National Health Expenditures 2020 Highlights

U.S. health care spending increased 9.7 percent to reach $4.1 trillion in 2020, a much faster rate than the 4.3 percent increase experienced in 2019. Gross Domestic Product (GDP) declined 2.2 percent in 2020, leading to a sharp increase in the share of the overall economy related to health care spending—from 17.6 percent in 2019 to 19.7 percent in 2020.

The acceleration in national health spending in 2020 was primarily due to a 36.0 percent increase in federal expenditures for health care that occurred largely in response to the COVID-19 pandemic. In 2020, most of the faster growth was not directly linked to patient care events. Rather, spending growth was driven by federal financial assistance to health care providers through the Provider Relief Fund and Paycheck Protection Program loans, increased federal public health activity, as well as increased federal Medicaid funding. The increase in federal funding among medical care providers far outweighed negative or slow growth in private health insurance and out-of-pocket spending, particularly for hospitals, physicians, and nursing homes.

When spending associated with federal public health and other federal programs (which includes the Provider Relief Fund and Paycheck Protection Program loans) is excluded, total national health expenditures increased just 1.9 percent in 2020. This was a function of less use of medical goods and services in 2020.

Although the pandemic led to economic and employment disruptions, the number of uninsured people fell slightly (by 0.6 million, or 1.9 percent). At the same time, fewer people were covered through employer-sponsored insurance, and more people had insurance through the individual market and public programs, in particular for Medicaid.

Classification of Federal COVID-19 Funding:

- New major funding sources for health care providers and for state and local governments were classified in the National Health Expenditure Accounts in part on the basis of international recommendations that considered the nature of the transactions, their policy intent, and their real effects on the health sector and the economy.
- The Provider Relief Fund ($122 billion in 2020) supplied direct federal subsidies to health care providers and is classified under “other federal programs” in the National Health Expenditure Accounts.
- Loans under the Paycheck Protection Program ($53 billion in 2020) provided funding for payroll and other eligible expenses to many health care providers and are also classified in “other federal programs”.
- Increased federal public health funding (classified under “federal public health activity”) included payments for Operation Warp Speed, strategic stockpiles of drugs and vaccines, and health facility preparedness.

Health Spending by Type of Service or Product:

- **Hospital Care (31 percent share):** Spending for hospital care services increased 6.4 percent in 2020, a similar growth rate to that of 6.3 percent in 2019, and reached $1.3 trillion. The growth in 2020 reflected a substantial amount of funding from other federal
programs (COVID-19 relief is included in this category) and faster increases in Medicaid spending.

- **Physician and Clinical Services (20 percent share):** Spending on physician and clinical services increased 5.4 percent to $809.5 billion in 2020, up from 4.2 percent growth in 2019. Like hospital care, this increase was largely due to substantial growth in funding from federal programs that provided COVID-19 relief. While total physician and clinical services spending growth accelerated, both Medicare and Medicaid expenditure growth for physician and clinical services slowed in 2020.

- **Retail Prescription Drugs (8 percent share):** Retail prescription drug spending increased 3.0 percent to $348.4 billion in 2020, a slower rate than in 2019 when spending increased 4.3 percent. The slowdown was a result of a 4.2-percent decline in out-of-pocket expenditures, which resulted from slower overall utilization and an increased use of coupons, which lower point-of-sale expenditures for consumers.

- **Other Health, Residential, and Personal Care Services (5 percent share):** This category includes expenditures for medical services that are generally delivered by providers in non-traditional settings such as schools, community centers, and the workplace, as well as by ambulance providers and residential mental health and substance abuse facilities. Spending for other health, residential, and personal care services grew 6.7 percent in 2020 to $208.8 billion, up from 2.4 percent growth in 2019. The acceleration was driven by faster growth in spending for Medicaid home and community-based waiver services and spending for residential care services.

- **Nursing Care Facilities and Continuing Care Retirement Communities (5 percent share):** Growth in spending for services provided at freestanding nursing care facilities and continuing care retirement communities accelerated in 2020, increasing 13.0 percent to $196.8 billion compared to 3.9 percent growth in 2019. The growth in 2020 was largely attributable to increased federal funding in response to the COVID-19 pandemic.

- **Dental Services (3 percent share):** Spending for dental services declined 0.6 percent in 2020 to $142.4 billion following growth of 4.2 percent in 2019. The decline in dental services expenditures was driven by decreased out-of-pocket (-11.7 percent) and private health insurance (-3.8 percent) spending, which more than offset the increased federal funding resulting from Paycheck Protection Program loans and the Provider Relief Fund.

- **Home Health Care (3 percent share):** Spending for services provided by freestanding home health care agencies increased 9.5 percent in 2020 to $123.7 billion, accelerating from growth of 7.0 percent in 2019. Growth in 2020 was driven by increased federal funding through Paycheck Protection Program loans and the Provider Relief Fund, as well as increased Medicaid home health spending. Medicare, private health insurance, and out-of-pocket payments for home health care all declined in 2020 compared to 2019.
Other Professional Services (3 percent share): Spending for other professional services reached $117.4 billion in 2020 and increased 5.6 percent, a slower rate of growth compared to the increase of 6.5 percent in 2019. Spending in this category includes establishments of independent health practitioners (except physicians and dentists) that primarily provide services such as physical therapy, optometry, podiatry, or chiropractic medicine. Despite increased federal funding in response to the COVID-19 pandemic, total other professional services’ spending growth slowed due to declines in private health insurance and out-of-pocket spending.

Other Non-durable Medical Products (2 percent share): Retail spending for other non-durable medical products, such as over-the-counter medicines, medical instruments, and surgical dressings, increased 5.7 percent to $85.7 billion in 2020 compared to a rate of 4.7 percent in 2019. Out-of-pocket spending accounted for 97 percent of total spending in this category.

Durable Medical Equipment (1 percent share): Retail spending for durable medical equipment, which includes items such as contact lenses, eyeglasses and hearing aids, declined 3.7 percent in 2020 to $54.9 billion following an increase of 4.9 percent in 2019. Both out-of-pocket spending and private health insurance expenditures for durable medical equipment declined in 2020 compared to the previous year.

Health Spending by Major Sources of Funds:

Private Health Insurance (28 percent share): Private health insurance spending decreased by 1.2 percent in 2020 to $1.15 trillion and was driven by a decline in enrollment and lower use of health care services as a result of the COVID-19 pandemic. Influenced by losses in employer-sponsored health insurance coverage, private health insurance enrollment fell by 1.7 million (-0.8 percent) and per enrollee spending declined 0.4 percent following growth of 2.3 percent in 2019. Spending attributable to the net cost of insurance, which includes administrative costs, taxes, fees, changes in reserves, and profits, increased by $21.6 billion in 2020 to reach $151.1 billion, or a 13.1-percent share of total private health insurance expenditures compared to a share of 11.1 percent in 2019.

Medicare (20 percent share): Medicare spending grew at a rate of 3.5 percent to $829.5 billion in 2020 compared to a rate of 6.9 percent in 2019. The growth in 2020 reflected the combination of a 5.3 percent decline in spending for fee-for-service expenditures (accounting for 55 percent of total Medicare expenditures) and a 17.1 percent increase in Medicare private health plan spending. Per enrollee Medicare expenditures increased 1.4 percent in 2020, slowing from 4.2 percent in 2019, as enrollment growth slowed from 2.6 percent in 2019 to 2.1 percent in 2020.

Medicaid (16 percent share): Total Medicaid spending experienced faster growth in 2020, increasing 9.2 percent to $671.2 billion compared to growth of 3.0 percent in 2019. The faster growth in 2020 was influenced primarily by increased enrollment in the program (from slight declines in both 2018 and 2019 to 5.1 percent growth in 2020).
enrollee Medicaid expenditures decelerated slightly to 4.0 percent in 2020 from 4.6 percent in 2019.

- **Out-of-Pocket (9 percent share):** Out-of-pocket spending declined by 3.7 percent in 2020 to $388.6 billion after an increase of 4.4 percent in 2019. The decrease was driven by lower use of services, a reduction in the number of uninsured, and a changing mix of services in 2020.

**Health Spending by Type of Sponsor**

- In 2020, the federal government and households accounted for the largest shares of national health spending (36 percent and 26 percent, respectively), followed by private businesses (17 percent), state and local governments (14 percent), and other private revenues (7 percent).

- Federal government spending increased rapidly at 36.0 percent in 2020 compared to growth of 5.9 percent in 2019. The acceleration was largely driven by spending for the Provider Relief Fund and Paycheck Protection Program loans, increased spending for federal public health activity, and growth in the federal portion of Medicaid payments. Growth in federal Medicaid payments was largely attributable to a 6.2 percentage-point increase in the federal medical assistance percentage resulting from the Families First Coronavirus Response Act of 2020.

- Households experienced slower health care expenditure growth in 2020, increasing 1.1 percent after growth of 4.4 percent in 2019. Out-of-pocket spending (a 36-percent share of household expenditures) and households’ contributions to employer-sponsored health insurance premiums (a 27-percent share) were the largest contributors to the deceleration.

- Growth in state and local government health care spending declined 3.1 percent in 2020 after increasing 1.7 percent in 2019. The decrease in 2020 was driven by a 7.0 percent decline in state and local Medicaid spending (a 36 percent share of state and local spending).

- Spending on health care by private businesses declined 3.1 percent in 2020 after increasing 3.8 percent in 2019. The largest share of private business’ health spending was contributions to employer-sponsored private health insurance premiums (a 76 percent share), which declined 3.6 percent in 2020 after a 4.1 percent increase in 2019.

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1 Type of sponsor is defined as the entity that is ultimately responsible for financing the health care bill, such as private businesses, households, and governments. These sponsors pay health insurance premiums and out-of-pocket costs, or finance health care through dedicated taxes and/or general revenues.