



Federal Share of U.S. Health Spending Rises Faster Than Private

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By Ellen Gibson



Jan. 5 (Bloomberg) -- Federal spending on medical programs grew almost twice as fast as the total spent on health care in the U.S. in 2008, a pattern aided by Medicare subsidies to private insurers.

Medicare and Medicaid, the government health programs for elderly, disabled and poor residents, cost the federal government 8 percent more in 2008 than in 2007, according to the report from the Centers for Medicare & Medicaid Services, the U.S. agency in charge of the programs. Spending on health care by government, businesses and consumers grew 4.4 percent to \$2.3 trillion, according to the report published today in the health- policy journal **Health Affairs**. Federal payments made up more

than one-third of the total, the highest level in two decades.

Former Federal Reserve Chairman **Alan Greenspan** has warned that spending on medical care may crowd out investment in other areas of the economy and worsen the federal budget deficit. **President Barack Obama** and lawmakers seeking to overhaul health care say the proposed changes will rein in **medical costs** and reduce the budget deficit.

Increases in national health spending "continue to outpace growth in the resources available to pay for it," said the report from the Baltimore-based Centers for Medicare & Medicaid Services. "Monitoring the drivers of health-care spending growth will continue to be an important aspect of meeting the nation's health-care needs with the limited resources available in an uncertain fiscal future."

Greenspan told Congress last month that committing more resources to health-care services may hurt the broader economy. "Ever-rising medical services will eventually strain the physical capacity of our economy," he said Dec. 17 to the Senate Homeland Security and Government Affairs Committee.

Recession Spending

Constrained by the recession, the 4.4 percent rise in health spending in 2008 was the slowest annual growth since 1960, when federal agency began measuring annual spending on health-care products and services. Health costs still increased faster than the economy as a whole last year, climbing to 16.2 percent of the U.S. gross domestic product.

Stagnating incomes, falling employment and lower enrollment in private health plans run by companies such as Philadelphia- based Cigna Corp. and Aetna Inc. based in Hartford, Connecticut, curtailed private spending growth in 2008, according to the report.

Health insurance benefits and premiums grew at their slowest rate since 1967. According to the **U.S. Department of Labor** in Washington, 2.6 million jobs were lost in 2008. That led to a decline in enrollment in private insurance plans, Micah Hartman, the report's lead author, said yesterday in a press briefing.

Consumers Cut Back

Consumers also curbed their medical expenditures. Out-of- pocket payments on insurance co-pays, deductibles, and procedures not covered rose 2.8 percent in 2008, compared with 6 percent in 2007. Personal spending on prescription drugs fell. People may have "forgone some medical treatment" and chosen not to fill prescriptions,

according to the report.

Total **Medicare outlays** rose to \$470 billion in 2008, more than double what they were in 2000. Increased hospital admissions helped drive up Medicare expenses, the report says. Government spending on hospitalizations rose 7.7 percent, compared with 4.7 percent in 2007.

More seniors also shifted from the traditional Medicare plan to **Medicare Advantage** programs offered through private insurers, the report said. The U.S. government pays the insurer a set amount per month for each Medicare Advantage beneficiary. According to the Medicare Payment Advisory Commission, the government spends more on average for the Advantage plans, which offer extra benefits such as dental or vision care that aren't part of traditional Medicare.

Prescription Drugs

Spending on drugs under Medicare Part D rose more than 12 percent in 2008 from 2007, compared with a 3.2 percent increase in U.S. spending on prescription drugs, the report said.

Federal spending on Medicaid, the program for the low-income, grew by 8.4 percent, the highest rate since 2003, the report said. This surge resulted from the \$7 billion increase in federal matching funds for state and local health expenditures, provided by the American Recovery and Reinvestment Act of 2009.

The increases in the Medicare and Medicaid outlay raise questions about whether the federal government can bear the added costs imposed by health care reform, said Michael Cannon, director of health policy studies at the Cato Institute, a research foundation that supports libertarian policies. The House and Senate overhaul bills expand Medicaid coverage to more people and require the federal government to pay for many of the newly covered at least through 2014.

The Senate bill includes a proposed \$120 billion in cuts to the Medicare Advantage program to finance medical coverage for uninsured Americans. Without significant reform, Medicare and Medicaid expenditures are projected to exceed 10 percent of gross domestic product by 2040, according to the U.S. Government Accountability Office.

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