

CRS Insights

Growth in Health Spending Remained Relatively Low in 2013

Carol Rapaport, Analyst in Health Care Financing (crapaport@crs.loc.gov, 7-7329)

February 27, 2015 (IN10238)

Introduction

Health spending in the United States [increased by 3.6% between the fourth quarter of 2012 and the fourth quarter of 2013](#), the latest periods for which [data](#) are available. (Total health spending in 2013 was about \$2.9 trillion, up from \$2.8 trillion in 2012 and is equivalent to \$9,255 per person.) During this period, spending grew at its slowest annual growth rate since 1960, the first year for which data are publicly available. Looking at the recent past, annual spending growth was 6.3% between the fourth quarter of 2006 and the fourth quarter of 2007 (hereinafter written as 2007), 4.8% in 2008, 3.8% in 2009, 3.9% in both 2010 and 2011, and 4.1% in 2012. The three largest sources of funding for health spending are private health insurance (\$962 billion), Medicare (\$586 billion), and Medicaid (\$449 billion, excluding the State Children's Health Insurance Program, or CHIP). Spending growth slowdowns in 2013 were especially notable for Medicare and private health insurance. These data are from the [National Health Expenditure Accounts](#). (Unless otherwise noted, the information in this Insight is from this [January 2015 Health Affairs](#) article [link requires paid subscription].)

Changes in health spending depend on changes in the price of health care, the number of people seeking care, and the "use and intensity" of care, which includes the number of doctor visits and other types of services, complexity of services, and other factors. In 2013, medical prices and use and intensity were very broadly equally responsible for the per person growth slowdown in health spending. An analysis of use and intensity, however, is not simple.

The decrease in spending growth may be examined in various ways. This Insight looks at the changes in spending growth rates for the three major types of health insurance: (1) private health insurance, (2) Medicare, and (3) Medicaid. It also covers out-of-pocket spending and concentrates on changes in the growth rate of personal health care spending. The Insight highlights data since 2007 when discussing general trends and data since 2000 when looking at unusually high or low levels of growth. It does not cover spending on government and private health insurance administration (and profits), government public health activities, or investment.

Health Spending Growth by Type of Insurance

The spending growth rate of [private health insurance](#), which is calculated from health insurance premiums, benefits, and [costs associated with firms doing business](#), decreased from 4.0% in 2012 to 2.8% in 2013. Turning to the data covering spending since 2000, annual private health insurance spending growth was more than 11.0% as recently as 2002. Within the various spending categories, spending growth in hospital care and in physician and clinical care services experienced noticeable slowdowns.

The [Medicare](#) spending growth rate, which includes spending for those aged 65 and over and some disabled individuals, was 4.0% in 2012 and 3.4% in 2013. The decrease in the Medicare spending growth rate stemmed from decreases in the Medicare Advantage spending growth rate but not in the Medicare fee-for-service spending growth rate. Spending growth on Medicare prescription drugs (primarily Part D but also Part B) increased from 6.6% in 2012 to 10.7% in 2013. The Medicare spending growth rate of 18.8% in 2006 marked the growth high for the 21st century. As did private health insurance, Medicare experienced a spending growth slowdown in hospital care and in physician and clinical care services.

By contrast, the [Medicaid](#) spending growth rate, which includes spending for certain low-income children, pregnant women, and perhaps other low-income individuals, increased from 4.0% in 2012 to

6.1% in 2013. Enrollment and the growth in Medicaid spending per enrollee increased in 2013. In addition, various Medicaid provider reimbursement rates grew, and the growth in Medicaid spending on drugs also increased. There was no change in the growth rate in hospital care spending by Medicaid.

Health Spending Growth for Out-of-Pocket Expenditures

An individual's health bills not covered by health insurance are paid for out of his or her own pocket. [Out-of-pocket expenses include spending on coinsurance, deductibles, and any amounts not covered by insurance.](#) The growth rate for out-of-pocket spending fell from 3.6% in 2012 to 3.2% in 2013. The decade-wide low for this type of spending growth occurred in 2009, when the rate was 0.0%.

Discussion of the Health Spending Trends

The recent general slowdown in health spending may be caused by a combination of economic forces and fundamental changes in the health care system. The most recent economic recession, which ran from December 2007 through June 2009, dampened the growth of health spending both during and after the recession period. Another driver of lower health spending growth was the federal budget sequester that began in early 2013. The reductions in government spending included an across-the-board 2% reduction in Medicare payments to providers.

The implementation of the [Patient Protection and Affordable Care Act \(ACA; P.L. 111-148\)](#) is a recent fundamental change in the health care system. Although many private-sector provisions in the ACA became effective in January 2014, Section 2001 allowed states at their option to expand coverage as early as April 1, 2010. Medicaid spending may have accelerated partly because some states implemented the Medicaid early expansion.

Over time, health spending has accounted for an [increasing share of the economy](#) as a whole, as measured by [gross domestic product \(GDP\)](#). For example, health spending as a share of GDP rose from 15.9% in 2007 to 17.4% in 2009. Since then, however, health spending has remained at 17.4% of GDP. This stability has occurred because both health spending and GDP are experiencing slow growth. There is not enough information currently available to estimate whether this trend toward slower health spending growth will continue.