

Center for Sustainable Health Spending
Health Sector Economic Indicators®

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SPENDING BRIEF

Insights from Monthly National Health Expenditure Estimates Through August 2011

Overall health spending growth well below recent insurance premium increases

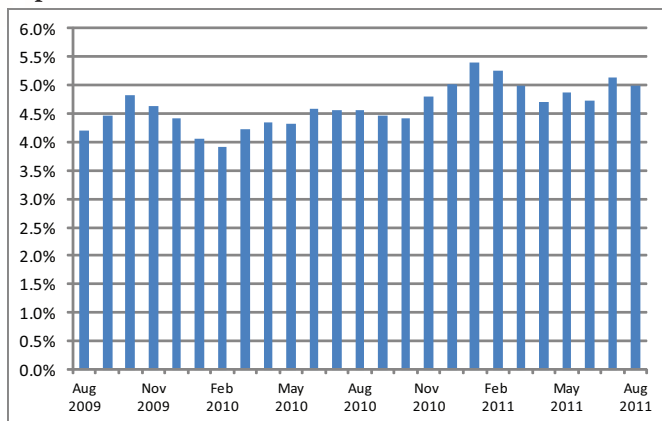
HIGHLIGHTS

- ▲ National health expenditures (NHE) in August 2011 grew by 5.0% relative to August 2010.¹
- ▲ From July 2010 through July 2011, the NHE growth rate of 5.1% was 1.1% more than gross domestic product (GDP) growth over that period.
- ▲ The health spending share of GDP was 18.1% in July 2011, up from 16.3% at the start of the recession (December 2007), but down slightly from the all-time high of 18.2% in June. The increase since the start of the recession is largely attributable to slow GDP growth rather than high health spending growth, as the July share of potential GDP was 16.9%.
- ▲ Spending through August increased in all major categories over the past year, with hospital care showing the highest growth year-over-year (6.4%) and home health care lowest (2.4%).

HEALTH SPENDING

In August 2011, health spending remained at a seasonally adjusted annual rate (SAAR) of \$2.74 trillion, the same as in July. July's health spending SAAR accounted for 18.1% of GDP. On a 12-month basis, health spending through August grew by 5.0%, slightly down from the previous month, but somewhat higher than the 3 months preceding July (Exhibit 1). The health spending share of GDP in July was up slightly from the previous July, as health spending grew slightly faster than GDP.

Exhibit 1. Year-Over-Year Growth Rates in National Health Expenditures



Source: Altarum monthly NHE estimates
Compares monthly NHE to the same month from the previous year

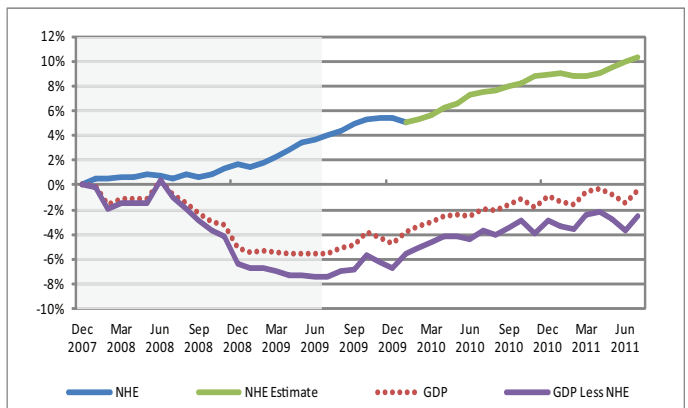
National Health Expenditures (NHE) and Gross Domestic Product (GDP)*

	August 2009	August 2010	July 2011	August 2011
GDP	13.94	14.57	15.15	**
NHE	2.50	2.61	2.74	2.74
NHE Share of GDP	17.9%	17.9%	18.1%	**
NHE Share of PGDP	16.5%	16.7%	16.9%	**
Growth from Prior 12 Months				
NHE	4.2%	4.6%	5.1%	5.0%
GDP	-3.0%	4.5%	4.0%	**
NHE minus GDP	7.2%	0.0%	1.1%	**
NHE minus PGDP	1.5%	1.5%	0.7%	**

Source: Altarum monthly NHE estimates (see Methods on page 4); monthly GDP is from Macroeconomic Advisers and Altarum estimates; potential GDP (PGDP), defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates converted to monthly by Altarum.²
*Note: Spending in trillions of dollars, seasonally adjusted annual rate
**Data not yet available

Since the start of the recession in December 2007, real health spending through July has increased by 10.3% (an annual rate of 2.8%). During this same period, real GDP excluding health spending declined by more than 7% at one point and is still 2.5% below its December 2007 level. With health care included, real GDP in July was 0.4% below its pre-recession level (Exhibit 2).

Exhibit 2. NHE and GDP: Cumulative Percentage Change (Constant Dollars) Since December 2007



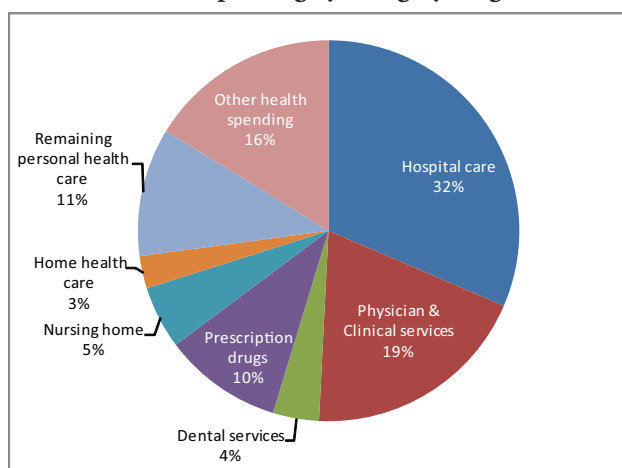
Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers and Altarum estimates
Note: Lightly shaded bar denotes recession period

HEALTH SPENDING BY CATEGORY

In August 2011:

- ▲ Hospital spending increased to \$864 billion (SAAR), remaining at 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending increased to \$531 billion, 19% of total health spending.
- ▲ Prescription drug spending increased to \$276 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined increased to \$222 billion, 8% of total health spending.
- ▲ Spending on personal health care goods and services accounted for 84% of total health spending (other major components include public health, research, construction, and net cost of private insurance).

Exhibit 3. Health Spending by Category, August 2011

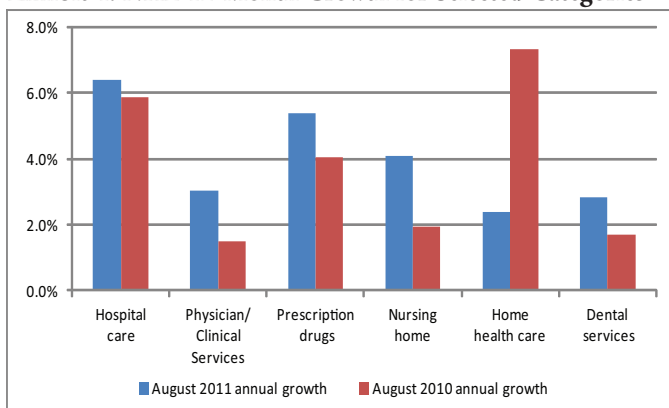


Source: Altarum monthly NHE estimates

Note: See Exhibit 5 for complete list of NHE categories

Growth over the past 12 months: hospital spending grew most rapidly (6.4%), while spending on home health care showed the slowest growth (2.4%). For the previous 12-month period ending July 2010, home health showed the highest growth at 7.3% (Exhibit 4).

Exhibit 4. NHE 12-Month Growth for Selected Categories



Source: Altarum monthly NHE estimates

DISCUSSION

A new Kaiser Family Foundation report on employer health benefits (<http://ehbs.kff.org/>) has received considerable media attention for its observation that premiums for family coverage have grown at a 9% rate in the past year. In contrast, as illustrated in Exhibit 1, national health expenditures have been growing at moderate rates (between 3.9% and 5.4%) for the past 24 months. So overall spending growth is well below this year's premium increases. Possible explanations for this discrepancy include:

- ▲ **Low Medicare and Medicaid rate increases.** Perhaps spending by the privately insured is growing more rapidly than overall health spending due to low Medicare and Medicaid rate increases.
- ▲ **Lower investment earnings.** Insurers have significant risk-based capital requirements. If investment income from the resulting reserves has been low in the weak economy, insurers may have increased the premium markup to compensate.

But these possibilities cannot explain all of the difference between premium increases and overall health spending growth, because insurers have been reporting a jump in profits this year. The following additional reasons have been suggested to explain the rising profits:

- ▲ **Anticipated cost increases.** It has been hypothesized that, when insurers set their rates for 2011, they expected costs to accelerate with overall economic growth that subsequently failed to materialize.
- ▲ **Raising premiums while still possible.** Another argument is that insurers simply took what they believed the market would bear, perhaps in expectation of tighter regulation under the Affordable Care Act.

Austin Frakt considers these and other potential reasons in a recent blog (<http://theincidentaleconomist.com/wordpress/is-monetary-policy-increasing-your-health-care-premium/>).

Altarum Institute is a 501(c)(3) nonprofit health care research and consulting organization. Altarum integrates independent research and client-centered consulting to deliver comprehensive, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2010 to lead Altarum Institute's research on investigating the cost growth trends and key drivers of U.S. health spending and to formulate policy strategies to help bend the cost growth curve.

The Health Sector Economic Indicators[®] reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. We thank Dr. Thomas Walke, former Deputy Director of CSHS, now at the U.S. Government Accountability Office, for his valuable contributions to the development of these reports.

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¹ Spending data are in nominal dollars except for Exhibit 2.

² For further discussion of PGDP, see <http://bit.ly/imLfig>

DETAILED HEALTH SPENDING

Exhibit 5. Monthly NHE Estimates by Detailed Category

Level in (\$ Billions)	August 2008	August 2009	August 2010	August 2011
GDP	\$14,369.8	\$13,942.8	\$14,571.6	*
NHE	\$2,399.8	\$2,500.3	\$2,614.1	\$2,744.8
Personal health care	\$2,004.3	\$2,103.9	\$2,193.0	\$2,300.6
Hospital care	\$722.7	\$766.8	\$811.9	\$863.9
Physician and clinical services	\$490.3	\$507.3	\$514.9	\$530.6
Other prof. services	\$63.9	\$66.7	\$68.5	\$70.7
Dental services	\$102.8	\$102.0	\$103.7	\$106.7
Other health, residential, and personal care	\$113.8	\$124.0	\$131.5	\$138.4
Home health care	\$62.6	\$69.2	\$74.3	\$76.0
Nursing home care	\$132.8	\$138.1	\$140.8	\$146.5
Prescription drugs	\$237.2	\$252.0	\$262.2	\$276.3
Durable medical equipment	\$35.3	\$34.7	\$38.7	\$42.1
Nondurable medical products	\$42.8	\$43.0	\$46.4	\$49.4
Program administration and net cost of private health insurance	\$164.1	\$162.8	\$179.0	\$188.8
Government public health activities	\$73.4	\$77.8	\$81.4	\$86.9
Research	\$43.4	\$45.6	\$50.6	\$53.6
Structures and equipment	\$114.5	\$110.2	\$110.1	\$114.9
NHE Share of GDP	16.7%	17.9%	17.9%	*
NHE Share of PGDP	16.2%	16.5%	16.7%	*

Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers

Notes: Spending in billions of dollars, SAAR

Exhibit 6. NHE 12-Month Growth Rates by Detailed Category

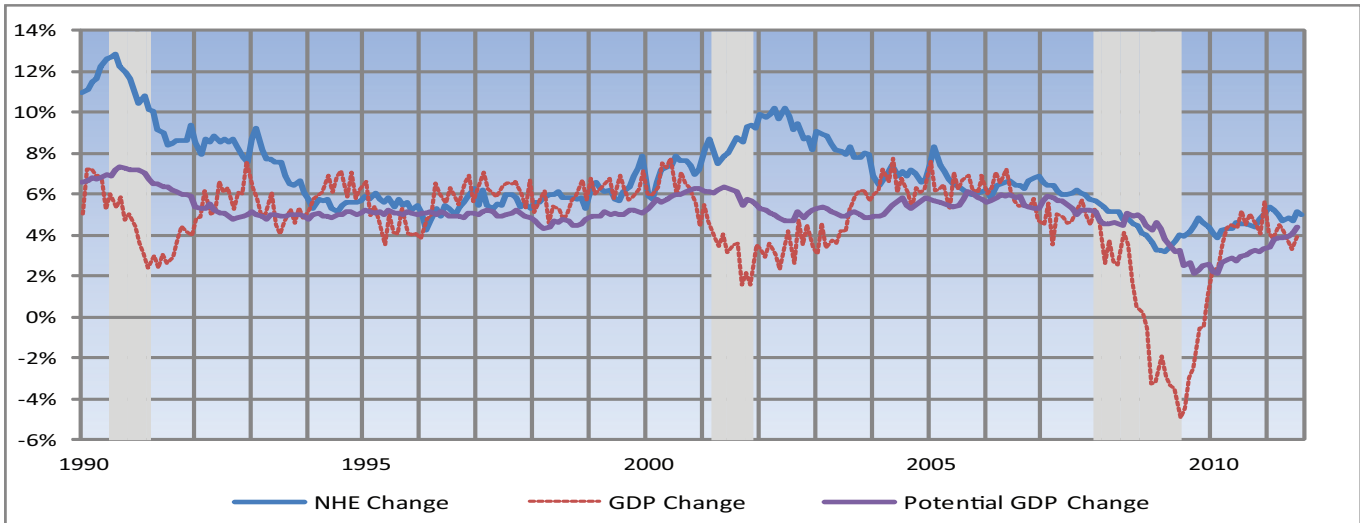
Levels	August 2009	August 2010	August 2011
GDP	-3.0%	4.5%	*
NHE	4.2%	4.6%	5.0%
Personal health care	5.0%	4.2%	4.9%
Hospital care	6.1%	5.9%	6.4%
Physician and clinical services	3.5%	1.5%	3.0%
Other prof. services	4.3%	2.8%	3.2%
Dental services	-0.8%	1.7%	2.8%
Other health, residential, and personal care	9.0%	6.1%	5.2%
Home health care	10.6%	7.3%	2.4%
Nursing home care	4.0%	1.9%	4.1%
Prescription drugs	6.2%	4.0%	5.4%
Durable medical equipment	-1.5%	11.4%	8.9%
Nondurable medical products	0.5%	7.9%	6.3%
Program administration and net cost of private health insurance	-0.8%	10.0%	5.4%
Government public health activities	5.9%	4.7%	6.8%
Research	5.0%	10.9%	6.1%
Structures and equipment	-3.8%	-0.1%	4.4%
NHE Minus GDP	7.2%	0.0%	*
NHE Minus PGDP	1.5%	1.5%	*

Source: Altarum monthly NHE estimates

Note: Compares monthly NHE to the same month from the previous year

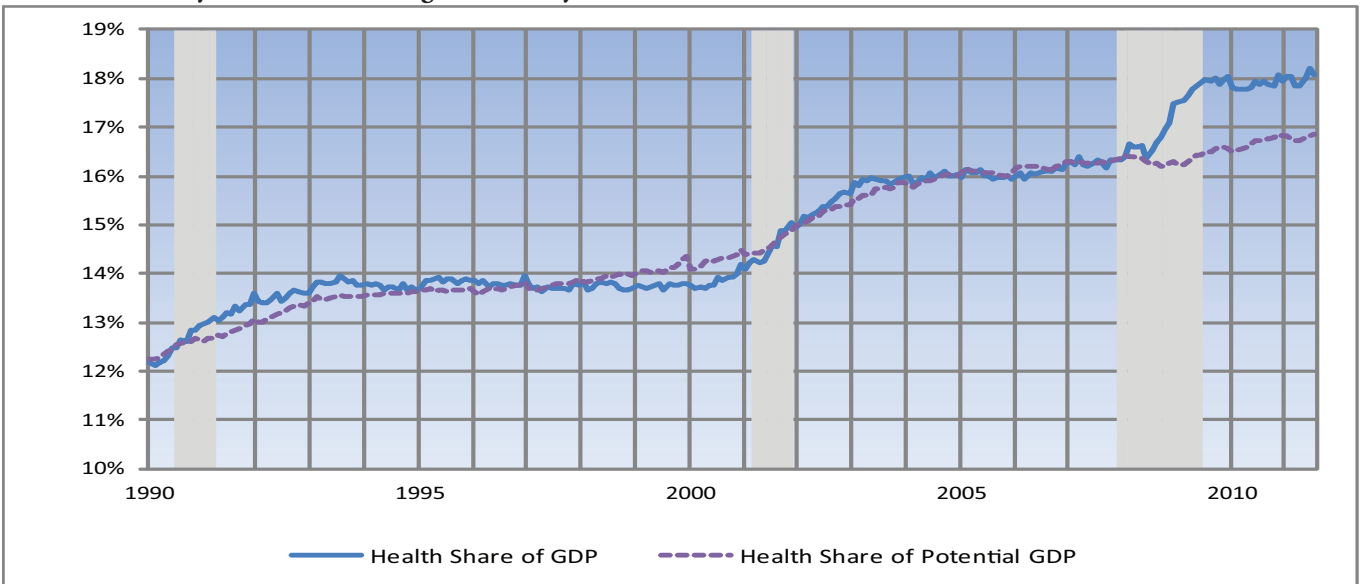
TIME SERIES TRACKER

Exhibit 7. Year-Over-Year Percentage Change in Health Spending



Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers and Altarum estimates
 Note: Lightly shaded bars denote recession periods

Exhibit 8. Monthly NHE as a Percentage of Monthly GDP



Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers and Altarum estimates
 Note: Lightly shaded bars denote recession periods

Methods. Altarum estimates are based on (1) Bureau of Economic Analysis (BEA) monthly health spending (http://www.bea.gov/national/nipaweb/nipa_underlying/SelectTable.asp) and (2) CMS annual NHE estimates (1990–2009) and projections (2010); <https://www.cms.gov/NationalHealthExpendData/>). BEA spending categories are matched to NHE account (NHEA) components using information presented in: Hartman, M. B., Kornfeld, R. J., & Catlin, A. C. (2010, September). A reconciliation of health care expenditures in the national health expenditures accounts and in gross domestic product. *Survey of Current Business*. For all NHEA personal health care categories except “other health, residential, and personal care,” monthly estimates are based on BEA spending adjusted to NHEA using annual ratios. For the remaining categories, NHE estimates and projections are allocated across months using a simple trend. Annual ratio adjustments through 2009 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. Ratios used to adjust BEA spending for months in 2010 and 2011 are taken from 2009.