums. Between 1987 and 2010, household spending for private premiums rose from 8.4 to 10 percent as a share of total national health spending, but out-of-pocket spending as a share of overall spending fell from 21.2 to 11.6 percent (data not shown).  

ENDNOTES


ABOUT NIHCM FOUNDATION

The National Institute for Health Care Management Research and Education Foundation is a non-profit organization whose mission is to promote improvement in health care access, management and quality.

ABOUT THIS BRIEF

This brief was prepared by Julie A. Schoenman, PhD, (jschoenman@nihcm.org), under the direction of Nancy Chockley, MBA, (nchockley@nihcm.org). Part of the Foundation’s larger research focus on health care spending, it is the first of a series of briefs that will present current data and analysis on selected topics relevant to discussions of our nation’s high and rising health care spending. All briefs will be available at www.nihcm.org. To request hard copies of any materials, email your request to nihcm@nihcm.org or call 202-296-4426.