The CMS Office of the Actuary determines the amount of money used for the purchase of health care goods and services on an annual basis. These estimates include expenditures as well as the source of financing for these purchases.

Major findings are as follows: The U.S. spent $1.9 trillion on health care, or $6,280 per person, in 2004. Health spending rose 7.9 percent in 2004, slower than the 8.2 percent growth in 2003 and 9.1 percent growth in 2002.

The health spending share of GDP grew 0.1 percentage point to 16.0 percent in 2004. This was a smaller increase in share than experienced in recent years as economic growth in 2004 grew at its fastest rate since 1989.

The share of personal health care spending growth associated with prescription drugs has declined since 2000, coincident with a higher share of spending growth for hospital services. Prescription drug spending had accounted for a 23 percent share of personal health spending growth between 1997 and 2000, but by 2002-2004 it accounted for only 14 percent. Conversely, hospital spending accounted for 28 percent of personal health spending growth between 1997 and 2000, and 38 percent by 2002-2004.

In 2004, private payers played a greater role in slowing spending than public payers. Private spending growth slowed to 7.6 percent in 2004 compared with 8.6 percent in 2003. Out of pocket payments grew 5.5 percent in 2004, slower than aggregate health spending growth and slower than private insurance premiums, both in aggregate and on a per enrollee basis. In comparison with 2004 per enrollee private health insurance premium growth of 8.4 percent, growth in 2002 was 11.5 percent and in 2003, 10.4 percent.

Federal and state and local government spending for health care rose 8.2 percent in 2004. Public spending continues to be dominated by Medicare ($309 billion in 2004), whose growth rebounded in 2004 in part due to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) that raised payments for capitated health plans and rural providers. Coupled with increases in the use of physician and home health services, these factors contributed to more than a 2-percentage point rise in Medicare spending growth to 8.9 percent in 2004.

- **Medicaid** spending reached $291 billion in 2004, comprising 15 percent of national health spending. In contrast to the acceleration in Medicare's spending, Medicaid spending growth decelerated from 8.8 percent in 2003 to 7.9 percent in 2004, reflecting continued cost containment efforts from states that contributed to a marked slowdown in spending growth for prescription drugs.
- **Hospitals:** Hospital spending, nearly one-third of total national health expenditures, increased 8.6 percent in 2004. Public spending for hospital

care increased 7.9 percent, up from growth of 6.2 percent in 2003 as both Medicare and Medicaid spending grew faster than in the previous year. Hospital spending growth by private payers was stable, rising 9.6 percent in 2004. The 2004 growth in hospital spending accounted for 33 percent of the overall increase in health spending, greater than its 30 percent share of aggregate spending.

- **Prescription Drugs:** Spending for prescription drugs increased 8.2 percent in 2004 compared to growth of 10.2 percent in 2003 and 14.3 percent in 2000-2002. As spending growth for prescription drugs nearly converged with that of overall health spending, it accounted for a steady 11 percent of aggregate health spending. Factors contributing to this slowing trend were rapid growth in use of lower-priced generic drugs through tiered benefit plans, increased over-the-counter use of anti-ulcerants and antihistamines, a shift towards greater mail order dispensing, and reduced consumption of certain drugs due to concerns about their safety. In contrast to the overall trend, growth in out-of-pocket spending for drugs outpaced private health insurance spending growth for drugs in 2003 and 2004.
- **Physicians:** Spending for physician services grew 9.0 percent, nearly the same as the 8.6 percent increase experienced in 2003. Spending for physician services accounted for 29 percent of the total growth in personal health care spending in 2004, up from an average 25 percent share in the 2000-2002 period. Public spending growth accelerated from 8.9 percent in 2003 to 9.9 percent in 2004, in large part due to increased use of Medicare services.
- **Home Health:** Spending for freestanding home health agencies rose more rapidly than any other service category, increasing 13.3 percent in 2004. Public spending rose 17.6 percent for home health services, accounting for 74 percent of such spending. Double-digit growth in Medicare spending for home health services (a 19.3 percent increase in 2004) stems in part from rapid growth in home-based hospice services that averaged annual growth of 27 percent between 2000 and 2004. Medicare spending for freestanding home health services that excludes hospice has grown an average of 12.5 percent since 2000.
- **Nursing Homes:** Spending for services provided by freestanding skilled nursing facilities (SNFs) rose 4.3 percent in 2004. Medicaid is the largest public source of funding for SNFs and accounts for nearly 40 percent of such spending. Medicaid spending has been influenced by upper payment limit financing methods that have recently been restricted. This caused Medicaid spending for nursing homes to slow from an average 5.9 percent during 2000-2002 to growth in 2004 that is close to the average 3.2 percent growth experienced in 1994-1999.