As part of the Health Care Trends series, in this course you will learn about trends related to health care spending, health care expenditures by category, U.S. health care spending compared with other high-income countries, employer health benefit plans, spending on aging and chronic disease populations, and the burden of rising health spending on patients. The course also posits projected impacts of these trends.

Questions or comments? Contact us here.

Instructions: Click Start above or navigate to a section below to begin

LEARN

- Introduction
- U.S. Health Care Spending
- Employer Health Benefit Plans
- Spending Among Aging and Chronic Disease Populations
Learning Objectives

After completing this course, you will be able to:

1. Identify current trends in health care spending
2. Recognize key drivers increasing the cost of U.S. health care.
3. Explain predicted impacts of health care spending trends for patients, physicians, payers and policymakers
The share of the economy devoted to health spending was relatively stable in 2019, at 17.7% compared with a 17.6% share in 2018. The 4.6% growth in health care expenditures was faster than the 4.0% overall economic growth as measured by Gross Domestic Product (GDP) in 2019. The largest shares of total health spending are sponsored by the federal government and households.

- National health expenditures (NHE) grew **4.6% to $3.8 trillion** in 2019, or $11,582 per person, and accounted for 17.7% of Gross Domestic Product (GDP).

- Medicare spending grew **6.7% to $799.4 billion** in 2019, or 21% of total NHE.

- Medicaid spending grew **2.9% to $613.5 billion** in 2019, or 16% of total NHE.
Private health insurance spending grew **3.7% to $1,195.1 billion** in 2019, or 31% of total NHE.

Out of pocket spending grew **4.6% to $406.5 billion** in 2019, or 11% of total NHE.

The largest shares of total health spending were sponsored by the **federal government (29.0%)** and the **households (28.4%)**. The private business share of health spending accounted for 19.1% of total health care spending, state and local governments accounted for 16.1%, and other private revenues accounted for 7.5%.

In 2019, there was an **acceleration in personal health care spending** (such as hospital care and prescription drug spending) that was only partially offset by the suspension of the Affordable Care Act health insurance tax.

In 2019, personal health care spending was **$3.21 trillion** - 84.5% of total health spending

*Instructions: Flip each card to see the increase of health care spending in four major categories since 2019*
Spending on physician services accounted for $565.5 billion - 14.9% of total health care spending.

Prescription drug spending was $369.7 billion - 9.7% of total health spending.
Additional health care spending categories in 2019:

- Spending for other health, residential, and personal care services grew just **1.2% in 2019 to $193.6 billion**, down from 3.0% growth in 2018. The deceleration was driven by slower growth in spending for Medicaid home and community-based waiver services, as well as slower growth in spending for residential care services.

- Growth in spending for services provided at freestanding nursing care facilities and continuing care retirement communities accelerated in 2019, increasing **3.3% to $172.7 billion**.

- Spending for services provided by freestanding home health care agencies increased **7.7% in 2019**, a higher rate than in 2018 (5.5%), to **$113.5 billion**. While out-of-pocket spending grew at about half of its 2018 rate, spending through Medicare, Medicaid, and private health insurance all grew at faster rates in 2019 compared to the previous year. Notably, Medicare and Medicaid together made up 71% of home health spending in 2019.
The relative stability in health care spending growth over the last four years preceded the COVID-19 pandemic in 2020. The full impact of the pandemic on the health care sector is still not known, but it will certainly have profound consequences on the provision and consumption of health care in 2020 and perhaps beyond.

Slow growth for physician services
Physician services has grown the slowest (3.4%) compared with prescription drugs (3.8%), total personal health care (4.3%), hospital care (4.5%), and clinical services (8.3%).

Over the past 10 years, spending on physician services has grown more slowly than spending in the other large categories of personal health care ending in 2019. **Physician spending grew by an average of 3.4%** per year between 2010 and 2019. In comparison, spending on **hospital services grew by 4.5%**. **Clinical spending**, which is often reported with physician spending, also grew more quickly than physician spending, at an **average rate of 8.3%** per year over that period.

Changes in Medicare Physician Spending During the COVID-19 Pandemic

The COVID-19 pandemic upended projected patterns of spending for physician services in the United States and a report from the American Medical Association (AMA) documents these unprecedented changes in the Medicare program during the first six months of 2020.

The report “Changes in Medicare Physician Spending During the COVID-19 Pandemic” analyzed Medicare claims data exclusive to physician services and found spending dropped as much as 57% below expected pre-pandemic levels in April of 2020.

Medicare spending on physician services partially recovered from the April low but was still 12% less than expected by the end of June 2020. During the first half of 2020, the cumulative estimated reduction in
Medicare physician spending associated with the pandemic was $9.4 billion (19%).

- When compared to expected 2020 Medicare spending on physician services, Medicare spending on **physician services for the first six months of 2020 declined regardless** of service type, setting or specialty, and state or region. The severity of the impacts varied substantially.

- **Telehealth spending increased** dramatically during the study period but was concentrated in a handful of service categories.


### U.S. Health Care Spending Compared With Other High-Income Countries

Comparatively, the **U.S. spends nearly twice as much** as the average high-income countries on health care as a share of the economy.

According to an analysis of health care spending and cost data (2018) comparing the United States with 10 other high-income countries:

- The United States spent **(16.9% of GDP) on health care**, nearly twice as much as the average of what other high-income nations (8.8%).
• Americans used roughly the **same volume of health services** as people in other affluent nations.

• U.S. spending on health care may be greater because of **higher prices of drugs, medical devices, physician and nurse salaries, and administrative costs** to process medical claims.

• U.S. spending was also **higher for imaging** (CT and MRI scans) and for many of the **most common medical procedures**, such as knee replacements, surgical cesarean births, and surgeries to repair or unclog blood vessels.

• Americans had fewer physician visits than peers in most countries, which may be related to a **low supply of physicians in the U.S.**

• Compared to peer nations, the U.S. has among the **highest number of hospitalizations from preventable causes** and the highest rate of avoidable deaths.

The U.S. has the highest burden of what disease as well as the highest obesity rate that is two times higher than the other high-income countries?
The U.S. outperforms its peers in terms of preventive measures—it has one of the highest rates of what type of cancer screening among women 50 to 69?

The U.S. has the second highest rate of what type of vaccinations among people age 65 and older?

National health spending growth is projected to average 5.7%, from 4.8% in 2019, and reach nearly $6.0 trillion by 2027.

Key economic and demographic factors fundamental to the health sector are anticipated to be the major drivers during 2018–27.

**Instructions:** Click each plus sign below to learn more about Economic and Demographic factors

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**Economic Factors**

- The health share of GDP is expected to rise from 17.9% in 2017 to **19.4% by 2027**.
- Prices for health care goods and services are projected to grow somewhat faster over 2018–27.
• Growth in Medicare spending on physician and clinical services is expected to be faster than growth in private health insurance spending on the sector largely due to the continued shift of the baby-boom generation from private health insurance into Medicare.

Demographic Factors

• As a result of comparatively higher projected enrollment growth, average annual spending growth in Medicare is expected to exceed that of Medicaid and private health insurance.

• The Medicare enrollment impacts are the key reason the share of health care spending sponsored by federal, state, and local governments is expected to increase over the projection period.

• The insured share of the population is expected to remain stable at around 90% throughout 2018–27.

Increases in employer premiums and cost-sharing payments have far outpaced wage growth.
Employer premiums and deductibles have risen much faster than worker contributions.

The Kaiser Family Foundation/Health Research and Educational Trust Employer Health Benefits Survey found that in 2020, employer-sponsored health insurance covered about 157 million of the non-elderly population in the U.S.


Approximately **56% of all employers offered health care benefits** to at least some workers, and **64% of workers were covered**. The likelihood of offering health benefits differed significantly by firm size; only **48% of firms**
with 3 to 9 workers offered coverage, while virtually all firms with 1,000 or more workers offered coverage. All of these percentages are similar to 2019.

The survey was conducted from January to July as the COVID-19 pandemic and economic crisis unfolded and may not capture its full impact on costs and coverage. It found that average annual premiums (employer and worker contributions combined) rose 4% for single coverage, to $7,470, and 4% for family coverage, $21,342.

Instructions: Click each plus sign below to learn more about the Kaiser Family Foundation/Health Research and Educational Trust Employer Health Benefits Survey findings

<table>
<thead>
<tr>
<th>Covered Workers Contribution</th>
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<tr>
<td>• <strong>17%</strong> of the premium for single coverage</td>
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<tr>
<td>• <strong>27%</strong> of the premium for family coverage</td>
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<th>Covered Workers in Small Firms Contribution</th>
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<tr>
<td>• <strong>27%</strong> of covered workers in small firms are in a plan where the employer pays the entire premium for single coverage, compared to only 4% of covered workers in large firms.</td>
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<td>• <strong>28%</strong> of covered workers in small firms are in a plan where they must contribute more than 50% of the premium for family coverage, compared to 4% of covered workers in large firms.</td>
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• The average worker contribution for family coverage has increased 22% over the last five years and 55% over the last ten years.

**Workers Contribution for Cost-sharing**

• With regard to employee cost-sharing for health care, about 83% of all covered workers faced a general annual deductible, which averaged $1,644 for single coverage in 2020. Workers in small firms (i.e., with 3 to 199 employees) were more likely to have larger deductibles, which averaged $2,295 as compared with $1,418 in large firms (with 200 or more employees).

**Other Survey Findings**

• PPOs are the most common plan type, enrolling 47% of covered workers in 2020. Thirty-one percent of covered workers are enrolled in a high-deductible plan with a savings option (HDHP/SO), 13% in an HMO, 8% in a POS plan, and 1% in a conventional (also known as an indemnity) plan. The percentage of covered workers enrolled in HMOs is significantly lower than the percentage last year (13% vs. 19%). This percentage has risen and fallen over the last four years so it is unclear if this trend will continue.

• Almost all large firms and many small firms have health and wellness programs that help workers identify health issues and manage chronic conditions (i.e., health risk assessments, biometric screenings and health promotion programs).

• A large majority (83%) of offering employers are satisfied with the overall choice of providers available through their insurance plans, though significantly fewer (67%) say the same about their mental health and substance abuse networks.
Reducing the Rate of Growth in Health Care Costs

The AMA is engaged in a number of efforts that have the potential to further reduce the rate of growth in health care costs.

- Working to improve and reform manual, burdensome processes, such as prior authorization, and increase efficiency in physician practices to help reduce administrative costs in health care spending.
• Supporting the creation, maintenance and adoption of **standard electronic transactions**.

• Supporting physicians’ interests in reducing administrative burden through **advocacy** to appropriate agencies and policymakers.

Promoting participation in evidence-based lifestyle modification programs such as the National Diabetes Prevention Program (DPP) to reduce or delay the onset of diabetes among those with prediabetes.

• AMA research shows that lifestyle modifications can reduce annual health care costs by nearly **$2,700 per participant** and have a 3-year ROI as high as **42%**. Use the AMA Diabetes Prevention Program Cost Savings Calculator to determine potential savings for your organization.

• The AMA is working with the Centers for Disease Control and Prevention to increase physicians’ awareness of and referrals to the **CDC-recognized lifestyle change program** to mitigate the burdens associated with prediabetes.

• The rise in medical spending associated with diabetes begins well in advance of the first diagnosis, supporting the need to encourage physicians to implement timely prevention efforts. Those diagnosed with **diabetes spent approximately $8,491 more** than those that were not diagnosed over a span of 5 years prior to the first diagnosis. Approximately $4,828 was spent in the year of diagnosis.

Effective January 1, 2021, each hospital operating in the United States will be required to provide **clear, accessible pricing information online** about the items and services they provide.

- By disclosing hospital standard charges, the federal government believes the public (including patients, employers, clinicians, and other third parties) will have the information necessary to make more **informed decisions** about their care.

- The impact of these final policies will help to **increase market competition**, and ultimately drive down the cost of health care services, making them more affordable for all patients.


In January 2021, CMS issued guidance to state health officials designed to drive the adoption of strategies that address the **social determinants of health (SDOH) in Medicaid and the Children’s Health Insurance Program (CHIP)** so states can further improve beneficiary health outcomes, reduce health disparities, and lower overall costs in Medicaid and CHIP.
In 2020, the Center for Medicare & Medicaid Innovation (CMS Innovation Center) launched the **Part D Payment Modernization Model (the “PDM Model” or the “Model”)** to voluntarily test a modernized Part D payment structure that creates new incentives for plans, patients, and providers to choose drugs with lower list prices in order to address rising costs in the Part D program.


Many Medicare beneficiaries face significant out-of-pocket expenses to meet their health care needs.

People covered by Medicare paid an average of **$5,801** for health care in 2017.
They spent almost half of that money (47\%) on Medicare or supplemental insurance premiums. The remainder was out-of-pocket spending for health care services that Medicare covers (26\%) and for those that the program does not offer (27\%).

The top 10\% of beneficiaries facing the largest out-of-pocket expenses spent at least $10,268.

Half of Medicare beneficiaries live on less than $26,200 a year and the average annual Social Security retirement benefit is ($16,104), which underscores the reality that many people covered by the program face significant out-of-pocket costs for both premiums and non-premium expenses.


There has been a notable reduction in the growth of Medicare spending in recent years, compared to prior decades, both overall and per beneficiary. However, Medicare’s actuaries project that future spending growth will increase at a faster rate than in recent years, in part due to growing enrollment in Medicare related to the aging of the population, increased use of services and intensity of care, and rising health care prices.
Use the arrows to explore facts about the future of Medicare.
Medicare spending was 15% of total federal spending in 2018, and is projected to rise to 18% by 2029.
Based on the latest projections in the 2019 Medicare Trustees report, the Medicare Hospital Insurance (Part A) trust fund is projected to be depleted in 2026, the same as the 2018 projection.
In 2018, Medicare benefit payments totaled **$731 billion**, up from $462 billion in 2008.
As a share of total Medicare benefit spending, payments to Medicare Advantage plans for Part A and Part B benefits increased by nearly 50% between 2008 and 2018, from 21% ($99 billion) to 32% ($232 billion) of total spending, as enrollment in Medicare Advantage plans increased over these years.
Average annual growth in Medicare per capita spending was **1.7%** between 2010 and 2018, down from 7.3% between 2000 and 2010, due in part to the Affordable Care Act’s reductions in payments to providers and plans, and to an influx of younger beneficiaries from the baby boom generation aging on to Medicare, who have lower per capita health care costs.
Medicare per capita spending is projected to grow at an average annual rate of 5.1% over the next 10 years (2018 to 2028), due to growing Medicare enrollment, increased use of services and intensity of care, and rising health care prices.
Summary

Looking ahead, the Congressional Budget Office (CBO) projects Medicare spending will **double over the next 10 years**, measured both in total and net of income from premiums and other offsetting receipts. CBO projects net Medicare spending to increase from $630 billion in 2019 to **$1.3 trillion in 2029**. Between 2019 and 2029, net Medicare spending is also projected to grow as a share of the federal budget—**from 14.3% to 18.3%**—and the nation’s economy—**from 3.0% to 4.1%** of gross domestic product (GDP).

Health Care System Spending

“As national discussions continue about health reform and health equity, it’s important to understand how the current health care system distributes costs and payments.”

-Katherine G. Carman, lead author of the study, "Accounting for the burden and redistribution of health care costs: Who uses care and who pays for it?" and senior economist at RAND

While higher-income American households pay the most to finance the nation’s health care system, the burden of payments as a share of income is greatest among households with the lowest incomes, according to a recent RAND Corporation study.

The study considers payments made to finance health care, the dollar value of benefits received, and the impact on different groups by age, source of insurance and size of income:
Households in the bottom fifth of income groups pay an average of **33.0% of their income** toward health care.

Families in the highest-income group pay **16% of their income** toward health care.

Households in the middle three income tiers pay between **19.8% and 23.2%** of their income toward health care.
The burden of health costs among people who are in nursing homes and other institutions is particularly large on low-income people who need long-term care because in order to qualify for public benefits they must first spend most of their savings.

Americans with Medicare receive the greatest dollar value of health care, a result of older people generally using more health care services.

People with Medicaid have the largest dollar value of health care received as a percent of income, which corresponds to the lower income and generally poorer health among the group.
Out-of-pocket spending, excluding insurance premiums, accounted for just **9.1% of health care costs**. The bulk of health care costs are paid through health insurance premiums and taxes.


### Patient Characteristics

**Adults who report worse health have more difficulty accessing care due to cost.**

The share of total spending derived from out-of-pocket payments also varies by patient characteristics:

- Uninsured patients have the lowest total spending, but pay the **largest** share of their health spending out-of-pocket.
Patients with Medicaid or other non-Medicare public insurance have the **lowest** out-of-pocket share.

People in poor health have **higher** total spending and pay somewhat larger absolute amounts themselves, but their share of total spending paid out of pocket is **lower**.

Total premiums for an employer-based preferred provider organization (PPO) policy have been **increased** persistently, and the share employees shoulder directly has increased more rapidly than the portion advanced by the employer. Rising employer contributions are also likely paid for by employees in the form of **lower** wage increases.


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Predicted Impacts of health care spending trends for patients, physicians, payers and policymakers

Instructions: Click each plus sign to reveal potential outcomes of health care spending trends for patients, physicians, payers and policymakers.
The health care provider market will continue to experience a significant move away from inpatient care and toward distributed settings of care (urgent care clinics, free-standing emergency departments, retail clinics, physician offices, ambulatory surgery centers).
Increased pressure will be placed on governments to provide sustainable care in the face of anticipated significant increases in health care costs.
Efforts to increase price transparency to drive down health care costs will continue.
The full impact of the COVID-19 pandemic on the health care sector will have profound consequences on the provision and consumption of health care.
Per-capita personal health spending will continue to outpace growth in median personal income.
Per-person spending for hospital care, home health and other long-term care, and physician and clinical services will continue to experience steady growth.
Growth in spending covered by public and private insurers will continue to outpace growth in spending from patient out-of-pocket payments.
The rise in public payer spending will continue to coincide with a steady increase in the number of Medicare beneficiaries and with Medicaid enrollment increases.
To slow health care spending growth moving forward, employers will increasingly consider supply-side management strategies—such as narrower provider networks and value-based purchasing—that focus on bringing price, rather than utilization, down.
Employers will look for more efficient ways to maintain access to care for their employees, such as lowering costs by minimizing waste and targeting spending where it’s most effective. They will use tactics such as prescription quantity limits, drug price negotiations and explore technologies such as artificial intelligence (AI) to match people with the best treatment.
Rising rates of preventable illnesses will continue to impact the nation’s health and economic productivity.
The health care system will learn to facilitate change in individual behavior, which has the greatest impact on health status of any contributing factor, including health care.
Growth in spending on major federal health care programs will continue to outpace growth in federal revenues, leading to ever larger budget deficits.
Knowledge Check
The U.S. spends nearly _________________ as much as the average high-income countries on health care as a share of the economy

- Twice
- Half
The prevalence and cost of chronic disease in the United States is ___________________ and will ____________________, not just as a result of the Baby Boomer generation aging but also due to increased disease prevalence among children and younger adults.

- shrinking; continue to shrink
- growing; continue to grow
- growing; begin to shrink
- shrinking; begin to grow
Which of the following are predicted impacts of health care spending trends in the United States.

- Per-capita personal health spending will continue to outpace growth in median personal income.

- The rise in public payer spending will continue to coincide with a steady increase in the number of Medicare beneficiaries and with Medicaid enrollment increases.

- The COVID-19 pandemic will have no impact on health care spending in the United States.

- To slow health care spending growth moving forward, employers will increasingly consider supply-side management strategies—such as narrower provider networks and value-based purchasing—that focus on bringing price, rather than utilization, down.
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Lesson 9 of 9

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