

# Policy Research Perspectives

## National Health Expenditures, 2013: Another Year, Another Record Low For Growth

By Carol K. Kane, PhD

### Introduction

This Policy Research Perspective (PRP) provides an in-depth look at U.S. national health expenditures (NHE) in 2013. Data for 2013 are the most recent available and were released by the Centers for Medicare and Medicaid Services (CMS) in December 2014 concurrent with an article on NHE in *Health Affairs*. As with every annual release, estimates for previous years are also revised. This PRP also examines how certain components of spending have changed over the past two decades and since the early 1960s when spending was first tracked in its current framework.

NHE grew at a rate of 3.6 percent in 2013 to a level of \$2,919.1 billion dollars or \$9,255 on a per capita basis. Taking into account the minor revisions made to earlier years' estimates, the 3.6 percent rate is (again) a record low from a historical standpoint. It is the lowest annual growth rate since 1961, the first year the current framework for spending was used. As has been widely discussed in policy forums and in the media, the past five years have been characterized by slow growth. In addition to being unusual from a historical standpoint, the slow growth is also noteworthy because it has extended more than 4 years beyond the end of the "Great Recession" in June 2009.

Spending as a percentage of GDP measures the share of our national resources devoted to health care. While seemingly obvious, this is an important metric because—on the flip side—it measures the share of our resources that are not available for other types of consumption. Because annual rates of growth in GDP and health spending have been similar, this percentage has remained constant at 17.4 percent since 2009. This also is unusual from a historical standpoint as almost all year-over-year changes prior to that have been in an upward direction.

### Breaking It Down

NHE is categorized in three different ways:

- The categories under type of expenditure answer the question, "Where does the money go?" They include the different types of services or products that are consumed in the course of health care spending (e.g. hospital stays, physician provided services, and prescription drugs).
- The categories under source of funds answer, "Who pays the bill?" They include the different entities (e.g. Medicare or private health insurance) responsible for payment. Out-of-pocket spending is also a category.
- Finally, the categories under sponsor answer, "And how is all that financed?" Financing recognizes that while most health care utilization in the U.S. is covered by insurance, the

ultimate source of that funding lies elsewhere. For example, private health insurer payments (a type of source of funds) for medical care are financed from premium revenue. Premiums are generally shared by employees and employers, so households and private businesses are the ultimate financing sources for that spending. Households and private businesses are two examples of sponsors.

### **Spending By Type Of Expenditure – Where Does The Money Go?**

Figure 1 shows the breakdown of spending by type of expenditure.

A small portion of U.S. health spending goes toward investment. In 2013, that amounted to \$164.6 billion or 5.6 percent of total spending. This share fluctuated between 6.1 and 6.4 percent of total health spending over the 2000 to 2008 period but has remained at or below 5.8 percent since then.

Health consumption expenditures (HCE) capture the rest of health spending—the 94.4 percent which is not invested but is consumed today. HCE is further divided into spending on government public health activities, government administration, the net cost of health insurance, and on personal healthcare.

Spending on government public health activities in 2013 was \$75.4 billion or 2.6 percent of total spending. Government administration spending amounted to \$37.0 billion or 1.3 percent of total spending.

The net cost of health insurance is the difference between incurred premiums for private health insurance and the amount paid for benefits. It includes administrative costs, additions to reserves, rate credits and dividends, premium taxes and plan profits or losses. This category also reflects the difference between premiums and benefits for private health insurance companies that insure Medicare, Medicaid and CHIP enrollees. In 2013, the net cost of health insurance was \$173.6 billion or 5.9 percent of total health spending.

The remainder of HCE is personal health care spending. This is what we traditionally think of with regard to spending—spending on hospital stays, visits to the physician, or on prescription drugs. In the aggregate, 2013 personal health spending was \$2468.6 billion, 84.6 percent of total health spending.

Large categories of personal health spending are shown in Figure 1. Thirty-two percent of 2013 health care spending (\$936.9 billion) was for hospital services. Spending on physician services (\$470.0 billion) accounted for 16.1 percent of spending, and spending on retail outlet sales of prescription drugs (\$271.1 billion) 9.3 percent. Spending on clinical services, which is often shown combined with spending on physician services, is shown separately and accounts for 4.0 percent of spending (\$116.7 billion).<sup>1</sup> Twenty-three percent of personal health care spending (\$673.9 billion) was for other services not identified separately in Figure 1. The most significant source of spending

---

<sup>1</sup> Clinical spending includes that which occurs in establishments classified as outpatient care centers under the North American Industry Classification System (NAICS).

in that combined group was spending on nursing home care, at \$155.8 billion or 5.3 percent of total spending.<sup>2</sup>

Figure 2 compares the 2004 through 2013 annual growth rates for personal health care spending in the aggregate and for three of its components. Annual 2013 growth rates were similar, ranging from 3.7 percent for physician spending on the low end to 4.3 percent for hospital spending on the high end. The 2013 growth rates for each category are below those for 2012. In addition, the 2013 rates are well below the 2004 annual growth rates which ranged from 6.4 percent for clinical spending to 7.6 percent for hospital spending. In most years, growth in physician spending was well below growth in the other major categories of personal health spending. As a result, physician spending had the lowest average annual growth rate over the 10 year period from 2003 to 2013, 4.4 percent, compared to 5.9 percent for hospital spending and 6.2 percent for clinical spending. Personal health care spending in the aggregate grew by an average of 5.2 percent per year.

### **Spending By Source Of Funds – Who Pays The Bill?**

Figure 3 shows the distribution of national health care spending according to its source of funds. Again, as when looking at spending by type of expenditure, \$164.6 billion (5.6 percent) is invested leaving \$2468.6 billion in health care expenditures to be allocated according to who pays the bill. Although there are many nuances to how CMS categorizes spending, one aspect of it is akin to looking at an explanation of benefits and the amounts a provider receives from the insurer and from the patient. If the covered charge for a person with private health insurance was \$100 with \$80 paid by the insurer and \$20 by the patient, the \$80 would be included under private health insurance spending and the \$20 under out-of-pocket spending. Out-of-pocket spending would include similar patient spending for Medicare and Medicaid enrollees because it encompasses all patient spending regardless of insurance status.

Private health insurance spending in 2013 was \$961.7 billion, 32.9 percent of total spending. Medicare spending, at \$585.7 billion, accounted for 20.1 percent of spending, and Medicaid spending, at \$449.4 billion, 15.4 percent of spending. Only 11.6 percent of health care spending was paid out-of-pocket.

Figure 4 shows how the sources of health care spending have changed over 10 year intervals since spending has been tracked in its current format. Most dramatically, out-of-pocket spending has decreased from 44.2 percent of spending in 1963 to the 11.6 percent seen today. Although Medicaid spending certainly has a cyclical component, viewing it as a share of total health spending over time highlights the changes in the scope of that program. In the 1970s and 1980s its share was under 10 percent. Since 1994 and after numerous expansions over the 1985 to 1990 period, Medicaid spending has accounted for between 14 and 15 percent of total sending regardless of whether the U.S. economy was in a recession or an expansion.<sup>3</sup> Medicare spending has increased from 10 percent of spending in the early years of the program to more than 20 percent in 2013.

<sup>2</sup> Spending on nursing home care includes that made in free-standing facilities only, as well as that in continuing care retirement communities.

<sup>3</sup> For a discussion of Medicaid expansions, see Klemm, JD. Medicaid Spending: A Brief History. *Health Care Financing Review* (Fall, 2000). <http://www.cms.gov/Research-Statistics-Data-and-Systems/Research/HealthCareFinancingReview/downloads/00fallpg105.pdf>.

Private health insurance spending has increased from less than 25 percent of spending in 1963 to 32.9 percent in 2013. This reflects a variety of changes including those in coverage and cost-sharing. Recently, the private health insurance share stood at around 35 percent from 2003 to 2005 and decreased to around 33 percent in 2008 where it has since remained.

### **Spending By Sponsor – So Where Does That Money *Really* Come From?**

Looking at health spending by sponsor addresses the issue of financing. For example, in thinking about private health insurance spending (the \$80 in the example above), some of that comes from *employee* contributions to the premium paid for that policy (which would be categorized under household sponsorship) and some of it comes from *employer* contributions to the premium (categorized under private business sponsorship). Although households with private health insurance make out-of-pocket payments for their healthcare (copayments, coinsurance, and payments before a deductible is reached), those out-of-pocket payments are not included here—they are a separate and distinct source of funds. The financing of private health insurance spending looks only at how the premiums behind that spending are funded.

For Medicare spending, financing sources include dedicated payroll taxes from employers and employees as well as premiums paid by individuals for Supplementary Medical Insurance (SMI). An additional and large financing source for Medicare spending is “adjusted Medicare.” This includes spending that is financed out of general tax revenue because the dedicated financing sources are not sufficient. Again, out-of-pocket payments made by Medicare beneficiaries are not included.

Figure 5 shows the breakdown of 2013 health spending by sponsor. To the far right, it has the breakdown of overall spending—20.9 percent by private business, 28.2 percent by households, 25.9 percent by the federal government, 17.4 percent from state/local governments, and 7.5 percent from other private sources. In the columns to the left of that the figure shows how private health insurance spending and Medicare spending are financed.

For private health insurance spending, 31.3 percent was financed by the household sector through contributions to premiums. This includes employee contributions as well as contributions of those who purchase private insurance outside of their job. Forty-nine percent was financed by private employer contributions to premiums and 3.4 and 16.3 percent by the federal and state/local governments, respectively, in their role as employers. Premium contributions of federal and state/local government employees are included in the household sponsor category (the 31.3 percent).<sup>4</sup>

Thirty-three percent of Medicare spending was financed by the household sector. About two-thirds of the household share was payroll taxes and the remainder was premiums paid for SMI. Sixteen

---

<sup>4</sup> The private and Medicare spending totals in Figure 5 differ from those in Figure 3. This is because CMS categorizes a few components of private, Medicare, and Medicaid spending differently when it looks at how those sources of funds are financed. Medicare spending is lower by about \$21 billion in Figure 5; private spending is lower by about \$2 billion. These differences are driven by the reclassification of spending for Medicare Premium Buy-ins and Medicare Retiree Drug Subsidy payments.

percent of Medicare spending was financed by the payroll tax paid by private employers. Forty-nine percent was financed by the federal government. Almost all of this was adjusted Medicare, although a very small piece was the payroll tax paid by the federal government in its role as an employer.

Figure 6 gives an overview of how the financing of health care has changed over the past 20 years. The rightmost bar—for 2013—is the same as that presented in Figure 5. Here, you can see the gradual shrinking of the private business and household shares. The household share fell from 31.6 percent of spending in 1993 to 28.2 percent in 2013. This stems from relative decreases in out-of-pocket spending, which fell from 15.8 percent of health spending in 1993 to 11.6 percent in 2013. The share of health spending financed through premium contributions for private health insurance and employee payroll taxes/SMI premiums (the other components of the household share) have held relatively constant over this period.

On the flip side, we see growth in the shares of spending financed by the federal and state/local governments. The federally financed share of spending grew from 21.0 percent in 1993 to 25.9 percent in 2013. This was due almost entirely to growth in adjusted Medicare, which rose from 5.2 percent of health spending in 1993 to 9.4 percent in 2014 despite a slight slowing in the last three years of that period.

## Summary

NHE grew at a rate of 3.6 percent in 2013 to a level of \$2,919.1 billion dollars or \$9,255 on a per capita basis. Taking into account the minor revisions made to earlier years' estimates, the 3.6 percent rate is (again) a record low from a historical standpoint. It is the lowest annual growth rate since 1961, the first year the current framework for spending was used.

Spending growth has continued at its slow pace since 2008 with annual growth over the five year period from 2008 to 2013 averaging only 3.9 percent while that for the prior five year period (2003 to 2008) period averaged 6.3 percent per year. Health spending and GDP have grown at similar rates since 2008 as well, so that spending as a share of GDP has remained constant at 17.4 percent.

In 2013, 84.6 percent of total health care spending was for personal health care—hospital services, physician services, prescription drugs, and the like. The remaining 15.4 percent of spending was for government administration, government public health activities, the net cost of health insurance and investment. Thirty-two percent (\$936.9 billion) of total spending was for hospital services. Spending on physician services (\$470.0 billion) accounted for 16.1 percent of spending, and spending on retail outlet sales of prescription drugs (\$271.1 billion) 9.3 percent. Over the 2003 to 2013 period, physician spending grew at a lower average annual rate (4.4 percent) than did hospital or clinical spending (5.9 percent and 6.2 percent, respectively).

Looking at spending from a source of funds perspective, 11.6 percent (\$339.4 billion) of 2013 health spending was paid out-of-pocket compared to 15.4 percent (\$449.4 billion) from Medicaid, 20.1 percent (\$585.7 billion) from Medicare, and 32.9 percent (\$961.7 billion) from private health insurance spending. The remaining 5.6 percent was investment. The out-of-pocket share has decreased near continuously over time even despite a recent trend toward higher deductible health

plans. In 1963, it stood at 44.2 percent. CMS predicts that the out-of-pocket share of spending will fall below 10 percent by 2023.<sup>5</sup>

From a financing perspective, households account for the largest share of spending. They were the source for 28.2 percent of health spending in 2013. The federal government was next at 25.9 percent followed by private business at 20.9 percent. The federal share of spending was up from 21.0 percent in 1993. Its growth was due almost entirely to growth in adjusted Medicare (funding out of general tax revenue), which rose from 5.2 percent of health spending in 1993 to 9.4 percent in 2014. This reflects that the dedicated household and business funding sources for Medicare (payroll tax revenue and SMI premiums) are increasingly insufficient to cover costs.

AMA Economic and Health Policy Research, March 2015

2015-2

---

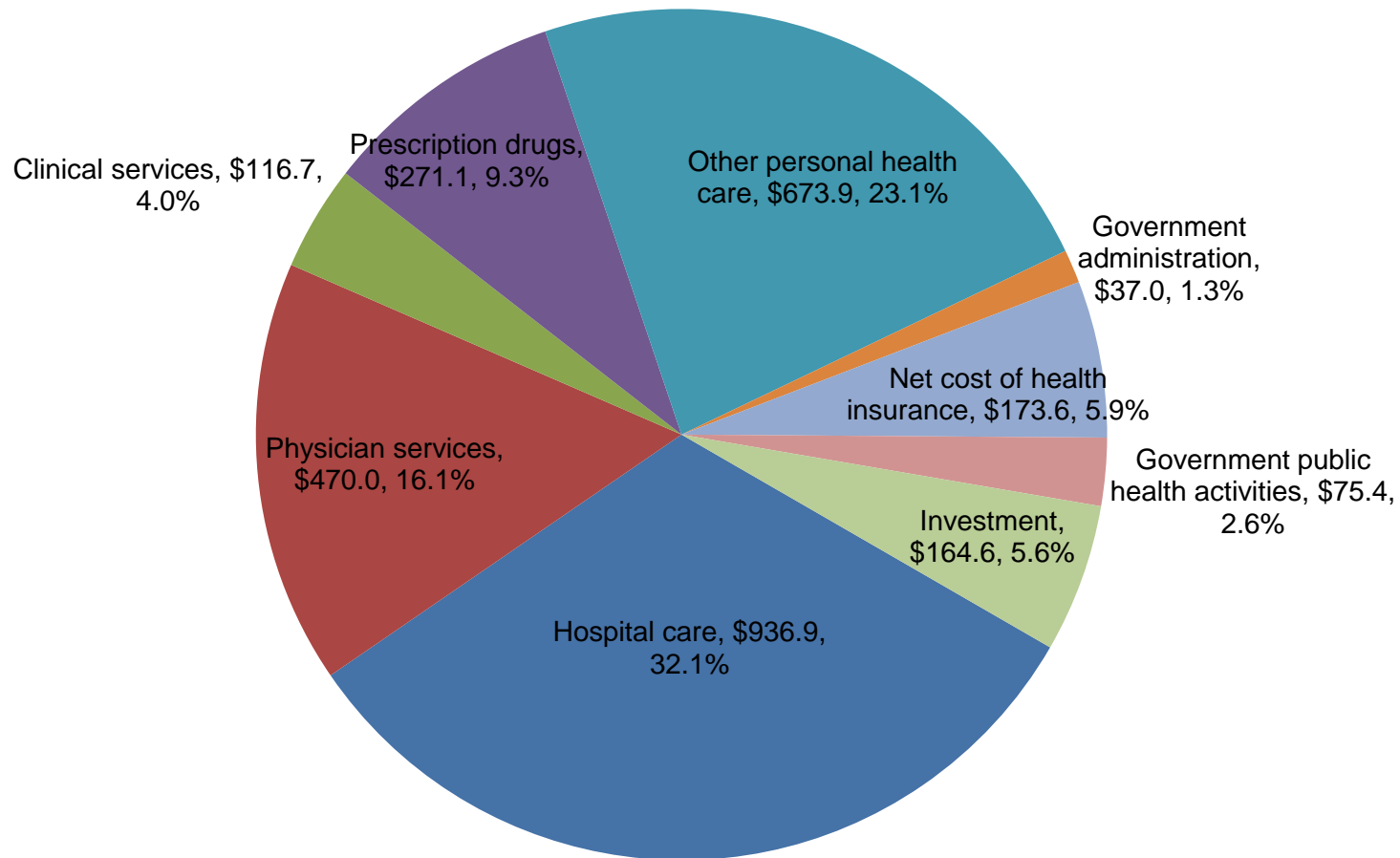
<sup>5</sup> See Sisko, AM. et al. National Health Expenditure Projections, 2013-23: Faster Growth Expected With Expanded Coverage And Improving Economy. *Health Affairs* (October, 2014). <http://content.healthaffairs.org/content/33/10/1841.full.pdf+html>.

**References**

CMS. National health expenditure data: historical. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>.

Hartman, M. et al. National health spending in 2013: growth slows, remains in step with the overall economy. Health Affairs (Project Hope). 2015;34(1):150-160. Available from <http://content.healthaffairs.org/content/34/1/150.full.pdf+html>.

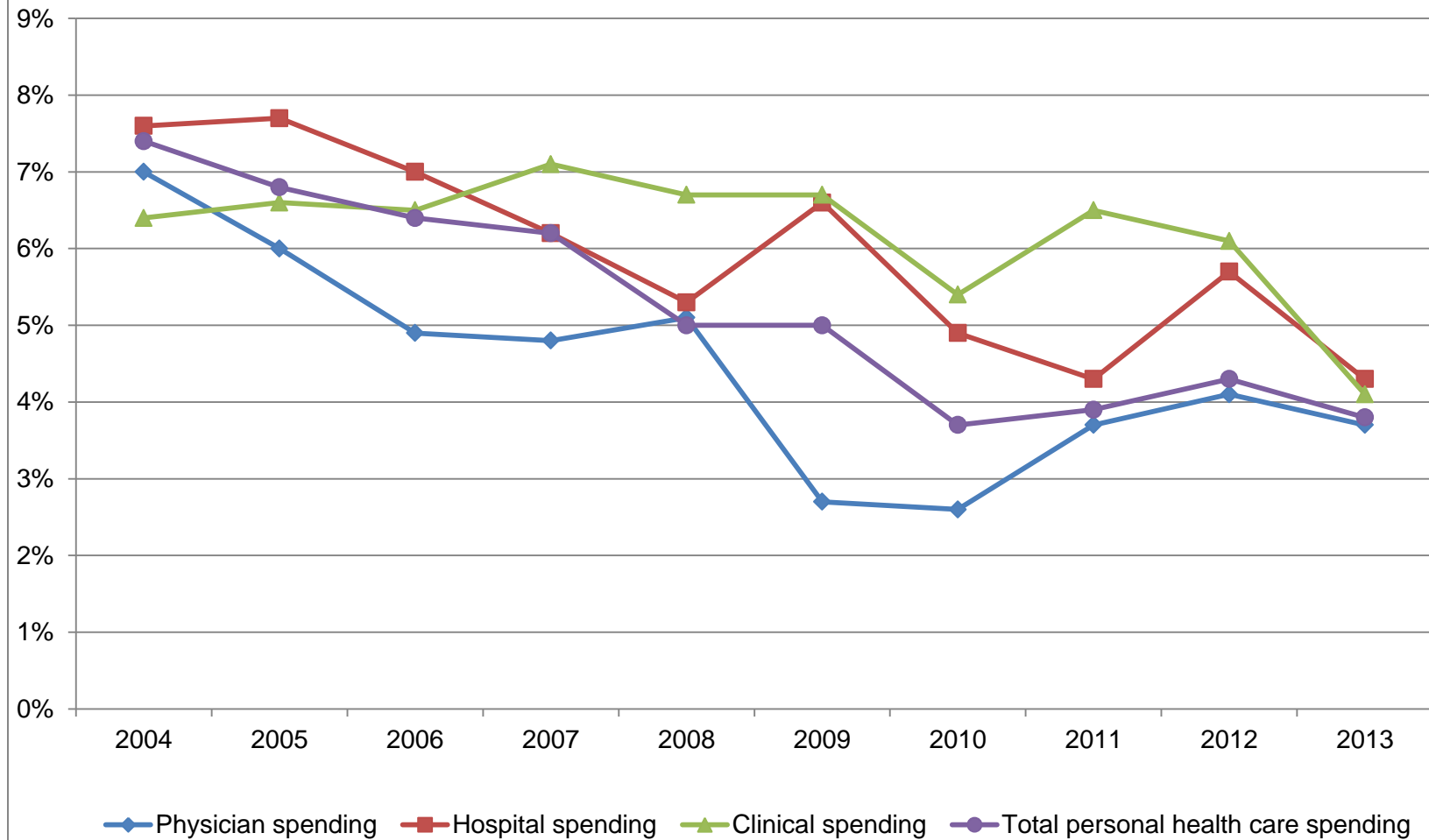
**Figure 1. The U.S. Spent \$2,919.1 Billion on Health Care in 2013.  
Where Did It Go?**



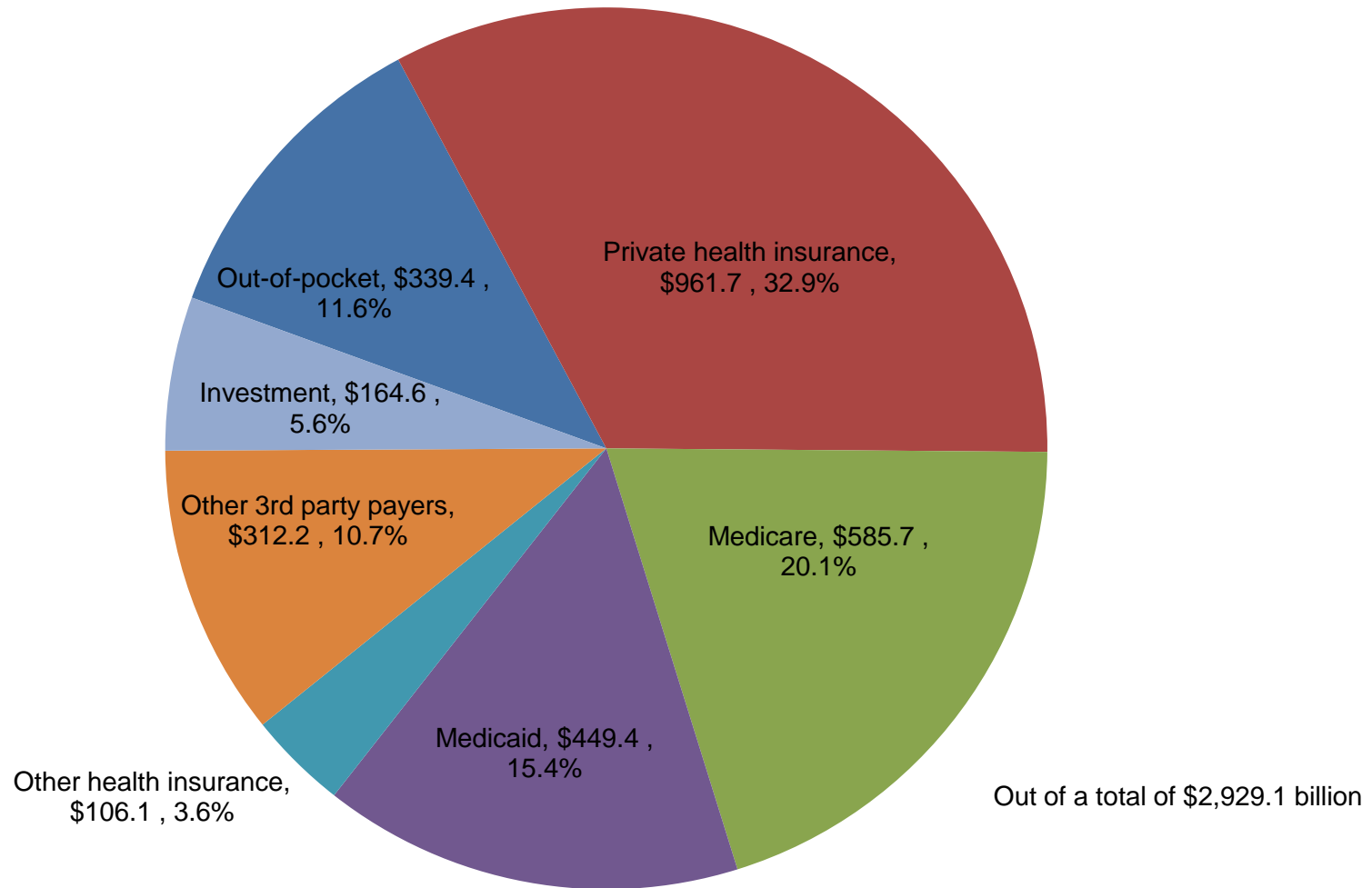
Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>. Tables 2, 9 and 10 in NHE Tables [ZIP].



**Figure 2. Annual Spending Growth Over The 2004 To 2013 Period**

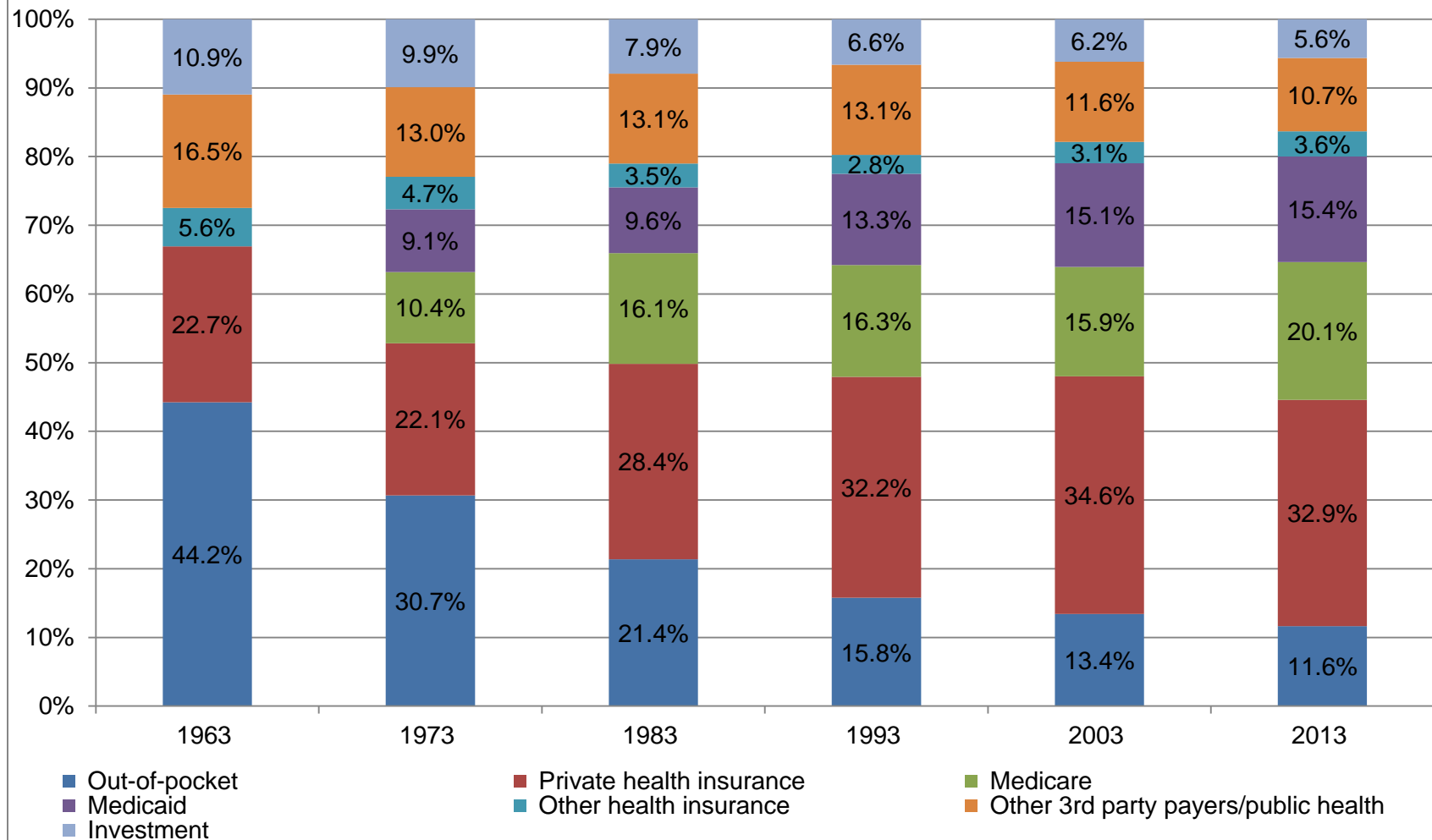


Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>. Tables 6, 7, 9 and 10 in NHE Tables [ZIP].

**Figure 3. 2013 Health Care Spending By Source Of Funds**

Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>. Table 3 in NHE Tables [ZIP].

**Figure 4. National Health Spending By Source Of Funds:  
A Historical Perspective**



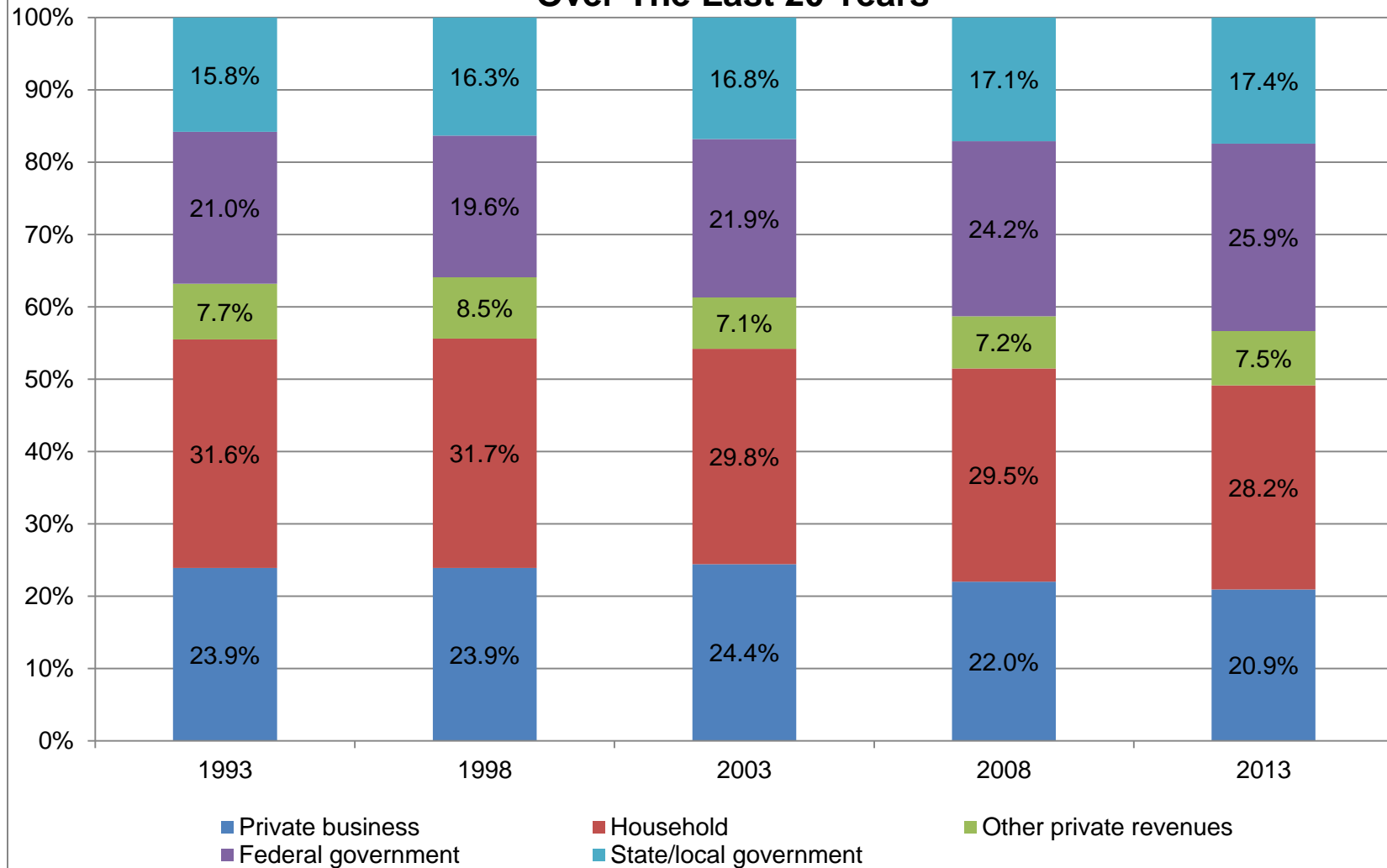
Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>. Table 3 in NHE Tables [ZIP].

**Figure 5. The Financing Of Medicare Spending, Private Health Insurance Spending And Of NHE, 2013 (billions of dollars)**

SPONSOR	PRIVATE SPENDING		MEDICARE SPENDING		NHE	
	Level	Percentage	Level	Percentage	Level	Percentage
<b>Private Business</b>	<b>\$471.1</b>	<b>49.1%</b>	<b>\$91.7</b>	<b>16.2%</b>	<b>\$610.9</b>	<b>20.9%</b>
Employer Contrib. to Private HI Premiums	\$471.1	49.1%			\$471.1	16.1%
Employer Contrib. to Medicare Hosp. Ins. Trust Fund			\$91.7	16.2%	\$91.7	3.1%
WC, TDI, WHC					\$48.2	1.7%
<b>Household</b>	<b>\$300.2</b>	<b>31.3%</b>	<b>\$183.8</b>	<b>32.5%</b>	<b>\$823.8</b>	<b>28.2%</b>
Employee Contrib. to Private HI Premiums	\$249.8	26.0%			\$249.8	8.6%
Individual Policy Premiums	\$50.4	5.3%			\$50.4	1.7%
Employee and Self-Emp. Contrib. and Voluntary Premiums Paid to Medicare Hosp. Ins. Trust Fund			\$124.8	22.1%	\$124.8	4.3%
Premiums Paid by Individuals to Medicare Medicare Supplementary Medical Ins. Trust Fund			\$59.0	10.4%	\$59.4	2.0%
Out of Pocket					\$339.4	11.6%
<b>Other Private</b>					<b>\$218.1</b>	<b>7.5%</b>
<b>Federal</b>	<b>\$32.4</b>	<b>3.4%</b>	<b>\$278.0</b>	<b>49.2%</b>	<b>\$757.5</b>	<b>25.9%</b>
Employer Contrib. to Private HI Premiums	\$32.4	3.4%			\$32.4	1.1%
Employer Contrib. to Medicare Hosp. Ins. Trust Fund			\$4.0	0.7%	\$4.0	0.1%
Adjusted Medicare Medicaid			\$274.0	48.5%	\$274.0	9.4%
Other Health Program Expenditures					\$267.1	9.2%
					\$180.0	6.2%
<b>State &amp; Local</b>	<b>\$156.0</b>	<b>16.3%</b>	<b>\$11.4</b>	<b>2.0%</b>	<b>\$508.8</b>	<b>17.4%</b>
Employer Contrib. to Private HI Premiums	\$156.0	16.3%			\$156.0	5.3%
Employer Contrib. to Medicare Hosp. Ins. Trust Fund			\$11.4	2.0%	\$11.4	0.4%
Medicaid					\$196.3	6.7%
Other Health Program Expenditures					\$145.2	5.0%
<b>TOTAL</b>	<b>\$959.7</b>	<b>100.0%</b>	<b>\$564.8</b>	<b>100.0%</b>	<b>\$2,919.1</b>	<b>100.0%</b>

Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>. Tables 1, 4 and 5 in Sponsor Highlights [ZIP].

**Figure 6. The Financing Of Health Care Spending Over The Last 20 Years**



Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>. Tables 1, 4 and 5 in Sponsor Highlights [ZIP].