

Healthcare Spending Slows in 2016

On December 6, 2017, the *Centers for Medicare and Medicaid Services* (CMS) announced that *fiscal year* (FY) 2016 national health spending was \$3.3 trillion (\$10,348 per capita), a 4.3 percent increase (\$354 per capita) from 2015, a slower pace than the 5.8 percent growth realized in FY 2015.¹ This slowed spending growth was experienced by all major third party payors (e.g., Medicare, Medicaid, and commercial insurers), as well as by several health goods and service categories (e.g., hospital care, physician and clinical services, and retail prescription).² Despite the relative deceleration in health spending in 2016, the portion of the U.S. *gross domestic product* (GDP) devoted to healthcare increased 0.2 percent to 17.9 percent overall, in part because healthcare spending grew 1.5 percent faster than the overall economy in 2016.³

In regards to spending by major third party insurance payors, private health insurance spending increased 5.1 percent in 2016 to \$1.1 trillion, slower than the 6.9 percent growth in 2015.⁴ This was, in part, a result of lower health insurance enrollment growth in 2016, after two years of increased enrollment due to the *Patient Protection and Affordable Care Act* (ACA) provisions that increased the number of newly insured individuals under Medicaid and private insurance.⁵ Medicare spending grew only 3.6 percent to \$672.1 billion in 2016, slower than the 4.8 and 4.9 percent growth in 2015 and 2014, respectively.⁶ This also may be attributed to lower health insurance enrollment growth, resulting in decreased spending growth for both Medicare *fee-for-service* (FFS) (1.8 percent in 2016 versus 2.2 percent in 2015) and *Medicare Advantage* (7.4 percent in 2016 versus 11.1 percent in 2015).⁷ Medicaid spending increased by 3.9 percent to \$565.5 billion, significantly lower in growth than the 2015 and 2014 figures of 9.5 and 11.5 percent, respectively,⁸ which may be a result of the initial impact of *Medicaid Expansion* by those states that took advantage of the ACA provision.⁹ Notwithstanding the widespread deceleration in healthcare spending among third party payors, it is important to note that *out-of-pocket spending*, including copayments, deductibles, and any direct consumer spending not covered by insurance, had the highest growth rate since 2007.¹⁰ Specifically, the rate grew by 3.9 percent to \$352.5 billion in 2016, faster than the 2.8 percent growth in 2015, as well as faster than previous years.¹¹ This is in part due to a shift toward enrollment in

high-deductible health plans, but offset by the decrease in the number of uninsured individuals.¹²

Similar to the decreased growth in spending for all major third party payors, a number of health goods and service sectors experienced decreased growth in expenditures, including hospital care, physician and clinical services, and retail prescription. For example, hospital care comprised 32 percent of healthcare expenditures in 2016, increasing by 4.7 percent to a total of \$1.1 trillion, slower than the 5.7 percent increase realized in 2015.¹³ Lower patient utilization of healthcare services drove this decrease in spending,¹⁴ following two years of accelerated spending growth.¹⁵ Improved economic conditions, as well as an increase in the number of newly insured individuals, accounted for the 2014 and 2015 increases in spending growth.¹⁶ In addition to hospital care spending, physician and clinical services, the fastest healthcare spending category, accounted for 20 percent of all healthcare expenditures in 2016, and grew 5.4 percent to \$664.9 billion, slightly lower than the 5.9 percent growth experienced in 2015,¹⁷ likely due to the continued growth in clinical services spending for freestanding ambulatory surgical and emergency centers.¹⁸ Further, patient utilization and number of physician and clinical services offered accounted for almost 75 percent of the overall 5.4 percent growth, although this figure was lower than the 2015 figure, primarily because of languishing insurance enrollment growth.¹⁹ Retail prescription drug spending increased by 1.3 percent to \$328.6 billion in 2016, slower than the 8.9 percent and 12.4 percent growth in 2015 and 2014, respectively.²⁰ This relative stagnation may be attributed to fewer new drug approvals, slower growth in brand-name drug spending (especially for hepatitis C drugs), and a decline in spending for generic drugs due to slowed price increases.²¹ Significant growth in 2014 and 2015 was in part due to price increases for existing brand name drugs (including hepatitis C drugs), as well as increased spending on new drugs.²²

Overall, the 2014 and 2015 increases in health expenditures for payors; health goods; and, service categories may be primarily attributed to the health insurance coverage expansion elicited by the ACA, when Medicaid eligibility was expanded in some states and private health insurance options were made available through federal and state marketplaces.²³ However, this initial impact of increased insurance enrollment finally

waned in 2016, causing overall health spending to slow.²⁴ In the past ten years, healthcare spending has decelerated to a historic low, primarily due to slowed growth in medical price inflation²⁵ as a result of the recent economic recession. During this time, overall economic growth remained low, causing medical price inflation to surpass overall price inflation, which effectively increased the share of the economy devoted to healthcare from 15.9 percent in 2007 to 17.9 percent in 2016.²⁶ Because medical price inflation stayed low throughout the *Great Recession* due to overall low levels of inflation, and economic growth is a strong predictor of health expenditures,²⁷ any subsequent growth in the U.S. economy (such as the growth currently being

experienced) will likely push healthcare spending growth upward. According to Paul Ginsburg, a health policy professor at the University of Southern California, “costs remain reasonably under control but are still [rising] at a rate that is too rapid to be affordable for society.”²⁸ While the healthcare spending figures for 2016 appear encouraging, this slowed growth is not expected to last, given the surging U.S. economy and the ongoing volatility in the healthcare industry due to repeal of ACA provisions such as the *Individual Mandate*,²⁹ which forces may serve to drive up costs and incentivize more use of healthcare services by those patients uncertain as to the future of their healthcare insurance coverage.

1 “CMS Office of the Actuary Releases 2016 National Health Expenditures” CMS, Press Release, December 6, 2017, <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2017-Press-releases-items/2017-12-06.html> (Accessed 12/28/17); “National Health Care Spending In 2016: Spending And Enrollment Growth Slow After Initial Coverage Expansions” By Micah Hartman, et al., *Health Affairs*, Vol. 37, No. 1, January 2018, p. 1.
 2 CMS, December 6, 2017.
 3 *Ibid.*
 4 *Ibid.*
 5 *Ibid.*
 6 *Ibid.*
 7 *Ibid.*
 8 *Ibid.*
 9 *Ibid.*
 10 *Ibid.*
 11 *Ibid.*
 12 *Ibid.*
 13 Hartman, et al., January 2018, p. 7.
 14 Intensity of healthcare services, or the number of healthcare services offered by providers, also decreased; this may be, in part, due to cost-cutting initiatives taken on by health organizations. *Ibid.*

15 *Ibid.*
 16 *Ibid.*
 17 *Ibid.*
 18 Hartman, et al., January 2018, p. 8.
 19 *Ibid.*
 20 CMS, December 6, 2017.
 21 *Ibid.*
 22 *Ibid.*
 23 Hartman, et al., January 2018, p. 10.
 24 *Ibid.*
 25 *Ibid.*
 26 *Ibid.*
 27 See “Perspectives on Health Care Spending Growth” By Louise Sheiner, Brookings Institution, Working Paper #4, August 2014, <https://www.brookings.edu/wp-content/uploads/2016/06/4-sheinerhealthcareAugust5.pdf> (Accessed 1/8/18), p. 15.
 28 “Pace Of U.S. Health Spending Slows In 2016” By Phil Galewitz, Kaiser Health News, December 6, 2017, <https://khn.org/news/pace-of-u-s-health-spending-slows-in-2016/> (Accessed 1/3/18).
 29 “Republicans Repeal Individual Mandate” Health Capital Topics, News Alert, December 2017, Phil Galewitz, Kaiser Health News, December 6, 2017, <https://khn.org/news/pace-of-u-s-health-spending-slows-in-2016/> (Accessed 1/3/18).



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