

Health Care Spending Growth Ebbbed for 2003, But Still Outpaced Economic Growth, CMS Reports

Growth in total health care spending slowed in 2003 for the first time in seven years, according to a report from the Centers for Medicare & Medicaid Services (CMS) Office of the Actuary. Health expenditures grew by 7.7 percent for the year, down from a rate of 9.3 percent in 2002.

While the rate at which health care costs grew for 2003 moderated compared with increases in the six years prior, grow they did nonetheless--at a rate almost three percentage points higher than economic growth, the report finds. Health care expenditures accounted for \$1.7 trillion or 15.3 percent of the gross domestic product in 2003. On a per capita (individual) basis, health spending was \$5,670, an increase of \$353.

Decelerated growth in hospital spending, which comprises the largest chunk of overall health expenditures, drove the slowdown in overall 2003 health spending growth. Hospital spending grew 6.5 percent for the year, compared with 8.5 percent the prior year. For freestanding home health agencies, spending grew by 8.5 percent in 2003, up from 7.5 percent in 2002.

According to the report, all the growth in home health spending came from the private sector. Legislation cut Medicare home health payments by 7 percent, and a 10 percent home health rural add-on also expired, so that Medicare spending growth for home health dropped from 14.7 percent in 2002 to 9.9 percent in 2003. An enacted 5 percent Medicare rural add-on is still in effect, but only until the end of March; efforts have begun in Congress to extend this add-on.

In the public payer sector, the Medicare and Medicaid programs together funded (in nearly equal part) one-third of the nation's health spending for 2003, according to the report. Medicaid spending was \$267 billion, and Medicare spending was \$283 billion. Public sector health spending slowed "significantly," from 9.7 percent in 2002 to 6.6 percent in 2003, largely driven by less growth in Medicaid spending and the expiry of supplemental funding provisions under the Balanced Budget Refinement Act of 1999 (BBRA) and the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA). BBRA was enacted to mitigate some of the "unintended consequences" of the Balanced Budget Act of 1997 (BBA), which exacted a severe toll on home care and hospice.

Meanwhile, overall private sector payer spending (including private health insurers and individuals' out-of-pocket expenditures) was less changed for 2003. The report finds private sector spending growth was 8.6 percent, down only 0.4 percent from 9.0 percent growth in 2002. Private health insurance premiums rose 9.3 percent in 2003, compared with 10.7 percent in 2002. Notably, individuals' out-of-pocket spending grew at a higher rate in 2003, 7.6 percent, than it had the previous year, 6.0 percent.

CMS maintains that a number of initiatives it has undertaken in recent years have helped contain health care costs. Department of Health & Human Services (HHS) Sec. Tommy Thompson said in a release that "we have more to do before we can declare victory over rising health care costs."

Many would consider such a victory far off indeed. Rising health care costs, particularly in Medicaid, top the list of concerns and budgetary challenges for states, according to a report from the National Governors Association (NGA) and the National Association of State Budget Officers. NGA recently sent a letter urging the Bush Administration and Congress to enact Medicaid reform rather than cuts to the program through budget reconciliation efforts.