



Issue Brief III:

Sources, Expenditures and Burden of U.S. Health Care Dollars

CONCERNS OVER THE RISING COSTS OF HEALTH COVERAGE and the number of people without health insurance have fueled significant debate over ways to control health care expenditures while increasing access. These concerns are rooted in the expectation that, if uninterrupted, the economic burden to industry and government is unsustainable.

HEALTH EXPENDITURES

In 2007, \$2.24 trillion was spent in the United States on health care. Table I contains the health care expenditures in total and on a per capita basis for the years 2000 through 2007 as well as the year-over-year rate of increase for each.¹

In addition to the absolute annual rates of growth, another metric of concern is the percentage health care expenditures represent of the gross domestic product

(GDP). As Table II indicates, spending on health care reached 15.9% of GDP in 2007, up from 13.6% in 2000.²

The aggregate health care expenditures include payments for (i) the cost of personal health care, (ii) public health activities, (iii) the cost of administration of care, and (iv) investment in research, structures and equipment. Table III broadly outlines the dollars in these categories of expenditures for 2007.³

TABLE I:
HEALTH CARE EXPENDITURES

Year	Per Capita		Total (\$ in billions)	
	Per Capita	Year-over-Year %	Total	Year-over-Year %
2000	\$4,789	na	\$1,353	na
2001	\$5,149	7.5%	\$1,469	8.6%
2002	\$5,560	8.0%	\$1,602	9.0%
2003	\$5,967	7.3%	\$1,735	8.3%
2004	\$6,319	5.9%	\$1,855	6.9%
2005	\$6,687	5.8%	\$1,981	6.8%
2006	\$7,062	5.6%	\$2,113	6.7%
2007	\$7,421	5.1%	\$2,241	6.1%

TABLE II:
HEALTH CARE EXPENDITURES (GDP)

Year	GDP (\$ in billions)	Health Care as % of GDP
	2000	\$9,952
2001	\$10,286	14.3%
2002	\$10,642	15.1%
2003	\$11,142	15.6%
2004	\$11,868	15.6%
2005	\$12,638	15.7%
2006	\$13,399	15.8%
2007	\$14,078	15.9%

TABLE III:
HEALTH CARE EXPENDITURES (\$ in billions)

Personal Health Care	\$ 1,878.3
Gov't Public Health Activities	\$ 64.1
Administration	\$155.7
Investment	\$143.1
TOTAL:	\$2,241.2

NB: Numbers in this Brief are approximations. Numbers in tables and charts may not add due to rounding.

TABLE IV:
PERSONAL HEALTH CARE EXPENDITURES, 2007
(\$ in billions)

<i>Category</i>	<i>Private</i>	<i>%</i>	<i>Public</i>	<i>%</i>
Hospital	\$312.2	30.4	\$384.3	45.2
Professional Services	\$454.5	44.2	\$247.6	29.1
Nursing & Home Health	\$62.4	6.1	\$128.0	15.0
Prescription Drugs	\$146.6	14.3	\$80.8	9.5
Other Medical Products	\$52.0	5.1	\$9.9	1.2
TOTAL:	\$1,027.7	100.0	\$850.6	100.0

For the year 2007, personal health care expenditures were \$1,878.3 billion or 83.8% of the total. A description of these categories follows.⁴

Government Public Health Activities: Federal (\$9.7 billion) and State (\$54.4 billion) public health activity spending totaled approximately \$64.1 billion in 2007. These expenditures facilitated organizing and delivering publicly provided health services such as epidemiological surveillance, inoculations, immunization and vaccination services, disease prevention programs, and the operation of public health laboratories.

Administration Expenditures: Approximately \$155.7 billion was spent in the private and public arenas in 2007 to fund administrative costs, the largest portion

of which (\$94.6 billion) was the net cost of private health insurance (the difference between benefits and premiums). This number also includes administrative expenses of government programs and philanthropic organizations.

Investment Expenditures: This category includes both research activities (\$42.4 billion) and investment in structures and equipment (\$100.6 billion). The majority of research expenditures are publicly funded (National Institutes of Health). Approximately \$77.3 billion of the structures and equipment was funded privately.

Personal Health Care Expenditures: This category accounts for the vast majority of spending and relates to the facility, service and product costs of personal health care. Table IV above provides the distribution and percentage of dollars spent in 2007 by personal health care category by private and public payers.⁵ Approximately 75% of private and public expenditures were concentrated in hospital and professional service costs.

Additional detail of the expenditures for public beneficiaries is outlined in Table V.

TABLE V:
PUBLIC PERSONAL HEALTH CARE EXPENDITURES, 2007
(\$ in billions)

<i>Category</i>	<i>Medicare</i>	<i>Medicaid & SCHIP</i>	<i>Other Fed & State⁶</i>	<i>TOTAL</i>
Hospital	\$196.2	\$124.7	\$63.3	\$384.3
Professional Services	\$110.0	\$94.4	\$40.2	\$247.6
Nursing & Home Health	\$47.0	\$75.7	\$5.3	\$128.0
Prescription Drugs	\$47.0	\$23.1	\$10.7	\$80.8
Other Medical Products	\$9.3	\$0.1	\$0.5	\$9.9
TOTAL:	\$409.5	\$318.0	\$120.0	\$850.6

Chart I shows the relative expenditures by service type. The distribution by payer group for service type varies significantly.

A previous Issue Brief, titled *Who Has Health Care Coverage in the U.S. and From What Source*, detailed the population served by private insurers and public insurers. That Brief pointed out that approximately 200 million people were covered by private insurance, while approximately 41 million were enrolled in Medicare, 40 million were enrolled in Medicaid and 11 million were Military. Excluding the overlapping covered persons, the aggregate net covered population was approximately 253 million people.

For simplicity, the following Table VI ignores the complication of multiple coverage and who is the primary or secondary payer and calculates a per capita average using the total covered lives in the denominator of each payer group. It is worth noting that Medicare and Medicaid spend significantly more per capita on hospital services than is spent on individuals covered by private insurance.

TABLE VI	Covered Lives (millions ⁷)	Hospital Spending (\$ in billions)	Per Capita
PRIVATE	202.0	\$312.2	\$1,645.5
MEDICARE	41.4	\$196.2	\$4,773.7
MEDICAID	39.6	\$124.7	\$3,148.9

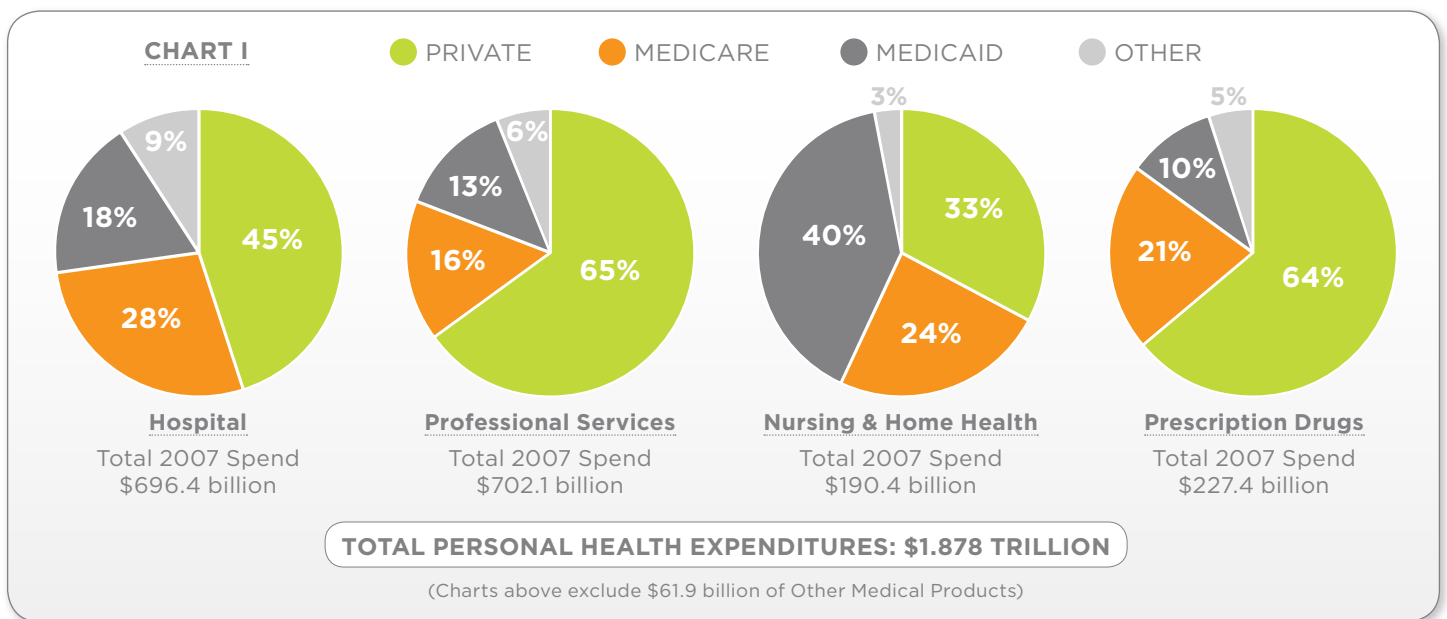
TABLE VII	Covered Lives (millions ⁸)	Professional Services Spending (\$ in billions)	Per Capita
PRIVATE	202.0	\$454.5	\$2,250.0
MEDICARE	41.4	\$110.0	\$2,657.0
MEDICAID	39.6	\$94.4	\$2,383.8

This point accentuates the importance of the hospital payments to the public insurers as an expenditure category.

By comparison, Table VII shows the same calculation applied to professional services expenditures. These payments are more equally distributed per capita across private and public payers.

While both private and public payers spent three quarters of every personal health expenditure dollar on hospitals and professional services, the concentration of public payments for hospital care is significant.

The pie charts below illustrate the Personal Health Expenditures for 2007.



SOURCES OF FUNDING FOR HEALTH EXPENDITURES

The funding to pay for the total health care expenditures comes from private and public sources. The private sources

include health insurance premiums, paid by individuals or shared between employers and employees, and consumer out-of-pocket payments. The funding sources for public beneficiaries come through government expenditures, primarily Medicare and Medicaid.

The specific sources of funding are presented in Table VIII. The funding sources represent dollars needed to pay for total health expenditures (\$2.241 trillion).⁹

Out of Pocket: Household out-of-pocket spending for health care (\$269 billion) consists of direct spending by consumers for all health care goods and services,

including deductibles and non-covered goods and services not paid by third parties. The out-of-pocket category includes payments made by private as well as public beneficiaries, but excludes premium share payments.

Private Health Insurance: \$775 billion is the amount of premium dollars

paid to private health insurers for health coverage. This private insurance premium is a combination of money (i) paid by private business (\$400 billion) to cover their employees, (ii) paid by individuals (\$240 billion) for either their premium contribution or the purchase of direct coverage or supplemental coverage, and (iii) paid by government (\$135 billion) to cover Federal, State and local government workers.

Other Private Funds: The most widely recognized source of other private funds is philanthropy.

Other Federal: Other federal government funding programs (\$137.0 billion) include Veteran's Administration, Department of Defense and NIH (approximately \$100 billion for all three in 2007).

Other State and Local: Other state and local funding programs (\$138.1 billion) included workers' compensation and entities that funded public health (approximately \$85 billion).

As the health expenditures rise, so must the sources to fund them. Graph I below charts relative distribution of expenditures by payer type for the years 1992 to 2007.¹⁰

**TABLE VIII:
FUNDING SOURCES OF HEALTH CARE PAYMENTS, 2007
(\$ in billions)**

PRIVATE	
Out-of-Pocket	\$268.6
Private Health Insurance	\$775.0
Other Private Funds	\$162.0
TOTAL PRIVATE:	\$1,205.6
PUBLIC	
FEDERAL	
Medicare	\$431.2
Medicaid	\$186.1
Other Federal	\$137.0
SUBTOTAL	\$754.4
STATE AND LOCAL	
Medicaid	\$143.3
Other State/Local	\$138.1
SUBTOTAL	\$281.3
TOTAL PUBLIC:	\$1,035.7
TOTAL PRIVATE PLUS PUBLIC:	\$2,241.2

GRAPH I

DISTRIBUTION IN SPENDING BY PAYER, 1992-2007

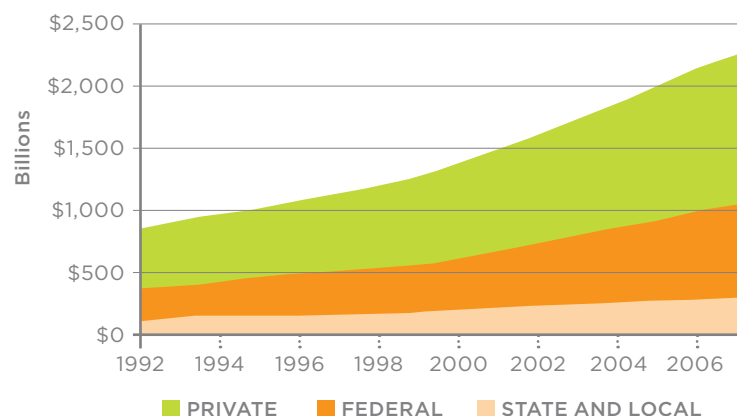


Table IX presents the compound annual growth of total health expenditures over the period of approximately 6.7%. The component payer growth rates do not appear to differ dramatically, but an annual difference of about 1.6% explains why public spending continues to be responsible for more and more of overall spending.

THE DISTRIBUTION OF THE COST OF HEALTH CARE

Concerns over the amount of money being spent on health care derive from the perceived economic burden of health costs on various constituents from employer to consumer. It may not, however, be the aggregate dollars being spent on this particular industry sector which underlies the concern. Rather, it is the relative burden imposed by virtue of:

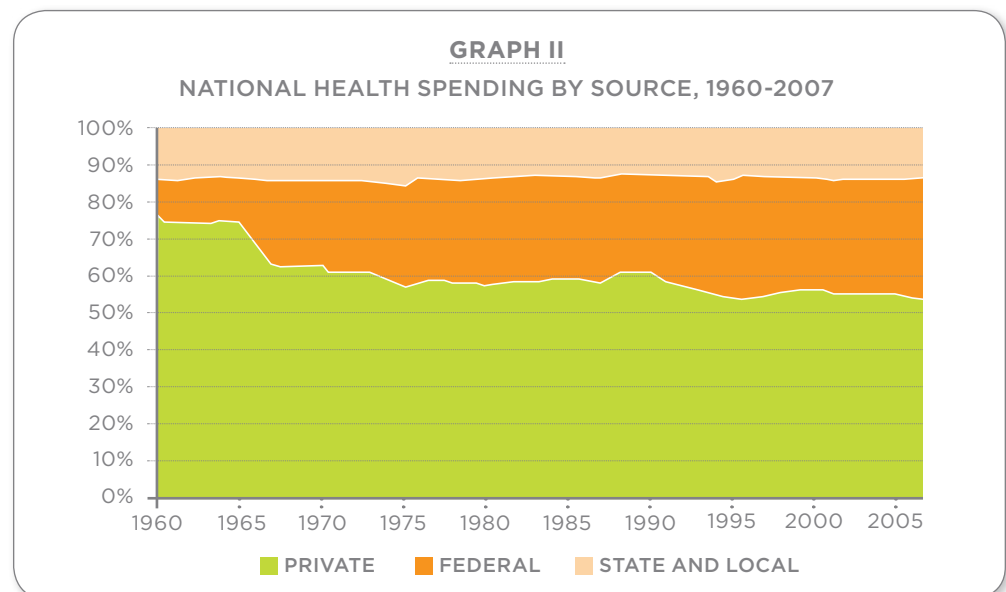
- (i) The increasing size and proportion of government health program payments, accentuated by (a) rising share of the available tax dollars and (b) the aging population; and
- (ii) The increasing share of private health care costs as a percentage of business ex-

PRIVATE	6.3%
MEDICARE	8.0%
MEDICAID	7.9%
TOTAL:	6.7%

penses. This private share appears to be exacerbated by (a) the low payment rates of public payers and (b) the absorption of uninsured and underinsured persons' bad debt.

A distribution of the expenditures by State and Local Governments, the Federal Government and the Private sectors is shown in Graph II below. As is evident, the percentage of total spending on health represented by government payments has increased substantially over this period. As the United States continues to shift to an older, non-working population, funding the increase in public sector spending is falling on relatively fewer tax-paying individuals and on companies.¹¹

Total federal payments as % of federal spending: For the periods 1993 through 2007,



	1993	2000	2007
Total Federal Expenditures	\$1,409.5	\$1,789.2	\$2,728.9
Federal Public Health Expenditures	\$279.4	\$417.7	\$754.4
% Health of Total Federal Expenditures	19.8%	23.3%	27.6%

	2000	2007	2020
Actual/Projected Population	281.4	301.6	341.4
Population 65 or Older	35.0	37.9	54.8
% 65 or Older	12.4%	12.6%	16.1%

Table X shows that federal public health expenditures (excluding State Medicaid payments) have risen as a percentage of total

federal expenditures and now represents over one quarter of all federal spending¹². Although relative growth has been modest over this period, the data show that health care is consuming a greater share of federal money.

Shift of taxpaying population: As the population of the United States continues to age, people receiving benefits from both Medicare and Social Security will increase from 12.6% of the population in 2007 to a projected 16.1% in 2020¹³ (Table XI). This aging trend will not only increase the payments from these programs but also diminish the tax base due to retirements exceeding new workers.

The cost shift of the uninsured and public programs: Private health care bears the burden of two unique influences: it absorbs the unreimbursed cost of serving the uninsured and underinsured and it subsidizes the providers (primarily hospitals) who must “make-up” for low public reimbursement rates. Graph III below charts the individual and aggregate impacts on private payers by virtue of the reimbursement differentials of Medicare and Medicaid and the burden of the unreimbursed costs of the uninsured and underinsured.¹⁴

The changes in private health insurance payments: In 2008 there were approximately 116 million people employed in the private sector (excluding self-employed); 80% of these were full-time employees. Data from the Medical Expenditure Panel Survey¹⁵ regarding employee health coverage premiums for the years 2000 and 2008 is presented in Table XII below (2007 was unavailable). The data details the total premium and the amounts paid by either the employer or employee for single or family coverage. This data excludes deductible (estimated 2008 annual \$889 per single plan and \$1,656 for family plan), co-pays and out-of-pocket payments made by the employee or covered beneficiaries relating to their care.

GRAPH III

PRIVATE PAYER ADDITIONAL BURDEN, 2000-2007
(Uninsured, Medicare and Medicaid)

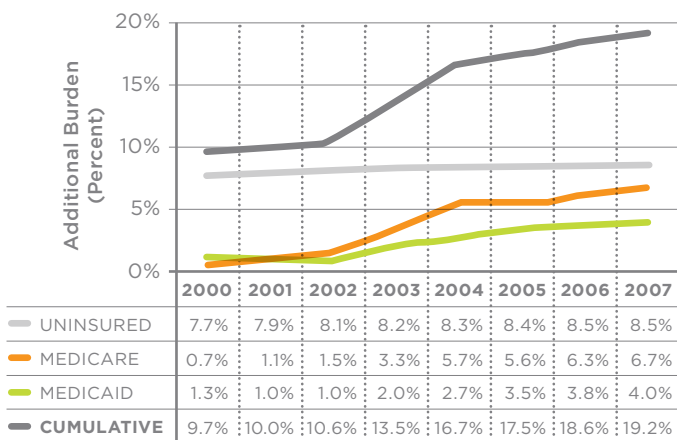


TABLE XII

PREMIUM DISTRIBUTION

	Total	Employer	Employee
2000			
SINGLE	\$3,042	\$2,628	\$414
FAMILY	\$6,931	\$5,645	\$1,286
2008			
SINGLE	\$4,386	\$3,504	\$882
FAMILY	\$12,298	\$8,904	\$3,394

During this time a greater percentage of the total premium has been shifted to the employee. For example, the employee bore 13.6% and 18.6% of the total

premium for single and family coverage respectively in 2000. By 2008, these percentages grew to 20.1% and 27.6%. See Table XIII.

Table XIV shows the long term compound annual growth rate for each of the employer's and employee's premium portion. This demonstrates that the percentage increase for the employee has outpaced the percentage increase for the employer. The employees are bearing more of the rising premium than employers.

	<i>Total</i>	<i>Employer</i>	<i>Employee</i>
2000			
SINGLE	100%	86.4%	13.6%
FAMILY	100%	81.4%	18.6%
2008			
SINGLE	100%	79.9%	20.1%
FAMILY	100%	72.4%	27.6%

	<i>Total</i>	<i>Employer %</i>	<i>Employee %</i>
2000 to 2008			
SINGLE	4.68%	3.66%	9.90%
FAMILY	7.43%	5.86%	12.89%

“The pressure on state and federal governments to spend a greater portion of revenues on the publicly insured reduces their ability to fund other programs and projects and forces them to increase the tax burden on businesses and individuals alike.”

Increased health care expenditures are impacting many areas of the US economy and government. Demographics, technology innovation, utilization, provider payment rates, and other factors continue to drive increasingly higher amounts of spending. The pressure on

state and federal governments to spend a greater portion of revenues on the publicly insured reduces their ability to fund other programs and projects and forces them to increase the tax burden on businesses and individuals alike. Private insurers must continue to seek positive operating margins by increasing the premiums they charge companies and individuals to cover not only inherent cost rises but cost shifted to them. And companies seek to shift the burden of the increased cost of health coverage to the employee. •

End Notes

¹ National Health Expenditures. Centers for Medicare and Medicaid; Table 1, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>

² Bureau of Economic Analysis; <http://www.bea.gov/national/Index.htm>

³ National Health Expenditures. Centers for Medicare and Medicaid; Table 2, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>

⁴ National Health Expenditures. Centers for Medicare and Medicaid; Table 4, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>

⁵ Excludes Government Administrative, Net Cost of Private Insurance (\$155.7 million), Government Public Health Activities (\$64.1 million) and Research and Structures and Equipment spending (\$143.1 million)

⁶ Included Workers' Compensation, Department of Defense, Veterans' Administration, and other

⁷ Ignores the Combination Coverage

⁸ Ignores the Combination Coverage

⁹ National Health Expenditures. Centers for Medicare and Medicaid; Table 3, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>

¹⁰ Centers for Medicare and Medicaid; http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp

¹¹ Centers for Medicare and Medicaid; http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp

¹² Includes total federal spending; excludes all state and local (including state Medicaid payments); http://www.cbo.gov/ftpdocs/100xx/doc10014/March2009_HistoricalTables.pdf

¹³ Administration of Aging; http://www.aoa.gov/AoARoot/Aging_Statistics/index.aspx

¹⁴ Family USA Foundation, the American Hospital Association and Pricewaterhouse Coopers

¹⁵ http://www.meps.ahrq.gov/mepsweb/survey_comp/Insurance.jsp selected tables; also Table I.G.3(2008) Employer cost distributions (in dollars) for employees enrolled in single and family coverage.



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