

## National Health Expenditures 2007 Highlights

U.S. health care spending growth decelerated in 2007, increasing 6.1 percent compared to 6.7 percent in 2006. Total health expenditures reached \$2.2 trillion, which translates to \$7,421 per person or 16.2 percent of the nation's Gross Domestic Product (GDP).

### Health Care Spending by Type of Service or Product: Personal Health Care

- **Hospital:** Hospital spending growth accelerated slightly in 2007, increasing 7.3 percent to \$696.5 billion compared to 6.9 percent in 2006. The slight increase in growth was influenced by strong growth in Medicaid hospital spending. Growth in prices (as measured in the Producer Price Index) slowed in 2007 and accounted for about half of the total growth in hospital spending, while utilization, service intensity, and population growth accounted for the remainder.
- **Physician and Clinical Services:** Spending on physician and clinical services increased 6.5 percent in 2007 to \$478.8 billion, the same rate of growth as 2006. While overall expenditure growth was flat, price growth (as measured by the Consumer Price Index) accelerated; these trends indicate a sharp decrease in non-price factors such as the use or intensity of services paid for in 2007.
- **Other Professional Services:** Spending growth for other professional services, which include therapists, chiropractors, optometrists, and podiatrists, accelerated in 2007, increasing 5.6 percent to \$62 billion.
- **Dental Services:** Spending growth for dental services also accelerated in 2007, increasing 5.2 percent to \$95.2 billion.
- **Other Personal Health Care:** Spending growth for other personal health care services decelerated in 2007, increasing 5.9 percent to \$66.2 billion. This category includes expenditures for medical services delivered in non-traditional settings, such as schools or community centers.
- **Home Health:** Spending growth for freestanding home health care services accelerated in 2007, increasing 11.3 percent. This acceleration was partially due to an increase in price growth but was also influenced by non-price factors, such as use and intensity. Expenditures reached \$59 billion in 2007.
- **Nursing Homes:** Spending for freestanding nursing homes reached \$131.3 billion 2007, increasing 4.8 percent in 2007. This acceleration from 2006 is partially attributable to nursing home price growth.
- **Prescription Drugs:** Prescription drug spending growth decelerated in 2007, from 8.6 percent in 2006 to 4.9 percent in 2007. Factors that contributed to the deceleration included an increase in the generic dispensing rate, slower growth in prescription drug prices, and growing consumer safety concerns. In 2007, expenditures reached \$227.5 billion.
- **Durable Medical Equipment:** Spending growth on durable medical equipment, which includes items such as eyeglasses and hearing aids, decelerated in 2007, growing 0.9 percent to \$24.5 billion.
- **Other Non-durable Medical Products:** Spending growth on other non-durable medical products, such as over-the-counter medicines, accelerated in 2007, growing 5.7 percent to \$37.4 billion.

### **Health Spending by Major Sources of Funds:**

- **Medicare:** Medicare spending grew 7.2 percent in 2007 to \$431.2 billion; this followed growth of 18.5 percent in 2006, which was a result of the one-time implementation of Medicare Part D. Spending growth for fee-for-service (FFS) Medicare slowed significantly to 3.6 percent, while Medicare Advantage (MA) spending increased 23.3 percent, largely due to a shift in enrollment as beneficiaries switched from traditional FFS into MA plans. Medicare Advantage spending as a share of total Medicare spending increased from 18 percent in 2006 to 21 percent in 2007, in part due to a 16 percent increase in Medicare Advantage enrollment. During the same period, traditional FFS enrollment declined by 0.8 percent and its share of total Medicare spending fell from 82 to 79 percent.
- **Medicaid:** Total Medicaid spending grew 6.4 percent in 2007 to \$329.4 billion, following the first decrease in the program's history in 2006 of -0.7 percent. The increase in 2007 marked the return to a more "normal" growth trend following the one-time impact of the introduction of Part D in 2006, which shifted drug coverage for dual eligibles from Medicaid into Medicare.
- **Private Health Insurance:** Private health insurance premiums grew 6.0 percent in 2007, which was the same rate as in 2006 although much lower than the recent peak of 10.7 in 2002. Benefit payments also slowed, from 9.4 percent growth in 2002 to 6.6 percent in 2007. The slower growth trend reflects, in part, a decline in private health insurance spending growth on prescription drugs. The ratio of the net cost of private health insurance (the difference between premiums and benefits) to total private health insurance premiums was 12.2 percent in 2007, compared with 12.8 percent in 2006.
- **Out-of-Pocket:** Out-of-pocket spending grew 5.3 percent in 2007, an acceleration from the 3.3 percent growth in 2006. This acceleration was mainly due to increased out-of-pocket payments for prescription drugs, nursing home services, and nondurable medical supplies. Out-of-pocket spending accounted for 12.0 percent of national health spending in 2007; this share has steadily declined since 1998, when it accounted for 14.7 percent of health spending.

### **Health Services and Supplies Spending by Sponsor:**

- The financial burden of health care costs resides with businesses, households and governments that pay insurance premiums, out-of-pocket costs, or finance health care through dedicated taxes or general revenues.
- In 2007, spending for health care services and supplies (HSS) grew 6.2 percent to \$2.1 trillion, decelerating from 6.8 percent growth in 2006. The slower growth in 2007 is due primarily to decelerating growth in spending by households and by the federal government. In contrast, health care spending growth by private businesses and state and local governments accelerated in 2007.
- At the aggregate level, the shares of financing for health services and supplies by businesses (25 percent), households (31 percent), other private sponsors (4 percent), and governments (40 percent) remained relatively the same in 2006 and 2007.