

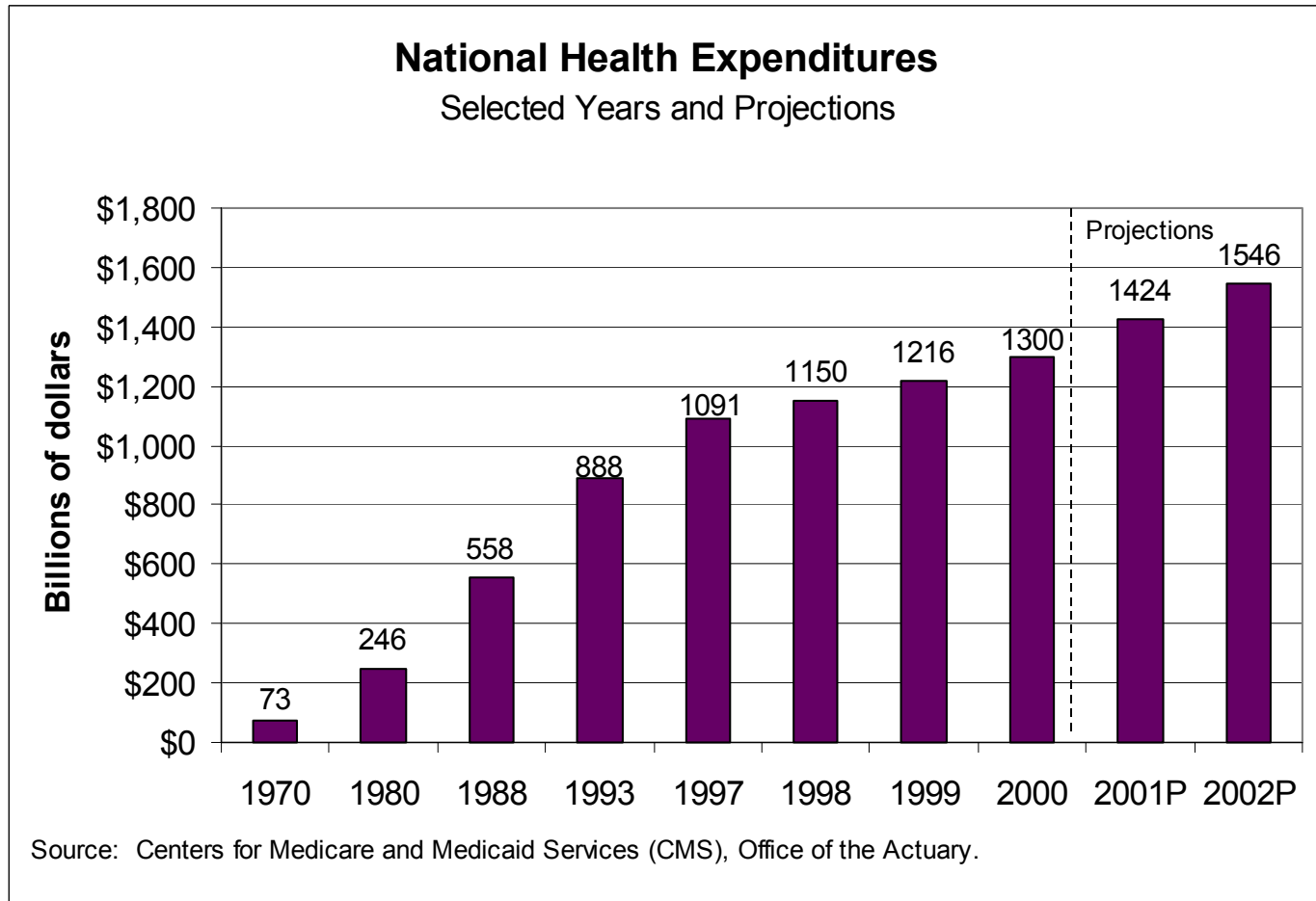
Health Care Costs 101

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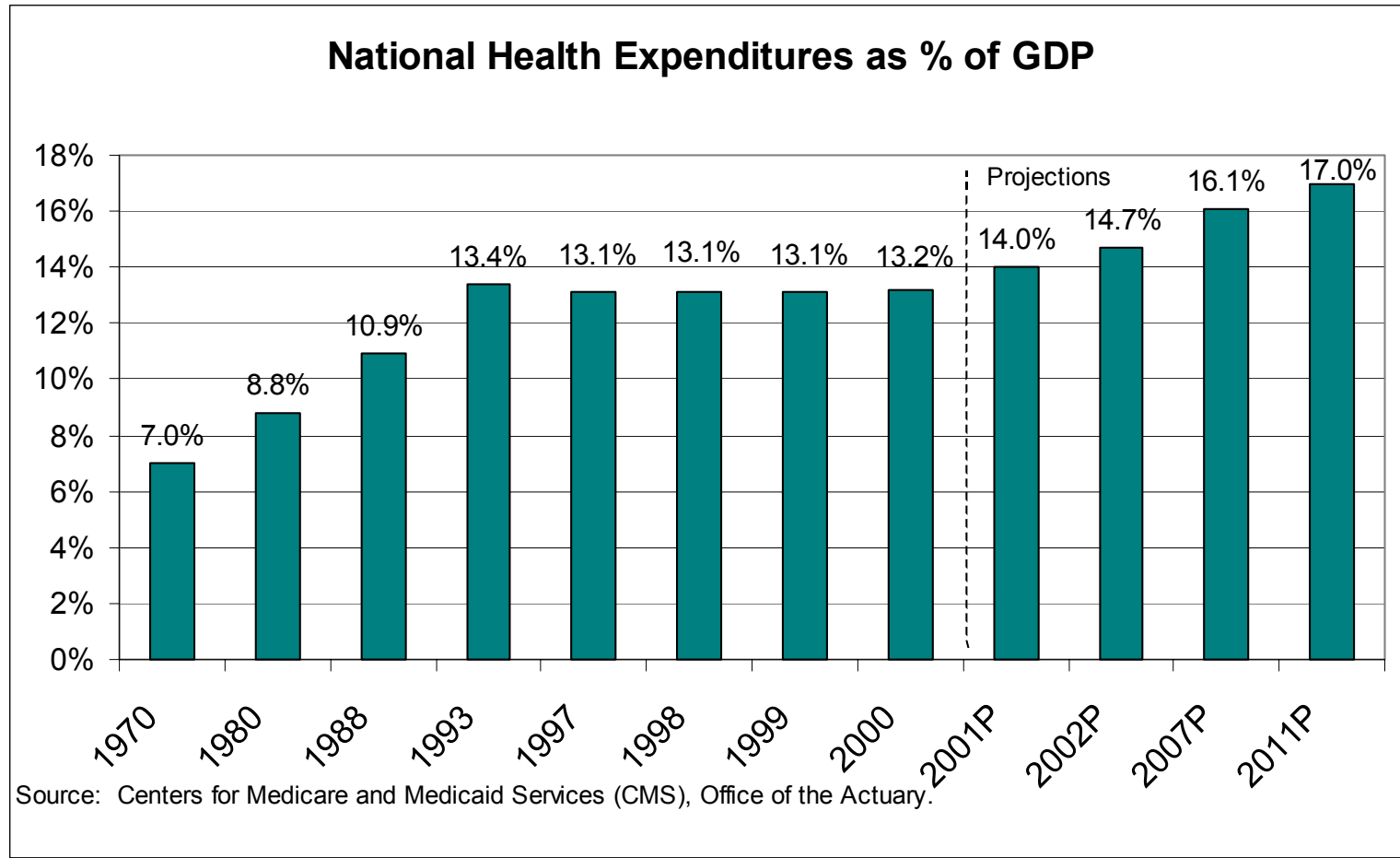
1. Levels of Spending

U.S. health spending continues to grow.



Note: Selected rather than continuous years of data are shown prior to 1997. Years 2001 forward are CMS projections.

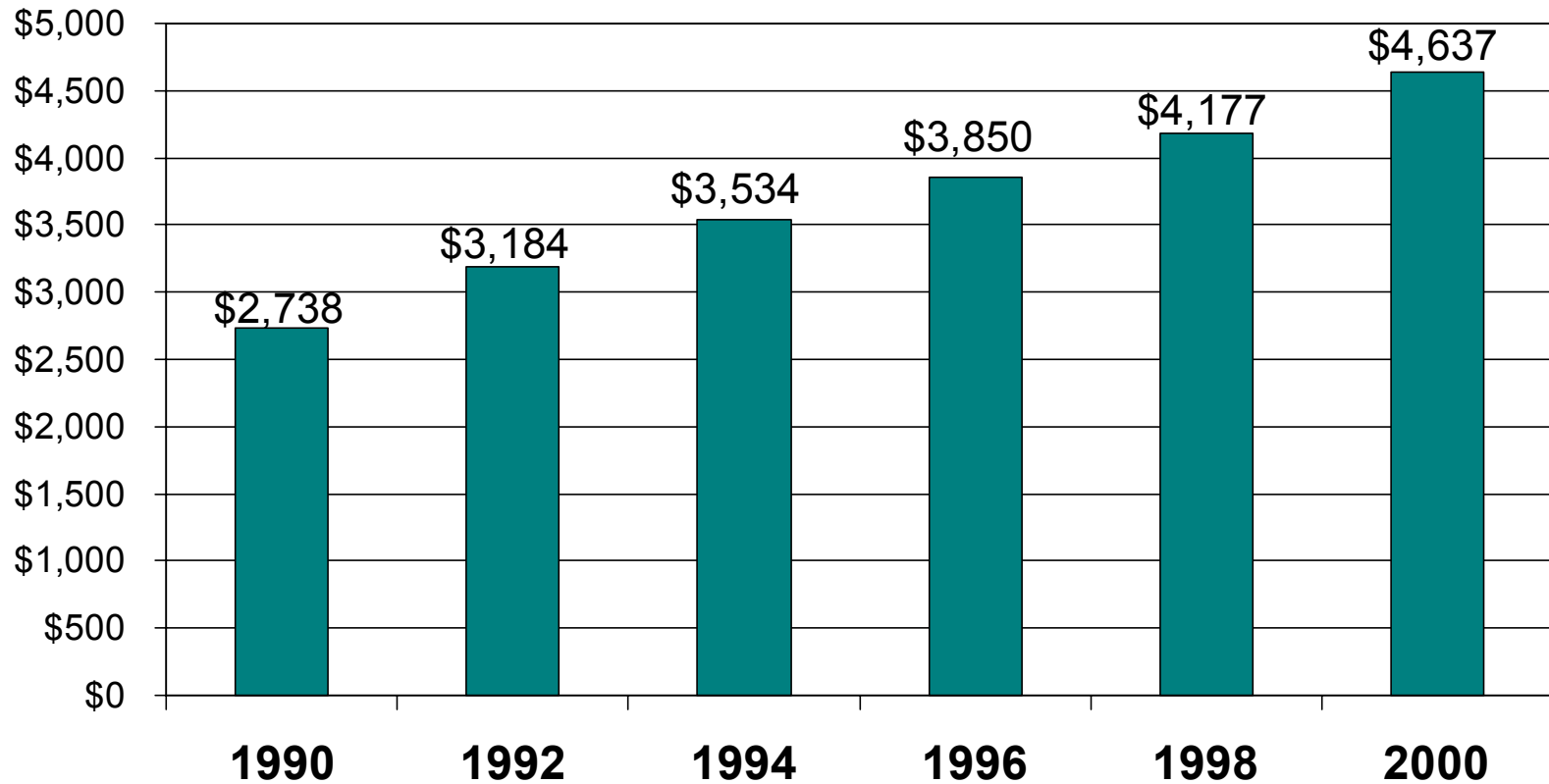
U.S. health care represents a growing share of the economy.



Note: Selected rather than continuous years of data are shown prior to 1997. Years 2001 forward are CMS projections.

Health expenditures per capita increased 69% between 1990 and 2000.

National Health Expenditures per Capita

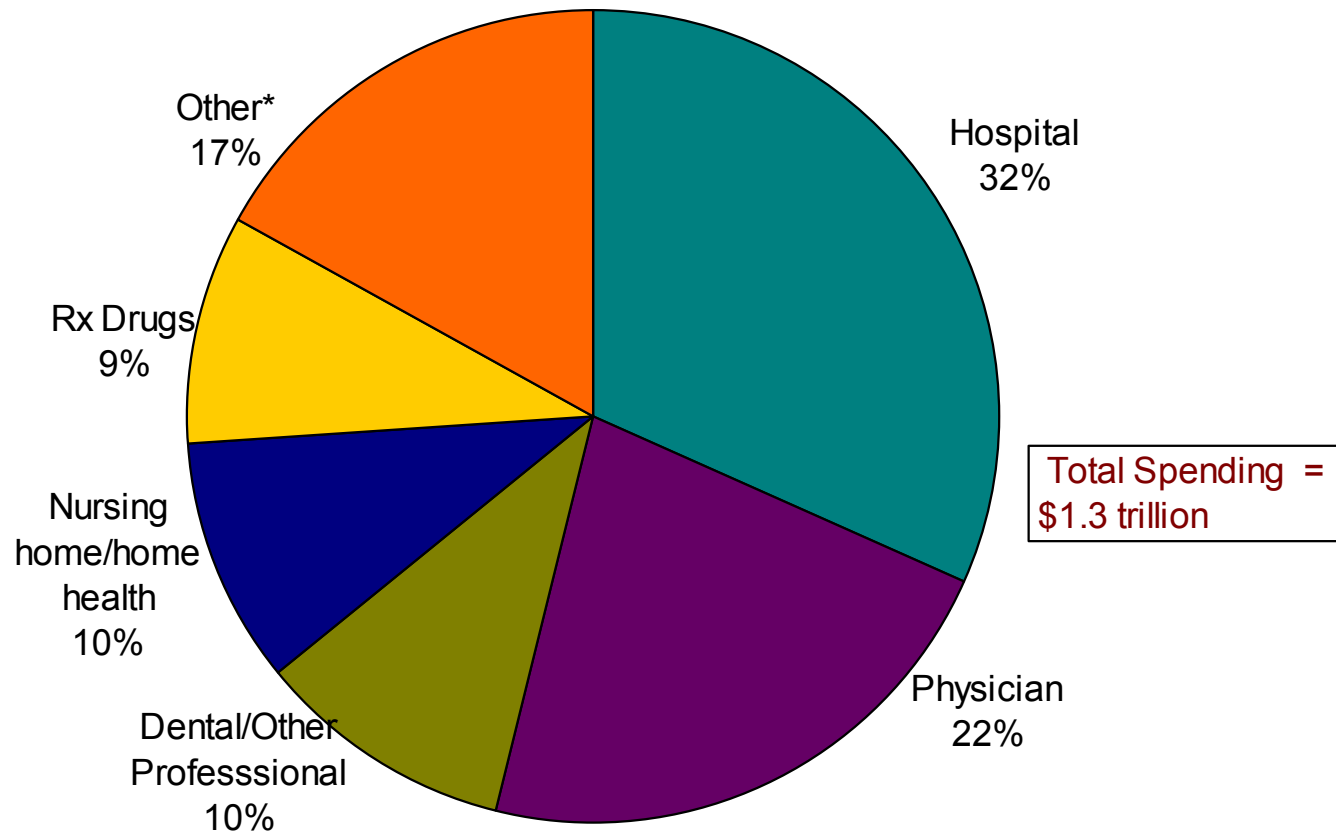


Source: Centers for Medicaid and Medicare Services, Office of the Actuary (in Trends and Indicators in the Changing Health Care Marketplace, KFF, 5/02)

2. Components of Spending

Where does the health care dollar go?

Distribution of National Health Expenditures, Year 2000



Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

*Other is a collective category composed of: Government administration & net cost of private health insurance, Government public health activities, and non-prescription drug components of the Retail outlet sales category (i.e. Durable medical equipment and Other nondurable medical products).

Table 1. National Health Expenditures Summary: Spending Levels, Increases, and Distributions

National Health Expenditures Summary: Component Dollar Expenditures, Increases and Distribution							
	Spending Levels (Dollars in Billions)		Increase (2000 over 1999)			Spending Distribution	
	1999	2000	in \$	in %	Distribution	1999	2000
National Health Expenditures Total	\$ 1,215.6	\$ 1,299.5	\$ 83.9	6.9%	100%	100%	100%
Hospital	392.2	412.1	19.9	5.1%	24%	32%	32%
Physician	270.2	286.4	16.2	6.0%	19%	22%	22%
Dental/Other Professional	126.8	135.7	8.9	7.0%	11%	10%	10%
Nursing home/home health	121.6	124.7	3.1	2.5%	4%	10%	10%
Rx Drugs	103.9	121.8	17.9	17.2%	21%	9%	9%
Other	200.9	218.7	17.8	8.9%	21%	17%	17%

Note: The "Dental/Other Professional" and "Other" categories listed above are constructed from the national health expenditure categories detailed in the associated Table 2 :

"Dental/Other professional" is composed of the professional sub-categories: Other professional, Dental, Other personal health care.

"Other" is composed of: DME, Other non-durables, Government administration and net cost of private health insurance, Government public health activities, and Investment.

Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

Table 2. Category Detail on National Health Expenditures

National Health Expenditures Detail (in billions of dollars)				Increases in spending 1999-2000		
Categories and sub-categories	1999	2000	Spending Dist Yr 2000	\$ Increase	Dist of Increase	% Increase
NHE	1215.6	1299.5	100.0%	83.9	100%	6.9%
Health services and supplies	1175	1255.5	96.6%	80.5	96%	6.9%
Personal health care	1062.6	1130.4	87.0%	67.8	81%	6.4%
Hospital	392.2	412.1	31.7%	19.9	24%	5.1%
Professional	397	422.1	32.5%	25.1	30%	6.3%
Physician	270.2	286.4	22.0%	16.2	19%	6.0%
Other professional*	36.7	39	3.0%	2.3	3%	6.3%
Dental*	56.4	60	4.6%	3.6	4%	6.4%
Other personal health care*	33.7	36.7	2.8%	3	4%	8.9%
Nursing home/home health	121.6	124.7	9.6%	3.1	4%	2.5%
Home health	32.3	32.4	2.5%	0.1	0%	0.3%
Nursing home	89.3	92.2	7.1%	2.9	3%	3.2%
Retail outlet sales of medical products	151.8	171.5	13.2%	19.7	23%	13.0%
Rx Drugs	103.9	121.8	9.4%	17.9	21%	17.2%
DME ⁺	17.6	18.5	1.4%	0.9	1%	5.1%
Other non-durables ⁺	30.4	31.2	2.4%	0.8	1%	2.6%
Government admin & net cost of private health insurance ⁺	71.5	80.9	6.2%	9.4	11%	13.1%
Gvt Public health activities ⁺	40.9	44.2	3.4%	3.3	4%	8.1%
Investment ⁺	40.5	43.9	3.4%	3.4	4%	8.4%
Research	23.1	25.3	1.9%	2.2	3%	9.5%
Construction	17.5	18.6	1.4%	1.1	1%	6.3%

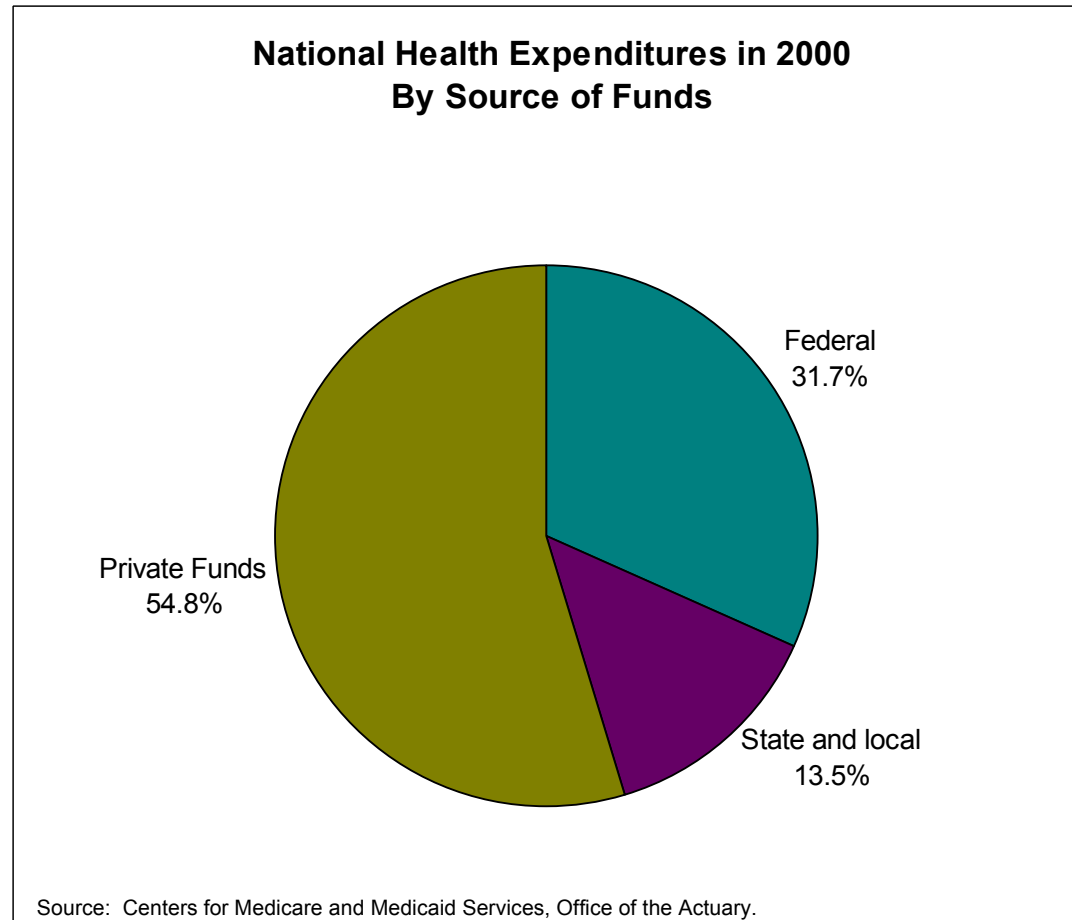
* Categories combined to create "Dental/Other Professional" component.

+ Categories combined to create "Other" component.

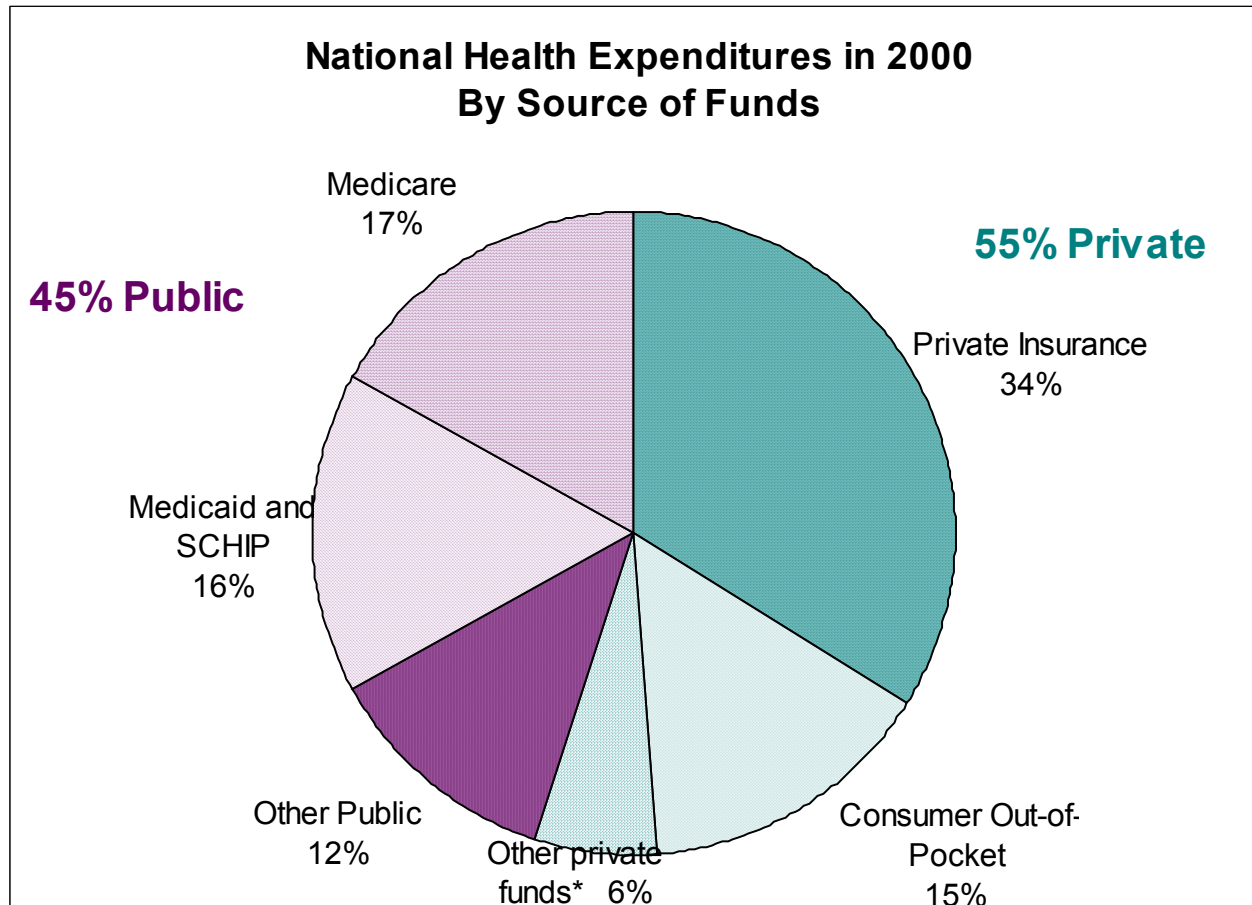
Note: Some data, including state health care expenditures, are reported at the level of personal health care (PHC). PHC = Hosp + Prof + Nrsg home + Retail. Some reporting also occurs at the level of health services & supplies (HSS). HSS = personal health care + gvt. admin & net cost pvt ins + gvt public health.

3. Sources of Payment

Where does the health care dollar come from?



Nearly half of health care spending goes to public funds.

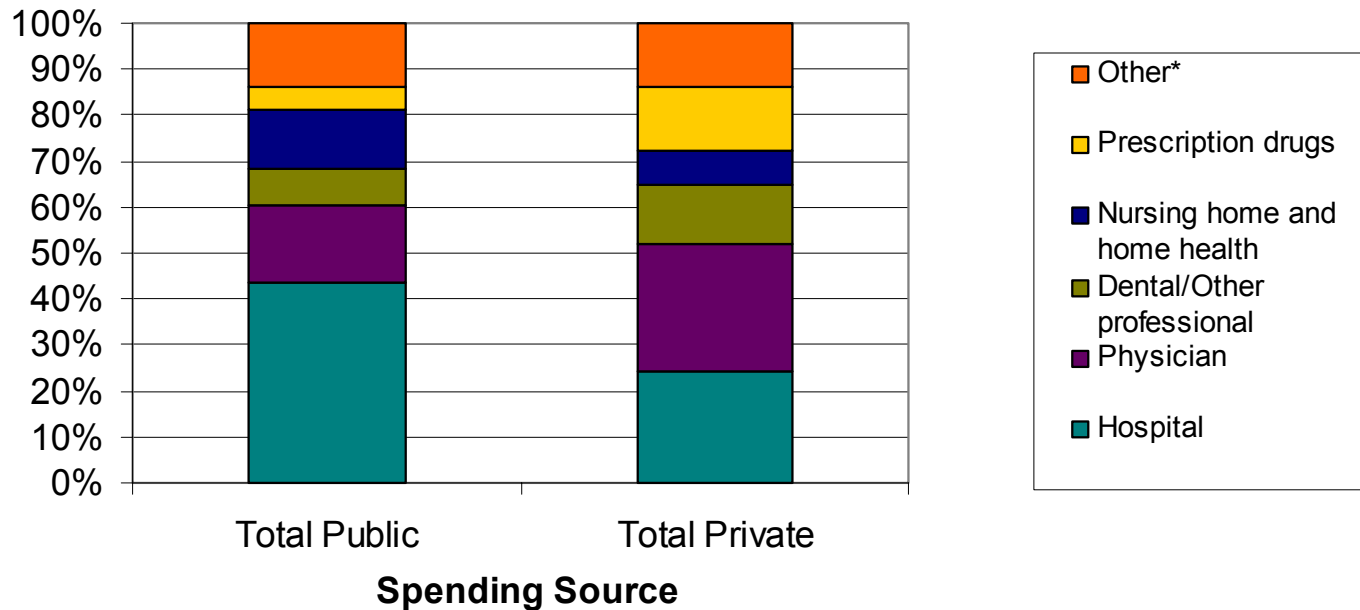


Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

*Other private funds include philanthropy and non-patient revenues.

A larger share of the public dollar is spent on institutional care, while more of the private dollar goes into physician services and prescription drugs.

Allocation of Spending on Health Services and Supplies, Year 2000



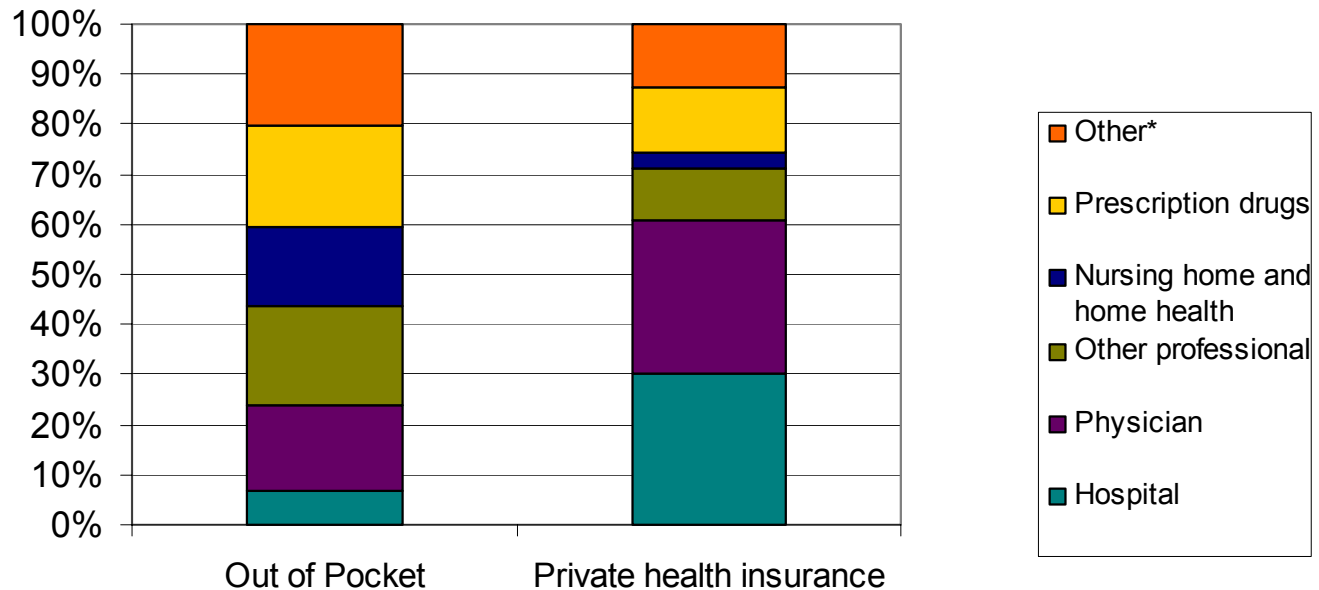
Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

* Other includes Government administration & net cost of private health insurance, Government public health activities, and non-prescription drug components of the retail outlet sales category (i.e. Durable medical equipment and Other nondurable medical products).

Note: Data based on the Health Services and Supplies (HSS) category of National Health Expenditures (NHE); HSS includes all NHE spending except investment (research and construction). (HSS = Personal health care + Government administration & net cost of private insurance + government public health activities).

Private spending includes both out-of-pocket and private health insurance.

Allocation of Private Spending on Health Services and Supplies, Year 2000



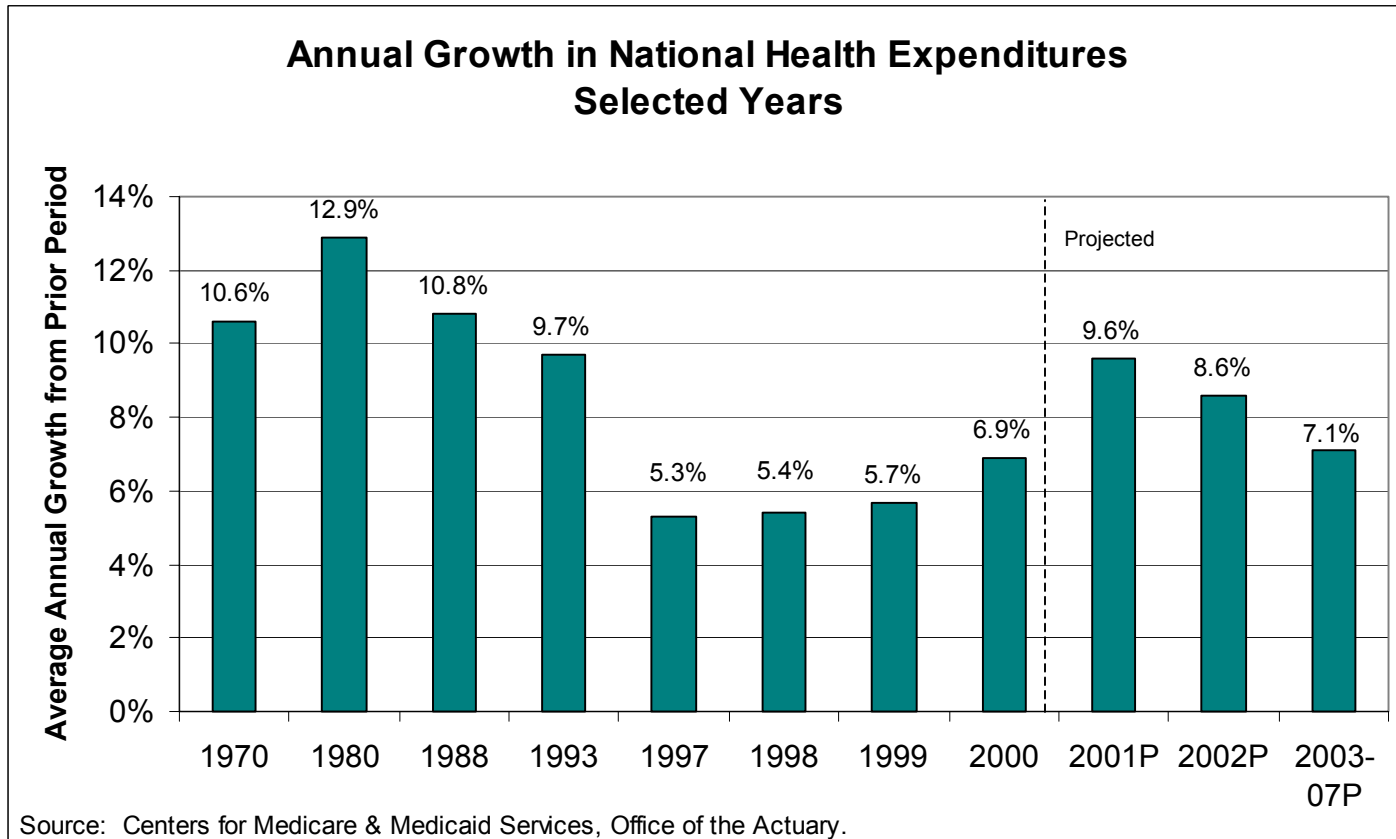
Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

* Other includes Government administration & net cost of private health insurance, Government public health activities, and non-prescription drug components of the retail outlet sales category (i.e. Durable medical equipment and Other nondurable medical products).

Note: Together out-of-pocket and private health insurance comprise approximately 90% of total private spending. Other private funds (not shown) include philanthropy and non-patient revenue. Out-of-pocket spending includes direct spending by consumers for all health care goods and services, such as coinsurance, deductibles and any amounts not covered by insurance. Out-of-pocket premiums paid by individuals are not counted here but are counted as part of private health insurance. Data based on the Health Services and Supplies HSS) category of National Health Expenditures (NHE).

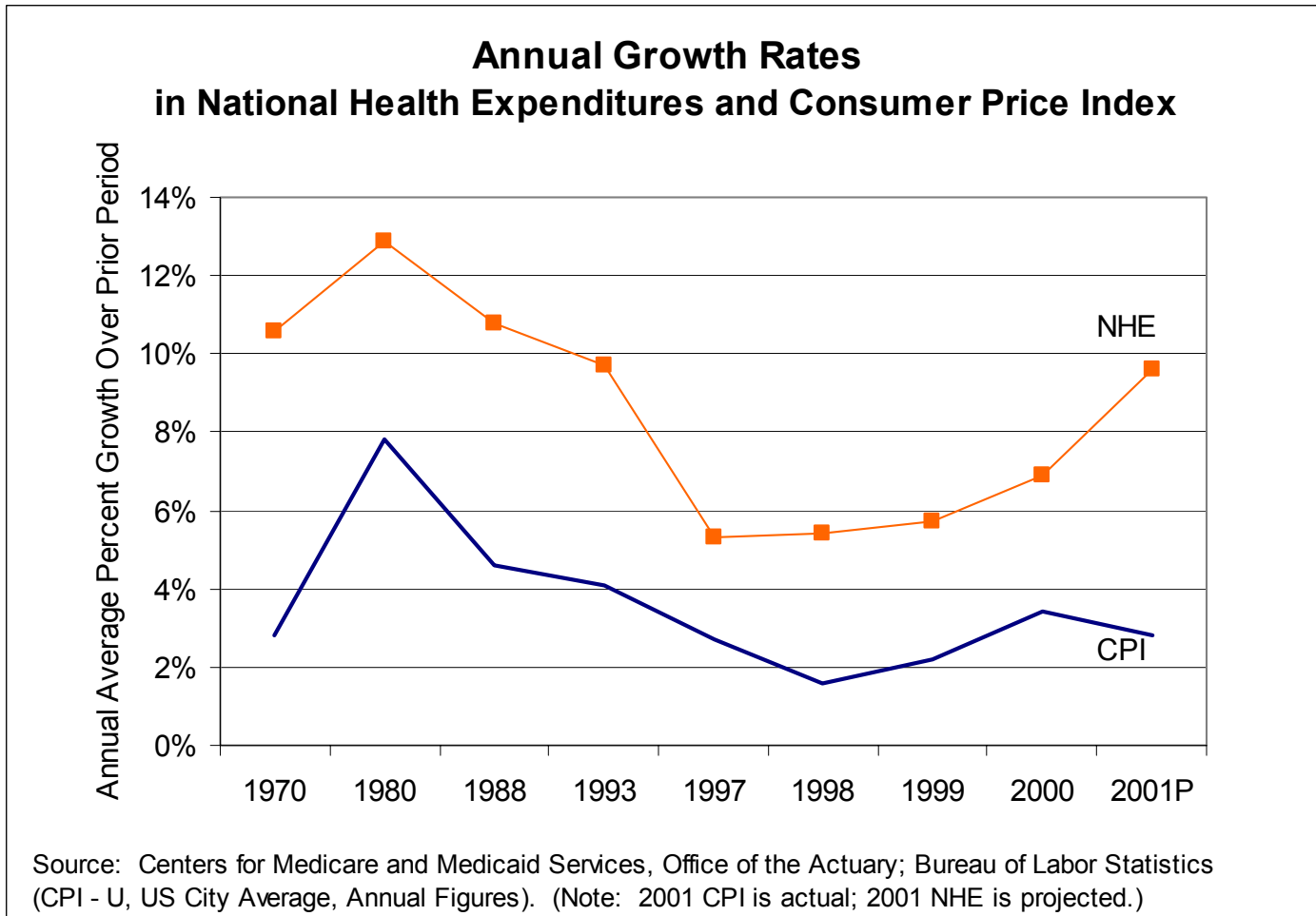
4. Growth Trends in Spending

Growth in national health expenditures was low in the mid to late 90s, but is now on the rise.



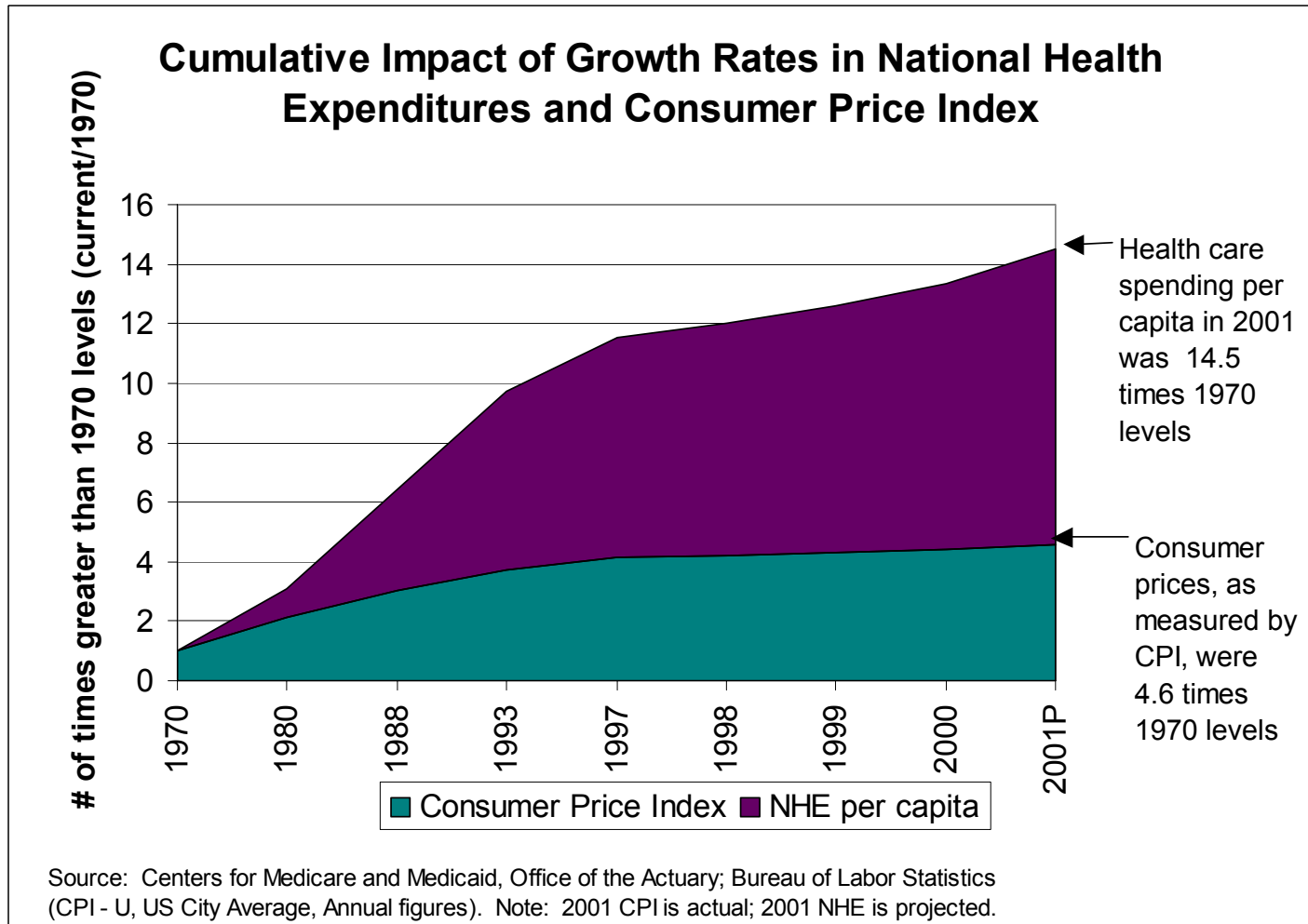
Note: Selected rather than continuous years of data are shown prior to 1997.
Average annual growth for period ending 1970 reflects growth from 1960 – 1970.

Health spending has been increasing at a faster pace than general inflation.



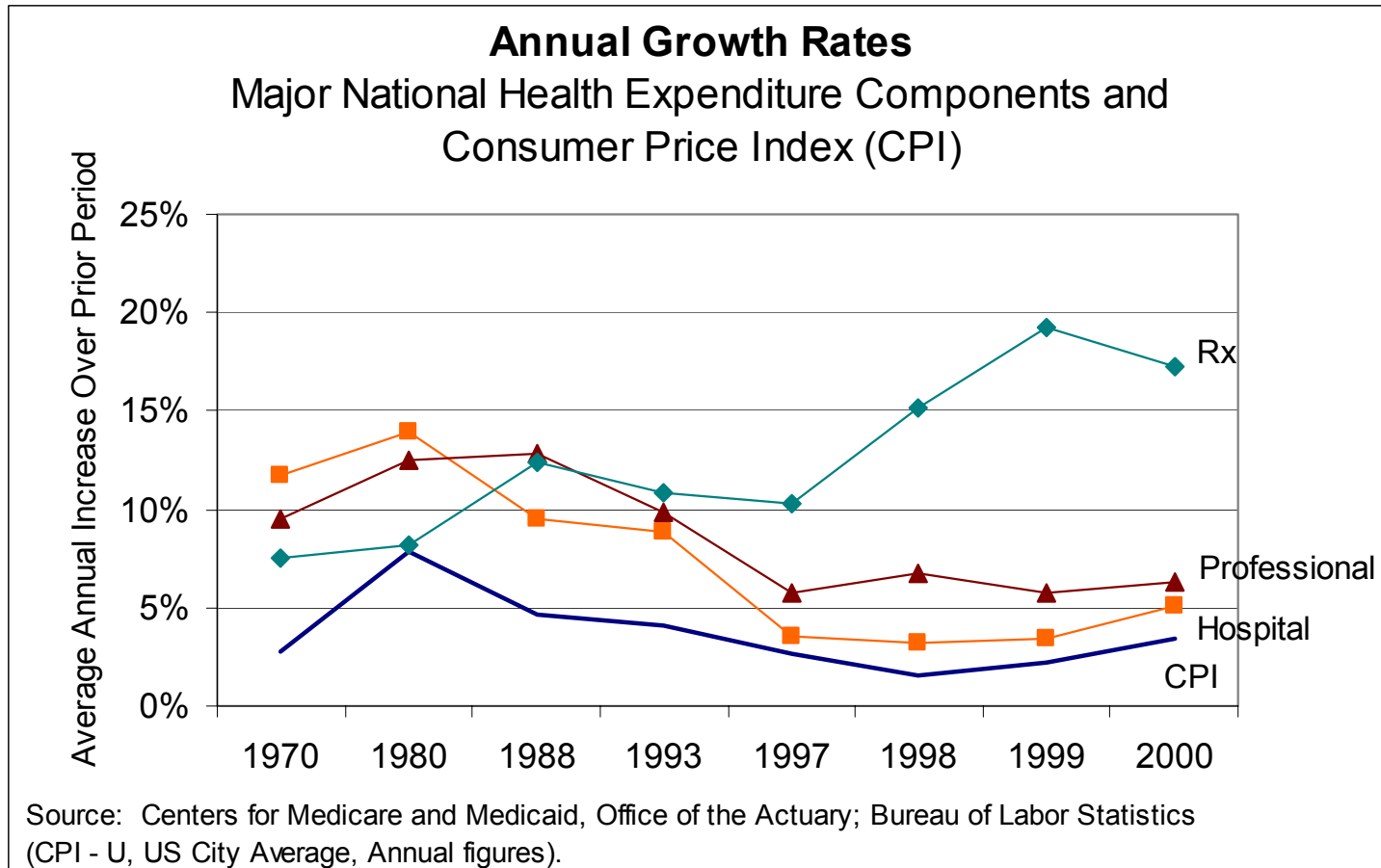
Note: Selected rather than continuous years of data are shown prior to 1997. Average annual growth for period ending 1970 reflects growth from 1960 – 1970.

The impact of consistently higher growth rates in health care spending can be seen in a comparison of spending to 1970 levels.



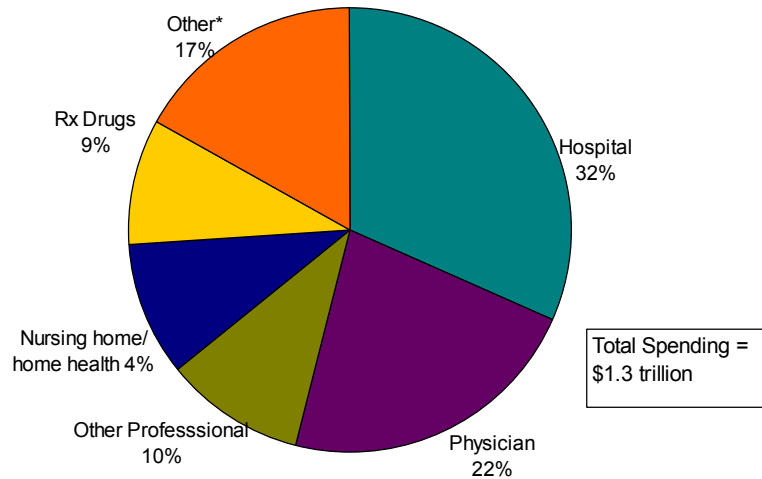
Note: Selected rather than continuous years of data are shown prior to 1997.

Prescription drug spending is growing more rapidly than other components.

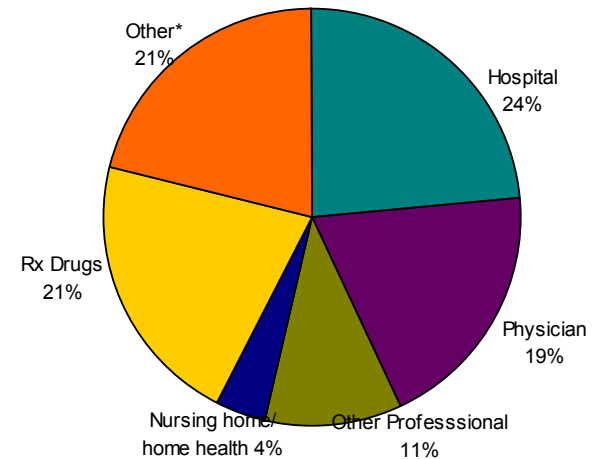


Prescription drug spending contributed disproportionately to the increase in spending.

**Distribution of National Health Expenditures
Year 2000**



**Distribution of Cost Increases in Year 2000
in National Health Expenditures**

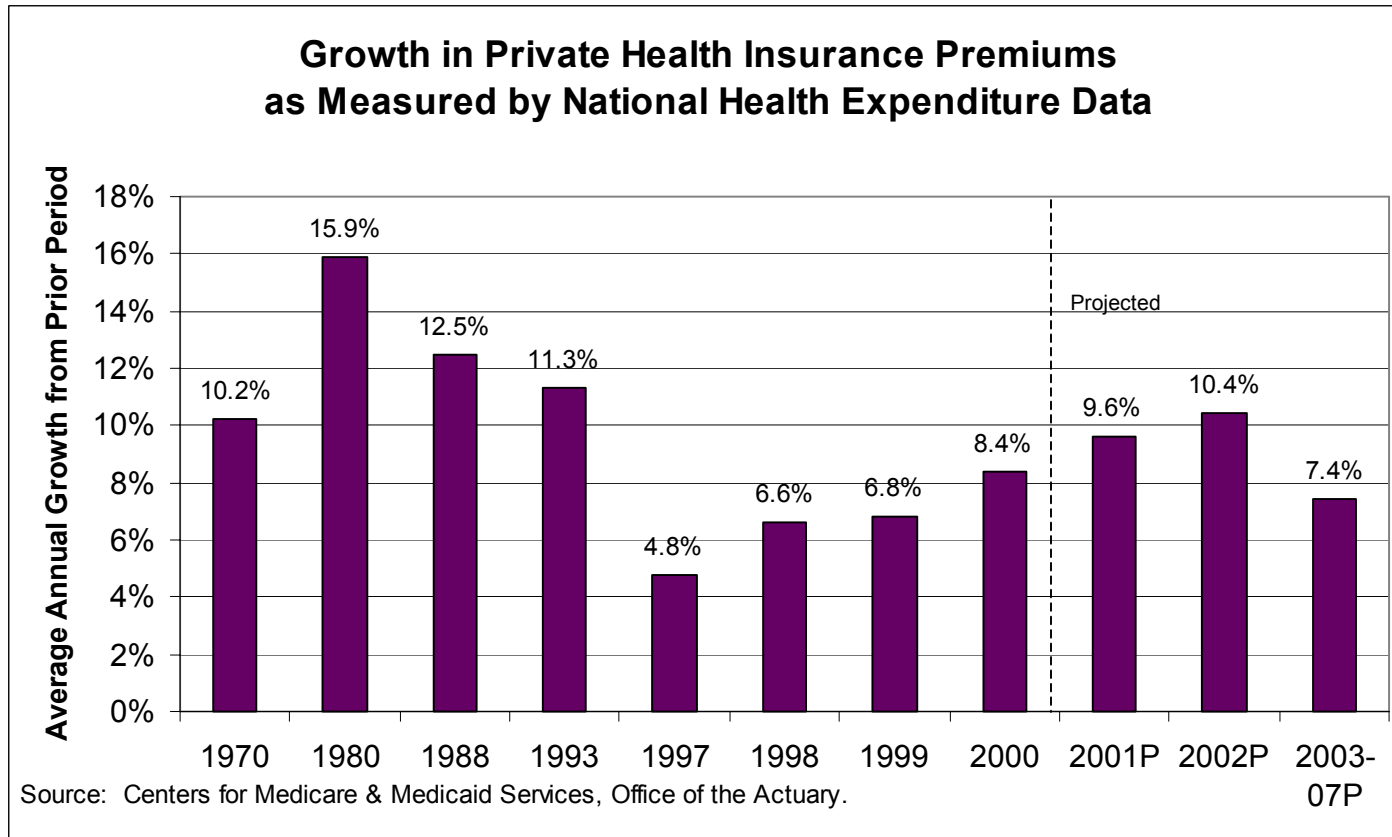


Source: Centers for Medicare & Medicaid Services, Office of the Actuary.

* "Other" is a collective category comprised of Government administration & net cost of private health insurance, Government public health activities, and non-prescription drug components of the retail outlet sales category (i.e. Durable medical equipment and Other nondurable medical products). Some 37% of the "Other" category is comprised of administration (government administration and net cost of private insurance); this translates to administrative costs equal to 6% of total national health expenditures.

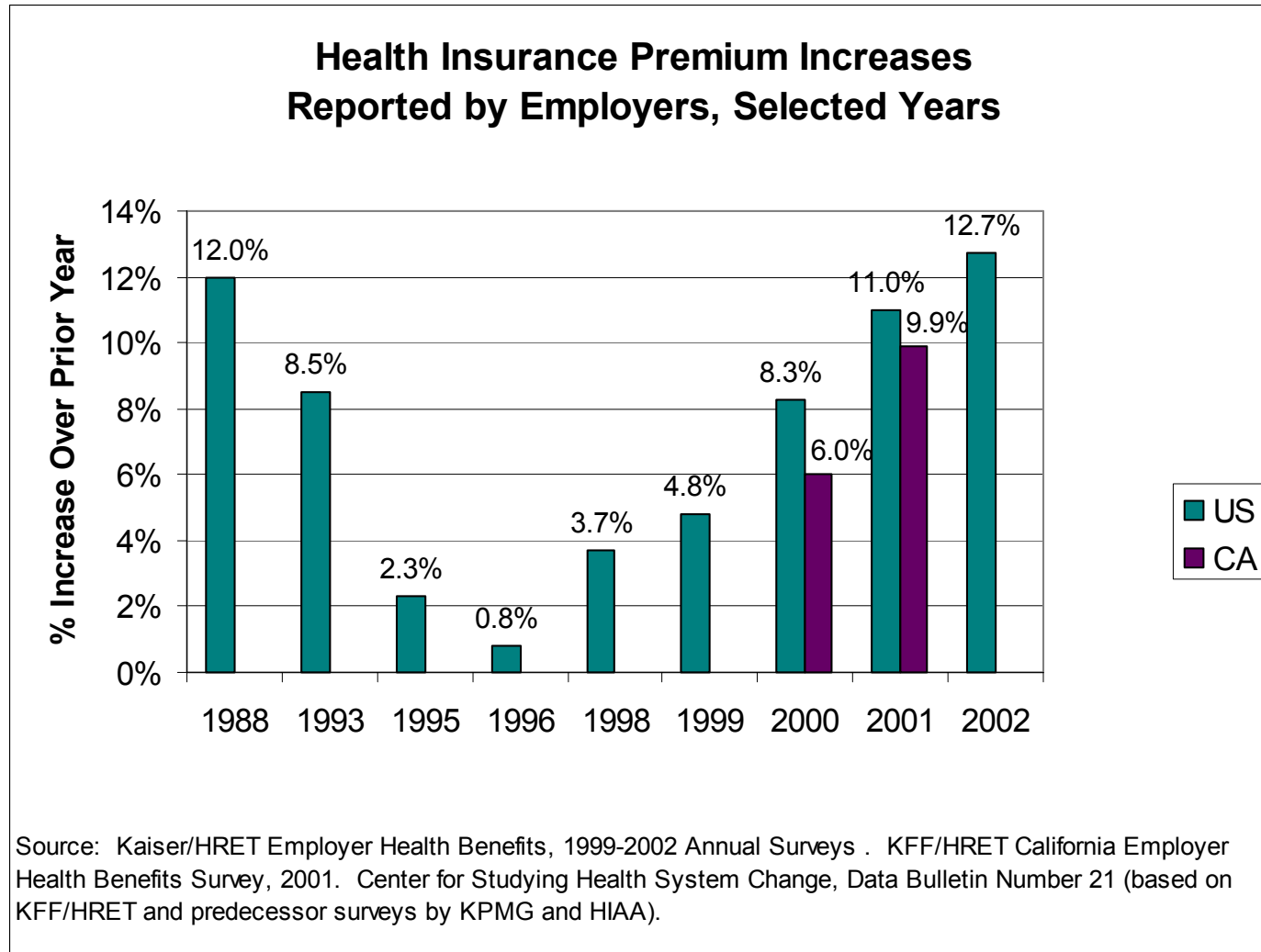
5. Insurance Premiums and Contributions

Health insurance premiums are on the rise.



Note: Selected rather than continuous years of data are shown prior to 1997. Average annual growth for period ending 1970 reflects growth from 1960 – 1970.

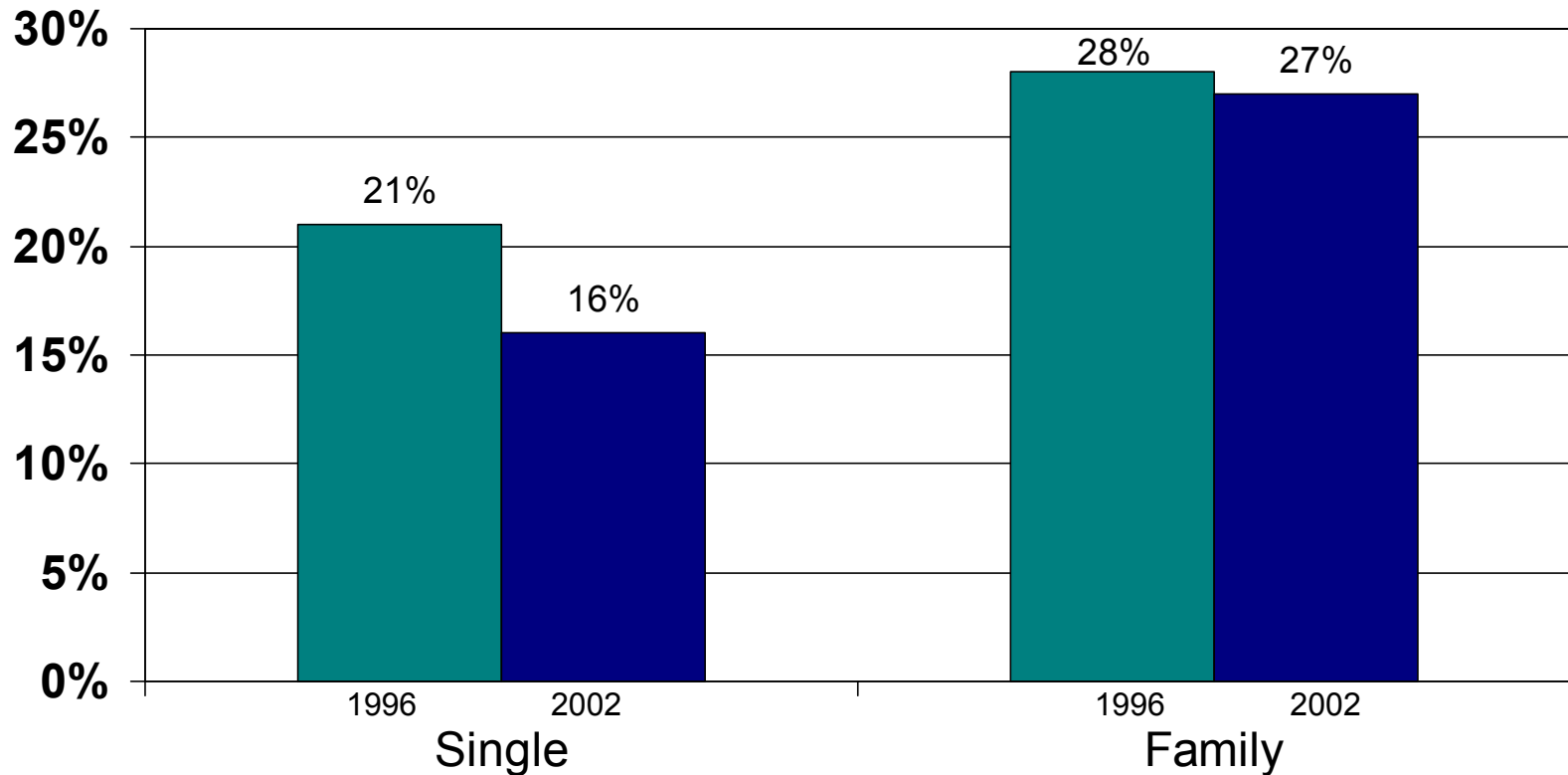
Employer reports confirm that premiums are increasing. California premiums are also rising but remain below national levels.



Note: At this writing, in September 2002, the California figures for 2002 were not available.

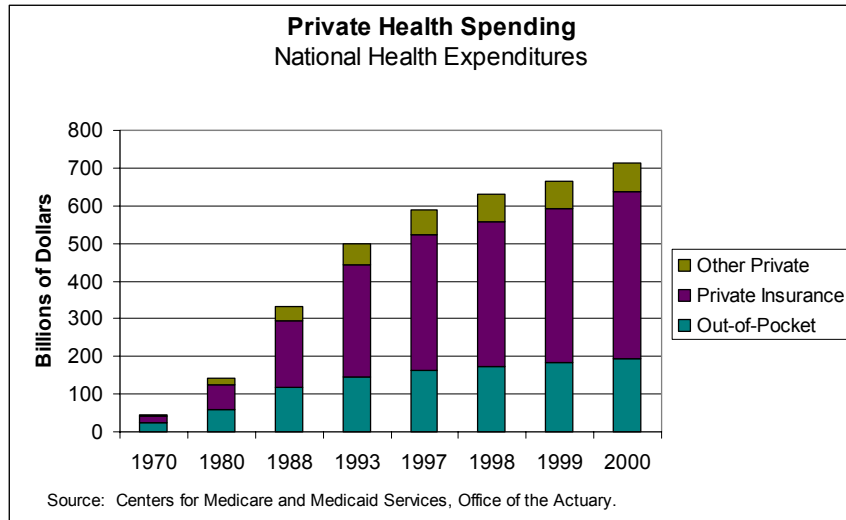
Single employees paid a smaller share of premiums in 2002 than in 1996; family shares were essentially unchanged.

Employee's Share of Health Care Premiums



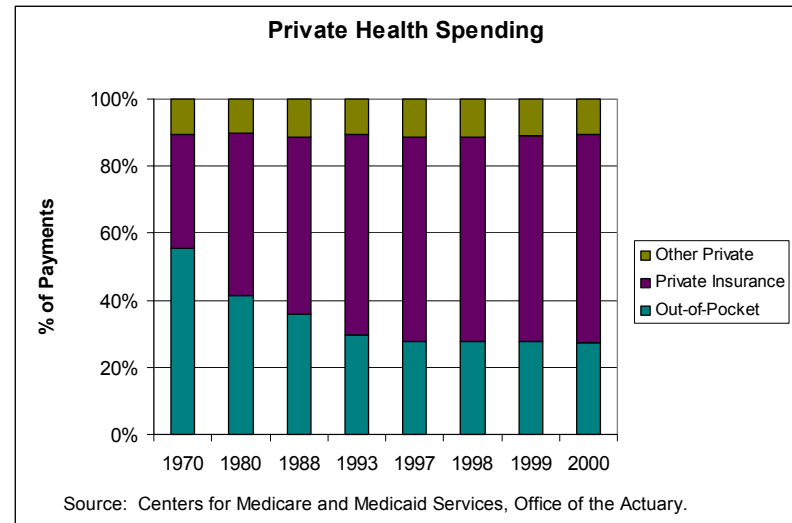
Source: KFF/HRET Employer Health Benefits, 2002 Annual Survey.

Consumers are bearing more cost at the time of service, but this accounts for a shrinking share of total costs.



Consumers have faced rising health care costs (turquoise bars), but other costs have risen faster.

Note: Out-of-pocket spending includes direct spending by consumers for all health care goods and services, such as coinsurance, deductibles and any amounts not covered by insurance. Out-of-pocket premiums paid by individuals are not counted here but are counted as part of private health insurance.

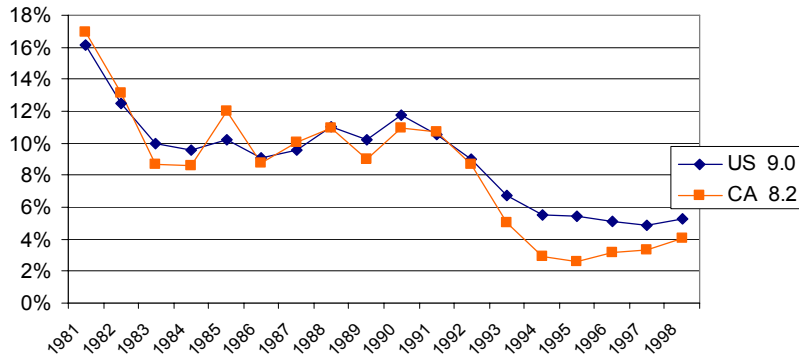


The consumer share of health care spending actually shrank over the last 30 years, both as a share of private health spending (as shown here from 55% to 27%) and as a share of total health spending (not shown, from 34% to 15%). The out-of-pocket share has been flat for the past 5 years, but may rise given recent reported increases in copays and deductibles.

6. California Profile

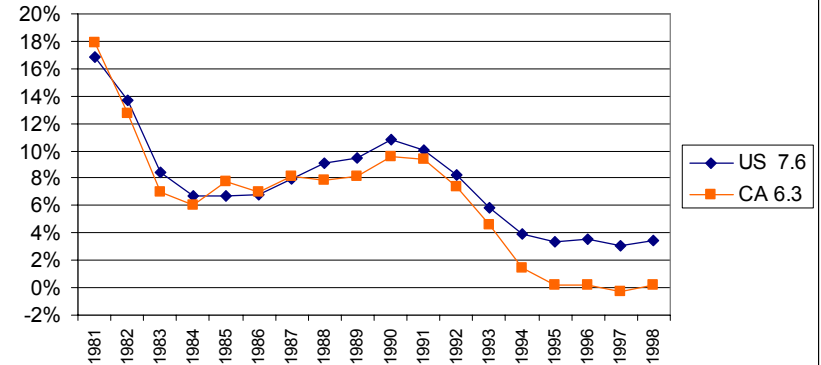
In the 90s, California managed care kept spending below national levels.

Personal Health Care Spending Growth - US vs. CA



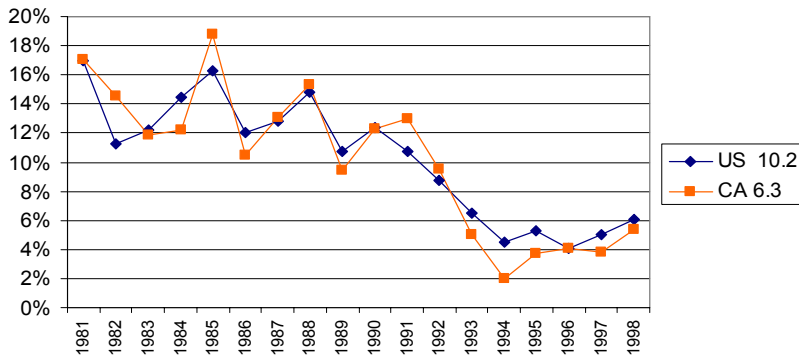
Source: Centers for Medicare and Medicaid, Office of the Actuary.

Hospital Spending Growth US vs. CA



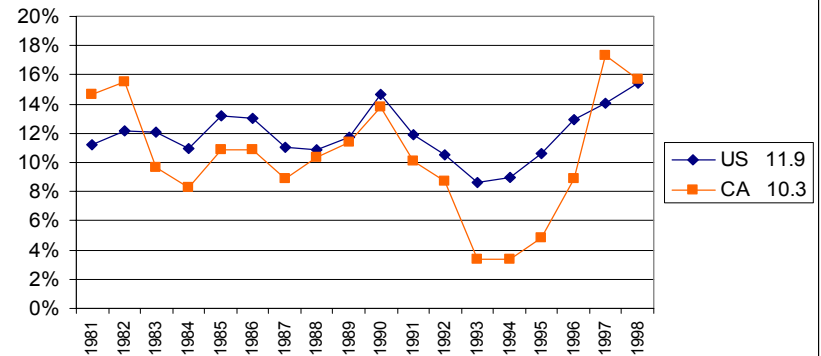
Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

Physician and Other Professional Spending Growth - US vs. CA



Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

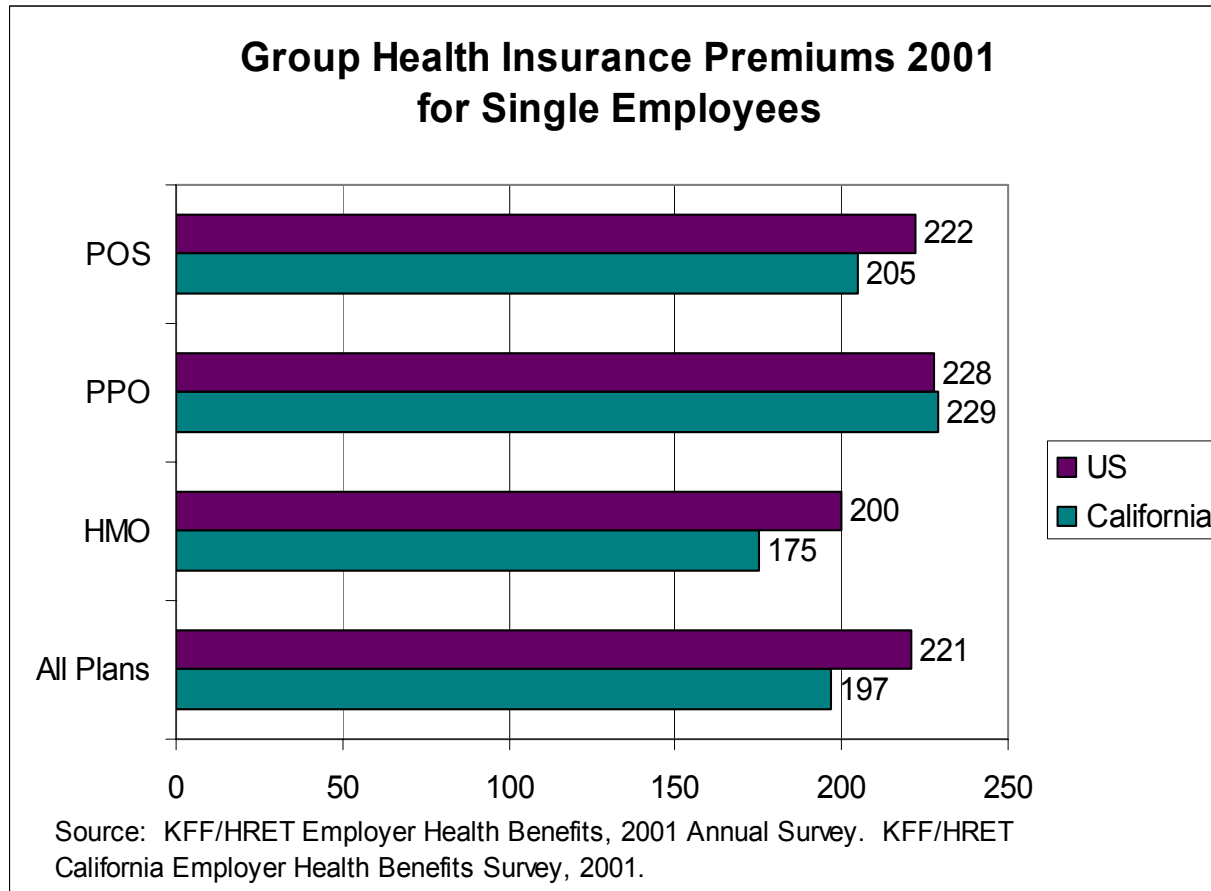
Prescription Drugs Spending Growth - US vs. CA



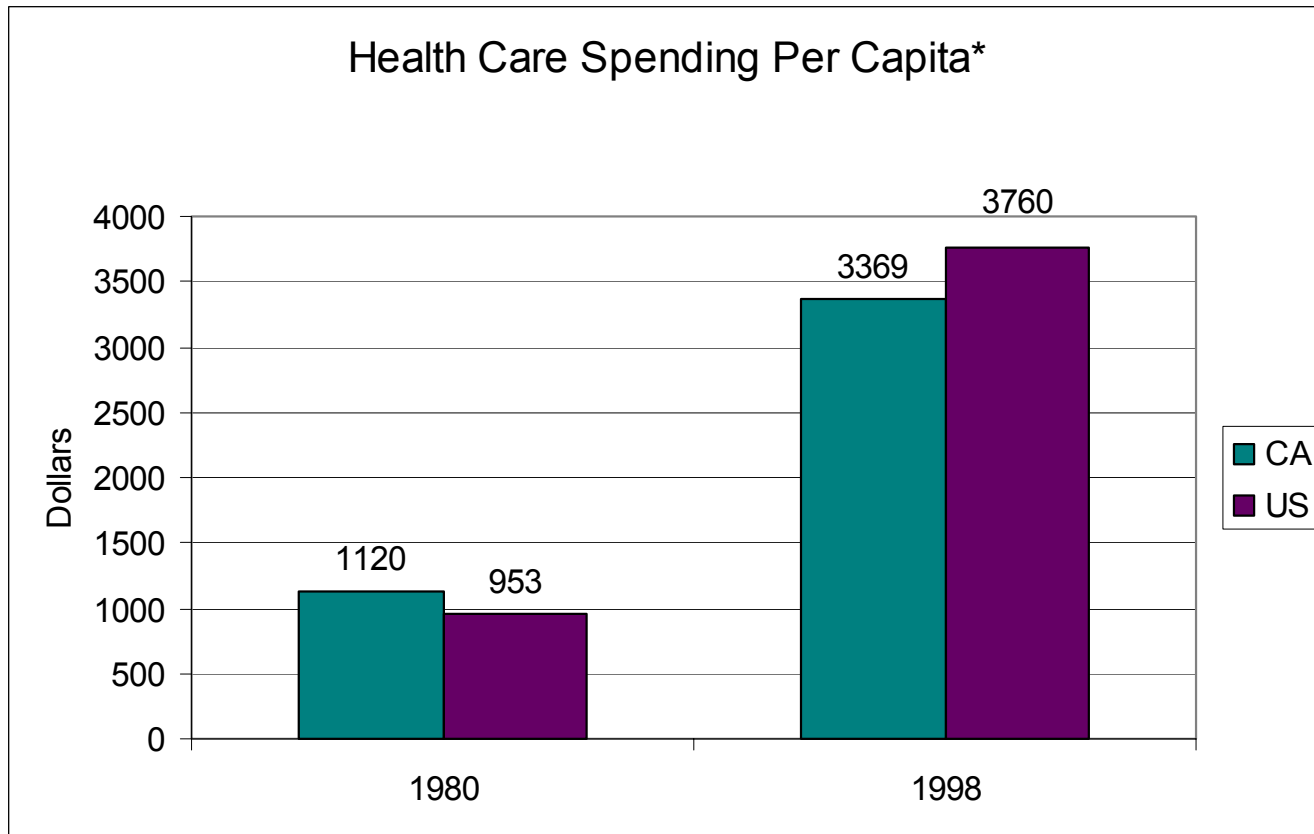
Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

Note: The Personal Health Care category of national health expenditures includes all spending except Government administration and net cost of private insurance and Government public health activities, and Investment.

California premiums are also below national levels.



California now has lower health care expenditures per capita than the nation.



Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

* Data based on Personal Health Care (PHC) category of National Health Expenditures (NHE); PHC includes all NHE spending except the following categories: Government administration and net cost of private health insurance, Government public health activities, Investment (research and construction).

Appendix A. Data Resources for National Health Expenditures

- **Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group.**
- **Journal publications authored by CMS staff, including tables of NHE data and annualized growth percentages:**

Levit, Katharine, Cynthia Smith, Cathy Cowan, Helen Lazenby, and Anne Martin, "Inflation Spurs Health Spending in 2000," *Health Affairs*, Vol 21, Number 1, January/February 2002, pp. 172 – 181.

Heffler, Stephen, Sheila Smith, Greg Won, M. Kent Clemens, Sean Keehan and Mark Zezza, "Health Spending Projections for 2001 – 2011: The Latest Outlook," *Health Affairs*, March/April 2002, pp. 207-218.
- **Web addresses* as of May, 2002 for viewing and downloading CMS data tables:**

National Health Expenditures Tables :
www.hcfa.gov/stats/nhe-oact/tables/

National Health Care Expenditures Projections Tables :
www.hcfa.gov/stats/NHE-Proj/proj2001/tables/
- **NHE methodology sources:**

Category definitions for National Health Expenditures
www.hcfa.gov/stats/nhe-act/articles/quickref.htm

National Health Accounts: Definitions, Sources, and Methods
www.hcfa.gov/stats/nhe-oact/lessons/

Methodology for State Health Expenditures:
www.hcfa.gov/stats/NHE-OAct/StateEstimates/method.htm

Lazenby, Helen C., Katharine Levit, Daniel R. Waltdo, et al, "National Health Accounts: Lessons from the U.S. Experience," *Health Care Financing Review*, v13n4, Summer 1992, pp. 89 –103.

* Web addresses were accurate as of data collection in May 2002. The ongoing transition from HCFA to CMS has caused some web addresses to change as of this writing in August 2002. The current general site address for NHE data is : www.cms.hhs.gov/statistics/nhe

Appendix B. Bibliography

1. Altman, Drew & Levitt, Larry, “The Sad History of Health Care Cost Containment As Told In One Chart,” *Health Affairs*, 23 January 2002, Web-exclusive publication, www.healthaffairs.org.
2. Center for Studying Health System Change, “Tracking Health Care Costs: Hospital Care Key Cost Driver in 2000,” *Data Bulletin: Results from HSC Research*, Number 21 Revised, September 2001. Bulletin adapted from “Tracking Health Care Costs”, Bradley C. Strunk, Paul B. Ginsburg and Jon R. Gabel, *Health Affairs*, Web-exclusive publication, September 26, 2001, www.healthaffairs.org.
3. Kaiser Family Foundation (KFF) and Health Research and Education Trust (HRET), *California Employer Health Benefits Survey, 2001, 2000*, Menlo Park, CA. Publication # 3205, February 2002, # 3108, March 2001.
4. Kaiser Family Foundation (KFF) and Health Research and Educational Trust (HRET), *Employer Health Benefits, 2001 Annual Survey*, Menlo Park, CA. Publication # 3138.
5. Lazenby, Helen C., Katharine Levit, Daniel R. Waldo, et al, “National Health Accounts: Lessons from the U.S. Experience,” *Health Care Financing Review*, v13n4, Summer 1992 pp. 89 – 103.
6. Levit, Katharine, Cynthia Smith, Cathy Cowan, Helen Lazenby, and Anne Martin, “Inflation Spurs Health Spending in 2000,” *Health Affairs*, Vol 21, Number 1, January/February 2002, p. 172 – 181.
7. Heffler, Stephen, Sheila Smith, Greg Won, M. Kent Clemens, Sean Keehan and Mark Zezza, “Health Spending Projections for 2001 – 2011: The Latest Outlook,” *Health Affairs*, March/April 2002, pp. 207-218.
8. Strunk, Bradley C., Paul B. Ginsburg, and Jon R. Gabel, “Tracking Health Care Costs,” *Health Affairs*, Web-exclusive Publication, September 26, 2001, www.healthaffairs.org