



CALIFORNIA
HEALTHCARE
FOUNDATION

SNAPSHOT Health Care Costs 101

2004



Introduction

Health care spending continues to outstrip inflation and be a source of concern for insured and uninsured alike. Is more health care spending a positive development, reflecting greater use of needed and valued services? Or is it a negative, putting health care out of reach for many? The answer — both.

With the magnitude of health spending continuing to grow, every citizen and business could be expected to have questions. Just how much money is being spent? Where are the funds coming from? What are they being spent on? Are prescription drugs really responsible for the recent spending increases? With more copays and deductibles, are consumers paying a bigger share of the bill?

These questions and others are addressed in this guide, which provides general background on U.S. health spending, with detail for California, where available. A companion analysis of California spending will follow when state-level data become available. This publication updates the 2003 version of *Health Care Costs 101*.

Health Care Costs 101

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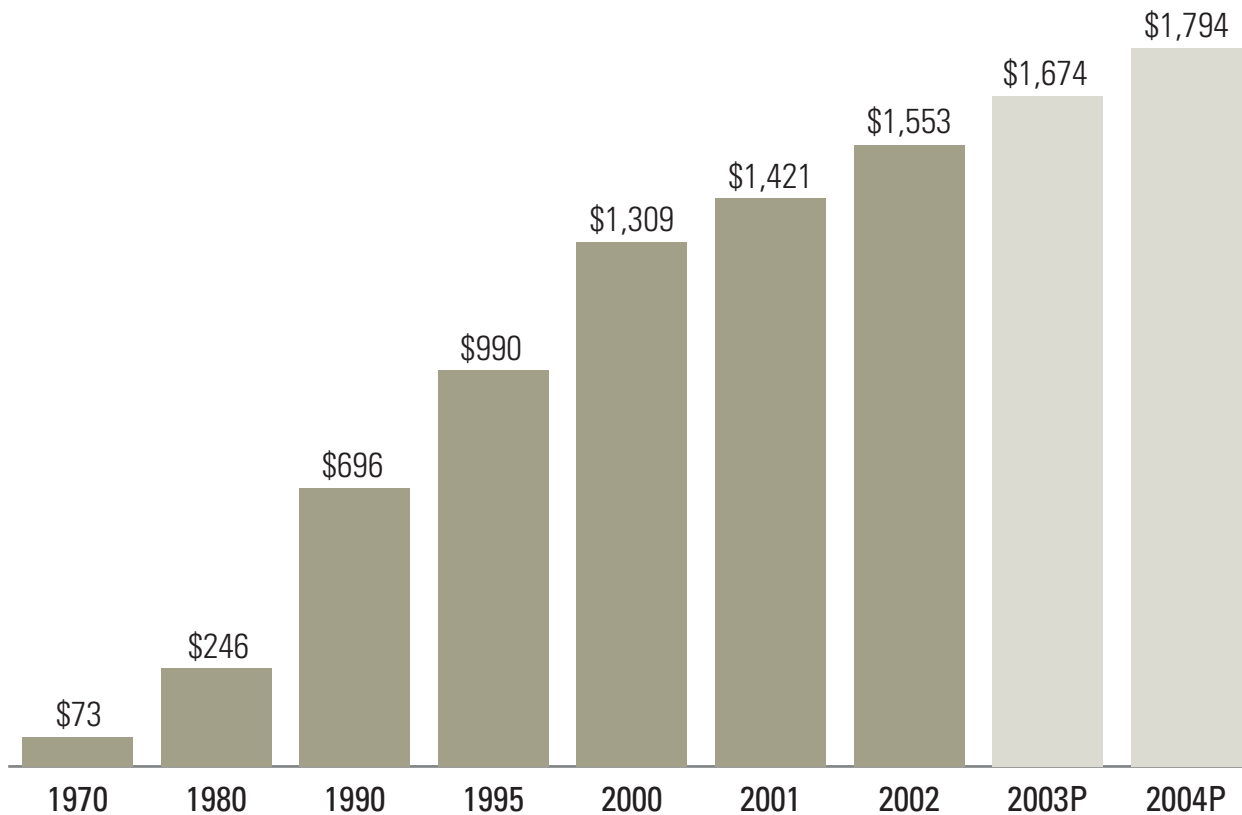
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National Health Spending in Billions



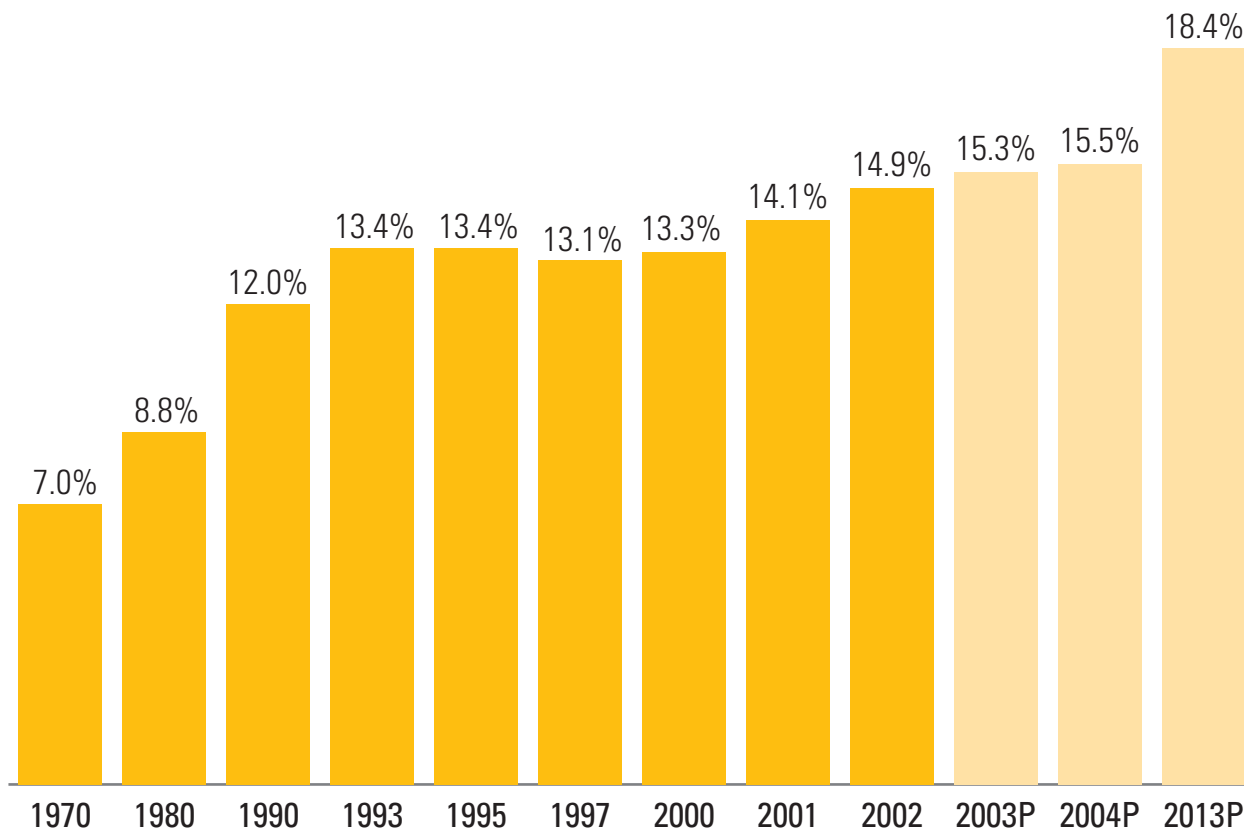
Note: Selected rather than continuous years of data are shown prior to 2000. Data for 2003 and 2004 are projections.

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

Health Care Costs 101 SPENDING LEVELS

Health spending reached \$1.6 trillion in 2002—about four times the amount spent on national defense.

National Health Spending as a Share of Gross Domestic Product

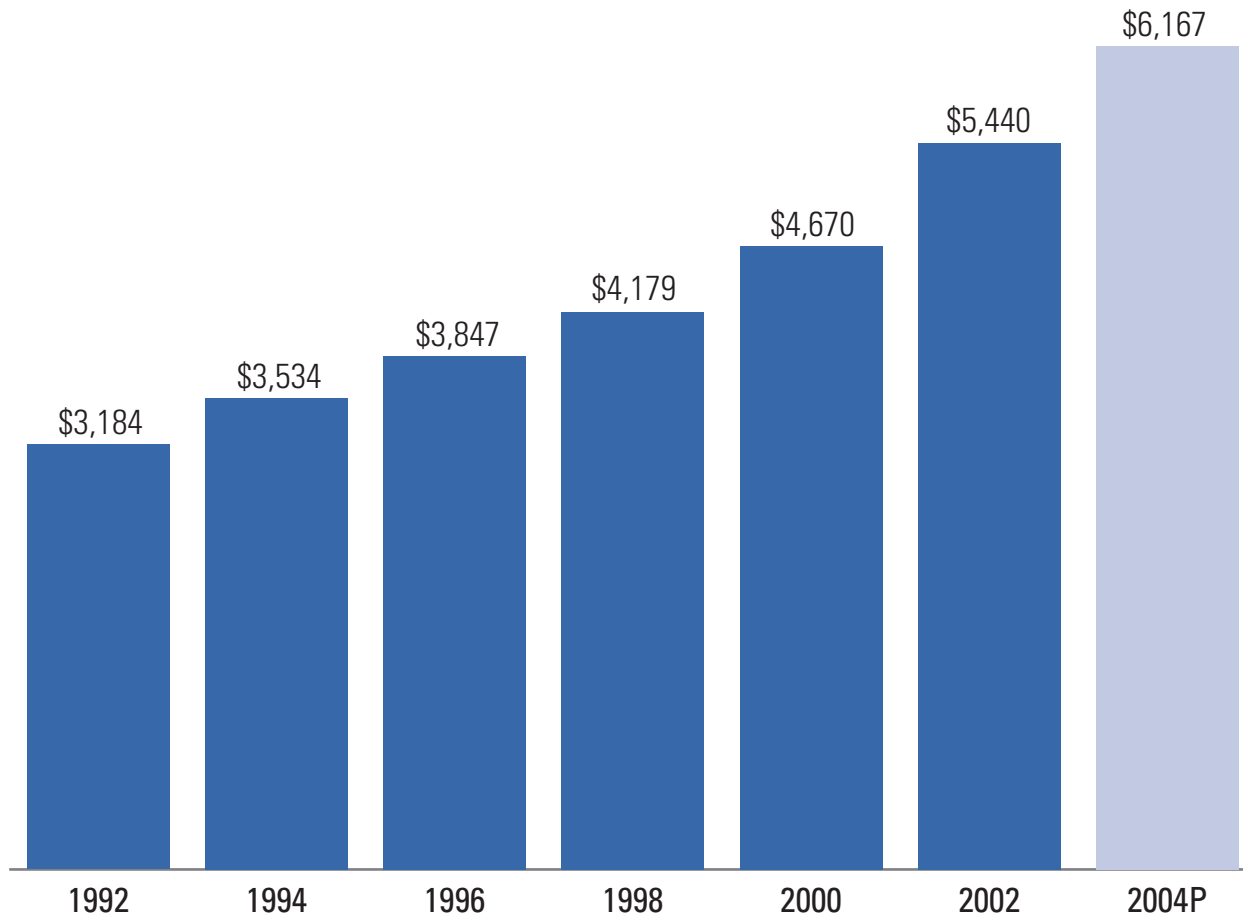


Health care's share of the economy is once more increasing following a flat period when historically low increases in health care costs coincided with stable economic growth.

Note: Selected rather than continuous years of data are shown prior to 2000. Data for 2003 forward are projections.

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

National Health Spending per Person

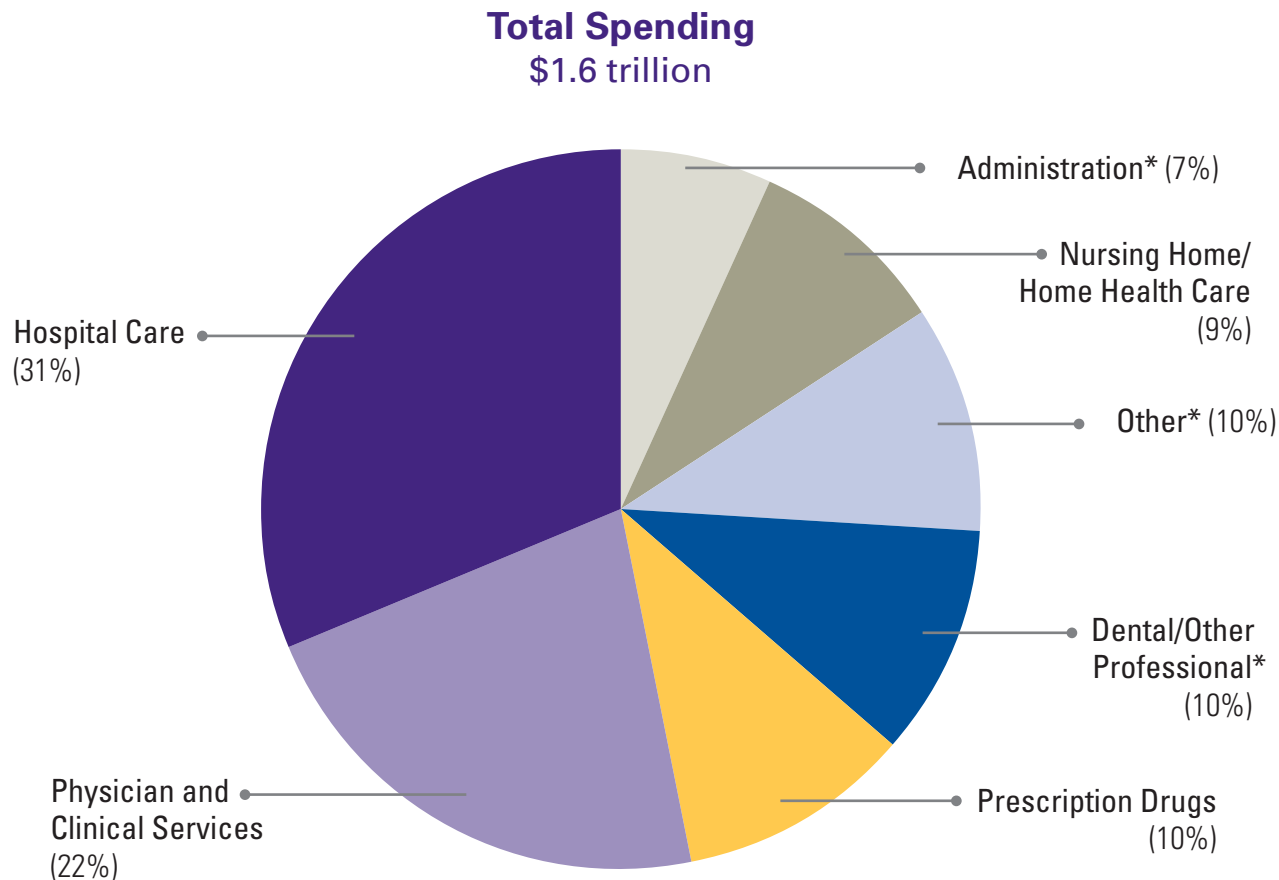


Note: Data for 2004 are projections.

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

The amount spent per person from all sources increased 71 percent between 1992 and 2002.

Spending Distribution by Category, 2002



Hospital and physician services take the largest share of the health care dollar; prescription drugs account for 10 percent.

*See Appendix for breakdown of combined categories.

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

Spending Summary

Category	Spending Levels (billions)			Spending Distribution			Growth ('02 over '01)	
	1982	2001	2002	1982	2001	2002	Billions	Percentage
NATIONAL HEALTH EXPENDITURES (NHE)	\$321	\$1,421	\$1,553	100%	100%	100%	\$132	9%
Hospital Care	135	444	487	42%	31%	31%	42	9%
Physician and Clinical Services	61	315	340	19%	22%	22%	24	8%
Dental/Other Professional*	26	149	162	8%	10%	10%	13	9%
Nursing Home/ Home Health Care	26	133	139	8%	9%	9%	6	5%
Prescription Drugs	15	141	162	5%	10%	10%	22	15%
Administration†	17	90	105	5%	6%	7%	15	16%
Other**	41	148	158	13%	10%	10%	10	7%

In the last 20 years, the share spent on hospital care has shrunk; the share spent on prescription drugs has doubled.

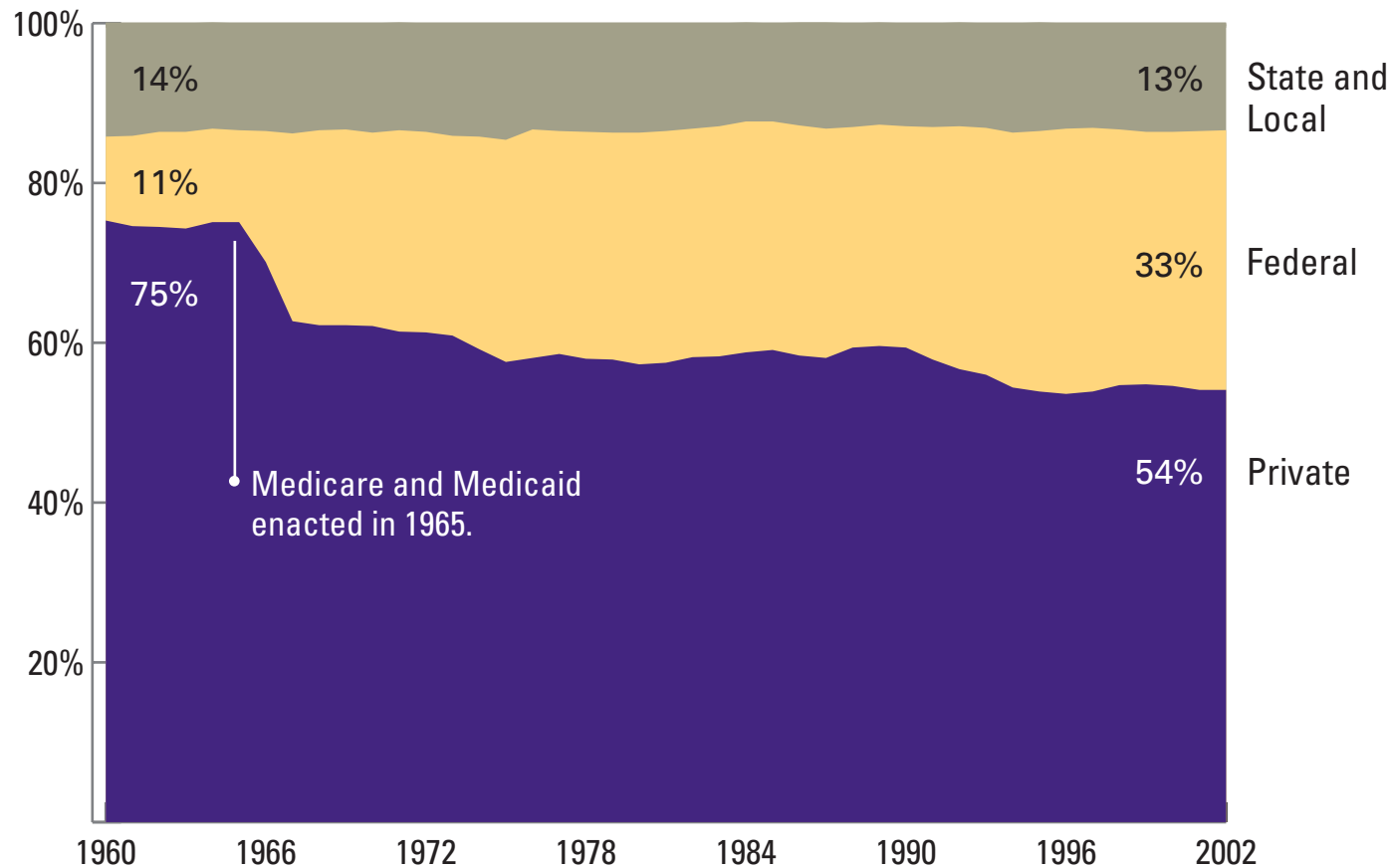
*“Dental/Other Professional” includes other professional, dental, and other personal health care (see Appendix).

†“Administration” refers to government program administration (spending for the cost of running various government health care programs) and net cost of private health insurance (the difference between premiums earned by insurers and the claims or losses incurred for which insurers become liable).

**“Other” includes durable medical equipment, other non-durables, government public health activities, and research and construction (see Appendix).

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

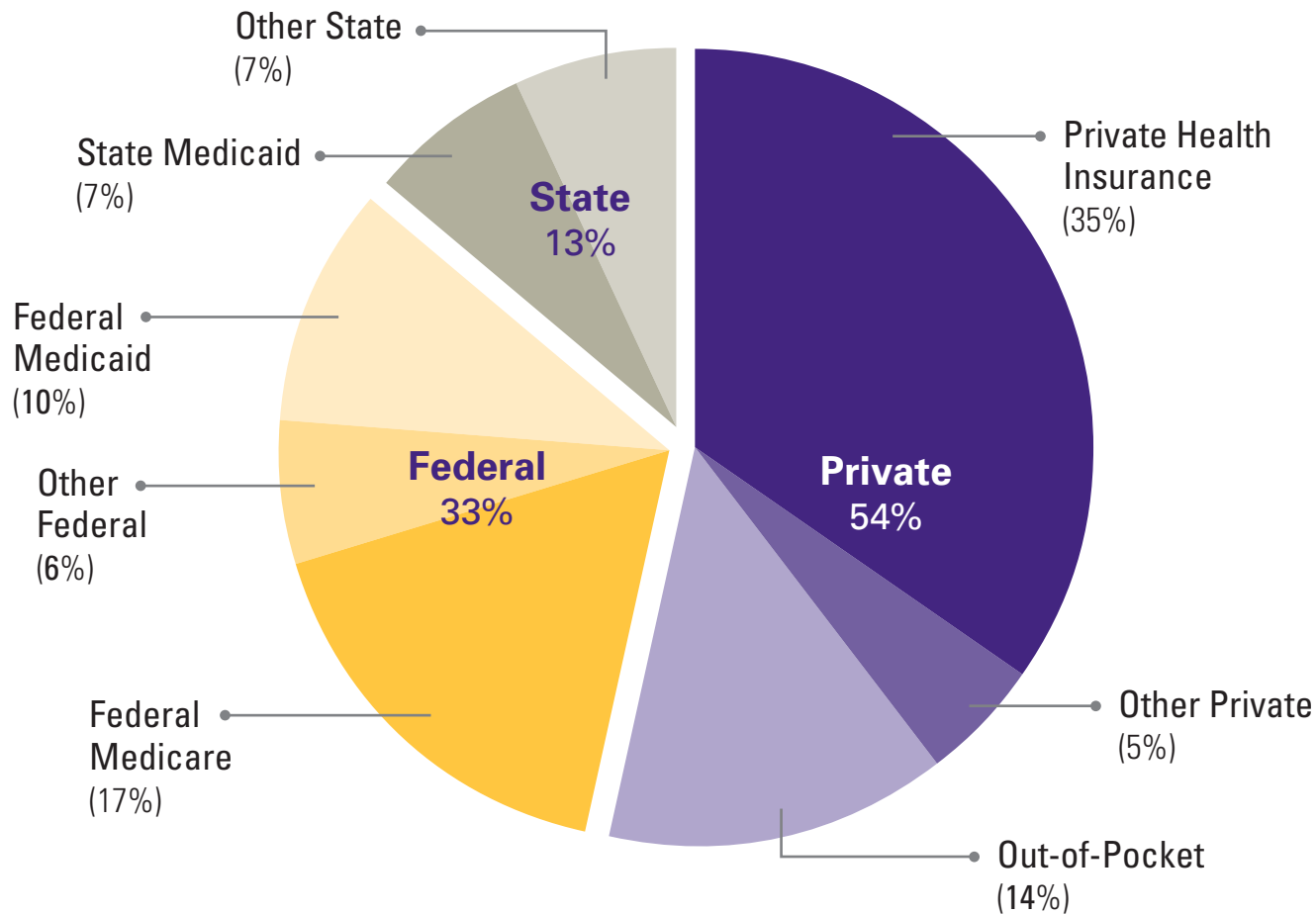
Historic Payment Sources



Over time, the share of federal spending has increased, most dramatically following the creation of Medicare and Medicaid.

Note: Chart reflects national health expenditures (NHE) by source of funds.
Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

Spending Distribution by Payment Source, 2002



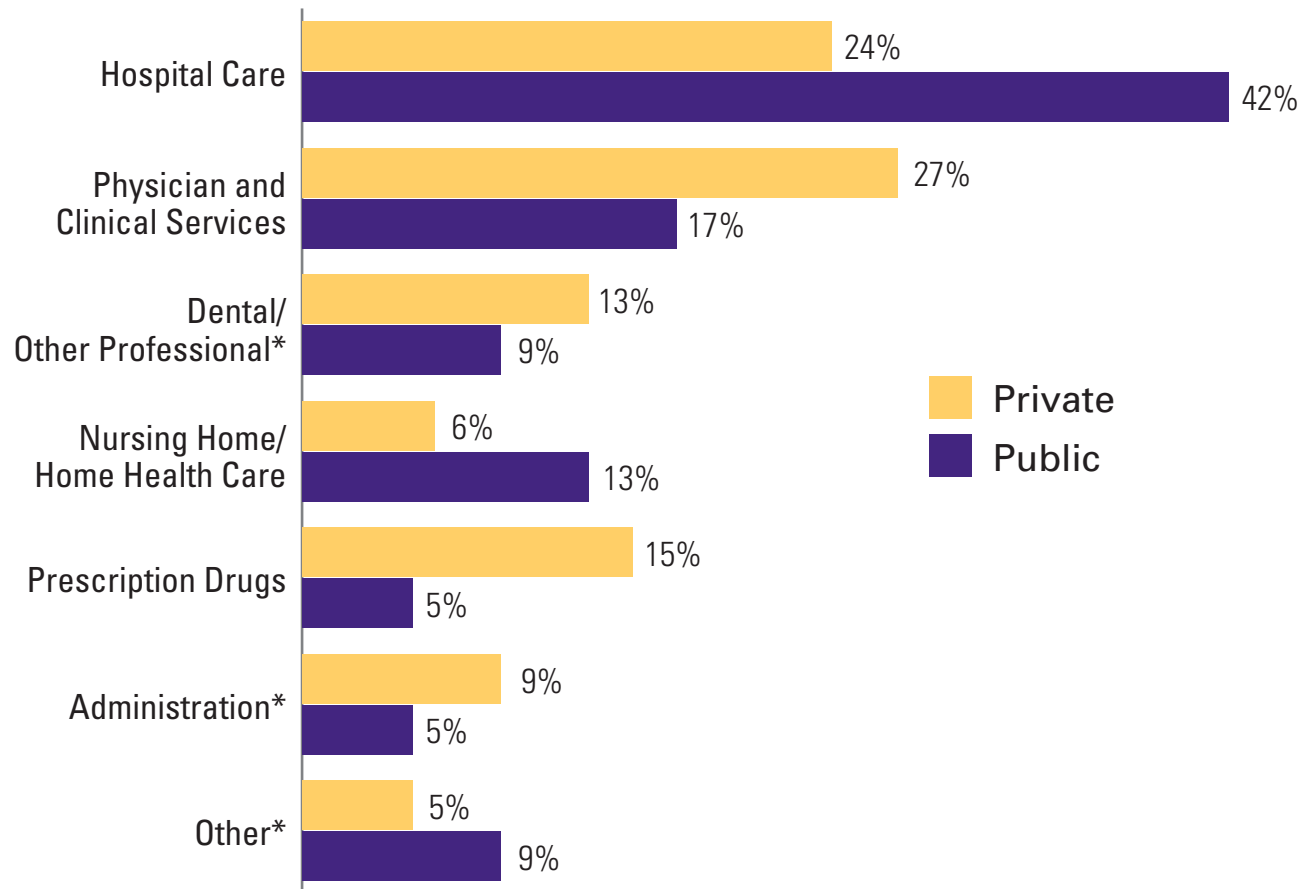
Public funds account for just under half of the health care dollar.

Notes: "Other Federal" and "Other State" include Department of Defense and Veterans Administration spending. "Other Private" includes philanthropy and non-patient revenues. "Out-of-Pocket" includes direct spending by consumers for all health care goods and services, such as coinsurance, deductibles and any amounts not covered by insurance. Premiums are included under "Private Health Insurance."

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

Distribution of Spending

Public vs. Private for HSS, 2002



The public sector spends more of its dollar on hospital and institutional care than do private payers.

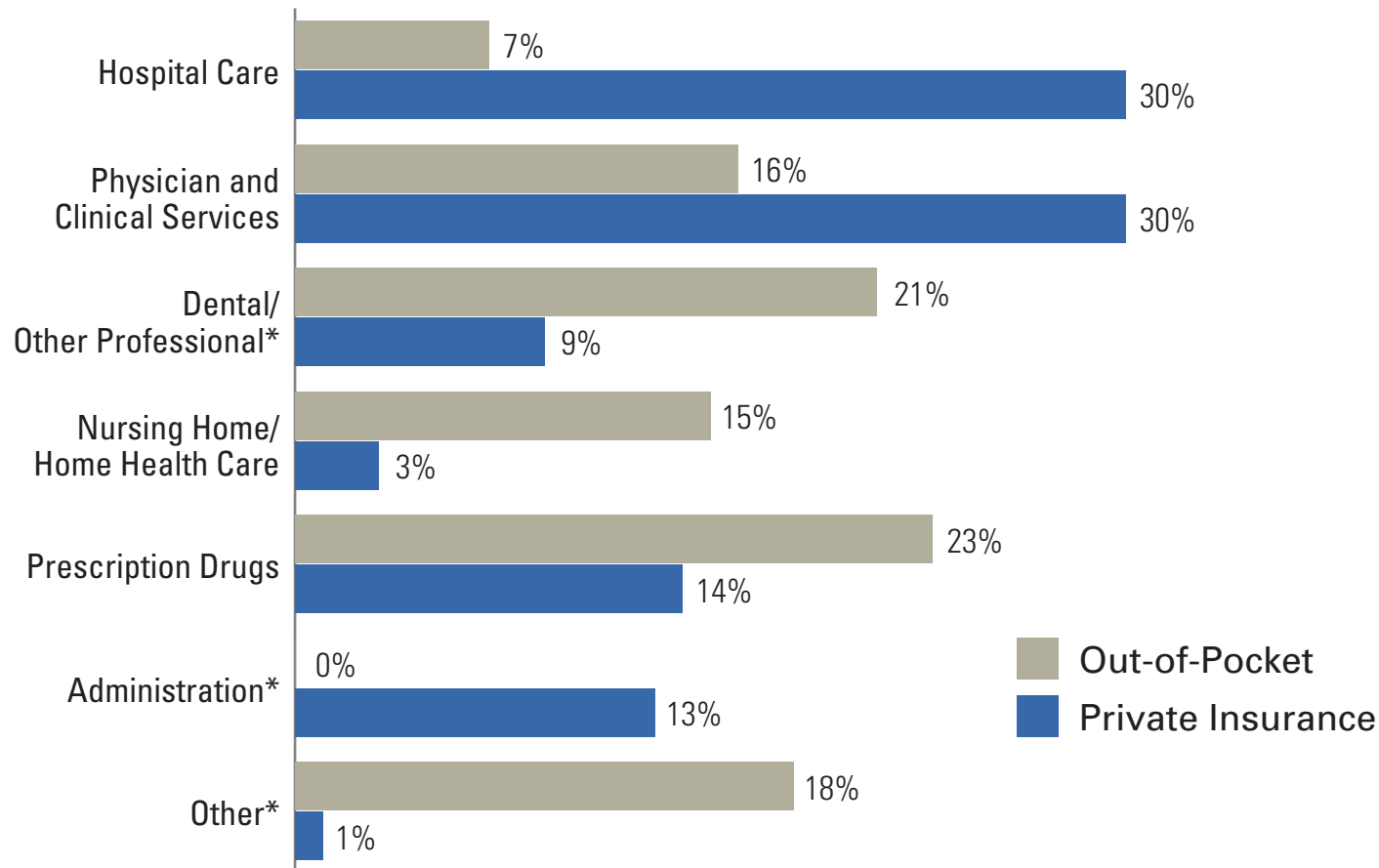
*See Appendix for breakdown of combined categories.

Note: HSS (Health Services and Supplies) includes all national health expenditures (NHE) except research and construction.

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

Distribution of Spending

Out-of-Pocket vs. Private Insurance for HSS, 2002



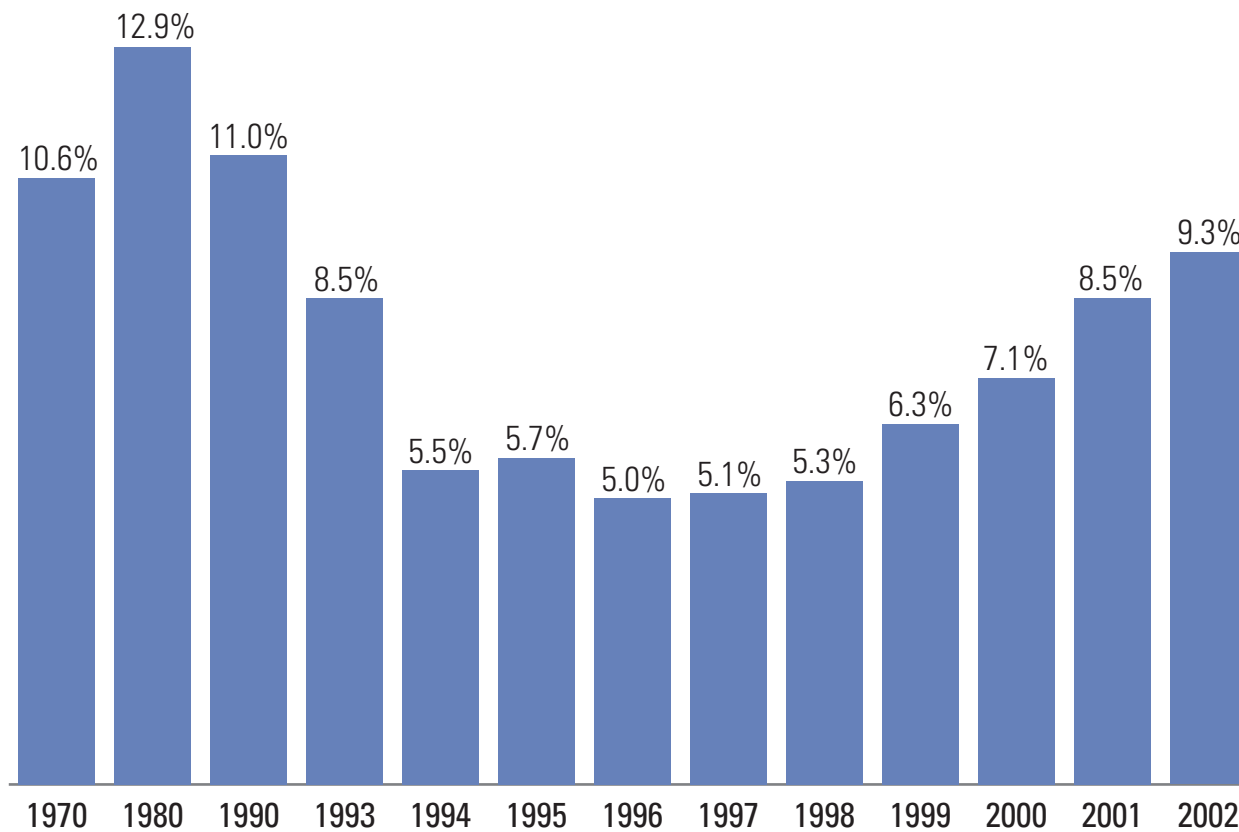
Prescription drugs and dental/other professional services account for the greatest share of out-of-pocket spending.

*See Appendix for breakdown of combined categories.

Note: HSS (Health Services and Supplies) includes all national health expenditures (NHE) except research and construction.

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

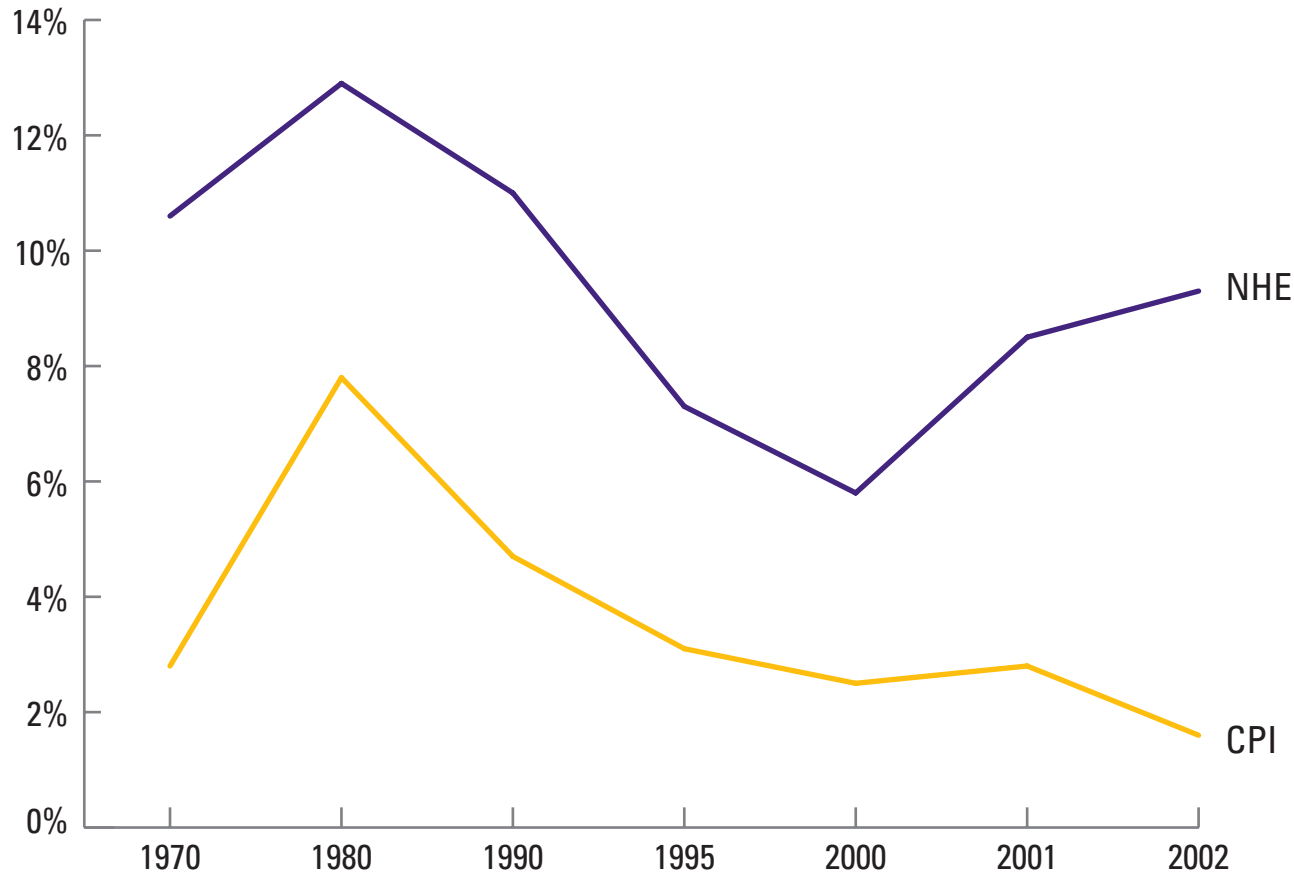
Average Annual Growth Rate in National Health Expenditures



The year 2002 marked the sixth consecutive year of accelerating growth rates in health care spending.

Note: Selected rather than continuous years of data are shown prior to 1993.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Average Annual Growth Rates

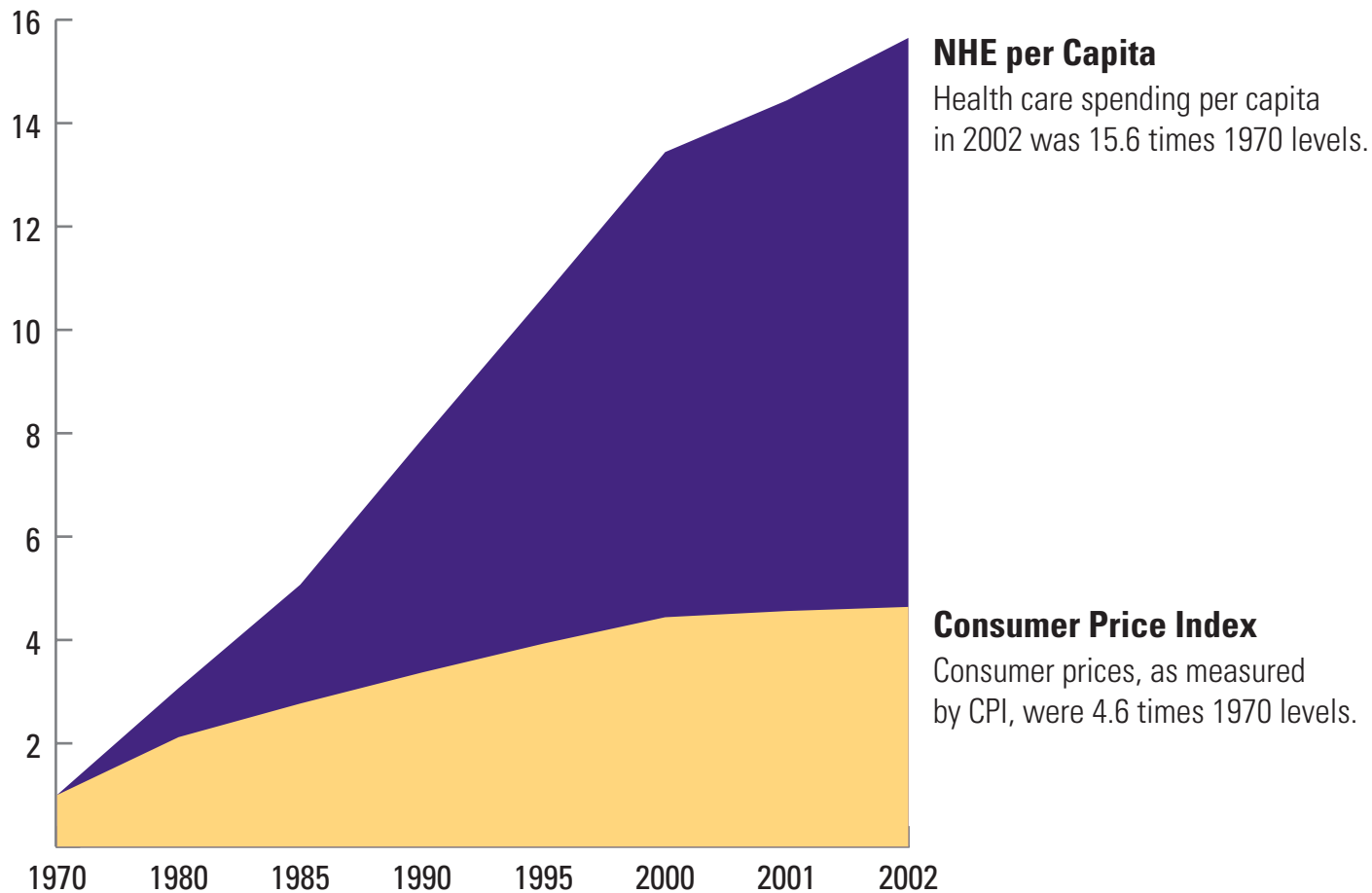


Health spending has been increasing at a faster pace than inflation.

Note: Health spending refers to national health expenditures (NHE).

Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary; Bureau of Labor Statistics (CPI-U, U.S. city average, annual figures).

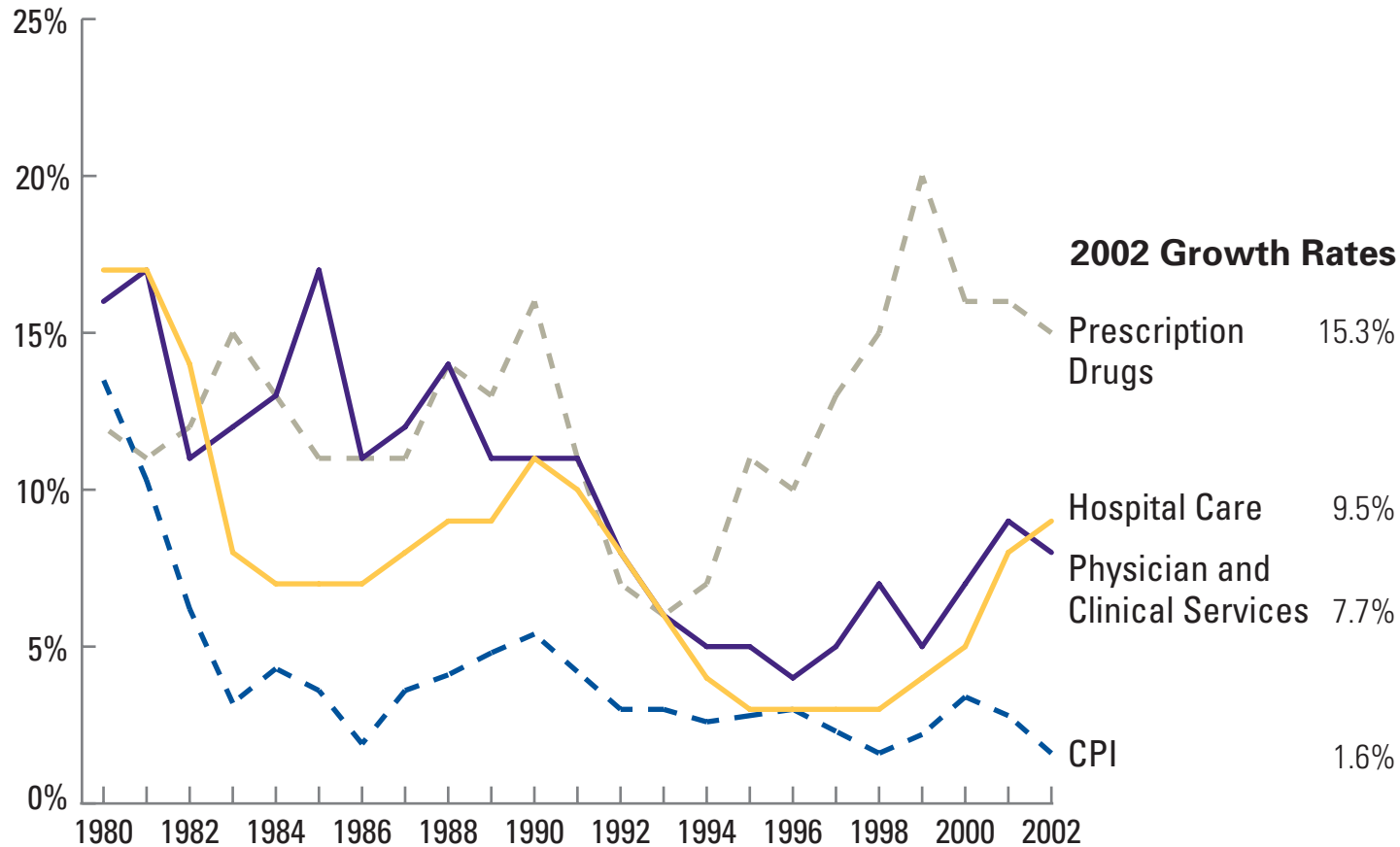
Cumulative Impact of Growth Rates



The impact of consistently higher growth rates in health care spending is seen in the comparison to 1970 levels.

Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary; Bureau of Labor Statistics (CPI-U, U.S. city average, annual figures).

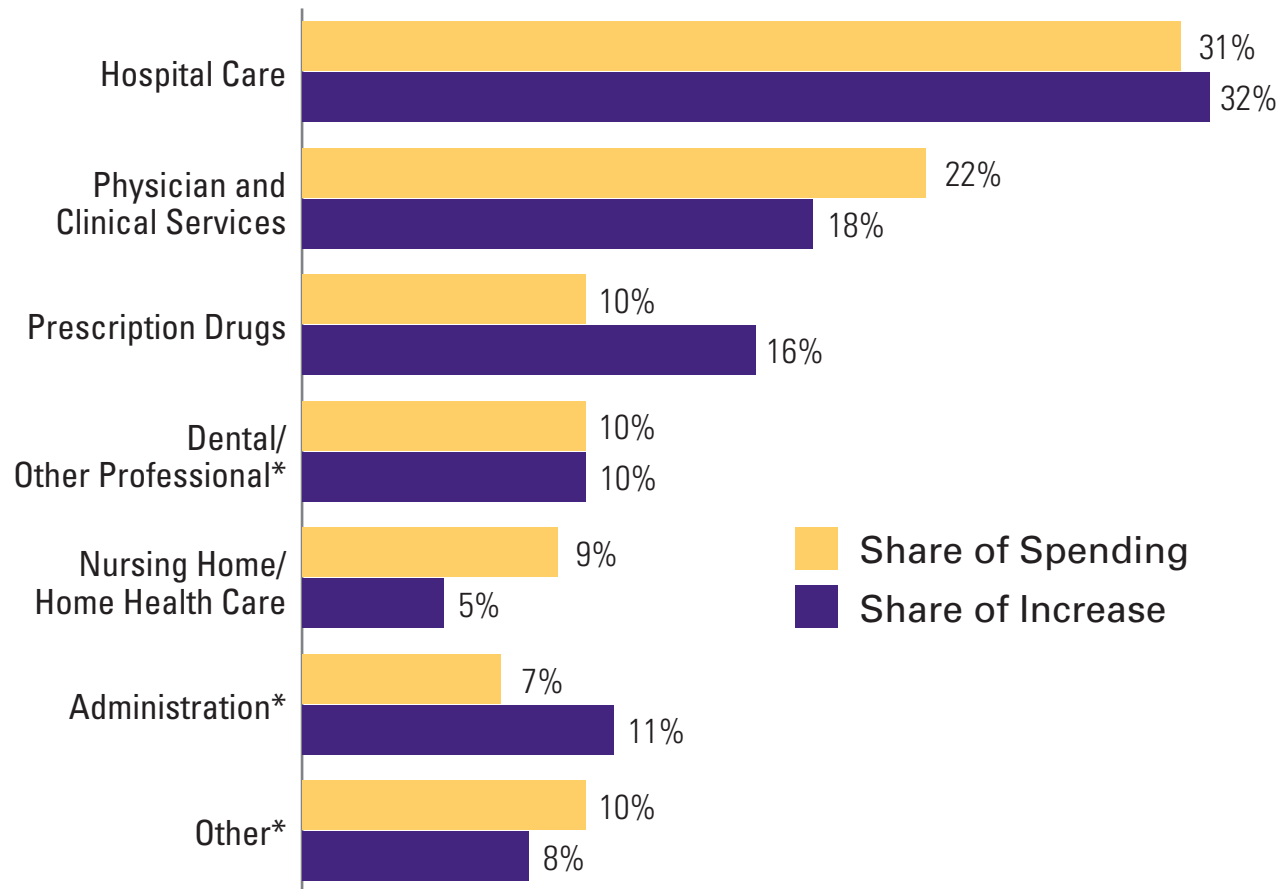
Average Annual Growth Rates by Health Spending Categories



Spending on hospital care has rebounded and prescription drug spending, despite three years of deceleration, continues to be high.

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

Share of Health Care Spending vs. Share of Increase, 2002

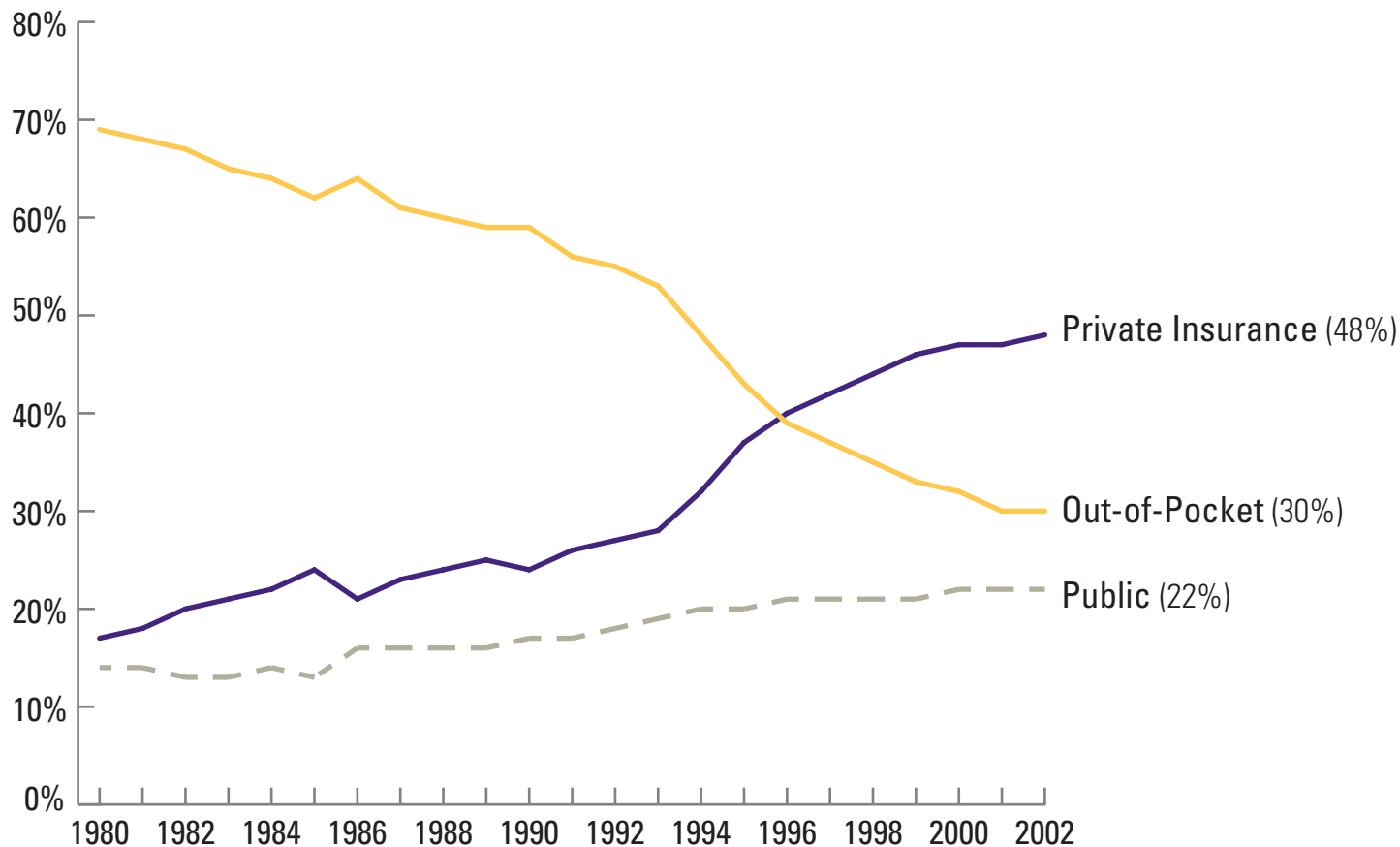


Drugs and administration contribute disproportionately to the overall increase in health spending.

Note: Health care spending categories total to national health expenditures (NHE).
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Prescription Drugs

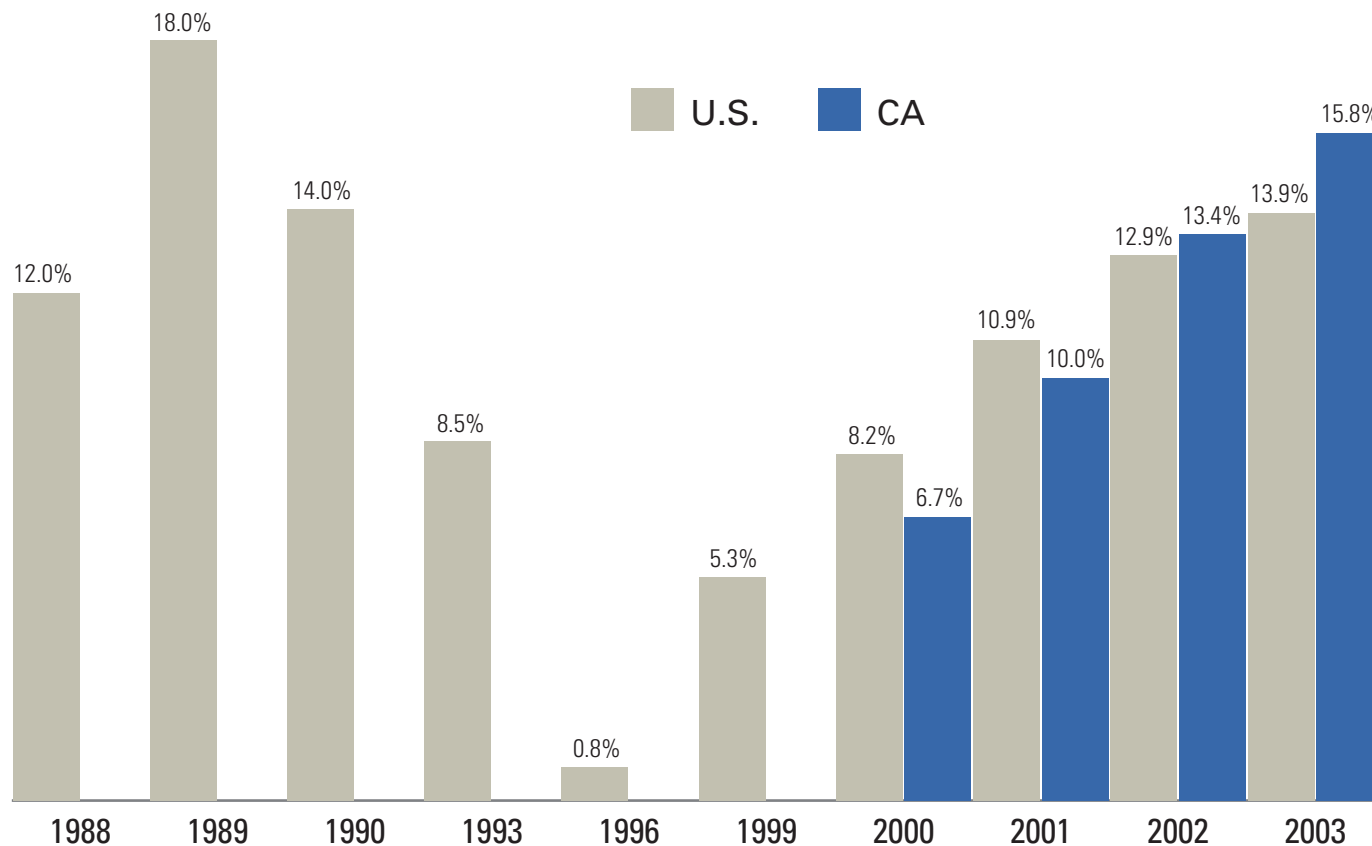
Sources of Payment



As insurance coverage for drugs has become more widespread, there has been a major shift in who pays for prescription drugs.

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

Annual Growth in Private Health Insurance Premiums as Reported by Employers



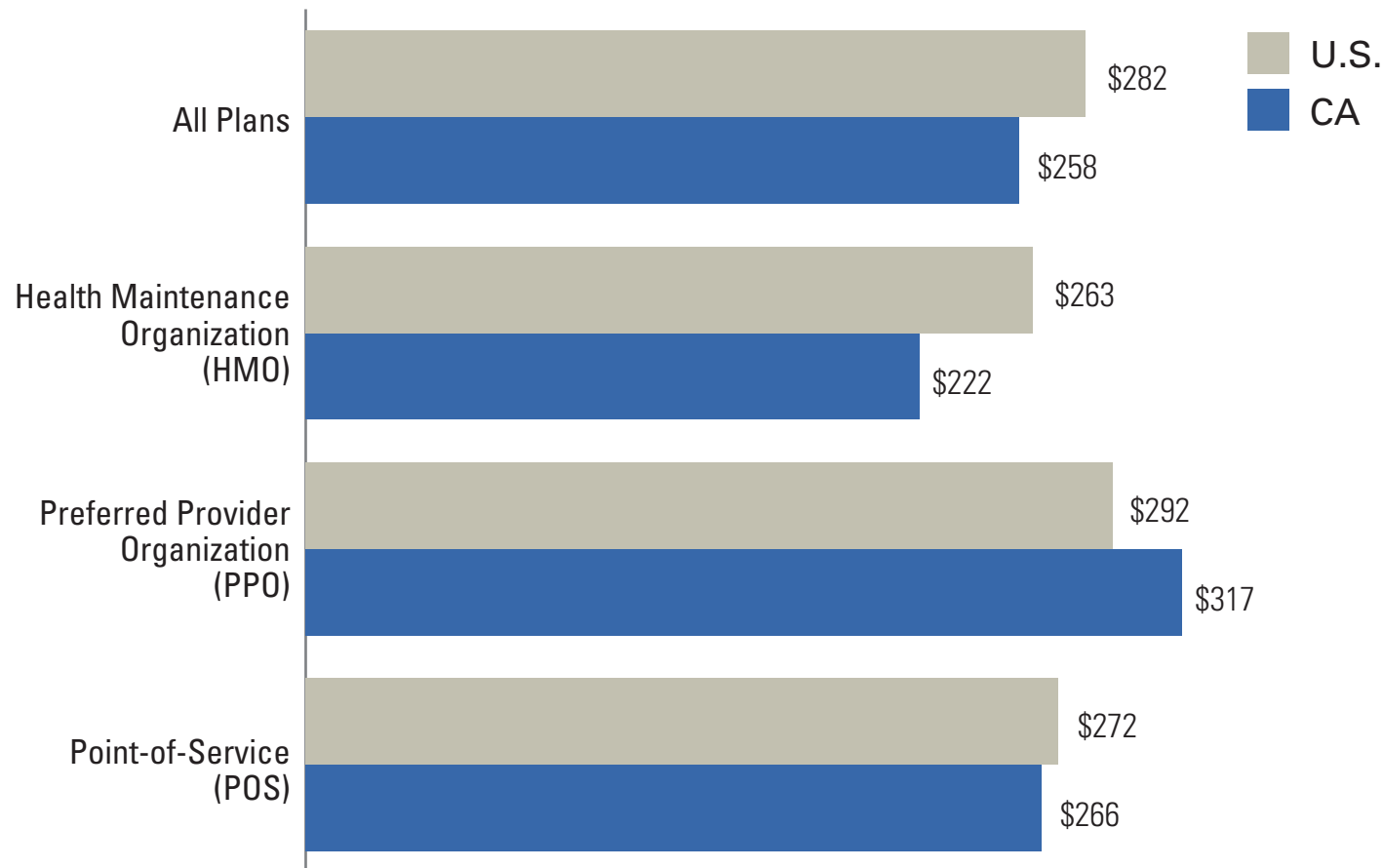
California employers report accelerating increases in health insurance premiums.

Notes: Data on premium increases reflect the cost of employer-based health insurance coverage for a family of four. Percent increase represents the growth over the immediate prior year. Selected rather than continuous years of data are shown prior to 1999.

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits, 2003. California survey not conducted prior to 2000.

Monthly Insurance Premiums

Single Enrollee in Group Health Plan, 2003

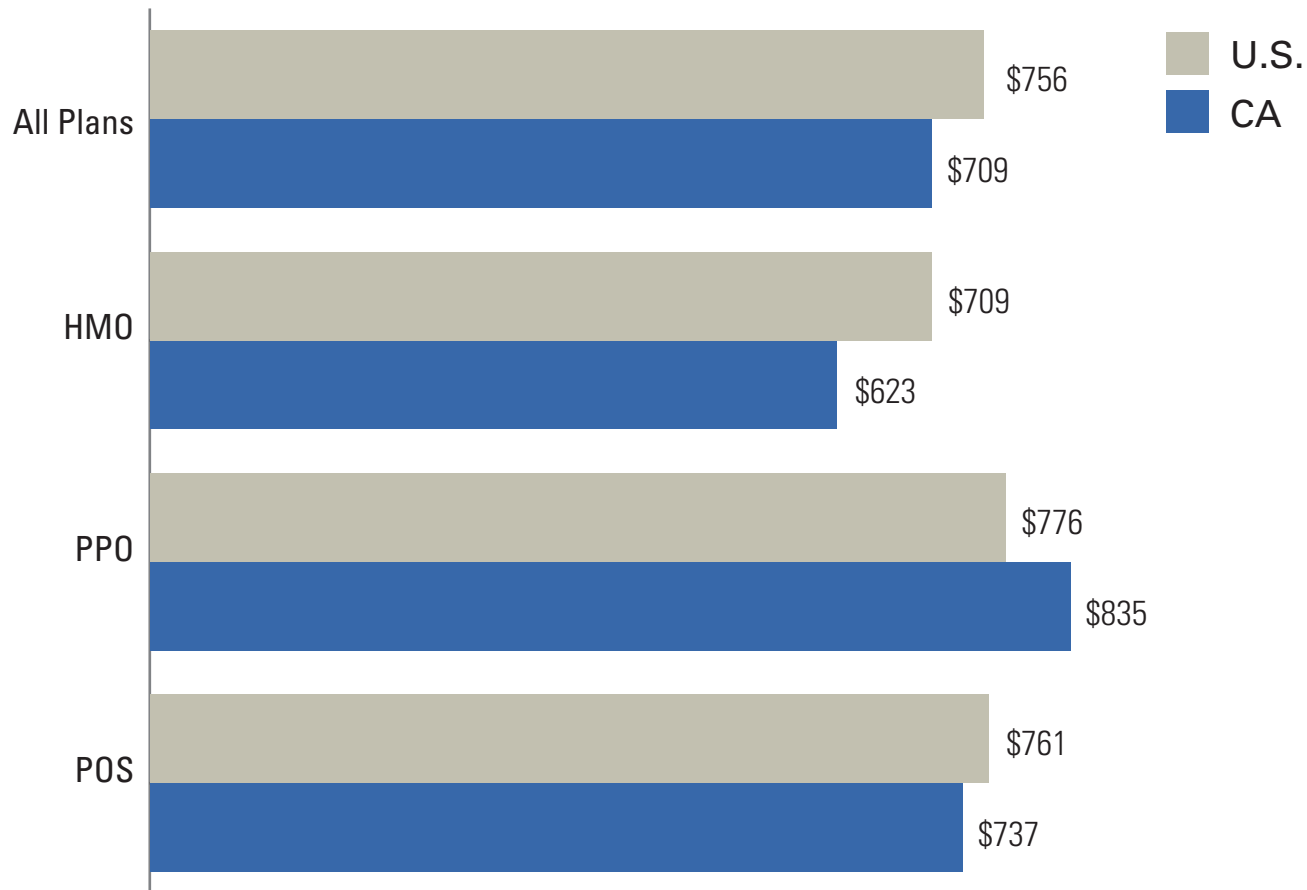


Despite recent increases, California premiums remain somewhat lower than the national average, with the exception of PPOs.

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits, 2003.

Monthly Insurance Premiums

Family Enrollee in Group Health Plan, 2003

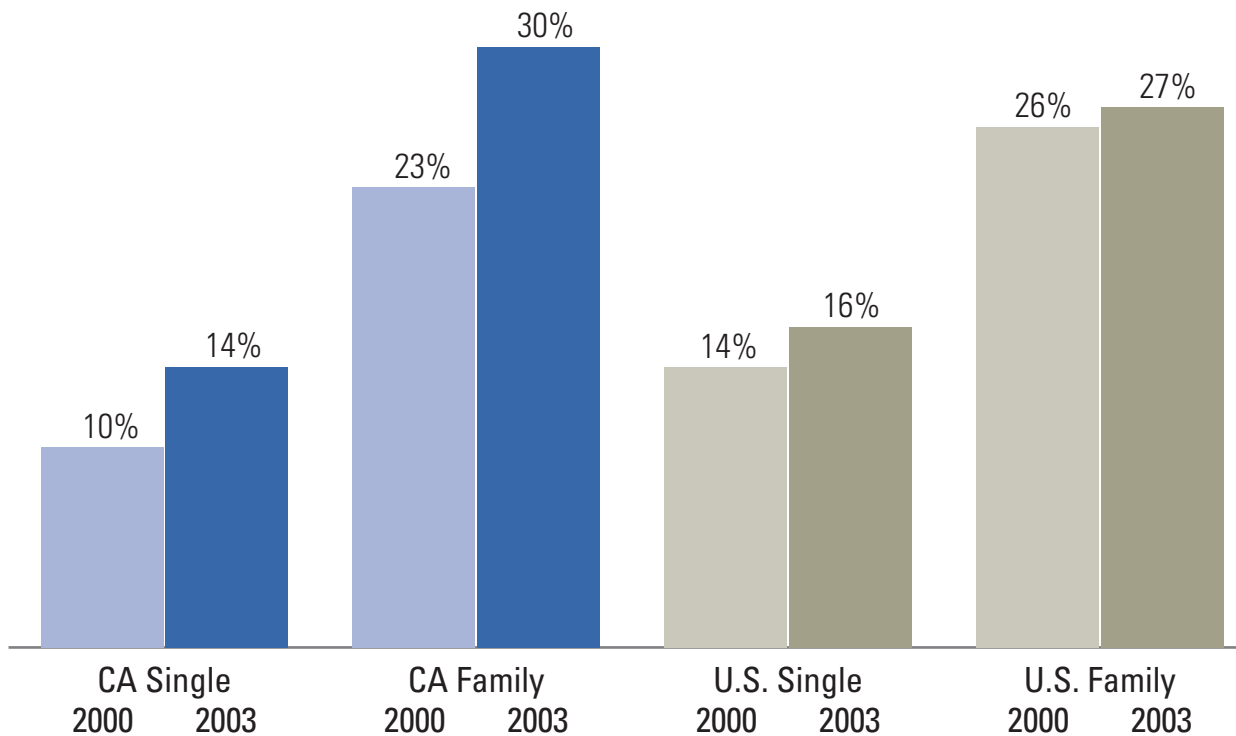


PPOs have the most expensive insurance premiums, both in California and nationally.

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits, 2003.

Employee Share of Premium

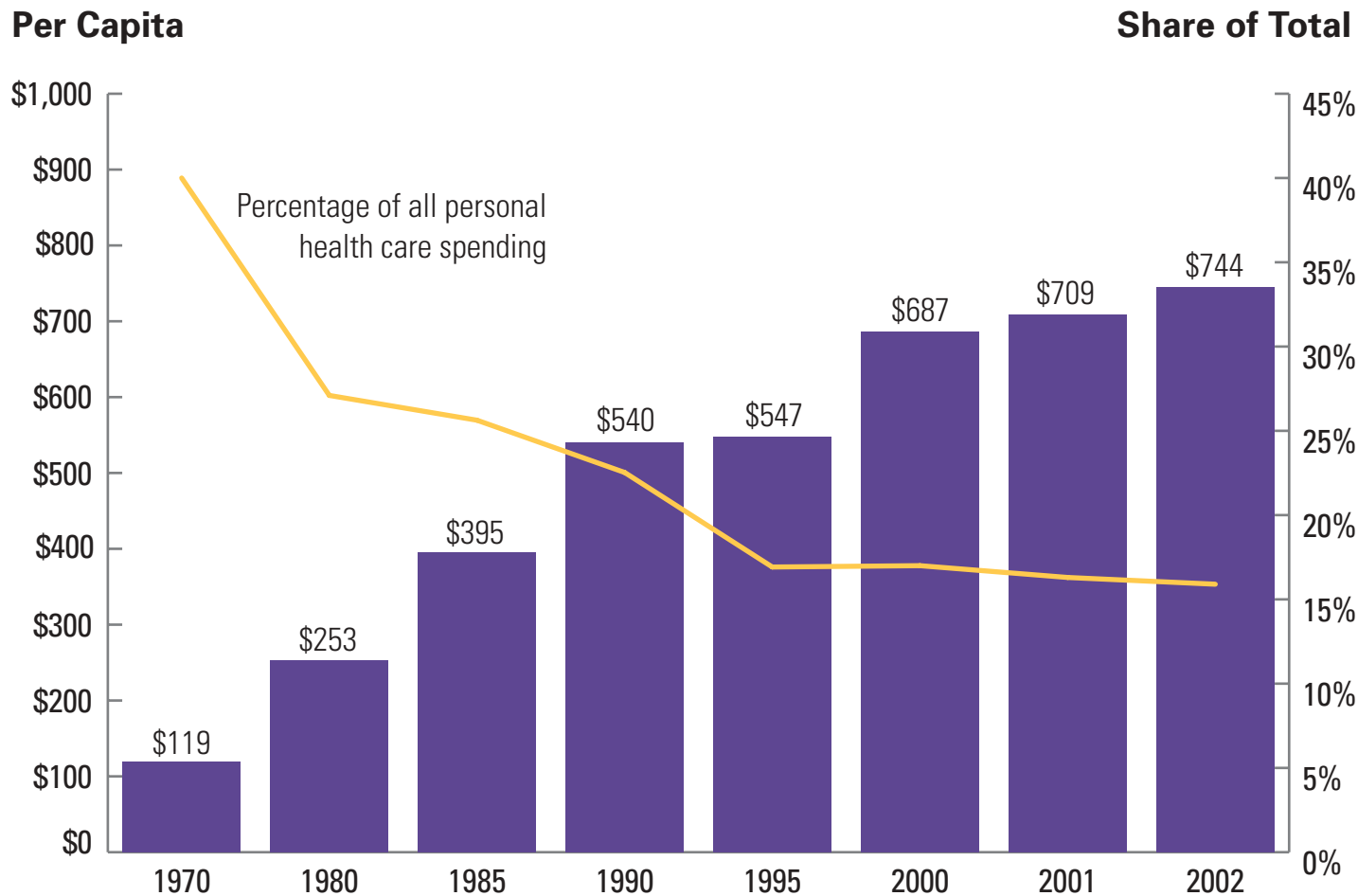
California Single and Family vs. U.S. Single and Family, 2000 and 2003



California employees are contributing more to their health insurance premiums than in the past.

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits, 2003.

Annual Out-of-Pocket Spending



Consumers are paying more out-of-pocket. However, as employer contributions and public spending have increased, out-of-pocket costs as a share of health care spending have declined.

Notes: Selected rather than continuous years of data are shown prior to 2000. 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.

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

Category Breakdown

	Spending Levels (billions)			Distribution 2002	Growth 2002 over 2001
	1982	2001	2002		
NATIONAL HEALTH EXPENDITURES (NHE)	\$321.0	\$1,420.7	\$1553.0	100%	9.3%
Health Services and Supplies (HSS)	305.4	1370.0	1496.3	96%	9.2%
Personal Health Care (PHC)	280.0	1231.4	1340.2	86%	8.8%
• Hospital Care	135.1	444.3	486.5	31%	9.5%
• Professional Services					
• Physician and Clinical Services	60.8	315.1	339.5	22%	7.7%
• Dental Services*	17.0	65.6	70.3	5%	7.2%
• Other Professional Services*	5.1	42.6	45.9	3%	7.6%
• Other Personal Health Care*	3.8	40.9	45.8	3%	12.1%
• Nursing Home Care†	22.8	99.1	103.2	7%	4.1%
• Home Health Care†	3.5	33.7	36.1	2%	7.2%
• Retail Outlet Sales					
• Prescription Drugs	15.0	140.8	162.4	10%	15.3%
• Durable Medical Equipment (DME)**	4.3	18.2	18.8	1%	3.3%
• Other Non-Durable Medical Products**	12.6	31.0	31.7	2%	2.3%
Administration††	16.5	90.3	105.0	7%	16.2%
Public Health Activity**	8.8	48.3	51.2	3%	5.9%
Research**	6.0	31.5	34.3	2%	8.9%
Construction**	9.6	19.2	22.4	1%	16.8%

*Combined to create “Dental/Other Professional.” †Combined as one figure. **Combined to create “Other.” ††“Administration” refers to government program administration (spending for the cost of running various government health care programs) and net cost of private health insurance (the difference between premiums earned by insurers and the claims or losses incurred for which insurers become liable).

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

Sources and Definitions

This guide is primarily based on 2002 national data, the latest information on health spending available from the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), Office of the Actuary. Except where noted, “health spending” refers to total national health expenditures as collected and published by CMS. Projections for 2003 forward represent those released by CMS in February 2004 and do not reflect provisions of the recently passed Medicare Prescription Drug Improvement and Modernization Act of 2003, signed into law in December 2003. Information here on health insurance premiums and employee contributions comes from the Kaiser Family Foundation/Health Research and Educational Trust annual employer health benefits survey. Additional information on the sources used in preparing this document can be found on the following pages.

Data Resources

Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Journal publications authored by CMS staff, including tables of NHE data and annualized growth percentages:

Levit, Katharine, Cynthia Smith, Cathy Cowan, Art Sensenig, Aaron Catlin, and the Health Accounts Team, “Health Spending Rebound Continues in 2002,” *Health Affairs*, Vol 23, Number 1, January/February 2004, pp. 147–159.

Heffler, Stephen, Sheila Smith, Greg Won, M. Kent Clemens, Sean Keehan, M. Kent Clemens, Mark Zezza, and Christopher Truffer, “Health Spending Projections Through 2013,” *Health Affairs*, Web Exclusive, 11 February 2004, W4-79–W4-93. www.healthaffairs.org.

Web addresses as of May, 2004 for viewing and downloading CMS data tables:

National Health Expenditures Tables
www.cms.hhs.gov/statistics/nhe/default.asp?

National Health Care Expenditures Projections Tables
www.cms.hhs.gov/statistics/nhe/default.asp?

NHE methodology sources:

Category Definitions for National Health Expenditures
www.cms.hhs.gov/statistics/nhe/quick-reference/

National Health Accounts: Definitions, Sources, and Methods
www.cms.hhs.gov/statistics/nhe/definitions-sources-methods/

Lazenby, Helen C., Katharine Levit, Daniel R. Waldo, et al, “National Health Accounts: Lessons from the U.S. Experience,” *Health Care Financing Review*, Vol 13, Number 4, Summer 1992, pp. 89–103.

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- Kaiser Family Foundation (KFF) and Health Research and Education Trust (HRET), *California Employer Health Benefits Survey, 2003*, Menlo Park, CA. Publication #7039, March 2004.
- Kaiser Family Foundation (KFF) and Health Research and Educational Trust (HRET), *Employer Health Benefits, 2003 Annual Survey*, Menlo Park, CA. Publication # 3369.
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- Strunk, Bradley C. and Paul B. Ginsburg, “Tracking Health Care Costs: Trends Slow in First Half of 2003,” Center for Studying Health System Change, Data Bulletin No. 26, December 2003. www.hschange.com/CONTENT/633/?topic=topic01