

# Health costs still rising, but not as fast

In 2005, the rate of growth in U.S. health care spending dropped to the lowest point since 1999. A big reason was the push to control increases in dollars spent on prescription drugs. A shift among private insurers and Medicaid to generics and other cost-cutting measures led to a sharp slowdown in medication expenditure growth in the last six years. The rise in spending on physician and clinic services also has declined recently, but not as severely.

## Health care tab reflects interplay of national trends

Overall health care spending jumped 96%, to nearly \$2 trillion, in the 10 years ending in 2005. Several factors contributed to the trend. Among them are increased use of medical technology, growing prescription drug use and a shift in the late 1990s away from the strictest managed care plans. As HMOs declined, spending picked up, said CMS economist Cathy Cowan, a co-author of the agency's recent health expenditures report.

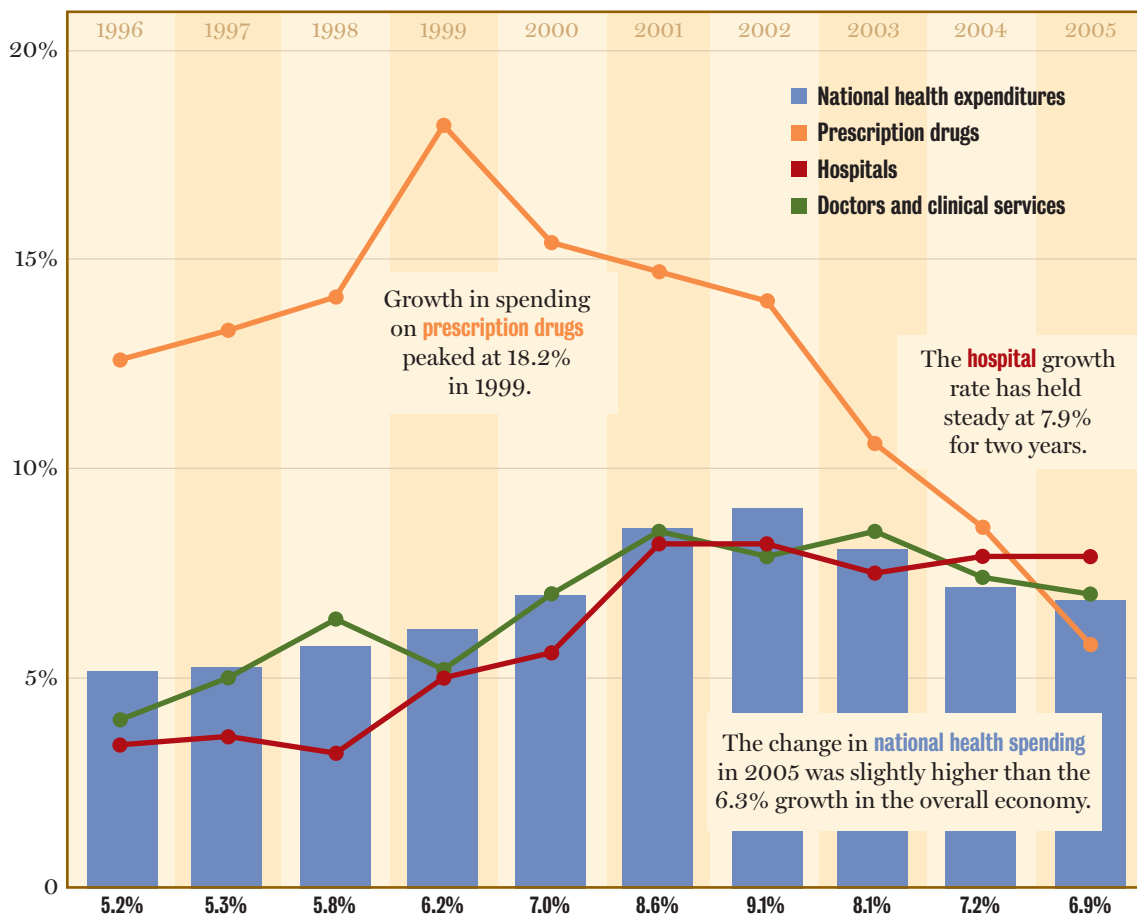
Spending on physician and clinical services also nearly doubled, growing 91%. The end of the HMO gatekeeper era played a part here, too, by giving patients easier access to specialists, Cowan said.

As health spending has accelerated, it has eaten up a larger portion of the nation's economy, as measured by the gross domestic product. However, in the past three years, that figure has leveled out at about 16%.

"The current moderation in the rise of the health share of the GDP indicates that, at least for now, health spending is growing at a rate nearly comparable to that of the rest of the economy," the report states. "The question is whether this convergence is temporary ... or indicative of a sustainable trend."

Adding to the uncertainty are developments pushing spending in opposite directions. On the growth side are the continued emergence of new technology and the aging of America. On the tempering side is pressure from public and private payers to control costs, including the push toward tying payment to quality of care.

PERCENT CHANGE IN HEALTH EXPENDITURES

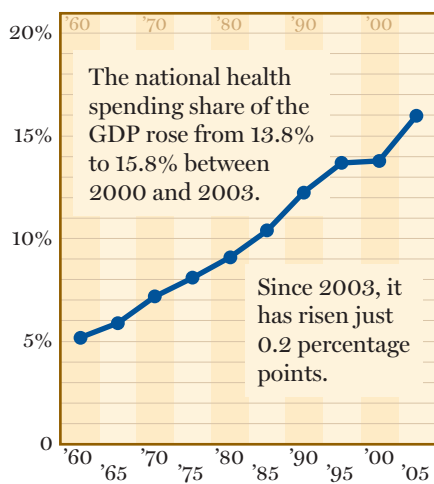


### HEALTH SPENDING PER CAPITA

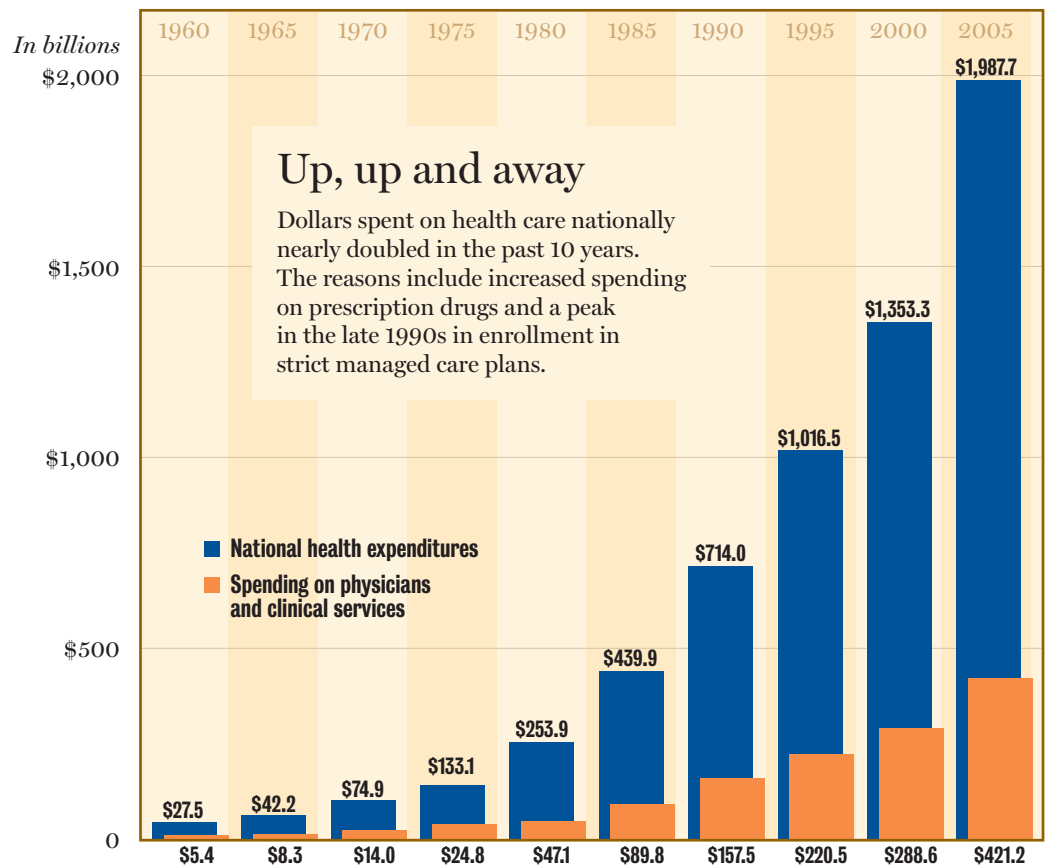
1960	\$148
1965	\$211
1970	\$365
1975	\$605
1980	\$1,102
1985	\$1,820
1990	\$2,813
1995	\$3,783
2000	\$4,790
2005	\$6,697

4,425% increase since 1960

HEALTH EXPENDITURES AS PERCENTAGE OF GDP



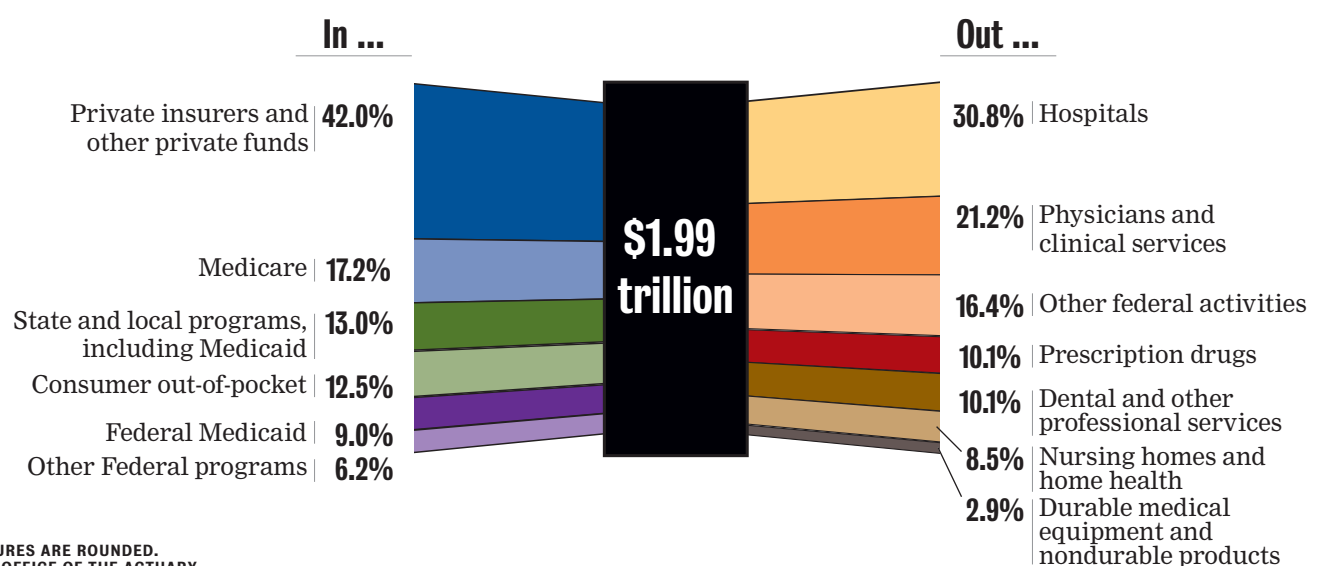
In billions



### Where it comes from; where it goes

Private insurers were the largest payers for health care services in 2005. Health plans and other private spending accounted for 42%, or \$836 billion, of the \$1.99 trillion total. Medicare spending was a distant second, at \$342 billion. Consumers also shelled out a significant chunk of change — \$294 billion. On the receiving end, hospitals took in the most — \$612 billion, or nearly 31% of the total. The nation spent \$421 billion on physician and clinical services.

PERCENTAGE OF OVERALL HEALTH SPENDING



NOTE: FIGURES NOT ADJUSTED FOR INFLATION. SOME FIGURES ARE ROUNDED.  
SOURCE: CENTERS FOR MEDICARE & MEDICAID SERVICES, OFFICE OF THE ACTUARY