



# Policy Research Perspectives

## National Health Expenditures, 2010: Slow Growth Continues

By Carol K. Kane, PhD

### Introduction

This Policy Research Perspective (PRP) examines national health expenditures (NHE) in 2010 and over the preceding decade. Data for 2010 were released by the Center for Medicare and Medicaid Services (CMS) in January 2012, concurrent with an article on spending which appeared in *Health Affairs*. This PRP focuses on the top level results from that article as well as on other details of health spending, available on the NHE Web site, that are germane to American Medical Association advocacy efforts.

Although the recession officially ended in June 2009, 2010 US health spending still grew at a slow rate, increasing by only 3.9 percent to \$2,593.6 billion dollars, or \$8,402 on a per capita basis. This growth rate was only 0.1 percentage point higher than the 2009 increase (3.8 percent), and these two years accounted for the two slowest rates of growth in the 51 year history of the NHE Accounts.

Nominal gross domestic product (GDP) grew by 4.2 percent in 2010. Because rates of growth in health spending and in GDP were similar, the share of GDP devoted to health spending remained the same as in 2009, at 17.9 percent.

### Spending by Type of Expenditure, and by Program

CMS categorizes health spending in a number of dimensions. This section looks at spending by *type of expenditure*, and by *program*. Type of expenditure refers to the nature of the service or product that is consumed. Program, which is alternately called *payer* or *source of funds*, defines the entity, often a third party insurer, that is responsible for paying the health care bill.

#### *Spending by Type of Expenditure*

Spending on physician and clinical services grew by 2.5 percent in 2010 to \$515.5 billion, down from a 3.3 percent growth rate in 2009. The deceleration in spending growth was due to a decline in the growth of utilization and intensity. Utilization grew more slowly for several reasons including a less severe flu season, declining private health insurance coverage, and increased consumer cost sharing. According to CMS, total physician visits were lower in 2010 than in 2009.

Physician services accounted for 81 percent (\$415.8 billion) of the combined physician and clinical category in 2010, unchanged from its share in 2009. Physician spending grew by 1.8 percent in 2010, less than the 5.5 percent growth rate for clinical spending.

Spending on hospital services grew by 4.9 percent in 2010 to \$814.0 billion. This was a deceleration from the 2009 growth rate of 6.4 percent. Much of this was due to a slowdown in the growth of private insurance spending on hospital services. CMS noted that in this component of hospital spending (which is its largest component), that inpatient admissions and elective procedures were down, and that ER use, outpatient hospital visits, and outpatient surgeries grew more slowly than in 2009.

Spending growth in retail outlet sales of prescription drugs was extremely slow in 2010. It grew only 1.2 percent over the prior year to \$259.1 billion. This is the lowest growth rate in this category in the history of the NHE Accounts. Just 10 years ago, spending growth for prescription drugs was near 15 percent. The 2010 slowdown in drug spending was a consequence of many factors including a slower growth in volume, continuing reliance on generic medications, loss of certain patent protections, fewer new drug introductions and a substantial increase in Medicaid prescription drug rebates.

In the aggregate, spending on physician, clinical, and hospital services and spending on prescription drugs amounts to \$1,588.6 billion, or over 60 percent of total 2010 health care spending. Despite the substantially slower growth in 2010 in each of these three large categories, aggregate health spending grew at nearly the same rate in 2010 as in 2009 (3.9 percent growth compared to 3.8 percent growth). Substantial *acceleration* in spending growth in a number of other categories was enough to act as an offset to the slower growth described above. In particular, the net cost of private health insurance (the difference between premiums and benefits paid) grew by 8.4 percent in 2010 compared to a fall of 2.2 percent in 2009. Growth in government spending on public health activities also accelerated, as did investment.

### *Spending by Program*

Private health insurance spending is equivalent to aggregate premiums paid for employer sponsored health insurance, be the employer private or government, and premiums paid for non-group coverage. Private spending was \$848.7 billion in 2010. Growth in this category has been decelerating since 2003, and slowed slightly again in 2010 falling to 2.4 percent growth from 2.6 percent in the prior year. The deceleration was due to enrollment reductions, increases in cost sharing, and shifts to lower-cost plans.

Medicare spending grew by 5.0 percent in 2010 to \$524.6 billion. This was down from 7.0 percent growth in 2009. A primary reason for this is the steep deceleration in the growth of Medicare Advantage spending due to an adjustment in payment rates.

Growth in Medicaid spending also slowed, from 8.9 percent growth in 2009 to 7.2 percent growth in 2010. Total Medicaid spending in 2010 was \$401.4 billion.

Out of pocket spending on health care grew by 1.8 percent in 2010 to \$299.7 billion. This was an acceleration from 2009 when spending in this category grew by only 0.2 percent.

### **Under the Magnifying Glass: Physician Revenue, Financing, and Private Health Insurance**

Using the NHE website as a source, this section of the report examines spending on physician services, the financing of each of the major health programs, and the allocation of private health insurance premiums among various types of benefits and administration and profit.

### *Physician Revenue Sources*

From the physician perspective, spending on physician services, \$415.8 billion in the aggregate in 2010, is equivalent to revenue. Table 1, which covers the 2000 to 2010 period, shows the breakdown of that revenue according to the program it comes from. The top part of the table shows the amount of spending in each category, the middle shows the percent distribution across categories, and the bottom the annualized growth rates for the 2000 to 2005, 2005 to 2010, and the entire 2000 to 2010 periods.

Ten percent of 2010 spending on physician services was paid out of pocket (\$43.1 billion). Private health insurance was the source of 50.4 percent of spending (\$209.4 billion), the Medicare program 25.6 percent (\$106.4 billion), and the Medicaid program 5.3 percent (\$21.9 billion).

On average, spending on physician services grew more slowly over the second half of the 2000 to 2010 period than over the first. The average annual growth rate in spending was 3.8 percent from 2005 to 2010 compared to 7.9 percent from 2000 to 2005. This slowdown was evident in each of the program categories shown in the table.

Changes in the source of physician revenue, and the differential growth rates in each source, are due to many factors, and this overview does not attempt to tease out the relative contributions of each over time. Factors include but are not limited to: changes in payment rates, economic factors, changes in cost sharing, and changes in private health insurance coverage.

### *How Is Health Care Spending Financed?*

Table 2 shows the financing sources for each of the four major programs, for the residual other category, and for total health spending (NHE). In CMS parlance, financing sources are called *sponsors*.<sup>1</sup> Focusing first on 2010 private health insurance spending, we see that 49.3 percent was financed through non-government employer contributions to private premiums (\$414.1 billion). Another 31.3 percent was financed through employee contributions and by individual policy premiums. The remaining 19.4 percent of private health insurance spending was financed by the contributions of federal, state and local government employers to premiums.

The Medicare program is financed both through *dedicated* funding sources, including payroll tax revenue and beneficiary premiums, as well as out of general tax revenues. For the \$511.8 billion in health care paid for by the Medicare program in 2010, 15.6 percent was financed by private business through payroll tax revenues for the Medicare Hospital Insurance (HI) Trust Fund. Another 31.8 percent was financed by households. The household share includes payroll tax revenue from employees and the self-employed to the HI Trust Fund, as well as premiums paid by individuals to the Medicare Supplementary Medical Insurance Trust Fund. Almost 50 percent of Medicare spending (49.6 percent) was financed via trust fund income plus federal general revenue contributions—this is the *adjusted Medicare* category. This is the highest share every financed from general

---

<sup>1</sup> CMS categorizes a few components of the Medicare, Medicaid, and private health insurance programs differently when it looks at how they are financed. For example, 2010 Medicare spending is considered to be \$511.8 billion when looking at the financing of that program rather than \$524.6 billion. These differences stem from how Medicaid buy-ins and Medicare Retiree Drug Subsidy payments are treated in the sponsor, or financing, analysis.

revenues, up about a percentage point from 2009. Finally, a small portion of Medicare spending, 3.0 percent in total, was financed from payroll tax revenue paid by federal, state, and local government employers.

About two-thirds (67.2 percent) of 2010 Medicaid spending was financed by the federal government through general tax revenues. Out of pocket payments are financed entirely by the household sector, and other spending (which includes the CHIP program) from a variety of sources.

The far right column of the table shows how health care spending in the aggregate—the \$2,593.4 billion—was financed. Just under 21 percent of health spending was financed by non-government businesses, 28.0 percent by households, 6.6 percent from other private sources, 28.6 percent by the federal government, and 16.2 percent by state and local governments.

The share of spending financed by the federal government—28.6 percent—is 10 percentage points higher than it was 10 years ago. About 60 percent of the growth in the federal share (6 percentage points) was driven by the Medicare program. First, growth in dedicated financing sources for Medicare has not kept pace with growth in Medicare spending. Between 2000 and 2005 Medicare spending grew by 50.2 percent but dedicated financing for Medicare grew by only 23.1 percent. This increased the reliance on federal general tax revenues. Between 2000 and 2005, general tax revenues grew from funding about 22 percent to 36 percent of the Medicare program.

Second, since 2005, the Retiree Drug Subsidy (Part D) has also been a factor leading to increased reliance of the Medicare program on federal financing. The Drug Subsidy became fully effective in 2006. In that year alone, general tax revenues jumped from financing 36 percent of Medicare spending to 41 percent. Research suggests that use of the Drug Subsidy reduces out of pocket spending by Medicare beneficiaries. This, in turn, also acts to increase the federal share of health care financing.

Approximately 20 percent (or 2 percentage points) of the growth in the federal share of national health spending can be tied to Medicaid. To the extent that employment patterns will return to their pre-recessionary trajectories, this can be viewed as somewhat temporary. Not only did Medicaid account for a larger share of total spending as enrollment in the program went up (rising from 14.2 percent to 15.5 percent of NHE between 2006 and 2010), but the federal government took on a larger share of financing for that program (56.7 percent to 67.2 percent) as mandated by the American Recovery and Reinvestment Act of 2009.

#### *Private Health Insurance Premiums. The Split between Benefit Payments and Profit/Administration*

As discussed above, private health insurance spending (premiums) increased by 2.4 percent in 2010 to a level of \$848.7 billion. Benefit payments (personal health care spending) amounted to \$746.0 billion, or 87.9 percent of premiums. *Net cost*, which includes administrative expenses and profit, made up the other 12.1 percent. Table 3, which covers the 2000 through 2010 period, shows how private health insurance spending is distributed across different types of benefits (e.g., physician, hospital), and shows the annual growth rates in each type of spending.

The percentage of premiums paid out in benefits had been increasing in recent years, rising from 85.8 percent in 2003 to 88.6 percent in 2009. In 2010, however, this percentage dropped slightly to 87.9 percent. Benefit payments grew extremely slowly in 2010, rising

only 1.6 percent over their level in the prior year. This was the smallest annual growth rate in the history of the NHE Accounts. CMS credits slower growth in elective hospital procedures and in the number of prescriptions filled, and fewer physician office visits as important factors in the slowdown. Because benefits payments grew more slowly than premiums (1.6 percent compared to 2.4 percent growth), the share of premiums going to net cost increased slightly, rising from 11.4 percent in 2009 to 12.1 percent in 2010.

### **Summary**

2010 marked another year of slow growth in health spending, up only 2.9 percent over the prior year. This growth rate was only 0.1 percentage point higher than the 2009 increase and these two years accounted for the two slowest rates of growth in the 51 year history of the National Health Expenditure Accounts. There were a number of other growth rates that stood out from a historical perspective. Prescription drug spending increased by only 1.2 percent in 2010. Private health insurance benefit payments grew by 1.6 percent. These two growth rates were also the slowest in those categories in 51 years.

Nearly 29 percent of health spending was financed by the federal government in 2010—a record high. The federal government's share is about 10 percentage points higher than it was only a decade ago.

Sixty percent of that increase has its roots in the Medicare program. Growth in revenue from payroll taxes and beneficiary premiums has not kept pace with growth in program spending. This put increased pressure on federal general tax revenues as a source of Medicare funding. The addition of the Retiree Drug Subsidy has exacerbated the reliance on general tax revenues.

The Medicaid program is responsible for 20 percent of the increased federal share of financing. This is due both to enrollment growth in the program driven by the recession, and by increased federal financing for it, as mandated by the American Recovery and Reinvestment Act of 2009. To the extent that employment patterns will return to their pre-recessionary trajectories, this can be viewed as having a temporary component.

**Table 1. Spending on Physician Services by Program, 2000 – 2010**

Year	Level of Spending (billions \$)								
	Health Insurance							Other Third Party Payers	Total Physician Spending
	Out of Pocket	Private Health Insurance	Medicare	Medicaid	Other	Health Insurance Total			
2000	\$28.0	\$119.4	\$54.2	\$9.9	\$3.6	\$187.2	\$20.9	\$236.0	
2005	\$37.8	\$180.1	\$79.2	\$15.3	\$6.7	\$281.3	\$25.3	\$344.4	
2010	\$43.1	\$209.4	\$106.4	\$21.9	\$11.6	\$349.4	\$23.4	\$415.8	

Year	Distribution of Spending across Program								
	Health Insurance							Other Third Party Payers	Total Physician Spending
	Out of Pocket	Private Health Insurance	Medicare	Medicaid	Other	Health Insurance Total			
2000	11.8%	50.6%	23.0%	4.2%	1.5%	79.3%	8.9%	100%	
2005	11.0%	52.3%	23.0%	4.4%	1.9%	81.7%	7.4%	100%	
2010	10.4%	50.4%	25.6%	5.3%	2.8%	84.0%	5.6%	100%	

Period	Average Annual Rate of Growth								
	Health Insurance							Other Third Party Payers	Total Physician Spending
	Out of Pocket	Private Health Insurance	Medicare	Medicaid	Other	Health Insurance Total			
2000 to 2005	6.2%	8.6%	7.9%	9.1%	13.2%	8.5%	3.9%	7.9%	
2005 to 2010	2.7%	3.1%	6.1%	7.4%	11.6%	4.4%	-1.5%	3.8%	
2000 to 2010	4.4%	5.8%	7.0%	8.3%	12.4%	6.4%	1.1%	5.8%	

Table 2. National Health Expenditures by Sponsor and Program, 2010 (billions \$)

SPONSOR	PROGRAM									
	Private		Medicare		Medicaid		Out of Pocket	Other	Total	
	Level	Percent	Level	Percent	Level	Percent	Level	Level	Level	Percent
<b>Private Business</b>										
Employer contrib. to private HI premiums	\$414.1	49.3%							\$414.1	16.0%
Employer contrib. to Medicare hosp. ins. trust fund			\$79.7	15.6%					\$79.7	3.1%
WC, TDI, WHC								\$40.7	\$40.7	1.6%
Total private business	\$414.1	49.3%	\$79.7	15.6%				\$40.7	\$534.5	20.6%
<b>Household</b>										
Employee contrib. to HI premiums										
Private employer	\$180.5	21.5%							\$180.5	7.0%
Federal employer	\$11.7	1.4%							\$11.7	0.5%
State employer	\$27.6	3.3%							\$27.6	1.1%
Individual policy premiums	\$43.2	5.1%							\$43.2	1.7%
Employee and self-emp. contrib. and voluntary premiums paid to Medicare hosp. ins. trust fund			\$112.2	21.9%					\$112.2	4.3%
Premiums paid by individuals to Medicare SMI trust fund			\$50.5	9.9%					\$50.5	1.9%
Out of pocket							\$299.7		\$299.7	11.6%
Total household	\$263.0	31.3%	\$162.7	31.8%			\$299.7		\$725.4	28.0%
<b>Other Private</b>								\$169.9	\$169.9	6.6%

Table 2 (continued). National Health Expenditures by Sponsor and Program, 2010 (billions \$)

SPONSOR	PROGRAM									
	Private		Medicare		Medicaid		Out of Pocket	Other	TOTAL	
	Level	Percent	Level	Percent	Level	Percent	Level	Level	Level	Percent
<b>Federal</b>										
Employer contrib. to private HI premiums	\$28.5	3.4%							\$28.5	1.1%
Employer contrib. to Medicare hosp. ins. trust fund			\$4.0	0.8%					\$4.0	0.2%
Adjusted Medicare			\$254.0	49.6%					\$254.0	9.8%
Medicaid					\$278.1	67.2%			\$278.1	10.7%
Other health program expenditures								\$178.0	\$178.0	6.9%
Total federal	\$28.5	3.4%	\$258.0	50.4%	\$278.1	67.2%		\$178.0	\$742.6	28.6%
<b>State and local</b>										
Employer contrib. to private HI premiums	\$134.1	16.0%							\$134.1	5.2%
Employer contrib. to Medicare hosp. ins. trust fund			\$11.4	2.2%					\$11.4	0.4%
Medicaid					\$135.9	32.8%			\$135.9	5.2%
Other health program expenditures								\$139.6	\$139.6	5.4%
Total state and local	\$134.1	16.0%	\$11.4	2.2%	\$135.9	32.8%		\$139.6	\$421.0	16.2%
<b>TOTAL</b>	\$839.7	100.0%	\$511.8	100.0%	\$414.0	100.0%	\$299.7	\$528.2	\$2,593.4	100.0%



**Table 3. Private Health Insurance Premiums, Benefits, and Net Cost, 2000 – 2010**

	<b>Level of Spending (billions \$)</b>										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personal Health Care	\$407.1	\$445.8	\$488.5	\$527.5	\$566.9	\$607.7	\$640.6	\$673.5	\$707.5	\$734.0	\$746.0
Hospital	\$141.9	\$154.4	\$170.6	\$186.1	\$201.6	\$218.4	\$237.5	\$250.1	\$266.8	\$279.5	\$285.8
Physician and Clinical	\$138.0	\$150.6	\$163.7	\$177.9	\$189.3	\$201.9	\$211.4	\$222.2	\$233.0	\$237.2	\$239.4
Prescription Drug	\$60.7	\$70.6	\$79.6	\$86.3	\$94.4	\$101.6	\$102.2	\$106.8	\$110.1	\$117.2	\$117.0
Dental	\$31.3	\$34.3	\$36.6	\$37.4	\$40.5	\$42.9	\$45.1	\$47.6	\$49.1	\$50.0	\$51.0
Other Personal Health Care	\$35.2	\$35.8	\$37.9	\$39.8	\$41.2	\$42.9	\$44.5	\$46.8	\$48.5	\$50.1	\$52.8
Net Cost of Health Insurance	\$52.5	\$57.2	\$72.0	\$87.0	\$92.0	\$95.2	\$99.6	\$102.7	\$100.1	\$94.8	\$102.7
Health Consumption Spending	\$459.6	\$503.0	\$560.5	\$614.5	\$658.9	\$702.9	\$740.2	\$776.2	\$807.6	\$828.8	\$848.7
	<b>Average Annual Rate of Growth</b>										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personal Health Care		9.5%	9.6%	8.0%	7.5%	7.2%	5.4%	5.1%	5.1%	3.7%	1.6%
Hospital		8.8%	10.5%	9.1%	8.3%	8.3%	8.7%	5.3%	6.7%	4.8%	2.2%
Physician and Clinical		9.1%	8.7%	8.6%	6.4%	6.6%	4.7%	5.1%	4.9%	1.8%	0.9%
Prescription Drug		16.3%	12.8%	8.3%	9.4%	7.7%	0.5%	4.5%	3.2%	6.4%	-0.2%
Dental		9.8%	6.5%	2.3%	8.3%	5.9%	5.2%	5.5%	3.1%	1.8%	2.2%
Other Personal Health Care		1.9%	5.9%	4.9%	3.4%	4.2%	3.7%	5.3%	3.7%	3.3%	5.3%
Net Cost of Health Insurance		8.9%	25.7%	20.9%	5.7%	3.5%	4.6%	3.2%	-2.6%	-5.2%	8.3%
Health Consumption Spending		9.4%	11.4%	9.6%	7.2%	6.7%	5.3%	4.9%	4.0%	2.6%	2.4%
	<b>Distribution of Spending</b>										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personal Health Care	88.6%	88.6%	87.2%	85.8%	86.0%	86.5%	86.5%	86.8%	87.6%	88.6%	87.9%
Net Cost of Health Insurance	11.4%	11.4%	12.8%	14.2%	14.0%	13.5%	13.5%	13.2%	12.4%	11.4%	12.1%