

Health spending growth reflects 2018 reinstatement of insurance tax

JUN 17, 2020

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U.S. health spending increased by 4.6% to \$3.6 trillion or \$11,172 per capita, in 2018, due to the reinstatement of the Affordable Care Act (ACA) health insurance tax that had been suspended in 2017 and which insurers priced into premiums paid by enrollees.

That growth rate was ahead of the 4.2% rate tracked in 2017, according to a new AMA Policy Research Perspectives report, “National Health Expenditures, 2018: Spending Growth Remains Steady Even with Increases in Private Health Insurance and Medicare Spending.”

The annual report tracked how \$3.6 trillion was spent, who paid for it, and how the payers were financed. New this year, the report examined growth patterns of key spending categories for private health insurance, Medicare and Medicaid over the 10-year period ending in 2018.

The report examines U.S. National Health Expenditures (NHE) data released in December 2019 by the Centers for Medicare & Medicaid Services (CMS) and includes revised estimates for previous years.

“The slight acceleration in spending can be attributed to spending increases within both private health insurance and Medicare that were driven by the reinstatement of the Affordable Care Act (ACA) health insurance tax,” the report states.

Health spending dipped to 17.7% of the GDP in 2018, compared to 17.9% in both 2017 and 2016.

How \$3.6 trillion was spent

Health “spending” includes two parts:

“**Investments,**” which total 4.8% of spending (\$174.4 billion) and include research, structures and equipment.

“**Health Consumption Expenditures**” (HCE), a category that includes personal health spending which covers 84.3% of all health spending, plus public health and governmental and private insurance administrative costs.

Growth for personal health care spending remained at 4.1%, the same rate as last year. For the three top personal health-spending categories, the total expenditures were:

- Hospital care, \$1.19 trillion, 32.7% of total health spending.
- Physician services, \$564.4 billion, 15.5%.
- Prescription drugs, \$335 billion, 9.2%.

Growth in spending for hospital care decelerated to 4.5% in 2018 from 4.7% in 2017, and has 10-year average annual growth of 5.1%.

Growth in spending for physician services slowed even further, decelerating to 3.6% in 2018 from 4.2% in 2017, and has 10-year average annual growth of 3.6%.

Growth in spending for prescription drugs rose to 2.5% 2018 from 1.4% in 2017, and has 10-year average annual growth of 3.4%.

The report states that slow growth in drug prices in 2018 was offset by factors such as growth in the number of prescriptions dispensed. It also notes that the 3.4% 10-year average annual growth rate for prescription drugs masks volatile swings in spending that included a 0.4 percent drop in spending growth in 2010 and a 13.3% growth spurt in 2014.

How the bill was paid

For four decades, private health insurance has covered the largest share of health care spending and 2018 was no exception. Here are the biggest contributors and the share they paid:

- Private health insurance, \$1.24 trillion, paying for 34.1% of spending.
- Medicare, \$750.2 billion, paying for 20.6% of spending.
- Medicaid, \$597.4 billion, paying for 16.4% of spending.
- Out of pocket, \$375.6 billion, paying for 10.3% of spending.

The report links growth in spending to expenditures in the net cost of health insurance for personal health insurance and private plans administering government programs. These expenditures include

administrative costs, taxes and fees. According to the report, the \$14.3 billion cost of the health insurance tax was priced into premiums.

Spending growth for private health insurance jumped to 5.8% in 2018 from 4.9% in 2017, and has 10-year average annual growth rate of 4.5%.

Spending growth for Medicare accelerated to 6.4% in 2018 from 4.2% in 2017, and has 10-year average annual growth rate of 4.9%.

Spending growth for Medicaid accelerated to 3% in 2018 from 2.6% in 2017, and has 10-year average annual growth rate of 5.7%. Medicaid has seen the most fluctuation, with 11.8% growth in 2014 and then decelerating to 2.6% in 2017.

How spending was financed

A milestone was reached in 2018: It was the first year both federal government and household financing of health care topped \$1 trillion.

Households financed \$1.04 trillion (28.4%) of expenditures through premiums, Medicare payroll taxes, and out-of-pocket payments.

The federal government financed \$1.03 trillion (28.3%) of expenditures through employer contributions to employer-sponsored health insurance premiums and payroll taxes as well as general revenue payments to the Medicare Trust Fund, contributions to Medicaid, marketplace tax credits and subsidies, and other programs.

Private business financed \$726.8 billion (19.9%) of expenditures through employer contributions to employer-sponsored health insurance premiums and payroll taxes, as well as workers' compensation, temporary disability insurance and worksite health care.

Other private revenue sources paid for \$250.7 billion (6.9%) of expenditures.

State and local governments paid for \$602.5 billion (16.5%) of expenditures through employer contributions to employer-sponsored health insurance taxes and payroll taxes as well as payments for Medicaid and other programs.

The report noted that these shares have been stable in recent years but there has been a long-term shift away from households and toward the federal government.