Health Care Costs Are Growing Slice of GDP

BY ALICIA AULT

WASHINGTON — Even as the economic downturn causes private health spending to slow, public sector health spending is rising, according to a federal analysis.

An estimated 3.4 million people may lose private health insurance coverage in 2009 and another 2.6 million may lose coverage in 2010, said Sean Keehan, an actuary at the Center for Medicare and Medicaid Services' Office of the Actuary.

Total U.S. health care spending was an estimated $2.4 trillion in 2008—an increase of 6.1% over 2007, according to the annual projection of health spending trends published online in the journal Health Affairs. This year, spending is expected to grow by only 5.5%.

That rate of growth is expected to far outpace the nation's gross domestic product in 2009. Economists for the CMS said they predict the GDP to shrink by 0.2% this year. Meanwhile, the health care share of GDP is expected to grow 1.4%—the biggest annual jump as a portion of GDP since economists first started tracking this indicator in 1960, said Christopher Truffer, a CMS actuary. Health spending will account for 17.6% of the GDP in 2009, according to the report (Health Affairs 2009 Feb. 24 [doi:10.1377/hlthaff.28.2.w346]).

Absent any policy changes, health care is on track to gobble up one-fifth of the nation's dollar by 2018, Mr. Truffer and his colleagues said.

The economists projected that overall health spending will rise by only 4.6% in 2010, thanks largely to the mandated 21% reduction in physician payments required under the Sustainable Growth Rate target set by Medicare.

However, since Congress usually eliminates the cuts or grants a fee increase every year, the CMS economists calculated some alternative scenarios. If payments were kept constant, Medicare spending would rise 6.4%, or 3.9% faster than if the cuts went into effect. Overall national health spending would rise 5.4%, or 0.8% more.

Medicaid spending will grow 9.6% in 2009, up from 6.9% in 2008. Private health insurance benefits spending grew an estimated 5.8% in 2008, but will rise only 4.1% in 2009.

The CMS projections make it seem like cost-containment efforts are having a negligible effect on restraining overall health spending. The economists said the Medicare fee cuts would make a difference, but that they did not have the data to calculate whether other cost-containment efforts were having any effect.

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Prescription drug spending has dropped as a result of insurers successfully driving an increase in the utilization of generic drugs, said John Poisal, deputy director of the Office of the Actuary. Overall, the public and private sector spent 3.5% more on drugs in 2008, compared with a 4.9% increase the previous year. The analysts expected a 4% rise in 2009.

Hospital spending is expected to grow only 5.7% in 2009, compared with a 7.2% increase in 2008, as cash-strapped Americans put off elective procedures and as insurers continue to clamp down, the actuaries said.

The analysts projected spending trends to 2018, but said that their assumptions would change if the recession continued beyond early 2010. Their macroeconomic assumptions are based on the Blue Chip Consensus forecast, an amalgamation of the views of expert economists. That consensus predicts positive economic growth beginning in the second half of 2009. The CMS analysts said that jobs—and insurance coverage—tend to lag behind initial growth, which is why they predicted slowing health spending through 2011.

The assumptions may change pending significant health care reform that may occur as a result of President Barack Obama's FY 2010 budget, which allocated $634 billion to health care reform. ■