

National Health Expenditures 2008 Highlights

U.S. health care spending growth decelerated in 2008, increasing 4.4 percent compared to 6.0 percent in 2007, as spending growth slowed for nearly all health care goods and services, particularly for hospitals. Health spending growth for state and local and private sources of funds also slowed while federal health spending growth accelerated in 2008. Total health expenditures reached \$2.3 trillion in 2008, which translates to \$7,681 per person and 16.2 percent of the nation's Gross Domestic Product (GDP). Despite slower growth in overall health expenditures, the share of GDP devoted to health care increased from 15.9 percent in 2007.

Health Care Spending by Type of Service or Product: Personal Health Care

- **Hospital:** Hospital spending growth increased 4.5 percent to \$718.4 billion compared to 5.9 percent growth in 2007. The 2008 growth was the slowest rate of increase since 1998 and was influenced by decelerating price growth, investment losses, and slower growth in Medicaid hospital spending. Partially offsetting these factors were increased growth in both inpatient and outpatient utilization and faster Medicare hospital spending growth.
- **Physician and Clinical Services:** Spending on physician and clinical services increased 5.0 percent in 2008 to \$496.2 billion, a deceleration from 5.8 percent in 2007. A slight increase in growth of use and intensity in 2008 was offset by decelerating price growth.
- **Other Professional Services:** Spending growth for other professional services, which includes therapists, chiropractors, optometrists, and podiatrists, decelerated from 6.5 percent in 2007 to 5.6 percent in 2008. Expenditures reached \$65.7 billion in 2008.
- **Dental Services:** Spending growth for dental services decelerated from 6.2 percent in 2007 to 5.1 percent in 2008. Expenditures reached \$101.2 billion in 2008.
- **Other Personal Health Care:** Spending growth for other personal health care services decelerated from 5.8 percent in 2007 to 2.6 percent in 2008. Expenditures reached \$68.1 billion in 2008. This category includes expenditures for medical services delivered in non-traditional settings, such as schools or community centers.
- **Home Health:** Spending growth for freestanding home health care services decelerated from 11.8 percent in 2007 to 9.0 percent in 2008. Expenditures reached \$64.7 billion in 2008.
- **Nursing Homes:** Spending growth for freestanding nursing homes decelerated from 5.8 percent in 2007 to 4.6 percent in 2008. Expenditures reached \$138.4 billion in 2008.
- **Prescription Drugs:** Prescription drug spending growth decelerated from 4.5 percent in 2007 to 3.2 percent in 2008. Impacts of the recession, a low number of new product introductions, and safety concerns all contributed to the slowdown in growth. Drug prices increased 2.5 percent in 2008.
- **Durable Medical Equipment:** Spending growth on durable medical equipment, which includes items such as eyeglasses and hearing aids, accelerated from 3.3 percent in 2007 to 4.1 percent in 2008. Expenditures reached \$26.6 billion in 2008.
- **Other Non-durable Medical Products:** Spending growth for other non-durable medical products, such as over-the-counter medicines, decelerated from 5.9 percent in 2007 to 4.2 percent in 2008. Expenditures reached \$39.0 billion in 2008.

Health Spending by Major Sources of Funds:

- **Medicare:** Medicare spending grew 8.6 percent in 2008 to \$469.2 billion; this followed growth of 7.1 percent in 2007. Spending growth for fee-for-service (FFS) Medicare accelerated to 5.3 percent in 2008 compared with 3.8-percent growth in 2007 caused in part by accelerated spending for hospitals. Medicare Advantage (MA) spending increased 21.3 percent in 2008, similar to the 22.1-percent growth in 2007, the result of a continued shift in enrollment as beneficiaries switched from traditional FFS into MA plans. Total Part D (prescription drug benefit and administration) spending increased 10.0 percent to \$51.5 billion in 2008.
- **Medicaid:** Total Medicaid spending grew 4.7 percent in 2008 to \$344.3 billion, a deceleration from 6.1-percent growth in 2007. Slower Medicaid spending growth for hospital, other personal health care, and home health care services outweighed faster growth in all other Medicaid spending on goods and services. Federal Medicaid expenditures increased 8.4 percent, while state Medicaid expenditures declined 0.1 percent, the first decline in program history. This difference in growth is due to a significant increase in the Federal Medical Assistance Percentages (FMAP) used to determine the federal Medicaid payments to states. The American Recovery and Reinvestment Act of 2009 provided a temporary 27-month increase in the FMAP retroactive to the fourth calendar quarter of 2008.
- **Private Health Insurance:** Private health insurance premiums grew 3.1 percent in 2008, a deceleration from 4.4-percent growth in 2007. PHI benefit payment growth also slowed to 3.9 percent in 2008 from 4.8 percent in 2007. These trends were heavily influenced by the recession as enrollment in PHI plans declined and the ratio of the net cost of private health insurance (the difference between premiums and benefits) to total private health insurance premiums continued its recent decline to 11.7 percent in 2008, compared with 13.7 percent in 2003.
- **Out-of-Pocket:** Out-of-pocket spending grew 2.8 percent in 2008, a significant deceleration from the 6.0- percent growth in 2007 as out-of-pocket expenditures for retail prescription drugs declined and out-of-pocket spending growth for physician and clinical services decelerated.

Health Services and Supplies Spending by Sponsor:

- 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. In 2008, spending for health care services and supplies (HSS) grew 4.4 percent to \$2.2 trillion, decelerating from 5.8-percent growth in 2007. The slower growth in 2008 is due primarily to decelerating growth in spending by private business, households, other private revenues, and state and local governments. In contrast, federal government health care spending growth accelerated from 6.6 percent in 2007 to 10.4 percent in 2008 due in part to provisions associated with the American Recovery and Reinvestment Act of 2009 (ARRA).
- At the aggregate level, the shares of financing for health services and supplies by businesses (23 percent), households (31 percent), other private sponsors (3 percent), and governments (42 percent) have remained relatively steady over time. Between 2007 and 2008; however, the federal government share increased significantly (from 23 to 25 percent), while the state and local government share declined (from 18 to 17 percent).