Health Care Spending Was 16.2% of 2007 GDP

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WASHINGTON — Growth in U.S. health care spending slowed in 2007 to 6.1%, the lowest annual growth rate since 1998.

But at $2.2 trillion, or $7,421 per person, health care spending still represented 16.2% of the nation's overall gross domestic product and was an increase from 16% in 2006, according to data published by a group of statisticians and economists from the Center for Medicare and Medicaid Services' Office of the Actuary.

"Do we feel glad that the cost growth overall in 2007 was the lowest in quite some time, since 1998?" asked Richard Foster, CMS chief actuary.

"Sure, we're happy about that. But it was still 6.1%. How much did GDP grow that year? How much did your wages increase? We still have this affordability problem," he said.

The data indicate that most of the spending slowdown in 2007 was a result of the markedly lower 4.9% rate of growth in retail prescription drug spending, which amounted to $227.5 billion (10% of total spending) and represented the slowest rate since 1963, said Mr. Foster.

In 2006, by contrast, spending on prescription drugs grew by 8.6% (Health Aff. 2009;28:246-61).

The slowing in retail prescription drug spending was deemed to be a result of three factors: the growth in generic prescription drugs (67% of filled prescriptions in 2007 were generic, up from 63% in 2006); a slower price growth in all drugs (thanks both to the increased use of generics and also the introduction of drug discount programs at national retailers such as Walmart), and increased safety concerns related to numerous black-box warnings issued this year (68 compared with 58 in 2006 and 21 in 2005).

Growth in spending on physician and clinical services remained stable from 2006 to 2007 with a 6.5% increase, accounting for $478.8 billion or 21% of the total health care bill. Taken separately, the increase was mostly sustained by a growth in spending for clinics, which grew at an average annual rate of 8.5% from 2004 to 2007. ("Clinics" were defined as outpatient care centers and ambulatory service centers.)

The nation's health care tab in 2007 was split nearly evenly between public and private payers, with 46% coming from the public side—about the same as in 2006.

As a result of cuts in imaging reimbursement and flat or very small payment updates, payments to physicians grew at an average of 6.4% over the same period.

Hospital spending accounted for $696.5 billion or 31% of the total in 2007, with an increase of 7.3%. Nursing home care comprised 6% of the total, or $131.3 billion, with an increase of 4.8%, up slightly from 4.0% in 2006.

The nation's health care tab in 2007 was split nearly evenly between public and private payers, with 46% coming from the public side—about the same as in 2006, according to Anne Martin, an economist at the CMS Office of the Actuary and a coauthor on the report.

Medicare spending increased 7.2% in 2007, following an 18.5% increase in 2006 that resulted from the implementation of the Part D program that year. Meanwhile, private health insurance premiums grew at a more modest 6.0%.

Lead author and CMS statistician Micah Hartman said that although the current recession did not overlap enough with data reported in this study to have an effect—only 1 month—a set of health spending projections for 2008-2018 will be released some time this month.

Mr. Foster predicted that the projections will have much less of an upside. "I wouldn't expect the 6.1% to stay that low," he said. "I wouldn't expect the good news to continue." ■

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