

National Health Expenditures by Type of Sponsor: Businesses, Households, and Governments, 2011

Introduction

Private businesses, households, and governments bear the financial burden for paying the nation's final health bill and, therefore, are the main sponsors of health care. These entities pay insurance premiums and out-of-pocket expenses, and use dedicated taxes and/or general revenues to finance health care. In addition, these sponsors decide the types of health care plans to offer, determine eligibility, cost-sharing arrangements (premiums, copayments, and deductibles), and the amount of coverage to offer. These entities also collect funds and finance the payers or programs that are responsible for paying the providers of health care (for example, private health insurance, Medicare, and Medicaid).¹

National Health Expenditures (NHE) reached \$2.7 trillion in 2011, increasing 3.9 percent, the same rate of growth as in 2009 and 2010 (Tables 1 & 2). The stable overall growth in 2011 occurred as growth in health spending by the federal government slowed and growth in spending by both private businesses and state and local governments accelerated. The expiration of the enhanced Federal Medical Assistance Percentages (FMAP) for Medicaid, as mandated by the American Recovery and Reinvestment Act of 2009 (ARRA) impacted both federal and state and local government's share of health spending in 2011. As a result states picked up a larger share of Medicaid spending and the federal government a smaller share, causing the growth in federal government health spending to slow (from 7.5 percent in 2010 to 1.3 percent in 2011) and growth in state and local government health spending to increase (from 4.4 percent in 2010 to 10.1 percent in 2011).

In 2011, households and the federal government financed the largest shares of national health spending, both at 28 percent (Table 3). Private businesses financed 21 percent, and state and local governments financed 17 percent of all health spending in 2011. Since 2007, the proportions of health spending financed by businesses, households, and governments shifted, with the federal government's share of health spending increasing almost 5 percentage points by 2011, while the proportion financed by all other sponsors declined slightly. This shift was largely due to impacts of the recent recession (which lasted from December 2007 through June 2009).

Businesses²

Health care spending by private businesses increased 4.2 percent in 2011 to \$557.6 billion, following slower growth of 0.4 percent in 2010. This trend was driven by

an acceleration in employer's contributions towards private health insurance premiums (accounting for 78 percent of all health care spending by private businesses), which accelerated from 0.4 percent-growth in 2010 to 4.5 percent in 2011 as the economy continued to recover and private health insurance enrollment increased from 186.3 million in 2010 to 187.3 million in 2011 (Table 4).

In 2011, private businesses financed 21 percent of total health care spending in the United States. Prior to the recent recession, private businesses financed a slightly larger share of health spending—in 2007, their share was 23 percent. In 2008, the proportion of health spending by businesses fell to 22 percent, and in 2009, their share fell again to 21 percent, where it remained through 2011.

The decrease between 2007 and 2011 in the share of health spending financed by private businesses reflects, in part, the recession's impact on employment and the number of people with health insurance. In December 2009, the unemployment rate was the highest it had been in twenty-seven years,³ and private health insurance enrollment fell by 6.2 million people in 2009, the largest one-year drop recorded in the history of the National Health Expenditure Accounts. Between 2007 and 2010, private health insurance enrollment declined by 11.2 million people and the number of uninsured increased by 7.0 million.⁴ As individuals lost their jobs and their employer-sponsored health insurance coverage, private business' contributions towards employer-sponsored health insurance slowed. Additionally, employer's contributions to the Medicare Hospital Insurance Trust Fund through payroll taxes declined in 2009, contributing to fewer dollars spent overall by private businesses on health care.

Households⁵

Health care spending by households increased 2.8 percent in 2011 to \$748.8 billion following slightly faster growth of 3.0 percent in 2010. This slight slowdown in overall household spending in 2011 was a result of slower growth in employee's contributions to private health insurance premiums and individual policy premiums (from 3.8-percent growth in 2010 to 1.7 percent in 2011) that was partly offset by faster growth in direct out-of-pocket spending by consumers (from 2.1-percent growth in 2010 to 2.8 percent in 2011).

The slower growth in employee contributions to employer-sponsored private health insurance plans and individually purchased plans may be the result of individuals selecting less expensive plans, such as consumer-driven health plan, that typically have lower premiums but higher cost-sharing. Faster out-of-pocket spending growth may have been a result of higher copayments and deductibles, and the increase in the number of uninsured between 2007 and 2010 may have resulted in more health care payments that were not covered by health insurance. Accelerated out-of-pocket spending for dental

services and hospital care in 2011 was offset by a decline in spending for prescription drugs, as Medicare beneficiaries benefited from reduced costs associated with drug coverage in the “doughnut hole”.

In 2011, households financed 28 percent of total national health spending. In 2007, the proportion of health spending paid by households was slightly higher—at 29 percent. The recession’s impact on household spending was most noticeable in 2009, as growth in out-of-pocket health spending and employee contributions toward health insurance premiums slowed, and employee payroll tax contributions to the Medicare Hospital Insurance Trust Fund declined.

Federal Government⁶

The federal government’s spending on health care increased 1.3 percent in 2011 to \$744.6 billion, a much slower rate of growth compared to 2010 when spending grew 7.5 percent. The slowdown was driven by a decline in federal Medicaid spending,⁷ which accounted for 35 percent of all federal spending on health in 2011. Federal Medicaid spending declined 7.0 percent in 2011 following growth of 8.0 percent in 2010 as the enhanced Federal Medical Assistance Percentage (FMAP) payments for Medicaid expired. These enhanced payments, which provided higher federal matching rates to the states as mandated by the American Recovery and Reinvestment Act of 2009 (ARRA), were in response to the recession and were in effect from October 2008 through June 2011.

Between 2007 and 2010, the federal government’s share of health spending increased by 5 percentage points—from 23 percent in 2007 to 28 percent in 2010. This rise in share was due to increased federal spending on both Medicare and Medicaid. As the number of unemployed grew from 2007 to 2010, payroll taxes paid by businesses, households, and state and local governments slowed, and as a result Medicare spending from general revenues grew considerably (Table 5). Therefore, the Medicare share of federal spending reached 35 percent in 2009 (2 percentage points higher than its’ share in 2007) and 34 percent in 2010. With the enhanced FMAP in place during this period, federal spending on Medicaid increased, causing the share of federal Medicaid spending to increase from 36 percent in 2007 and 2008 to 37 percent in 2009 and to 38 percent in 2010. The enhanced FMAP expired in 2011 and federal spending on Medicaid declined, causing overall growth in federal government spending to slow, and its’ share of overall health spending remained stable at 28 percent.

State and Local Governments⁸

Health care spending by state and local governments grew 10.1 percent in 2011 to \$470.2 billion, following slower growth of 4.4 percent in 2010. This acceleration was

primarily due to an increase in the states' portion of Medicaid spending, which increased 22.5 percent in 2011 after growing only 2.9 percent in 2010 as the enhanced FMAP expired. State Medicaid spending accounted for 35 percent of total state and local government health care spending in 2011.

Faster spending in other state and local government programs⁹ (which accounted for 31 percent of total state and local government health spending) was the second largest contributor to the acceleration in all state and local government spending on health. Spending for other state and local governments programs grew 6.1 percent in 2011 after declining 0.5 percent in 2010.

Mitigating some of the overall acceleration for state and local government health spending in 2011 was slower growth in state and local government employer's contributions to health insurance premiums (on behalf of state and local government employees), which grew only 3.1 percent in 2011 after increasing 11.7 percent in 2010.

The state and local government share of total U.S. health spending declined from 18 percent in 2007 to 16 percent in 2009 as the enhanced federal matching rates for Medicaid contributed to a decline in state and local Medicaid spending in 2009. In 2011, as the enhanced federal matching rates expired, Medicaid spending by state and local governments increased, leading to state and local government health spending reaching 17 percent of all national health spending.

Burden of Health Costs on Sponsors

Analysis of health care spending by type of sponsor reveals the burden that health care spending puts on businesses, households, and governments.

For private businesses, health care spending is compared to a measure of their overall labor costs, such as total compensation or wages and salaries. Private business' health spending as a percent of both total compensation and wages and salaries peaked in 2009 as compensation and wages and salaries declined while total private business health spending grew minimally—a result of considerable job losses due to the recession (Figure 1). In 2010 and 2011, compensation and wages and salaries began to increase, causing the health spending shares to decrease slightly. In 2011, private businesses spent 8.4 percent of total compensation on health care and 10.2 percent of wages and salaries on health care.

The burden of health spending on households is measured as a share of total adjusted personal income.¹⁰ Prior to the recent recession, in 2007 households spent 5.9 percent of their adjusted personal income on health care. As the economy worsened and unemployment increased, growth in health care spending by households slowed and adjusted personal income declined in 2009; as a result, health spending consumed a greater proportion of household's adjusted personal income (6.3 percent in 2009). In

2010, health care spending by households and adjusted personal income began to accelerate, though in both 2010 and 2011 adjusted personal income increased at a faster rate than did household health spending. As a result, the household share of total adjusted personal income remained fairly stable in 2010 and 2011, at 6.3 percent and 6.2 percent, respectively (Figure 2).

The burden of health spending on federal and state and local governments can be measured as a share of total federal or state and local revenues.^{11, 12} In 2008, federal government revenue declined 10.5 percent and at the same time, federal government spending on health increased 10.1 percent. This led to an increase in the share of federal government revenues that were devoted to health care from 31.1 percent in 2007 to 38.2 percent in 2008. In 2009, federal government spending on health increased even faster at 17.0 percent— primarily as a result of the enactment of the ARRA of 2009. At the same time, federal government revenues declined 16.5 percent, and as a result, the federal government's health care burden jumped to 53.6 percent (Figure 3). In 2010 and 2011, as the economy began to recover, federal revenues accelerated and spending on health, particularly for Medicaid, slowed. Consequently, the federal government's health care burden decreased to 51.6 percent in 2010 and then to 46.1 percent of revenues in 2011.

In 2007, state and local governments spent 26.5 percent of their revenue on health care. In 2008 and 2009, effects of the recession caused both total state and local government revenue and spending on health to slow or decline. This resulted in an increase in state and local governments' health care burden from 27.1 percent in 2008 to 28.0 percent in 2009. State and local government health spending continued to increase as a share of revenues to 28.6 percent in 2010 and to 30.4 percent in 2011 as both revenues and health spending began to accelerate.

¹ More detailed methodology on Sponsor analysis can be found at the following web address: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/dsm-11.pdf>

² Private business health spending includes employer contributions to private health insurance premiums, employer Medicare Hospital Insurance (HI) payroll taxes, one-half of self-employment contributions to Medicare HI Trust Fund, workers' compensation, temporary disability insurance, and worksite health care. Excludes Medicare Retiree Drug Subsidy (RDS) payments to private plans beginning in 2006, small business tax credits beginning in 2010, and Early Retirement Reinsurance Program payments (ERRP) beginning in 2010.

³ Department of Labor, Bureau of Labor Statistics. Labor force statistics from the Current Population Survey, series ID LNS14000000. Washington (DC): BLS. Available for download from: <http://data.bls.gov/cgi-bin/srgate>

⁴ Hartman, M, Martin, AB, Benson, J, Catlin, A, et al. National Health Spending in 2011: Overall growth remains low, but some payers and services show signs of acceleration. *Health Aff (Millwood)*. 2013; 32(1): 87-99.

⁵ Household health spending includes employee contributions to employer-sponsored health insurance, individually purchased health insurance, employee and self-employment payroll taxes and premiums paid to the Medicare HI and Supplementary Medical Insurance (SMI) Trust Funds, premiums paid for the Preexisting Condition Insurance Program (PCIP) beginning in 2010, and out-of-pocket health spending (for items such as co-payments, deductibles, and any amount not covered by insurance).

⁶ Federal government health spending includes employer contributions to private health insurance premiums, employer Medicare HI payroll taxes, trust fund interest income, federal general revenue contributions to Medicare less the net change in the trust fund balance and payments for the Retiree Drug Subsidy, federal Medicaid expenditures, the federal portion of Medicaid buy-ins for the Medicare premiums of people eligible for both Medicaid and Medicare (dual eligibles), and the following federal programs: maternal and child health; vocational rehabilitation; Substance Abuse and Mental Health Services Administration; Indian Health Service; federal workers' compensation; other federal programs; public health activities; Department of Defense; Department of Veterans Affairs; Children's Health Insurance Program (CHIP); and investment (research, structures and equipment). Also includes the subsidy for COBRA coverage beginning in 2009, small business tax credits beginning in 2010, and ERRP payments beginning in 2010. Excludes premiums paid to Medicare HI and SMI Trust Funds, Part D state phase-down payments beginning in 2006, trust fund revenues from the income taxation of Social Security benefits, and premiums paid for the PCIP beginning in 2010.

⁷ Federal Medicaid spending in the Sponsor analysis equals NHE federal Medicaid with the subtraction of Medicare Premium Buy-in Programs by Medicaid.

⁸ State and local government health spending includes employer contributions to private health insurance premiums, employer Medicare HI payroll taxes, state and local Medicaid expenditures, the state and local portion of Medicaid buy-ins for dual eligibles, and the following state and local programs: maternal and child health; public and general assistance; Children's Health Insurance Program (CHIP); vocational rehabilitation; other state and local programs; public health activities; and investment (research, structures and equipment). Also includes Part D state phase-down payments to Medicare beginning in 2006.

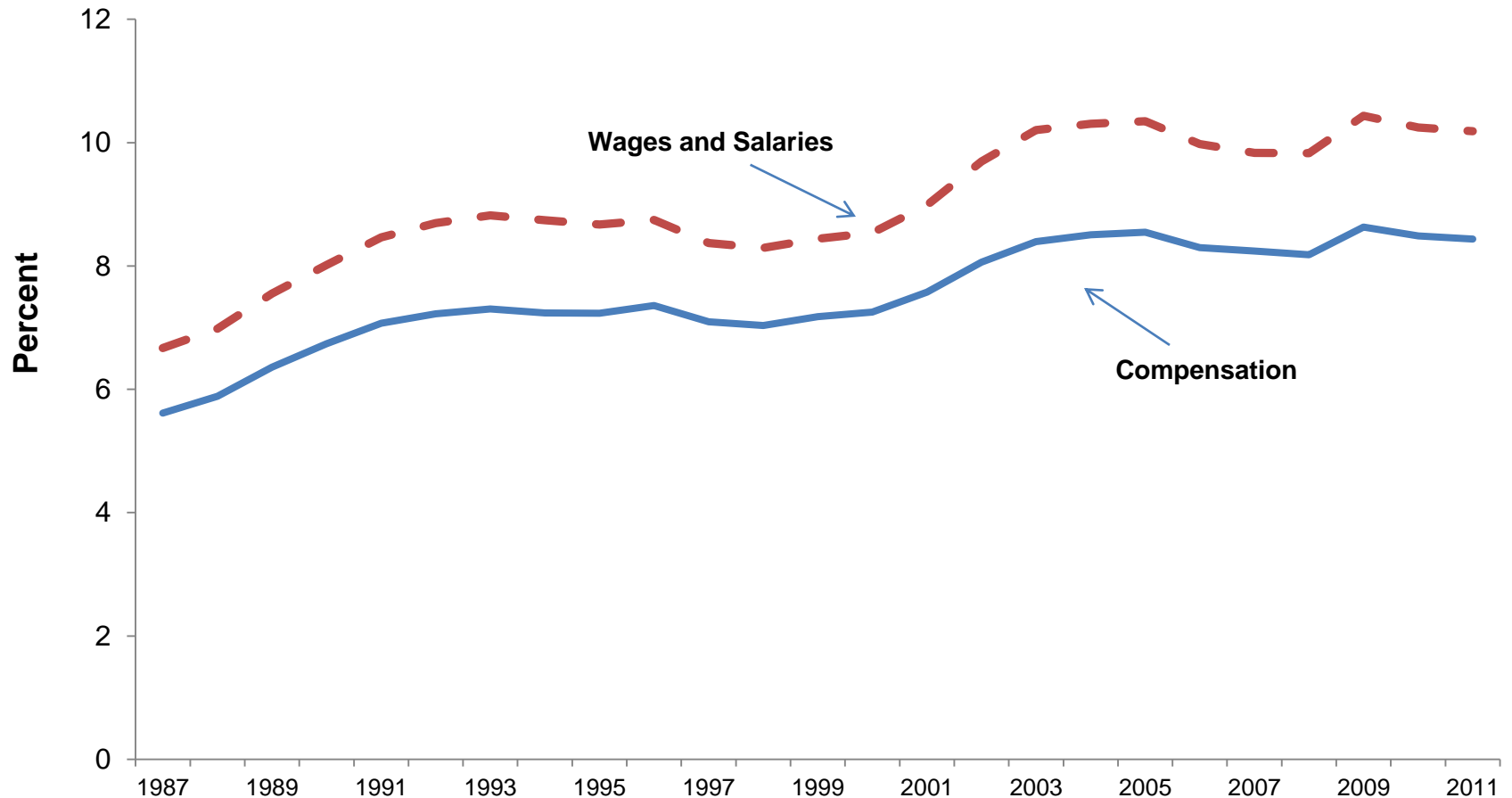
⁹ Includes maternal and child health, vocational rehabilitation, general assistance, school health, CHIP, public health activities, hospital subsidies, investment (research, structures and equipment). Also includes Part D state phase-down payments to Medicare beginning in 2006.

¹⁰ Adjustments to personal income include the addition of contributions to social insurance for Medicare, since they are included in individuals' health spending, and the exclusion of health benefit paid by government programs.

¹¹ Federal revenues are federal current receipts minus contributions for government social insurance.

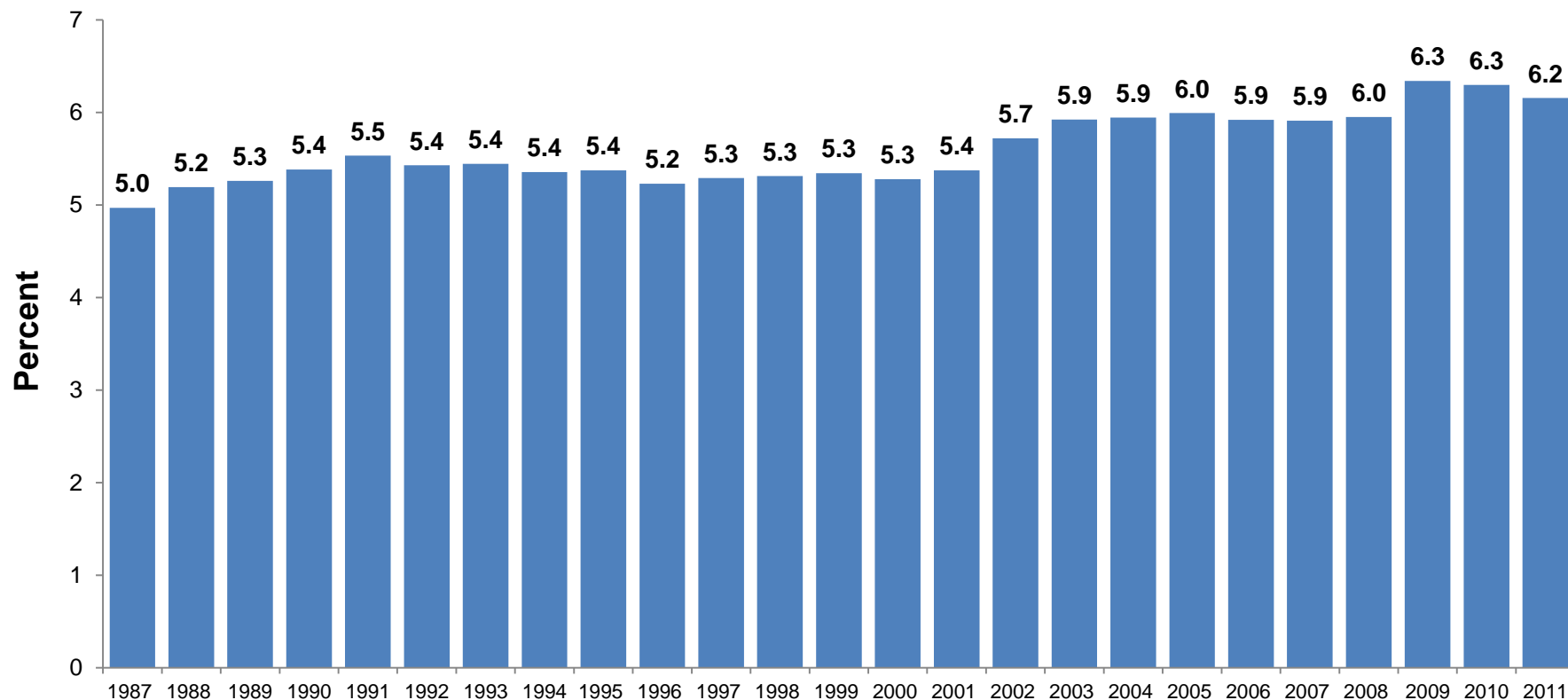
¹² State and local revenues are state and local current receipts minus contributions for government social insurance and federal grants-in-aid.

Figure 1
Business Health Spending as a Percent of Compensation and Wages and Salaries, Calendar Years 1987-2011



Sources: Centers for Medicare & Medicaid Services, Office of the Actuary: Data from the National Health Statistics Group, 1987-2011; U.S. Department of Commerce, Bureau of Economic Analysis, September 2012

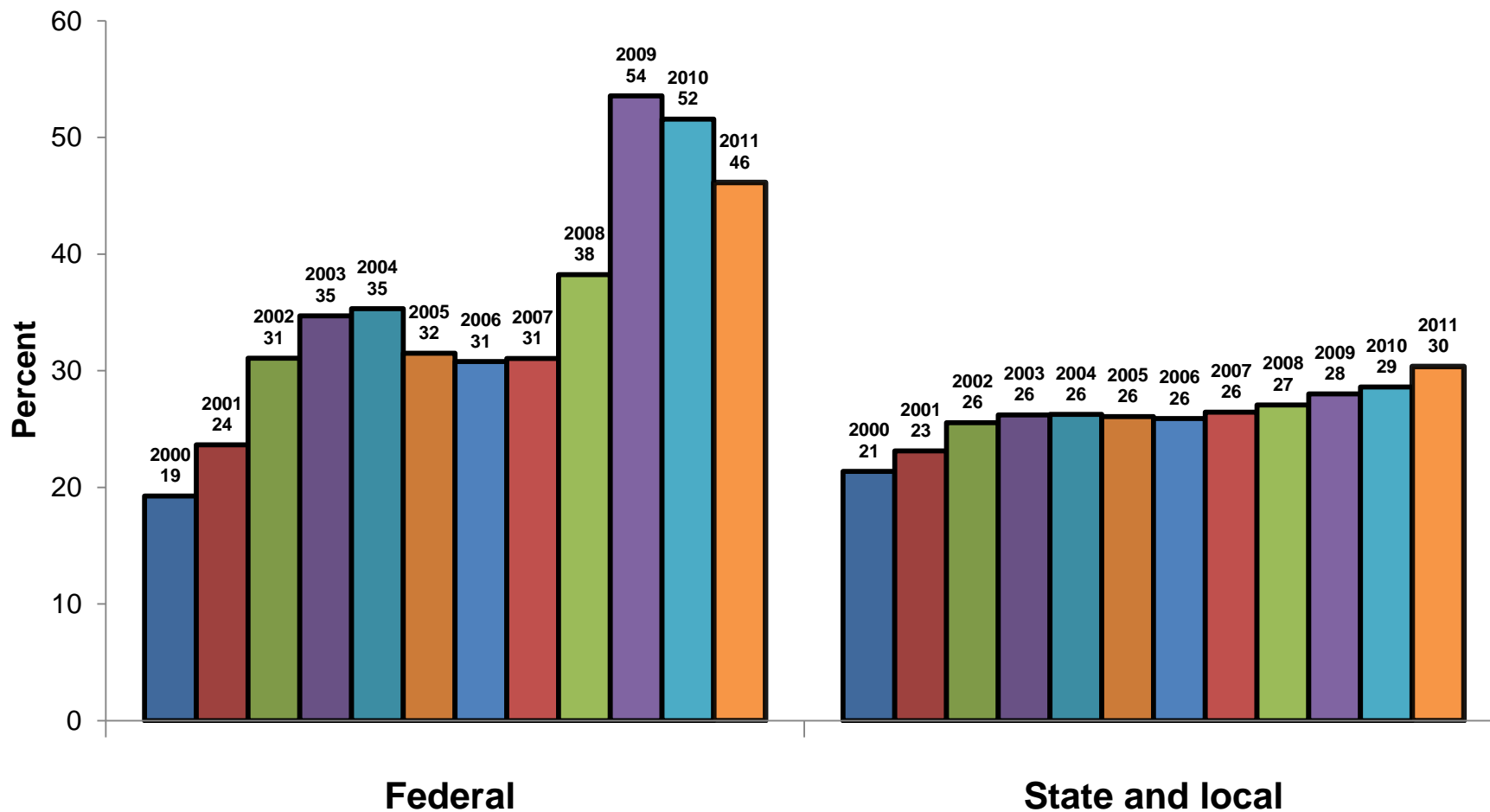
Figure 2
**Household Health Spending as a Percent of Personal Income¹,
Calendar Years 1987-2011**



¹ Adjustments to personal income include the addition of contributions to social insurance for Medicare, since they are included in individuals' health spending, and the exclusion of health benefit payments

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary: Data from the National Health Statistics Group, 1987-2011; U.S. Department of Commerce, Bureau of Economic Analysis, September 2012.

Figure 3
Government Health Spending as a Percent of Revenues,
Calendar Years 2000-2011



Sources: Centers for Medicare & Medicaid Services, Office of the Actuary: Data from the National Health Statistics Group, 1987-2011 and Bureau of Economic Analysis, September 2012.