Attachment 2

Snapshot: Health Care Costs 101

SNAPSHOT

Health Care Costs 101

2007

Introduction

New national health expenditure data offer both promise and concern: The growth rate for health spending continues to moderate, but it still outpaces general inflation and growth in our economy. These dynamics create constant pressure on government budgets, employer finances, and consumers' pocketbooks, as health care demands an ever-increasing share.

The fourth annual presentation of *Health Care Costs 101* provides general background on U.S. health spending, with detail for California where available. It shows how much we spend, what services the funds are spent on, and how much of the spending comes directly from consumers.

A revised companion guide for California will follow when updated state-level data become available. The most current version of the California guide is posted at www.chcf.org.

This guide is primarily based on 2005 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 (NHE) as collected and published by CMS.

Spending projections for 2006 forward represent those released by CMS in February 2007 and reflect provisions of the recently passed Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA). Note that the impact of the MMA would first be reflected in 2006, its year of implementation. Additional information on the sources used in preparing this document can be found on page 23.

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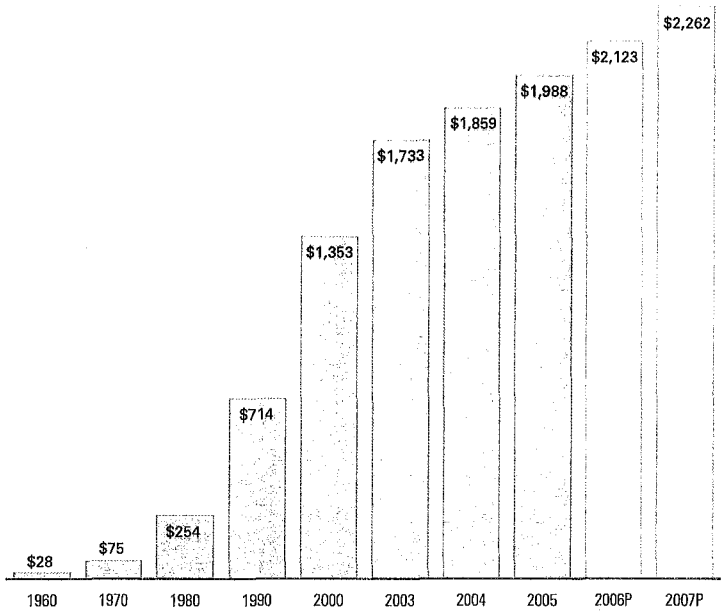
National Health Spending
in Billions



Note: Selected rather than continuous years of data are shown prior to 2003. Years 2006 forward are CMS projections.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

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Spending Levels

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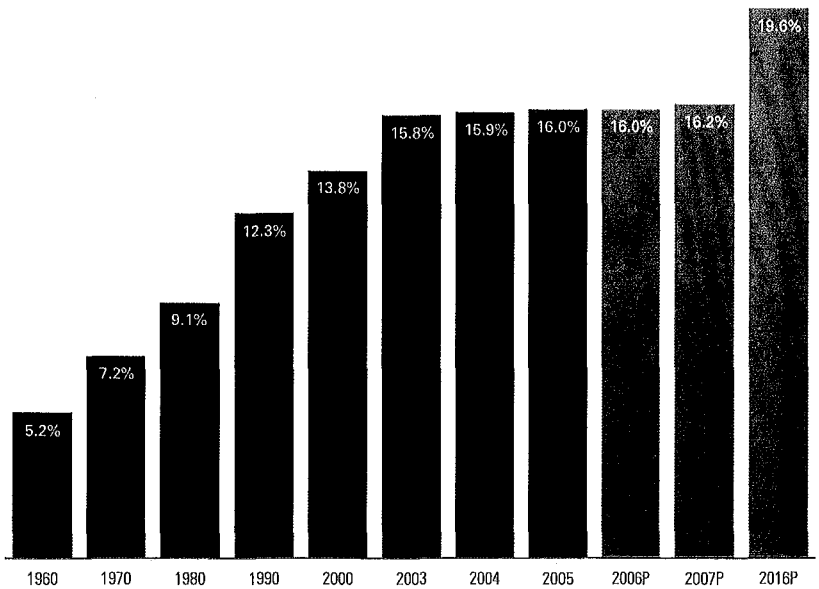
Health spending reached nearly $2 trillion in 2005.

National Health Spending
as a Share of Gross Domestic Product



Note: Selected rather than continuous years of data are shown prior to 2003. Years 2006 forward are CMS projections.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Health Care Costs 101
Spending Levels

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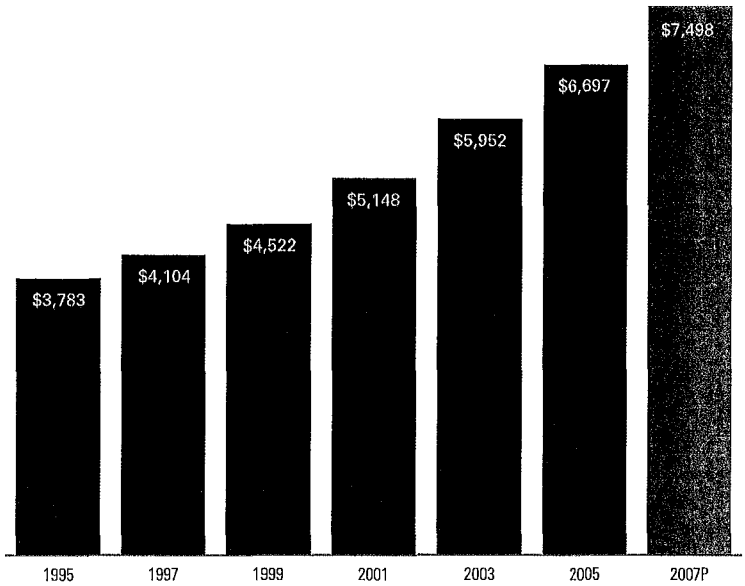
Health care's share of the economy continues to grow and is projected to reach 19.6 percent by 2016.

National Health Spending
per Person



Note: Selected rather than continuous years of data are shown. 2007 is a projection.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

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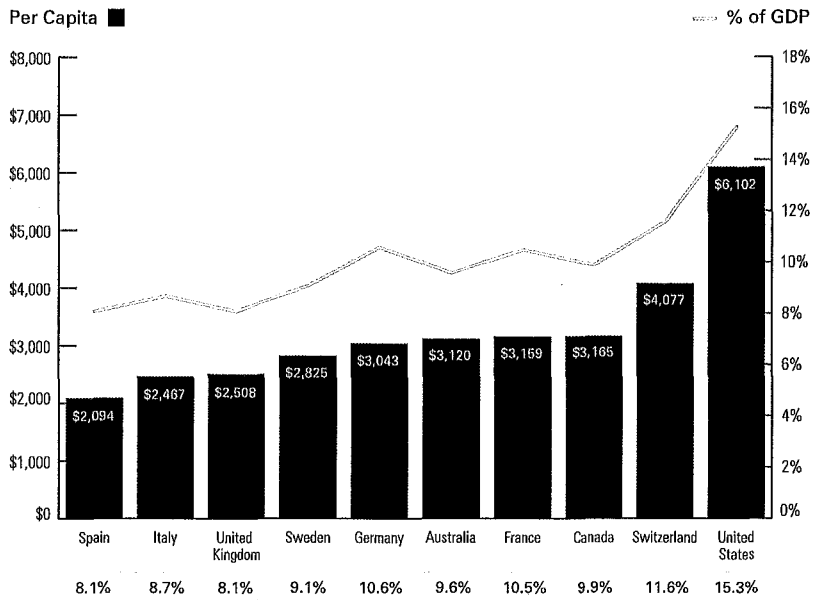
The amount spent per person increased 77 percent between 1995 and 2005.

Health Care Spending
in Selected Developed Countries, 2004



Note: U.S. per capita as reported by OECD differs from CMS figures reported elsewhere in this snapshot.
Source: OECD *Health Data 2006: Statistics and Indicators for 30 Countries*, October 2006.

Health Care Costs 101
Spending Levels

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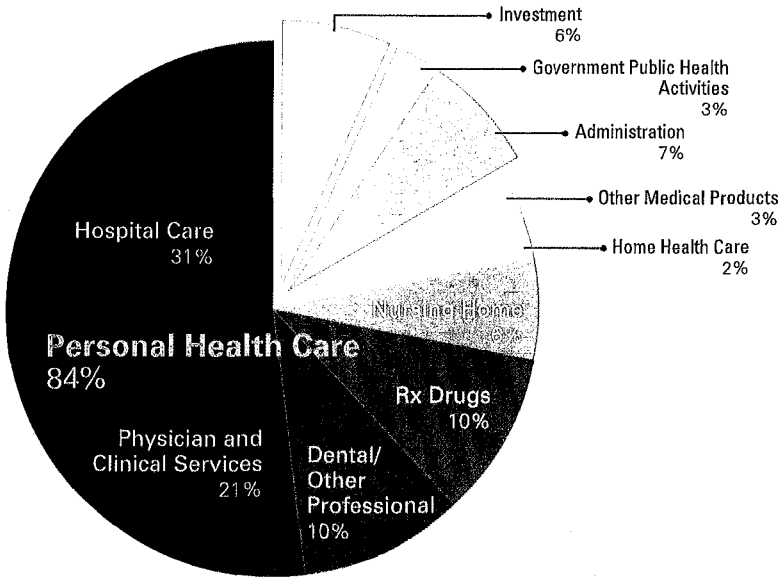
U.S. health care spending far exceeds that of other developed countries, both in terms of per capita spending and percent of GDP.

Spending Distribution
by Category, 2005

Total Spending: $2.0 trillion



Notes: See the Appendix for details on category breakdowns and definitions. Pie sections don't add to 100 percent due to rounding.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

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

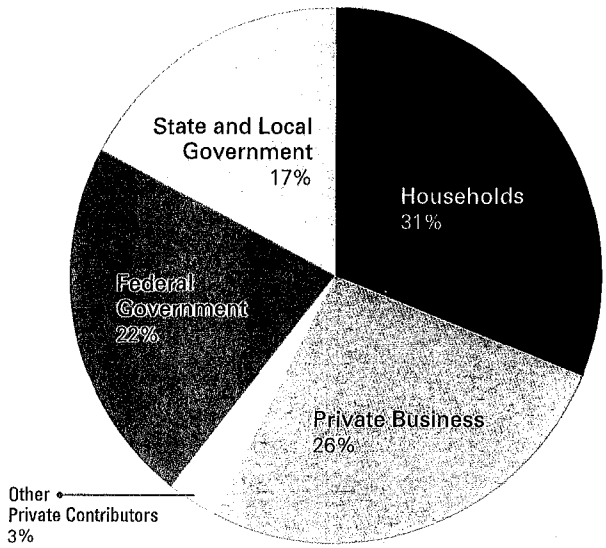
Spending Summary
in Billions

	Spending Levels			Spending Distribution		Growth 2005/2004	
	2005	2004	1985	2005	1985	Billions	Rate
NHE	$1,988	$1,859	$440	100.0%	100.0%	$128.8	6.9%
Hospital Care	$612	$567	$165	30.8%	37.6%	$44.7	7.9%
Physician and Clinical Services	$421	$394	$90	21.2%	20.4%	$27.5	7.0%
Dental/Other Professional	$201	$187	$35	10.1%	8.1%	$13.1	7.0%
Nursing Home Care	$122	$115	$32	6.1%	7.2%	$6.8	6.0%
Home Health Care	$47	$43	$6	2.4%	1.3%	$4.7	11.1%
Prescription Drugs	$201	$190	$22	10.1%	5.0%	$11.1	5.8%
Other Medical Products	$58	$56	$23	2.9%	5.1%	$2.2	3.9%
Administration	$143	$135	$26	7.2%	5.8%	$7.8	5.7%
Government Public Health Activities	$57	$52	$11	2.8%	2.5%	$4.1	7.7%
Investment	$127	$120	$31	6.4%	7.0%	$6.9	5.7%

Notes: See the Appendix for details on category breakdowns and definitions.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

In the last 20 years, the share spent on hospital care has declined, while the share spent on prescription drugs has grown.

Spending Distribution
by Contributors*, 2005



*Estimates of spending by contributor are organized according to the underlying entity (business, households, and government) financing the health care bill payer. CMS refers to these contributors as "sponsors." Reflects spending on Health Services and Supplies.

Note: Pie sections don't add to 100 percent due to rounding.

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

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Households, businesses, and government all contribute significantly to the financing of health care.

Household contributions include out-of-pocket costs, health insurance premiums, and payroll taxes.

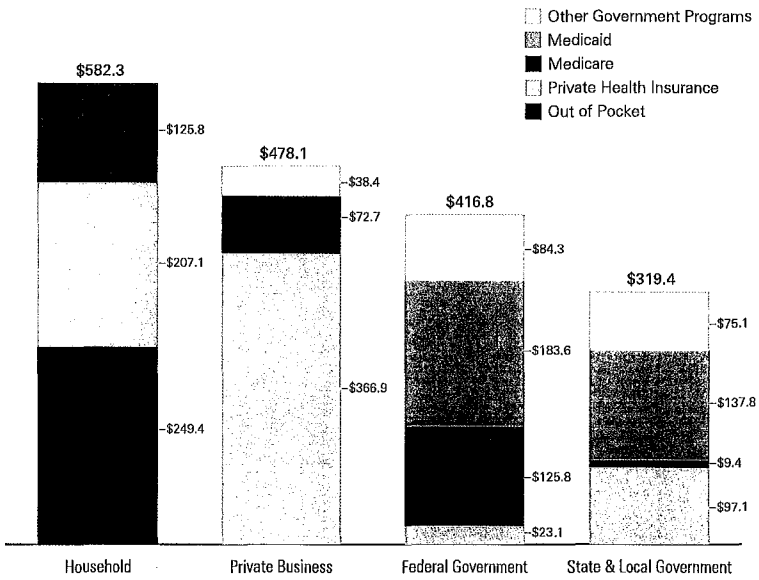
Private Business contributions include health insurance premiums for workers and payroll taxes.

Other Private Contributors includes philanthropy.

Federal Government contributions include general tax revenues, plus payroll tax and private health insurance for its workers.

State and Local Government contributes general tax revenues, plus payroll tax and private health insurance for its workers.

Contributors to Health Care
Spending Detail, in Billions, 2005



Note: Figures reflect Health Services and Supplies. Not shown: Other Private Contributors ($64.1 billion) includes philanthropy.

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

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Contributors to health care buy services directly, purchase private insurance, and fund public programs.

Other Government Programs: For private business, consists of workers' compensation and temporary disability plus $5.6 billion for industrial in-plant health services. For federal government, includes Veterans and Defense health programs ($30 and $26 billion respectively). For state and local governments, includes county health programs.

Medicaid: Contributions from federal and state spending from general tax revenues.

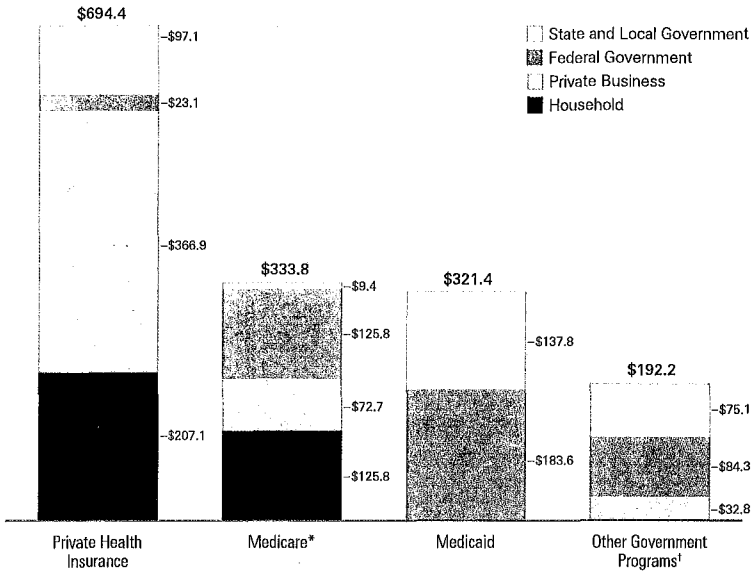
Medicare: Receives contributions from three main sources: 1) payroll tax on earnings funds Part A (hospital insurance), 2) beneficiary premiums for Part B (supplementary medical insurance), and 3) federal general tax revenues. For households, includes both payroll tax and $29.2 billion in Part B premiums. For private business, as well as state and local government, consists of employer share of payroll tax. For federal government, consists primarily of general tax revenue spending plus $3.3 billion in payroll taxes for federal workers.

Private Health Insurance: For households, consists of worker contributions to employer-sponsored coverage plus premium payments for individual insurance. For private business and government, consists of employer contributions to workers' health insurance.

Out of Pocket: Household spending for deductibles, copayments, and services not covered by insurance.

Health Care Sources of Payment

Contributor Detail, in Billions, 2005



*Medicaid includes $8.3 billion for buy-ins to Medicare.

†Other Government Programs includes Veterans and Defense health spending, public health activities, SCHIP, maternal and child health, and hospital subsidies.

Notes: Figures reflect Health Services and Supplies. Not shown: out of pocket ($249.4 billion); other private, including philanthropy ($64.1); and in-plant industrial health services ($5.6).

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

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Health care payers receive their funds from a variety of contributors.

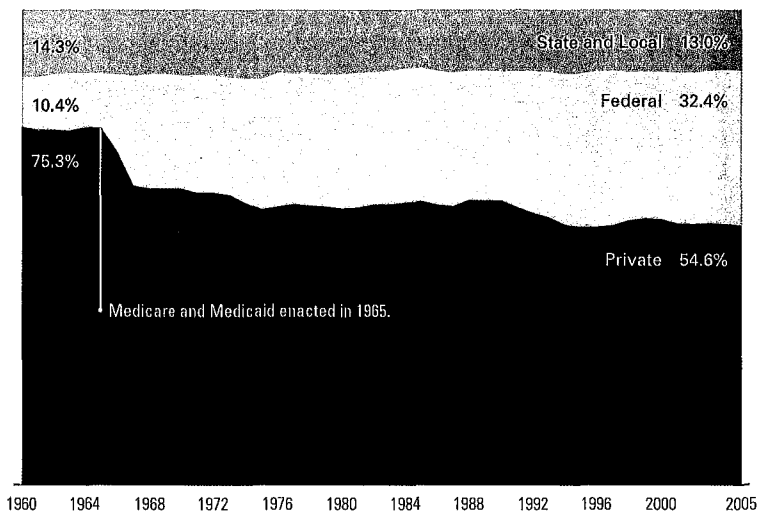
State and Local Governments contribute private insurance premiums on behalf of government workers; the employers' share of payroll taxes for Medicare; state tax revenues to finance a share of Medicaid; and state and local tax revenues for county health programs.

Federal Government contributes private insurance premiums on behalf of government workers; general tax revenues to finance a share of Medicaid and Medicare; and support for other programs, such as Veterans and Defense health.

Private Business contributes employers' share of private insurance premiums and payroll taxes for Medicare and contributes to government programs through Workers' Compensation and temporary disability insurance.

Households contribute to private health insurance through their employees' share of private insurance premiums and purchase of individual policy premiums ($39.7 billion). Households contribute to Medicare via payroll taxes and Part B premiums.

Historic Payment Sources



Notes: Chart reflects national health expenditures (NHE) by source of funds. Some years don't add to 100 percent due to rounding. The impact of the Medicare Prescription Drug Improvement Act of 2003 will be reflected in 2006, its year of implementation.

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

Health Care Costs 101
Payment Sources

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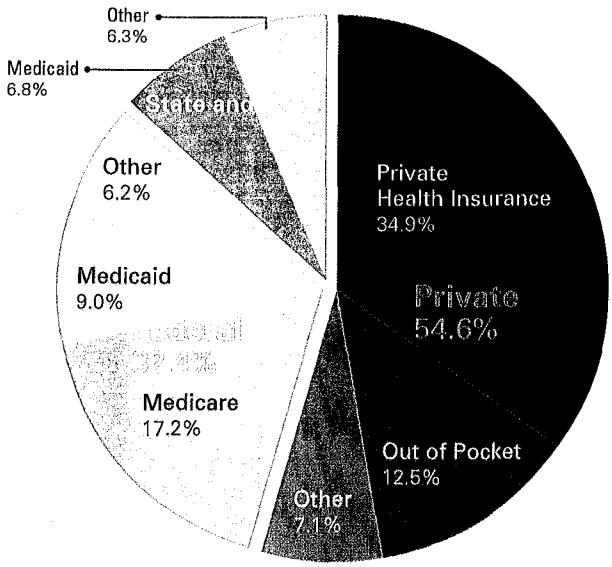
Over time, the share of federal spending has increased, most dramatically following the creation of Medicare and Medicaid.

Spending Distribution
by Payer, 2005

Total Health Spending: $2.0 trillion



Note: Other federal includes Veterans, Defense, and the State Children's Health Insurance Program (SCHIP). Other state and local includes public health activity, state hospitals, and Workers' Compensation. Other private includes philanthropy and in-plant industrial health services.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

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Payment Sources

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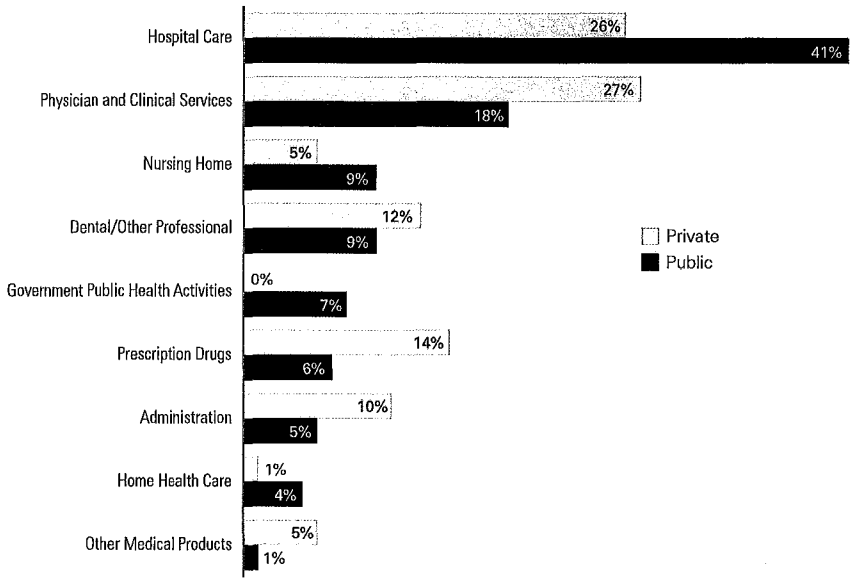
Despite the perception that U.S. health care is primarily financed by the private sector, public funds account for 45 percent of medical spending.

Spending Distribution
Public vs. Private, 2005



Notes: Figures reflect Health Services and Supplies. See the Appendix for details on category breakdowns, including definitions.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

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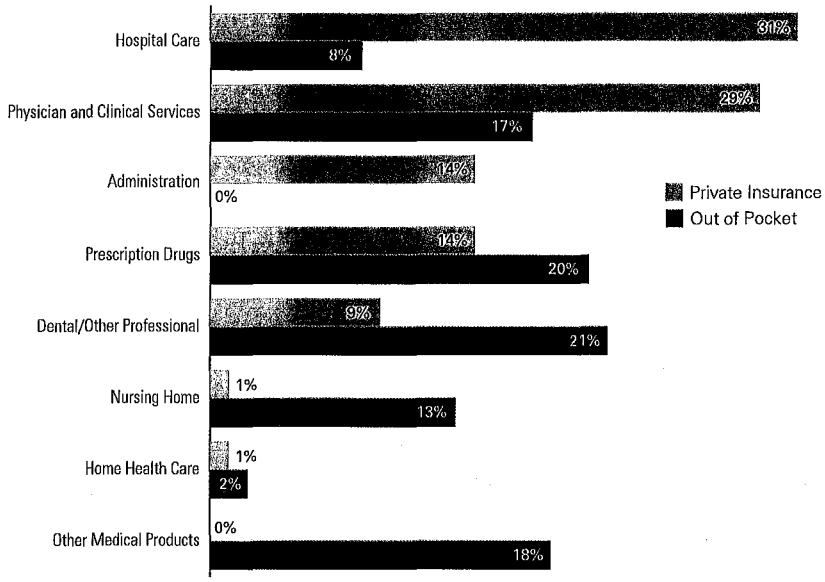
The public sector spends more of its dollar on hospital and institutional care than the private sector.

Spending Distribution
Out of Pocket vs. Private Insurance, 2005



Notes: Figures reflect Health Services and Supplies. See the Appendix for details on category breakdowns, including definitions.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

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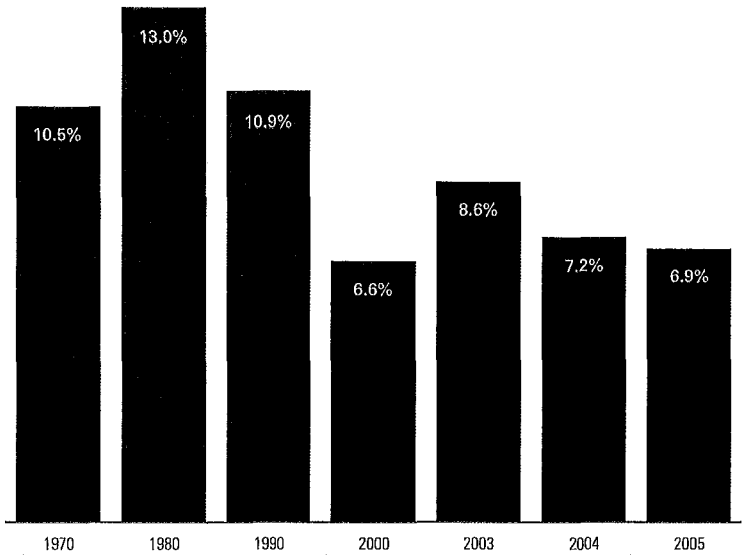
Private insurance spending is concentrated in hospital, physician and clinical services, while prescription drugs, dental, and other professional services consume a greater share of the out-of-pocket dollar.

Average Annual Growth Rates
in National Health Spending



Notes: Selected rather than continuous years of data are shown. Percentage increases are the average annual increase over the prior period shown. The 1970 figure represents the average annual increase since 1960.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

Health Care Costs 101
Growth Trends

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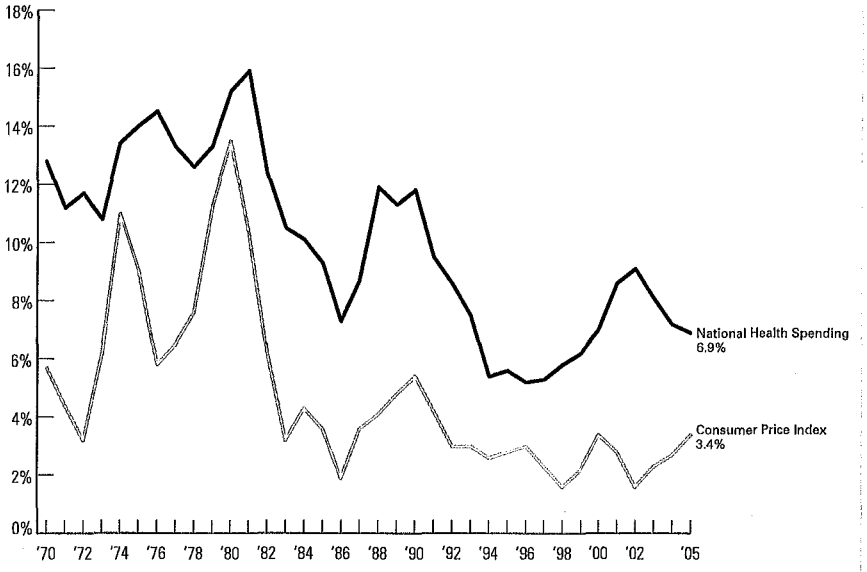
Growth in health spending continues to slow.

Annual Growth Rates
Spending vs. Inflation

Increase Over Prior Year



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

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Growth Trends

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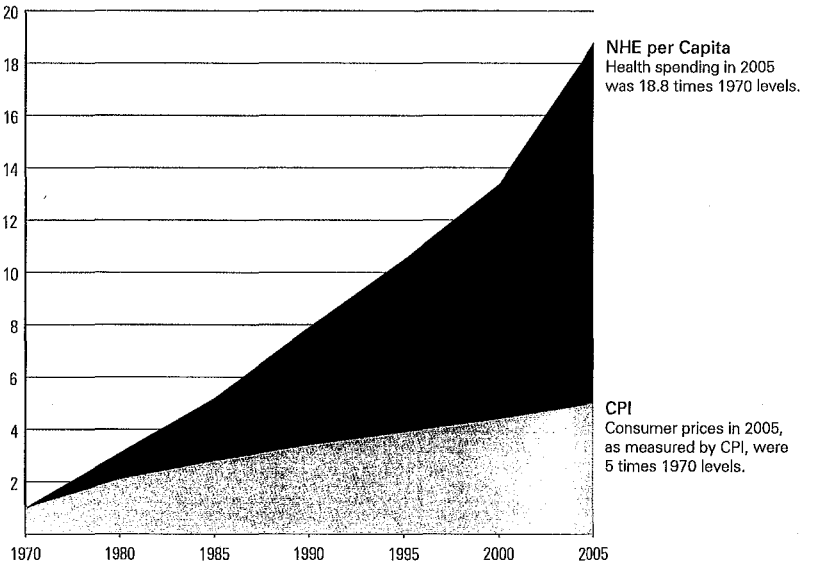
National health spending has been increasing at a faster pace than inflation.

Cumulative Impact of Growth Rates

Times More Expensive than in 1970



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

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Growth Trends

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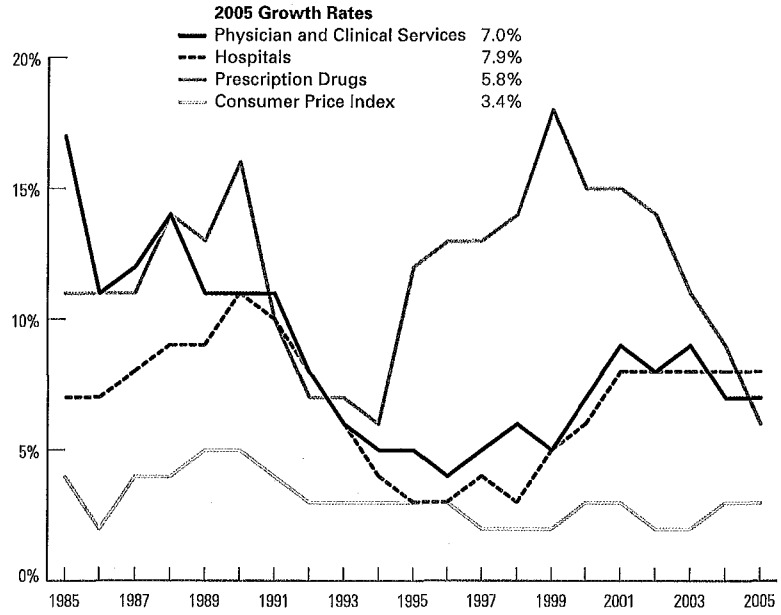
The impact of consistently higher growth rates in health care spending is seen in the comparison to 1970 levels.

Annual Growth Rates
by Health Spending Categories



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

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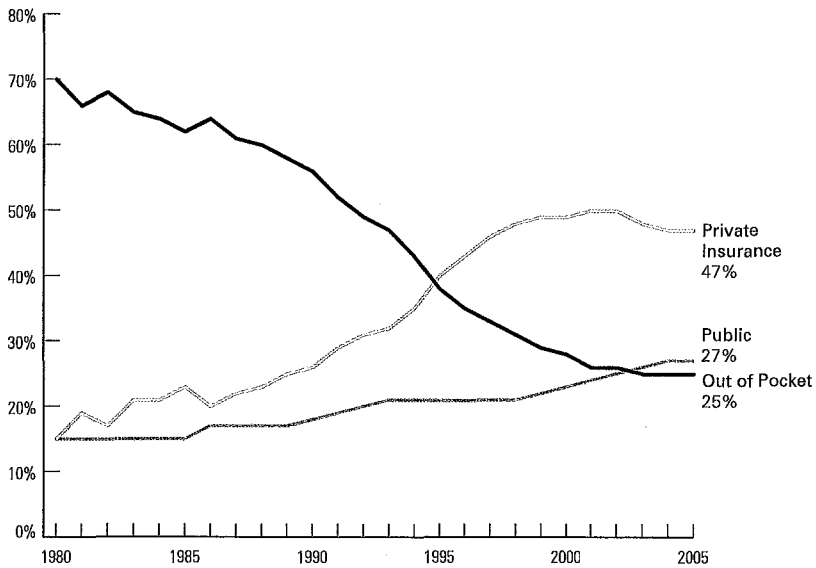
Growth rates continue to moderate, with prescription drug increases at their lowest rates in 20 years.

Prescription Drugs
by Sources of Payment



Notes: Sources don't add to 100 percent due to rounding. The impact of the Medicare Prescription Drug Improvement Act of 2003 will be reflected in 2006, its year of implementation.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

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Spending Trends

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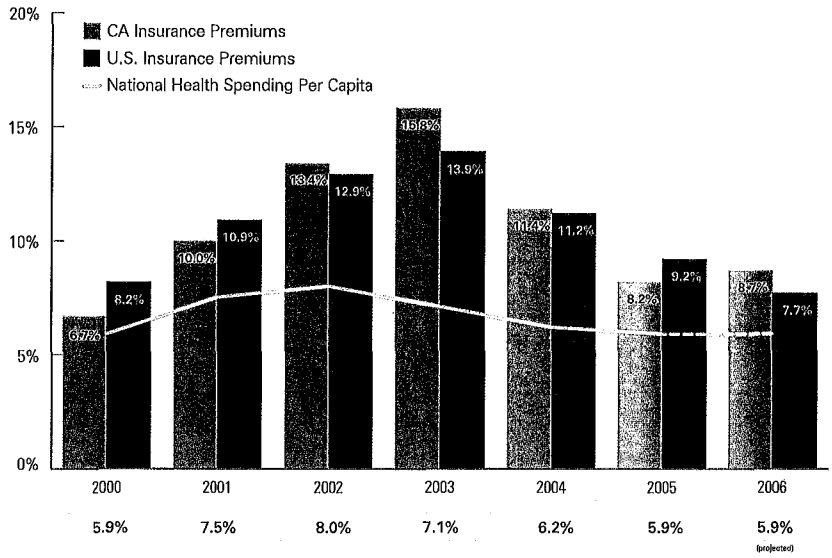
A major shift in how prescriptions are paid for took place over the last 20 years. Beginning in 2006, Medicare will become a major payer as well.

Annual Growth
Private Premiums* vs. National Spending

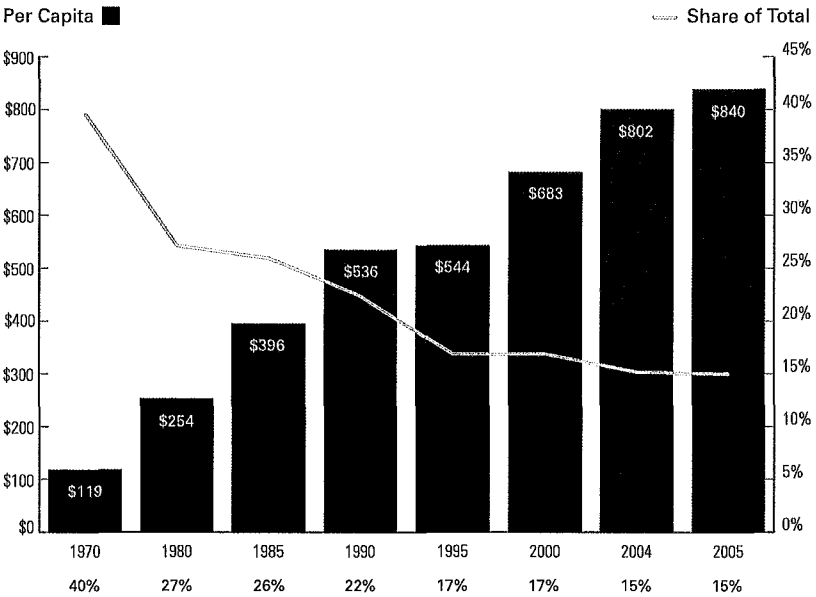


*Data on premium increases reflect the cost of employer-based health insurance coverage for a family of four as reported by employers.

Sources: KFF/HRET, *Employer Health Benefits, 2006 Annual Survey*; CHCF/HSC, *California Employer Health Benefits Survey, 2006*. Centers for Medicare & Medicaid Services (CMS), Office of the Actuary.

Premium increases in California and the United States have moderated some, remaining in the single digits for the second year in a row, but still outpacing growth in overall health spending per capita.

Annual Out-of-Pocket Spending



Notes: Selected rather than continuous years of data are shown prior to 2004. 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. Out-of-pocket share computed as a percent of Personal Health Care; see appendix for spending detail.

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

Although out-of-pocket costs for consumers continue to rise, they have declined as a share of overall health spending.

Category Breakdown

	Spending Levels (in billions)			Distribution	Growth
	2005	2004	1985	2005	2005/2004
National Health Expenditures (NHE)	$1,987.7	$1,858.9	$439.9	100%	6.9%
Health Services and Supplies (HSS)	$1,860.9	$1,738.9	$409.1	94%	7.0%
Personal Health Care	1,661.4	1,551.3	372.3	84%	7.1%
Hospital Care	611.6	566.9	165.4	31%	7.9%
Physician and Clinical Services	421.2	393.7	89.8	21%	7.0%
Dental/Other Professional					
• Dental Services	86.6	81.5	21.7	4%	6.3%
• Other Professional Care	56.7	52.6	8.5	3%	7.8%
• Other Personal Health Care	57.2	53.3	5.3	3%	7.3%
Nursing Home Care	121.9	115.0	31.6	6%	6.0%
Home Health Care	47.5	42.7	5.6	2%	11.1%
Retail Outlet Sales					
• Prescription Drugs	200.7	189.7	21.8	10%	5.8%
• Other Medical Products					
• Other Non-durable Medical Products	34.1	32.8	16.0	2%	4.1%
• Durable Medical Equipment	24.0	23.1	6.6	1%	3.7%
Administration	143.0	135.2	25.6	7%	5.7%
Government Public Health Activities	56.6	52.5	11.2	3%	7.7%
Investment	$126.8	$120.0	$30.8	6%	5.7%
Research	40.0	38.3	8.3	2%	4.6%
Structures and Equipment	86.8	81.7	22.5	4%	6.3%

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

Administration includes government program administration and the net cost of private health insurance. Administrative costs incurred by providers and suppliers, such as hospital and physician insurance billing expenses or marketing costs for prescription drugs, are reflected in the service categories (hospital, physician, and prescription drugs, respectively, for these examples).

Research reflects that of nonprofit or government entities. Research by commercial enterprises is reflected in their spending categories, e.g., research by pharmaceutical manufacturers is included in the $189.7 billion spent on prescription drugs in 2005.

Structures and Equipment reflects construction costs for medical establishments, e.g., a new hospital wing or medical office building, and investment in capital equipment for medical establishments, e.g., new imaging equipment or hospital beds.

Data Resources

CMS Online Resources (as of March 14, 2007)

Overview of NHE Resources: www.cms.hhs.gov/NationalHealthExpendData/

NHE Historical Information

Tables (PDF format): www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf

Data: www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage

Quick Reference Definitions: www.cms.hhs.gov/NationalHealthExpendData/downloads/quickref.pdf

Methodology & Definitions: "National Health Expenditures Accounts: Definitions, Sources, and Methods Used in the NHEA 2005": www.cms.hhs.gov/NationalHealthExpendData/downloads/dsm-05.pdf

Summary of Benchmark Changes: www.cms.hhs.gov/NationalHealthExpendData/downloads/benchmark.pdf

Health Expenditures by Sponsors: Business, Household and Government: www.cms.hhs.gov/NationalHealthExpendData/06_NationalHealthAccountsBusinessHouseholdGovernment.asp#TopOfPage

NHE Projections

Data (projections & history): www.cms.hhs.gov/NationalHealthExpendData/03_NationalHealthAccountsProjected.asp#TopOfPage

Tables (PDF format): www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2006.pdf

Methodology: www.cms.hhs.gov/NationalHealthExpendData/downloads/projections-methodology.pdf

Journal Publications Authored by CMS Staff

Aaron Catlin, Cathy Cowan, Stephen Heffler, Benjamin Washington et al. "National Health Speeding in 005: The Slowdown Continues." *Health Affairs*, Vol. 26, No. 1 (2007): 142-153. www.healthaffairs.org

John A. Poisal, Christopher Truffer, Sheila Smith, Andrea Sisko, Cathy Cowan, et al. "Health Spending Projections Through 2016: Modest Changes Obscure Part D's Impact." *Health Affairs*, Vol. 26, No. 2 (2007): w242-w253. Published online February 21, 2007 at www.healthaffairs.org.

Economic Data

Consumer Price Index, Bureau of Labor Statistics. data.bls.gov/cgi-bin/surveymost?cu

Federal Revenues and Outlays, Congressional Budget Office. www.cbo.gov/budget/historical.pdf

Organization for Economic Development. *OECD Health Data 2006: Statistics and Indicators for 30 Countries*, October 2006. www.oecd.org/document/16/0,2340,en_2649_37407_2085200_1_1_1_37407,00.html

CHCF Resources

California Employer Health Benefits Survey, November 2006. www.chcf.org

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