

Sponsors of Health Care Costs: Businesses, Households, and Governments, 1987-2004

Summary

Ultimately, 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. These sponsors frequently decide what health care plan is offered, who is eligible to participate in the plan, what cost-sharing arrangements (premiums, co-payments and deductibles) will be imposed, as well as how much coverage will be available. As health care cost burdens change, the decisions made by businesses and households are altered, as are policy responses by government.

In 2004, the level of spending for health care services and supplies (HSS), a subset of the National Health Expenditures reached \$1.8 trillion, almost double the HSS level of 1994 at \$0.9 trillion [Table 1]. The percent of HSS spending paid by private business has remained relatively stable since 1987 at around 26 %, with the largest share of private business spending by employers for Private Health Insurance (PHI) plan contributions on behalf of their employees [Table 2]. Since 2000, the employer share of private employer-sponsored PHI has declined over 3 percentage points, from 74.7% to 71.3% [Table 3]. Had this share been at the 2000 level in 2004, employer contributions would have been \$16.6 billion dollars higher, an amount now paid by households. This shift is partially explained by recent employment levels¹, creating a favorable labor

¹ Source: Bureau of Labor and Statistics, Labor force statistics, Current Population Survey, accessed Dec., 2005. <http://www.bls.gov/cps/home.htm>

market environment for businesses to pass on more of the annual increases in health care costs to their employees. Government employers, on the other hand, have maintained their contribution levels over the same period at 73 % and 80 % for Federal and state and local employers, respectively.

In 1987, households paid 39% of HSS and were the largest sponsors of health care. By 1997, household's share of HSS spending fell to 34%, then to 32% in 2004, a new low. The decline in the share households paid from 1987 to 1997 was primarily due to the increased enrollment in managed care plans. During the height of this movement (1993-1997), increased competition among health plans, effective price negotiation and other cost management techniques slowed private health care cost growth and reduced the proportion of cost paid out of pocket. The latest 2 percentage point reduction in household share, from 2000 to 2004, can be partially explained by the extended effects of the 2001 recession, including a decline in the share of the population insured, slowing growth in PHI expenditures. In fact, we would have expected an increase in the share of household OOP payments of total HHS during this period. However, the growth from the public sector, due in part to increases in Medicaid enrollment coupled with rapid Medicare spending growth associated with legislative givebacks, was more than enough to eclipse the increased OOP spending from households.

The federal government has seen its share of health spending increase faster than all other payers due mainly to the acceleration of Medicaid and Medicare costs. From 1987-1997, general revenue funding for Medicare increased to a then record share of

federal spending at 33%. During this period, some health care providers shifted more of their cost growth to the public sector due to pressure from the private sector's movement to managed care and some public programs were expanded, such as the use of home health and nursing home services. From 1997 to 2000, the Balanced Budget Act fostered a slowdown in overall growth to 2.3 % in Medicare spending, the lowest three-year period of growth in the history of Medicare. This sanguine period spurred expansionary legislation from 2000 to 2002, increasing spending, particularly in Part B, as the share of contributions from general revenues rose to 35 % in 2004. Medicaid bears the heaviest financing burden on the federal government, at times over half of all federal spending on health care. With no dedicated tax to fund the program, federal contributions to Medicaid are made up almost entirely of general revenue funding. As Medicaid is a program for the poor and medically indigent, when the economy falters demand for services will increase as more people become eligible for services. The recession of 2001 caused substantial Medicaid funding problems for state governments, prompting Congress to act by temporarily increasing the share of federal government spending for Medicaid in an effort to aid states. Since 2001, Medicaid spending by the federal government has increased 9% annually.

State and local governments financing mirrors the federal government in that Medicaid is the largest category, comprising 42% in 2004. In fact, Medicaid is the second largest item in most states budgets, second only to education.² Over time, other state programs such as general assistance, maternal and child health, vocational rehabilitation, public health activities, and hospital subsidies have declined in share as

² National Association of State Budget Officers, "The Fiscal Survey of States: April 2004," June 2004, www.nasbo.org/publications/fiscsurv/2004/fsapril2004.pdf (28 December 2005)

Medicaid has expanded its role in aiding the poor through increased enrollment from the outreach efforts of SCHIP and costly prescription drug coverage.

Table 1
Expenditures for Health Services and Supplies, by Type of Payer: United States,
Calendar Years 1987-2004

Type of Sponsor	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Amount in Billions																	
Health Services and Supplies	\$ 477.8	\$ 534.7	\$ 595.9	\$ 666.7	\$ 731.5	\$ 793.8	\$ 853.5	\$ 900.5	\$ 953.0	\$ 1,002.9	\$ 1,054.4	\$ 1,111.8	\$ 1,180.0	\$ 1,264.5	\$ 1,375.5	\$ 1,499.2	\$ 1,624.5	\$ 1,753.0
Private	333.3	376.8	416.9	456.8	489.8	520.1	546.9	569.3	604.5	631.1	667.9	718.8	766.4	820.5	867.7	928.1	995.3	1070.3
Private Business	122.1	137.8	157.4	177.3	190.5	205.4	219.7	231.4	244.5	258.9	266.0	286.6	312.4	341.9	367.1	391.2	420.8	448.3
Employer Contribution to Private Health Insurance Premiums	84.2	96.3	112.3	128.6	137.0	148.0	159.2	166.4	176.9	188.6	191.6	207.4	229.2	250.9	271.8	294.1	320.6	342.8
Employer Contribution to Medicare Hospital Insurance Trust Fund	24.6	26.2	28.0	29.4	32.7	34.4	35.8	40.4	43.1	45.7	49.5	53.8	57.6	62.3	63.4	62.9	64.3	67.4
Workers compensation and temporary disability insurance and Industrial implant health services	13.3	15.3	17.1	19.3	20.8	23.1	24.7	24.5	24.5	24.6	24.9	25.4	25.7	28.6	32.0	34.2	35.8	38.1
Household	188.7	212.8	232.3	250.7	268.0	281.0	291.2	300.3	318.3	327.7	353.3	379.8	399.5	425.0	447.6	482.1	514.5	557.2
Employee Contribution to Private Health Insurance Premiums and Individual Policy Premiums	43.9	53.7	62.0	69.0	77.8	83.7	90.3	92.4	99.7	101.4	112.4	119.9	124.3	133.6	146.8	167.4	183.5	206.4
Employee and Self-Employment Contributions and Voluntary Premiums Paid to Medicare Hospital Insurance Trust Fund 1/	29.4	31.3	33.5	35.5	39.7	41.8	43.7	50.6	55.9	59.2	63.0	69.2	75.0	82.5	82.9	84.1	86.0	90.3
Premiums Paid by Individuals to Medicare Supplementary Medical Insurance Trust Fund	6.2	8.7	11.2	10.1	10.3	12.1	11.9	14.4	16.4	15.1	15.5	15.5	16.3	16.3	18.1	19.8	21.6	24.8
Out-of-pocket Health Spending	109.2	119.1	125.5	136.1	140.1	143.3	145.3	143.0	146.4	151.9	162.4	175.2	183.9	192.6	199.8	210.8	223.5	235.7
Other Private Revenues	22.4	26.2	27.3	28.8	31.3	33.7	36.1	37.6	41.7	44.5	48.7	52.4	54.4	53.6	53.0	54.8	60.1	64.8
Public	144.5	157.9	179.0	209.9	241.7	273.7	306.5	331.2	348.5	371.8	386.5	392.9	413.6	444.0	507.8	571.1	629.2	682.7
Federal government	74.1	79.9	92.2	110.8	130.8	154.2	174.6	184.7	195.3	214.0	220.1	214.8	221.5	236.5	277.8	317.9	356.0	389.0
Employer Contribution to Private Health Insurance Premiums	4.9	6.4	8.1	9.9	9.8	10.7	11.5	11.9	11.4	11.3	11.4	11.4	13.2	14.3	15.8	17.7	19.7	21.6
Employer Contribution to Medicare Hospital Insurance Trust Fund Adjusted Medicare 2/	1.7	1.8	1.9	2.0	2.2	2.2	2.3	2.4	2.3	2.4	2.4	2.4	2.5	2.6	2.7	2.9	3.1	3.2
Adjusted Medicare 2/	17.1	16.3	21.2	27.2	29.6	38.8	47.5	50.4	55.7	67.7	70.2	58.3	50.6	49.8	68.7	83.0	94.4	107.6
Health Program Expenditures (Excluding Medicare)	50.4	55.4	61.1	71.7	89.3	102.5	113.4	120.0	125.9	132.6	136.1	142.7	155.1	169.8	190.6	214.3	238.8	256.7
Medicaid 3/	28.1	31.4	35.8	43.3	57.6	69.1	78.1	83.1	88.1	94.2	97.4	101.7	110.3	119.7	134.5	149.4	164.8	175.8
Other Programs 4/	22.3	24.0	25.2	28.4	31.7	33.4	35.3	37.0	37.8	38.5	38.7	41.0	44.8	50.1	56.2	64.8	73.9	80.8
State and local government	70.5	78.0	86.7	99.1	110.8	119.5	131.9	146.5	153.3	157.7	166.3	178.1	192.1	207.5	230.0	253.2	273.2	293.7
Employer Contribution to Private Health Insurance Premiums	16.0	19.1	22.2	26.2	29.9	32.4	36.0	38.6	39.1	41.0	43.9	46.2	51.1	56.0	63.4	73.0	82.4	87.7
Employer Contribution to Medicare Hospital Insurance Trust Fund	3.1	3.4	3.8	4.1	4.5	4.8	5.0	5.3	5.6	5.9	6.2	6.6	7.0	7.4	7.9	8.4	8.7	9.1
Health Expenditures by Program	51.4	55.5	60.8	68.8	76.5	82.4	90.9	102.6	108.6	110.9	116.2	125.4	134.0	144.1	158.7	171.8	182.1	196.9
Medicaid 3/	22.8	24.4	27.1	31.6	37.2	41.0	46.5	54.4	60.1	61.6	64.9	71.1	77.6	85.3	94.7	103.9	111.0	122.2
Other Programs 5/	28.6	31.1	33.7	37.2	39.3	41.3	44.4	48.2	48.5	49.2	51.3	54.3	56.4	58.7	64.0	68.0	71.1	74.7

1/ Includes one-half of self-employment contribution to Medicare Hospital Insurance Trust Fund and taxation of Social Security benefits.

2/ Excludes Medicaid buy-in premiums for Medicare.

3/ Includes Medicaid buy-in premiums for Medicare.

4/ Includes maternal and child health, vocational rehabilitation, Substance Abuse and Mental Health Services Administration, Indian Health Service, Office of Economic Opportunity (1965-74), Federal workers' compensation, and other miscellaneous general hospital and medical programs, public health activities, Department of Defense, Department of Veterans Affairs, and State Children's Health Program (SCHIP)

5/ Includes other public and general assistance, maternal and child health, vocational rehabilitation, public health activities, and hospital subsidies

SOURCE: Centers for Medicare and Medicaid Services, Office of the Actuary: Data from the National Health Statistics Group

Table 2
Expenditures for Health Services and Supplies, by Type of Payer: United States,
Calendar Years 1987-2004

Type of Sponsor	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Percent Distribution																	
Health Services and Supplies	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Private	70	70	70	69	67	66	64	63	63	63	63	65	65	65	63	62	61	61
Private Business	26	26	26	27	26	26	26	26	26	26	25	26	26	27	27	26	26	26
Employer Contribution to Private Health Insurance Premiums	18	18	19	19	19	19	19	18	19	19	18	19	19	20	20	20	20	20
Employer Contribution to Medicare Hospital Insurance Trust Fund	5	5	5	4	4	4	4	4	5	5	5	5	5	5	5	4	4	4
Workers compensation and temporary disability insurance and Industrial inplant health services	3	3	3	3	3	3	3	3	3	2	2	2	2	2	2	2	2	2
Household	39	40	39	38	37	35	34	33	33	33	34	34	34	34	33	32	32	32
Employee Contribution to Private Health Insurance Premiums and Individual Policy Premiums	9	10	10	10	11	11	11	10	10	10	11	11	11	11	11	11	11	12
Employee and Self-Employment Contributions and Voluntary Premiums Paid to Medicare Hospital Insurance Trust Fund 1/	6	6	6	5	5	5	5	6	6	6	6	6	6	7	6	6	5	5
Premiums Paid by Individuals to Medicare Supplementary Medical Insurance Trust Fund	1	2	2	2	1	2	1	2	2	2	1	1	1	1	1	1	1	1
Out-of-pocket Health Spending	23	22	21	20	19	18	17	16	15	15	15	16	16	15	15	14	14	13
Other Private Revenues	5	5	5	4	4	4	4	4	4	4	5	5	5	4	4	4	4	4
Public	30	30	30	31	33	34	36	37	37	37	37	35	35	35	37	38	39	39
Federal government	15	15	15	17	18	19	20	21	20	21	21	19	19	19	20	21	22	22
Employer Contribution to Private Health Insurance Premiums	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Employer Contribution to Medicare Hospital Insurance Trust Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted Medicare 2/	4	3	4	4	4	5	6	6	6	7	7	5	4	4	5	6	6	6
Health Program Expenditures (Excluding Medicare)	11	10	10	11	12	13	13	13	13	13	13	13	13	13	14	14	15	15
Medicaid 3/	6	6	6	6	8	9	9	9	9	9	9	9	9	9	10	10	10	10
Other Programs 4/	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	5	5
State and local government	15	15	15	15	15	15	15	16	16	16	16	16	16	16	17	17	17	17
Employer Contribution to Private Health Insurance Premiums	3	4	4	4	4	4	4	4	4	4	4	4	4	4	5	5	5	5
Employer Contribution to Medicare Hospital Insurance Trust Fund	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Health Expenditures by Program	11	10	10	10	10	10	11	11	11	11	11	11	11	11	12	11	11	11
Medicaid 3/	5	5	5	5	5	5	5	6	6	6	6	6	7	7	7	7	7	7
Other Programs 5/	6	6	6	6	5	5	5	5	5	5	5	5	5	5	5	5	4	4

1/ Includes one-half of self-employment contribution to Medicare Hospital Insurance Trust Fund and taxation of Social Security benefits.

2/ Excludes Medicaid buy-in premiums for Medicare.

3/ Includes Medicaid buy-in premiums for Medicare.

4/ Includes maternal and child health, vocational rehabilitation, Substance Abuse and Mental Health Services Administration, Indian Health Service, Office of Economic Opportunity (1965-74), Federal workers' compensation, and other miscellaneous general hospital and medical programs, public health activities, Department of Defense, Department of Veterans Affairs, and State Children's Health Program (SCHIP)

5/ Includes other public and general assistance, maternal and child health, vocational rehabilitation, public health activities, and hospital subsidies

Note: "0" denotes value less than .5 percent.

SOURCE: Centers for Medicare and Medicaid Services, Office of the Actuary. Data from the National Health Statistics Group

Table 3
Expenditures for Private Health Insurance, by Sponsor: United States, Calendar Years 1987-2004

Sponsor	1987	1992	1997	2000	2001	2002	2003	2004
	Amount in Billions							
Total Private Health Insurance Premiums	\$149.0	\$274.8	\$359.3	\$454.8	\$497.7	\$552.2	\$606.3	\$658.5
Employer Sponsored Private Health Insurance Premiums	136.6	252.6	335.3	426.3	467.7	518.2	568.8	619.5
Employer Contribution to Private Health Insurance Premiums	105.0	191.0	246.9	321.2	350.9	384.8	422.8	452.0
Federal	4.9	10.7	11.4	14.3	15.8	17.7	19.7	21.6
Nonfederal	100.2	180.4	235.5	306.9	335.1	367.1	403.1	430.5
Private	84.2	148.0	191.6	250.9	271.8	294.1	320.6	342.8
State and Local	16.0	32.4	43.9	56.0	63.4	73.0	82.4	87.7
Employee Contribution to Private Health Insurance Premiums	31.5	61.6	88.4	105.1	116.8	133.4	146.0	167.4
Federal	2.4	3.5	4.1	5.3	5.9	6.6	7.3	8.0
Nonfederal	29.1	58.1	84.3	99.8	110.9	126.8	138.6	159.5
Private	24.9	49.5	71.9	85.1	94.4	108.2	118.7	138.3
State and Local	4.2	8.5	12.5	14.7	16.4	18.6	19.9	21.2
Individual Policy Premiums	12.4	22.1	24.0	28.5	30.0	34.0	37.5	39.0
Number of Enrollees (In Millions)	181.4	184.7	188.1	197.6	196.4	195.6	194.5	194.9
Per Enrollee Estimates of Private Health Insurance (In Dollars)	\$821.3	\$1,488.0	\$1,910.1	\$2,301.7	\$2,533.7	\$2,824.0	\$3,117.5	\$3,379.3
	Percent Growth							
Total Private Health Insurance Premiums		13.0%	5.5%	8.2%	9.4%	11.0%	9.8%	8.6%
Employer Sponsored Private Health Insurance Premiums		13.1	5.8	8.3	9.7	10.8	9.8	8.9
Employer Contribution to Private Health Insurance Premiums		12.7	5.3	9.2	9.2	9.7	9.9	6.9
Federal		17.1	1.3	7.8	10.2	12.1	11.6	9.4
Nonfederal		12.5	5.5	9.2	9.2	9.5	9.8	6.8
Private		11.9	5.3	9.4	8.3	8.2	9.0	6.9
State and Local		15.2	6.3	8.4	13.2	15.2	13.0	6.3
Employee Contribution to Private Health Insurance Premiums		14.3	7.5	5.9	11.2	14.3	9.4	14.7
Federal		8.0	3.0	8.7	12.3	11.4	11.2	8.3
Nonfederal		14.8	7.7	5.8	11.1	14.4	9.3	15.0
Private		14.8	7.7	5.8	10.9	14.6	9.7	16.5
State and Local		15.1	7.9	5.6	12.1	13.3	7.0	6.3
Individual Policy Premiums		12.3	1.6	6.0	5.1	13.3	10.2	4.0
Number of Enrollees		0.4	0.4	1.7	-0.6	-0.4	-0.6	0.2
Per Enrollee Estimates of Private Health Insurance		12.6	5.1	6.4	10.1	11.5	10.4	8.4
	Employer Share of Employer Sponsored Health Insurance							
Employer-Sponsored Private Health Insurance	76.9%	75.6%	73.6%	75.4%	75.0%	74.3%	74.3%	73.0%
Federal	66.9	75.1	73.5	73.0	72.7	72.8	72.9	73.1
Private	77.2	74.9	72.7	74.7	74.2	73.1	73.0	71.3
State and Local	79.1	79.1	77.9	79.2	79.4	79.7	80.5	80.5

SOURCE :Centers for Medicare & Medicaid Services, Office of the Actuary: National Health Statistics Group and Office of Personnel Management.

Table 4
Expenditures For Medicare by Sponsor: United States, Selected Calendar Years 1987-2004

Sponsor Category	1987	1992	1997	2000	2001	2002	2003	2004
Medicare, Billions	\$82.6	\$136.0	\$210.5	\$225.2	\$248.3	\$266.3	\$283.8	\$309.0
Private Businesses-- Employer Medicare HI Trust Fund Payroll Taxes ^a	24.6	34.4	49.5	62.3	63.4	62.9	64.3	67.4
Households	35.5	53.9	78.4	98.8	100.9	103.9	107.5	115.1
Employee Payroll Taxes and Voluntary Premiums Paid to HI Trust Fund ^{a,b}	29.4	41.8	63.0	82.5	82.9	84.1	86.0	90.3
Premiums paid by Individuals to Medicare SMI Trust Fund	6.2	12.1	15.5	16.3	18.1	19.8	21.6	24.8
Federal Government	19.1	42.2	74.8	54.9	74.1	89.0	101.0	114.8
Employer Medicare HI Trust Fund Payroll Taxes	1.7	2.2	2.4	2.6	2.7	2.9	3.1	3.2
Spending from General Revenues ^c	17.1	38.8	70.2	49.8	68.7	83.0	94.4	107.6
Medicaid Buy ins	0.3	1.2	2.2	2.4	2.7	3.1	3.5	4.0
State and Local Government	3.4	5.6	7.8	9.2	9.9	10.6	11.0	11.7
Employer Medicare HI Trust Fund Payroll Taxes	3.1	4.8	6.2	7.4	7.9	8.4	8.7	9.1
Medicaid Buy ins	0.2	0.8	1.6	1.8	2.0	2.2	2.3	2.6
Percent Distribution								
Medicare	100%	100%	100%	100%	100%	100%	100%	100%
Private Businesses-- Employer Medicare HI Trust Fund Payroll Taxes ^a	30	25	23	28	26	24	23	22
Households	43	40	37	44	41	39	38	37
Employee Payroll Taxes and Voluntary Premiums Paid to HI Trust Fund ^{a,b}	36	31	30	37	33	32	30	29
Premiums paid by Individuals to Medicare SMI Trust Fund	7	9	7	7	7	7	8	8
Federal Government	23	31	36	24	30	33	36	37
Employer Medicare HI Trust Fund Payroll Taxes	2	2	1	1	1	1	1	1
Spending from General Revenues ^c	21	29	33	22	28	31	33	35
Medicaid Buy ins	0	1	1	1	1	1	1	1
State and Local Government	4	4	4	4	4	4	4	4
Employer Medicare HI Trust Fund Payroll Taxes	4	3	3	3	3	3	3	3
Medicaid Buy ins	0	1	1	1	1	1	1	1
Percent Growth								
Medicare		10%	9%	2%	10%	7%	7%	9%
Private Businesses-- Employer Medicare HI Trust Fund Payroll Taxes ^a		7%	8%	8%	2%	-1%	2%	5%
Households		9%	8%	8%	2%	3%	4%	7%
Employee Payroll Taxes and Voluntary Premiums Paid to HI Trust Fund ^{a,b}		7%	9%	9%	0%	1%	2%	5%
Premiums paid by Individuals to Medicare SMI Trust Fund		14%	5%	2%	11%	10%	9%	15%
Federal Government		17%	12%	-10%	35%	20%	13%	14%
Employer Medicare HI Trust Fund Payroll Taxes		5%	2%	3%	3%	9%	6%	5%
Spending from General Revenues ^c		18%	13%	-11%	38%	21%	14%	14%
Medicaid Buy ins		30%	13%	3%	12%	13%	14%	13%
State and Local Government		11%	7%	6%	8%	7%	4%	6%
Employer Medicare HI Trust Fund Payroll Taxes		9%	5%	6%	7%	5%	4%	5%
Medicaid Buy ins		29%	15%	3%	11%	11%	6%	11%

Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

^a Includes one-half of self-employment contribution to Medicare Hospital Insurance Trust Fund.

^b Includes Trust Fund revenues from the income taxation of Social Security benefits.

^c Equal to the difference between total outlays and the dedicated financing sources of Medicare.