



ISSUE BRIEF

Rising Health Care Costs

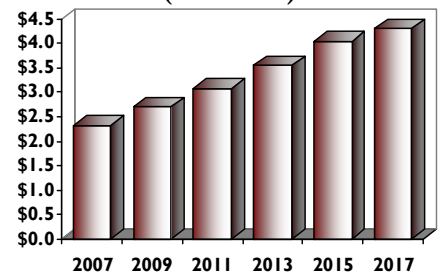
HEALTH CARE SPENDING TO CONSUME \$1 OF EVERY \$5 IN 10 YEARS

National health care spending projections released this month by the Centers for Medicare and Medicaid Services (CMS) confirm that we must attack the costs driving up the price of health to protect the affordability of health care coverage.¹

Currently, national health spending is estimated to be \$2.2 trillion (16.3 percent of the nation's Gross Domestic Product (GDP)). However, the amount spent on health care is expected to nearly double to \$4.3 trillion (19.5 percent of GDP) – \$1 of every \$5 spent – by 2017. On a per capita basis, health care spending will grow from \$7,439 to \$13,101 over the same period.

Through 2017, the average annual rate of growth in national health spending will remain steady at 6.7 percent - similar to 2007 – and will continue to outpace economic growth (4.7 percent per year) by an average of 1.9 percentage points. The growth in national health expenditures will be driven by a number of factors affecting public and private spending.

National Health Care Spending
(in trillions)



FACTORS CONTRIBUTING TO GROWTH

The stable rate of growth in national health spending anticipated through 2017 is attributed to alternating trends in personal and public spending.

Following an increase to 6.6 percent in 2009, annual growth in personal spending is expected to decelerate to 5.9 percent by 2017. In contrast, by the end of the same period, public spending will accelerate to an average annual growth of 7.4 percent.

KEY GROWTH FACTORS

Aging Population

- Medicare spending to double to \$717 billion by 2017.
- Medicaid spending to increase 8.9 percent in 2007 and grow 7.9 percent each year through 2017.
- By 2017, federal and state government health care spending will consume 49 percent of total health care expenditures (up from 46 percent).

Prescription Drug Prices

- Spending expected to decrease by 1.8 percent through 2017 due to availability of generics and increased competition.

Medical Prices

- Increased medical prices will drive personal health care spending through 2017.
- Medical inflation is expected to account for 57 percent of growth in personal health care spending by 2017 (49 percent in 2007).
- Consumer spending on medical care will outpace growth in hospital operating costs by 2017.

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¹ For a summary of the CMS projections see, Sean Keehan et al., "Health Spending Projections Through 2017: The Baby-Boom Generation is Coming to Medicare," *Health Affairs* 27, no. 2 (2008): w145-w155 (published online 26 February 2008); The health care spending projection data can be found on the CMS web site at http://www.cms.hhs.gov/NationalHealthExpendData/03_NationalHealthAccountsProjected.asp.