

A banner image showing several smooth, dark stones floating on water, with the word "benefitNEWS" in a white, lowercase, sans-serif font overlaid on the right side.

benefitNEWS

## National Health Spending Up in 2014

### *Faster Growth Driven by Coverage Expansion and Prescription Drug Spending*

According to a Health Affairs position paper from December 2015, total spending for healthcare in the United States increased 5.3% and reached \$3.0 trillion in 2014, or \$9,523 per person in 2014. This was far faster than the rate of growth in 2013 (2.9%), which was the lowest in the fifty-five-year history of the National Health Expenditure Accounts. Healthcare spending grew 1.2 percentage points faster than the overall economy in 2014 (when the nominal gross domestic product [GDP] increased 4.1%), resulting in a 0.2-percentage-point increase in the health spending share of GDP – to 17.5%. According to the report, the acceleration in health spending growth in 2014 was primarily driven by faster growth in private health insurance and Medicaid spending in 2014, compared to 2013, as well as by rapid growth in spending on retail prescription drugs.

Total private health insurance spending growth accelerated from 1.6% in 2013 to 4.4% in 2014, driven in part by the expansion of health insurance coverage under the Affordable Care Act (ACA), which contributed to faster growth in 2014 benefit spending for prescription drugs, physician and clinical services, and hospital care, compared to 2013 (Table 1).

Table 1. National health expenditures annual growth, by spending category, calendar years 2008-2014.

National health expenditures	4.6%	3.9%	4.0%	3.9%	3.8%	2.9%	5.3%
Health consumption expenditures	4.5%	4.6%	4.0%	3.8%	3.9%	3.1%	5.5%
Personal health care	4.9%	5.1%	3.7%	3.9%	4.0%	2.9%	5.0%
Hospital care	5.2%	6.9%	5.1%	4.3%	5.8%	3.5%	4.1%
Professional services	5.6%	3.1%	3.3%	4.3%	3.9%	2.4%	4.4%
Physician and clinical services	5.5%	3.5%	3.2%	4.7%	4.1%	2.5%	4.6%
Other professional services	7.9%	4.6%	4.9%	4.8%	5.9%	3.5%	5.2%
Dental services	5.1%	0.4%	2.7%	2.0%	1.6%	1.5%	2.8%
Other health, residential, and personal care	5.7%	7.7%	4.6%	2.2%	4.6%	4.7%	4.1%
Home health care	8.4%	8.1%	5.5%	3.6%	4.4%	3.3%	4.8%
Nursing care facilities and continuing care retirement communities	4.1%	4.1%	2.9%	4.2%	1.0%	1.3%	3.6%
Retail outlet sales of medical products	2.5%	3.7%	1.0%	2.8%	0.8%	2.6%	9.6%
Prescription drugs	2.5%	4.7%	0.1%	2.2%	0.2%	2.4%	12.2%
Durable medical equipment	1.6%	0.4%	5.6%	5.8%	3.4%	2.8%	3.2%
Other nondurable medical products	3.6%	1.7%	1.8%	3.1%	1.7%	3.5%	2.4%
Government administration	0.3%	1.4%	2.2%	7.2%	3.3%	8.5%	10.7%
Net cost of health insurance	-2.4%	-1.5%	11.1%	4.6%	2.6%	5.3%	12.4%
Government public health activities	8.5%	3.5%	1.8%	-1.8%	2.7%	0.7%	3.1%
Investment	6.9%	-6.1%	2.7%	4.7%	2.5%	-0.5%	0.9%
Noncommercial research	4.0%	2.5%	8.5%	0.9%	-2.4%	-4.1%	-2.0%
Structures and equipment	8.3%	-9.8%	-0.1%	6.7%	5.0%	1.2%	2.2%

Source: Martin et al., *Health Affairs*, December 2, 2015

Medicaid spending growth also accelerated in 2014, increasing at a rate of 11.0%, compared to a growth rate of 5.9% in 2013. The acceleration in 2014 was primarily due to provisions in the ACA that expanded eligibility (while providing full federal financing for all newly eligible enrollees) and enhanced payments to primary care providers. Medicaid enrollment grew by 7.7 million in 2014, an increase of 13.2% (compared to growth of 1.7% in 2013), as twenty-six states plus the District of Columbia expanded coverage. In 2014 the number of uninsured individuals fell by 8.7 million, a decline of 19.5%. As a result, the insured share of the total population increased from 86.0% in 2013 to 88.8% in 2014 – the highest share since 1987. Some other key highlights include:

- Of the 4.5% increase in per capita health spending in 2014, changes in the age and sex mix of the population accounted for 0.6 percentage point, medical price inflation accounted for 1.8 percentage points, and the change in residual use and intensity accounted for the remaining 2.1 percentage points. There was a substantial increase in the portion of health spending growth attributed to residual use and intensity of services in 2014. In 2013 the growth rate for this factor was just 0.2%, but it accelerated to 2.1% in 2014 and accounted for almost half of per capita health spending growth.
- Households continued to be the largest sponsor of healthcare in 2014 at 28%, although their share was down from 29% in 2013. Compared to growth of 4.4% in 2012, household health spending growth was slower in 2013 and 2014, increasing 1.9% and 2.0%, respectively. Household health spending includes out-of-pocket payments, household payments for private health insurance and Medicare premiums, and payroll taxes dedicated to the Medicare program.
- Out-of-pocket spending (which accounted for 39% of total household expenditures) grew at a slightly slower rate in 2014, increasing 1.3% following growth of 2.1% in 2013.
- Health spending by private businesses, which includes employers' contributions to private health insurance premiums and other healthcare programs, increased 4.2% in 2014,

compared to a growth rate of 1.7% in 2013. Despite the accelerated growth in 2014, private businesses continued to account for 20% of total health spending – a share that has remained stable since 2010.

- Total private health insurance spending increased 4.4% and reached \$991.0 billion in 2014, accounting for one-third of total national healthcare expenditures. This was a faster growth rate than in 2013 (1.6%), when private health insurance spending grew at the slowest pace since 1967.
- The number of people in the United States covered by private health insurance reached 189.9 million in 2014, up from 187.7 million in 2013 – an increase of 1.2%. Private health insurance enrollment grew primarily because of individuals who gained coverage under the new marketplace plans. Expenditures for private health insurance medical benefits grew 4.1% in 2014, accelerating from growth of 1.5% in 2013.
- Total Medicaid spending by the federal government and state and local governments reached \$495.8 billion in 2014 and accounted for 16% of total national health expenditures. Following growth of 5.9% in 2013, Medicaid spending increased 11.0% in 2014 – the fastest rate of growth since 2001. Per enrollee Medicaid spending declined at a rate of 2.0% in 2014 after growing 4.1% in 2013, as the newly insured tended to be lower-cost individuals.
- Total Medicaid spending reached \$618.7 billion in 2014 and accounted for 20% of total health expenditures. After growing 3.0% in 2013, Medicare spending grew 5.5% in 2014. This was the fastest rate of growth since 2009 (when spending increased by 6.8%) and was primarily attributable to faster growth in spending for prescription drugs, physician and clinical services, and government administration and the net cost of insurance.
- In 2014 growth in total retail prescription drug expenditures accelerated sharply, increasing 12.2% to \$297.7 billion. This rate compares to growth of 2.4% in 2013 and 0.2% in 2012 and represents the largest annual increase since 2002. Prescription drug price growth continued to be affected by faster growth in 2014 (compared to 2013) in prices for brand-name medications and declines in prices for generic drugs. Because generic drugs cost substantially less than their brand-name counterpart, it is not uncommon to see increases in the generic dispensing rate, especially when blockbuster drugs lose their patent protection. In 2014 the generic dispensing rate was 81.7%, up from 80.1% in 2013 and 77.3% in 2012.
- Expenditures for hospital care increased 4.1% in 2014, accelerating from growth of 3.5% in 2013, and reached \$971.8 billion. For Medicaid, private health insurance, and Medicare, spending growth for hospital services accelerated in 2014. Following growth of 4.0% in 2013, Medicaid spending for hospital services increased 7.6% in 2014, primarily as a result of expanded Medicaid coverage. Private health insurance spending for hospital care increased 3.5% in 2014, following growth of 2.7% the year before – the slowest rate since 1996.
- Spending for physician and clinical services grew 4.6% in 2014, reaching \$603.7 billion. This was an acceleration from 2013, when spending grew at a historically low rate of 2.5%. Spending for Medicaid physician and clinical services – which increased 22.8% in 2014, compared to 11.0% in 2013 – was influenced by expanded Medicaid enrollment eligibility under the ACA and increased primary care provider fees that affected growth in 2013 and, to a greater extent, in 2014. Private health insurance spending also contributed to the acceleration in expenditure growth for total physician and clinical services, increasing 1.2% in 2014 after a decline of 0.1% in 2013. Finally, Medicare spending for physician and clinical services increased 5.0% in 2014, following a smaller increase of 2.9% in 2013.

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