



Issue Brief December 2009

Health Care Spending

by country, state, and payer



ISSUE BRIEF

Experts on all sides of the health reform debate agree that the current rate of growth in health care spending is unsustainable and ultimately damaging to the economy and the health system alike. Patients experience this stress in a more personal way, through rising out-of-pocket costs or by struggling to get the care they need. Most agree that measures to control health care costs are essential to health reform if we are to have a financially sustainable health care system. There is less agreement, however, on how to accomplish this while maintaining—not to speak of improving—quality, access, and consumer satisfaction.

To enact reforms that have a positive impact on health care costs, we must first understand how and where we are spending our health care dollars today. This issue brief provides an overview of health care spending in the U.S., comparing U.S. spending to the rest of the world, Michigan spending to other U.S. states, and spending by payer (Medicare, Medicaid, and commercial).

The Center for Healthcare Research & Transformation (CHRT) illuminates best practices and opportunities for improving health policy and practice. Based at the University of Michigan, CHRT is a non-profit partnership between U-M and Blue Cross Blue Shield of Michigan designed to promote evidence-based care delivery, improve population health, and expand access to care.

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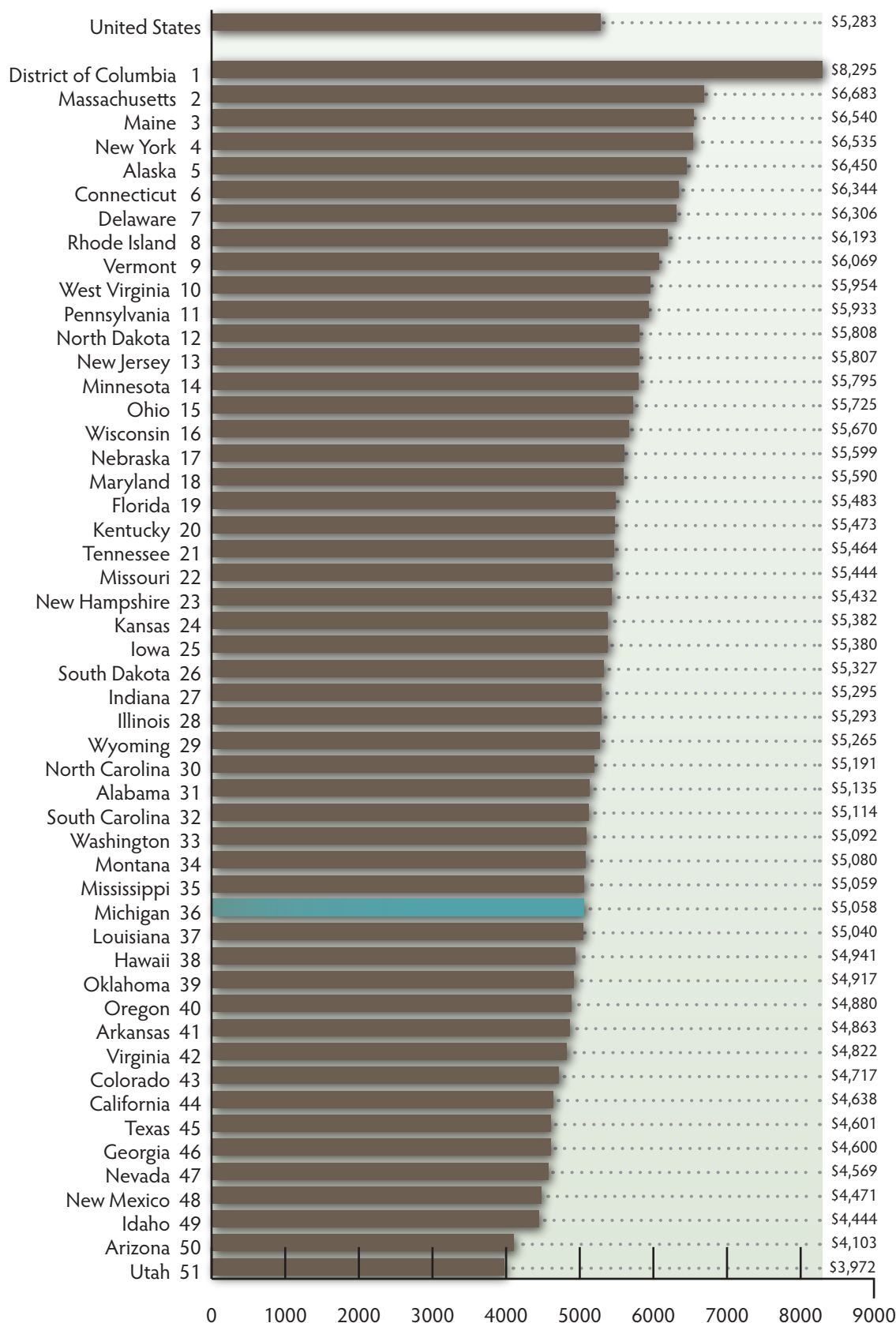
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Overview of Health care Spending in the U.S. and Michigan

Figure 1: Per Capita Personal Health Care Expenditures, by State of Residence, 2004



The U.S. spends more on health care than any other country in the world as a percentage of gross domestic product (GDP). In 2004 (the most recent year for which comparative data are available) the percent of GDP spent on health care in the U.S. was 15.2 percent, 33 percent higher than the next highest spending country (Switzerland).¹

As a state, Michigan spent 13.5 percent of gross state product (GSP) on personal health care in 2004, similar to the national average of 13.3 percent. In 2004, personal health care spending in the U.S. \$1.6 trillion; Michigan spent \$49.6 billion on personal health care in 2004.²

At \$5,058, Michigan ranks 36th in the country on per capita spending on health care – lower than the national average of \$5,283 (Figure 1).

¹ OECD Health Data, 2008, Organisation for Economic Co-operation and Development. Note: The OECD uses total health care expenditures to make spending comparisons on a per capita basis. Total health care expenditures include personal health care expenditures plus government administration, public health activities, research, and capital expenditures.

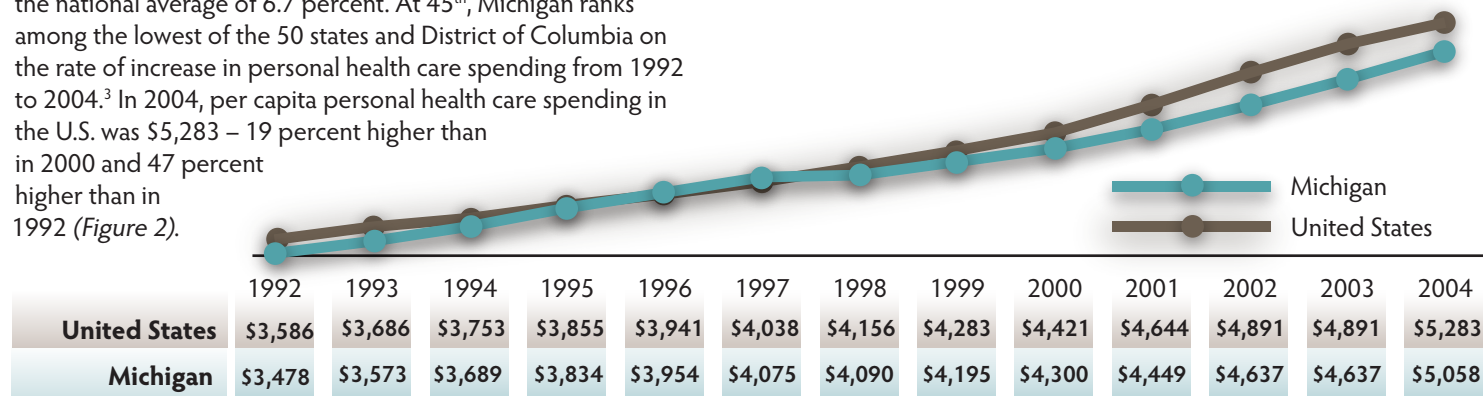
² National Health Expenditure Data, Health Expenditures by State of Provider, 1980-2004, Centers for Medicare and Medicaid Services, Office of the Actuary. Note: NHEA uses personal health care expenditures (a subset of total health care expenditures) to calculate state spending figures. Total health care expenditures include personal health care expenditures plus government program administration, public health activities, research, and capital expenditures.

Source: National Health Expenditure Data, Health Expenditures by State of Residence, 1992-2004, Centers for Medicare and Medicaid Services, Office of the Actuary.

Growth in Health Care Spending, U.S. and Michigan

Since 1992, Michigan's average annual rate of increase in personal health care spending has been 5.8 percent, significantly below the national average of 6.7 percent. At 45th, Michigan ranks among the lowest of the 50 states and District of Columbia on the rate of increase in personal health care spending from 1992 to 2004.³ In 2004, per capita personal health care spending in the U.S. was \$5,283 – 19 percent higher than in 2000 and 47 percent higher than in 1992 (Figure 2).

Figure 2: Per Capita Personal Health Care Expenditures, Real Dollars (inflation-adjusted), 1992-2004



³ National Health Expenditure Data, Health Expenditures by State of Provider, 1980-2004, Centers for Medicare and Medicaid Services, Office of the Actuary.

▲ **Source:** Calculations based on National Health Expenditure Data, Health Expenditures by State of Residence, 1992-2004, Centers for Medicare and Medicaid Services, Office of the Actuary

Spending by Location of Services, U.S. and Michigan

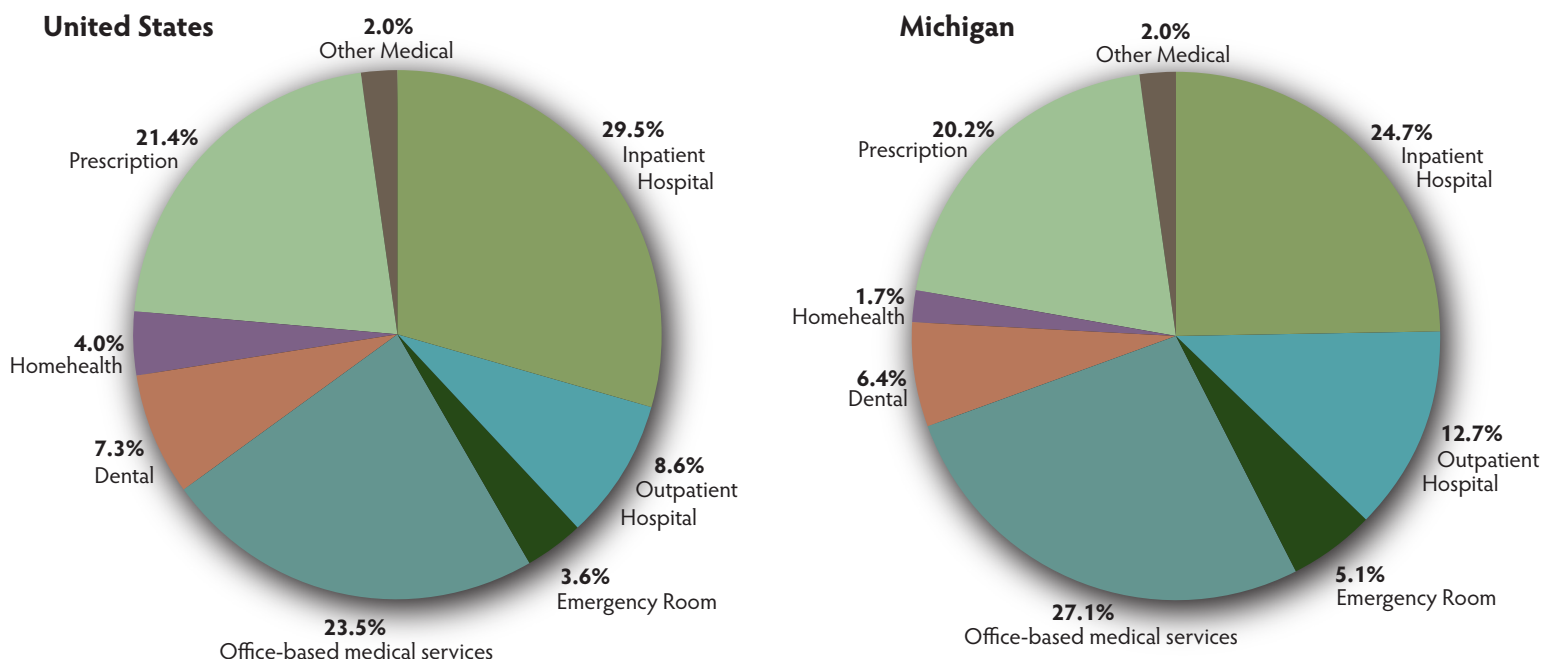
In Michigan and the U.S., more than one-third of personal health care spending went for care in a hospital setting, and medical office visits accounted for more than one-quarter (Figure 3). Prescription drugs, while accounting for a lower share, have been one of the fastest-growing components⁴.

In 2007, Michigan ranked somewhat lower than the national average in expenses per hospital day at 28th in the country.⁵

⁴ CMS: National Health Expenditure Accounts, Historical

⁵ American Hospital Association Survey, 2007. Copyright 2009 by Health Forum LLC, an affiliate of AHA. Special Data request by Kaiser Family Foundation.

Figure 3: Distribution of Personal Health Care Expenditures by Place of Service, 2006

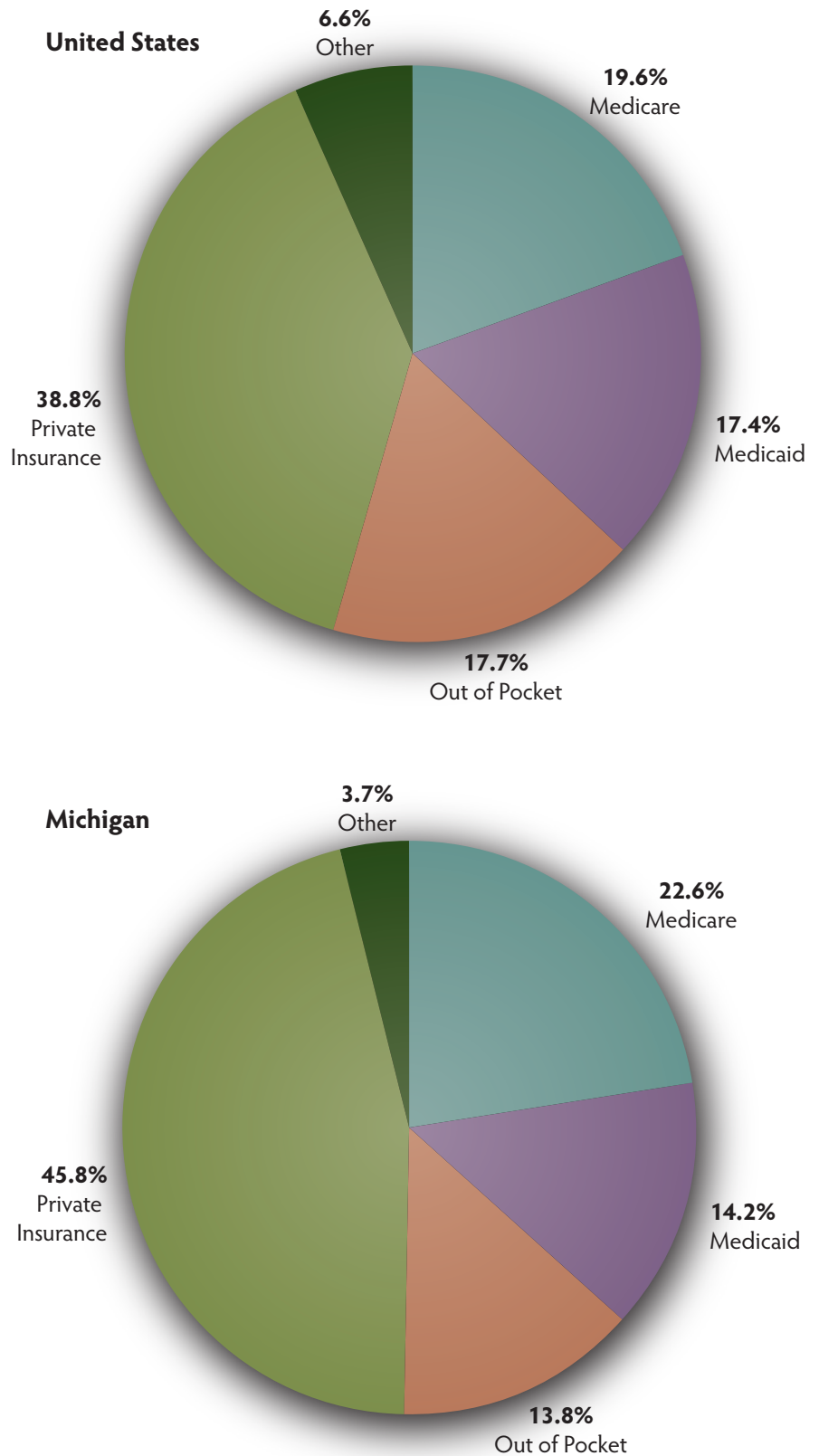


▲ **Source:** Medical Expenditure Panel Survey, 2006

Personal Health Care Spending by Payer

In 2004, combined Medicaid and Medicare spending accounted for more than one in three health care dollars spent in the United States. While spending through private insurance accounted for just less than 40 percent of health care spending in the U.S., in Michigan that number was more than 46 percent, reflecting Michigan's relatively high rate of private coverage. Nationally, "out of pocket" (consumer) payments accounted for 18 percent of spending, while in Michigan – largely because of the greater contribution of private insurance – out of pocket payments represented a smaller portion of spending at 14 percent.

Figure 4: Personal Health Care Expenditures by Coverage Type, U.S. and Michigan, 2004

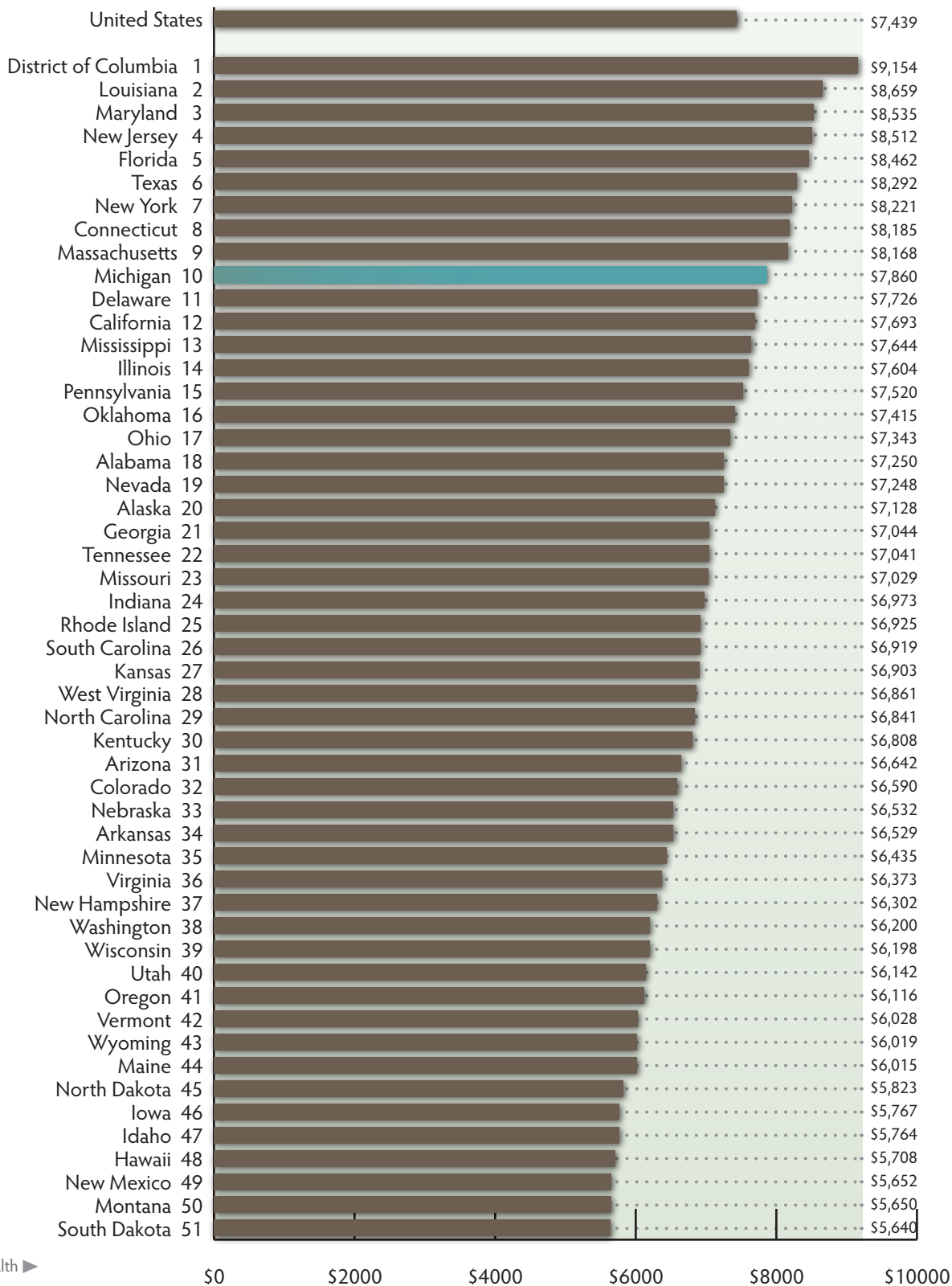


Source: National Health Expenditure Accounts by State of Provider, 2004 and Medical Expenditure Panel Survey, 2004. Note: "Other" includes Veterans' Affairs, Indian Health Service, on-site employee health services, and other similar programs.

Public Funds: Medicare

In 2004, per capita spending for Medicare in Michigan was higher than the national average – \$7,860 compared to \$7,439 for the U.S. overall – making Michigan the 10th highest state in Medicare spending. In 2004, per capita spending for Medicare among all states ranged from \$5,640 to \$9,154.

Figure 5: State Comparisons, Medicare Spending per Enrollee, 2004

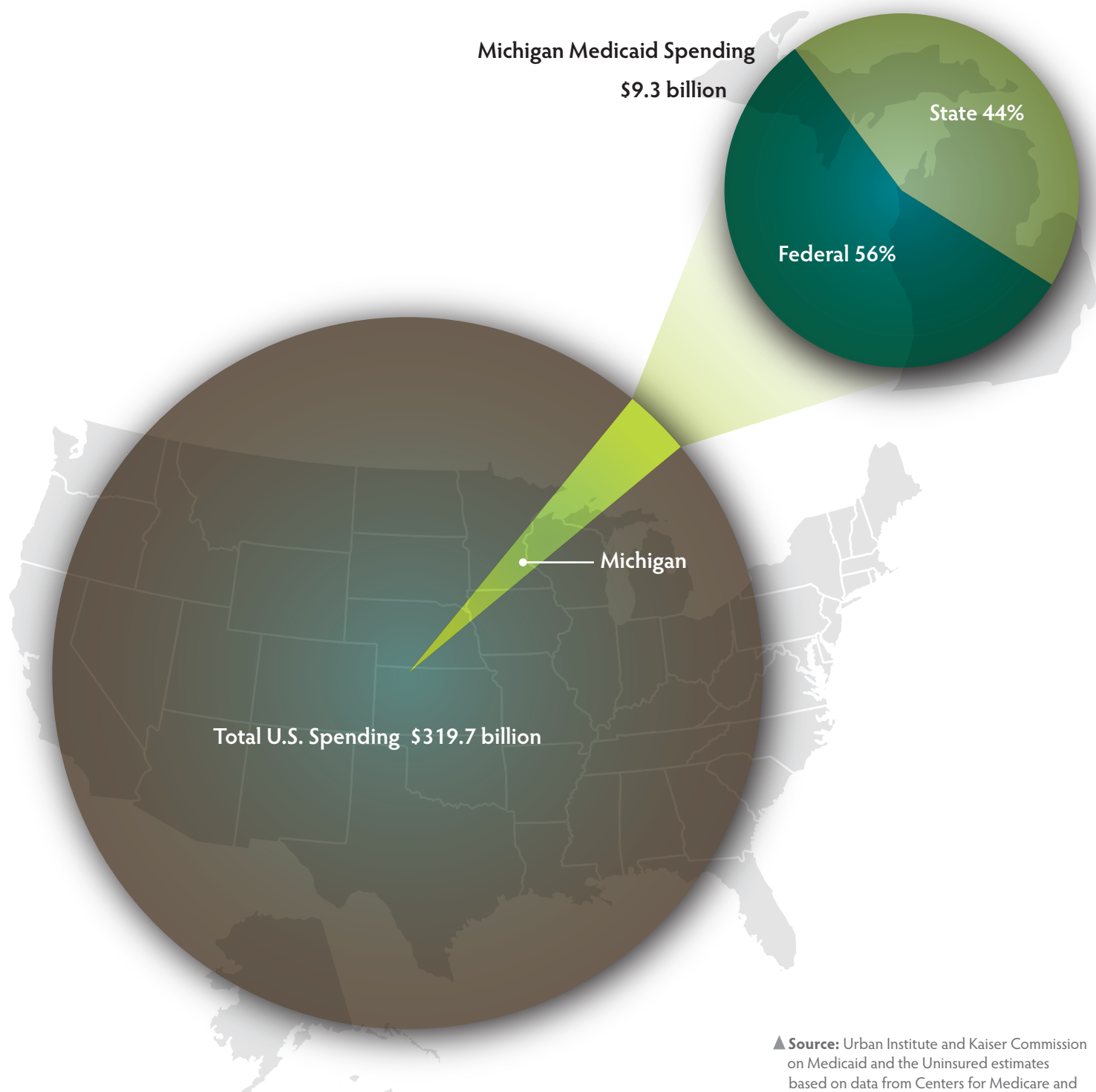


Source: Health Expenditure Data, Health Expenditures by State of Residence, Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group

Public Funds, Medicaid

In 2007, total U.S. spending for Medicaid was \$319.7 billion. At \$9.3 billion, Michigan Medicaid spending represented 2.9 percent of the U.S. total, with 56 percent financed by the federal government and the remaining 44 percent financed by the state.

Figure 6: Total Medicaid Spending, FY 2007, and Distribution of Michigan Share, FY 2007



Medicaid Spending: State Comparisons

There is significant variation in Medicaid spending among states. In 2006, the range was from \$2,206 to \$8,484 per enrollee. In 2006, Michigan was at \$4,199, slightly lower than the U.S. average of \$4,575.⁶

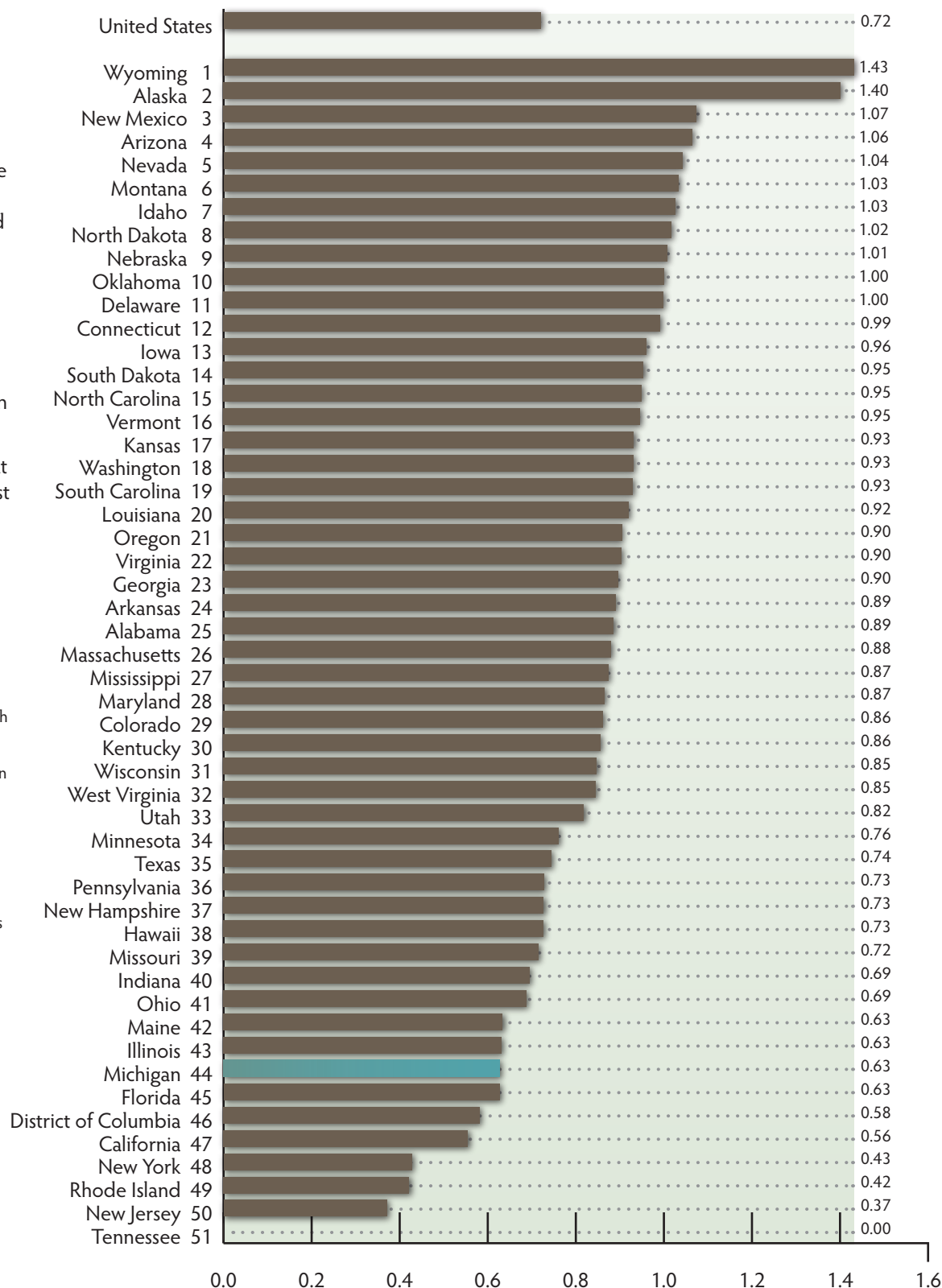
There are many reasons for the differences in state spending levels. Eligibility, benefits, and reimbursement policies all vary by state. The Medicaid-to-Medicare physician fee index (Figure 7) removes the effect of eligibility and benefit variations and looks only at differences in physician payments.⁷

The data in this chart show that Michigan has one of the lowest rates of Medicaid payments to physicians in the country, ranking 44th.

⁶ Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on data from Centers for Medicare and Medicaid Services-64 reports, March 2009.

⁷ The Medicare to Medicaid physician fee index measures each state's Medicaid physician fees relative to national average Medicare fees. A ratio greater than 1.0 indicates that state's physician fees are greater than the national average; a ratio lower than 1.0 reflects less generous payments.

Figure 7: State Comparisons, Medicaid-to-Medicare Physician Fee Index, All Services, 2008



▲ **Source:** Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on data from Centers for Medicare and Medicaid Services-64 reports, March 2009.

Spending Comparisons: BCBSM⁸, Medicare⁹, and Medicaid¹⁰

While spending data for all commercial payers were not available for Michigan or the U.S., Blue Cross Blue Shield of Michigan (BCBSM) provided data for this report that offer a comparative perspective on the commercially insured population.

Per capita spending by private insurance varies from Medicare and Medicaid spending given the different demographics of the covered populations. Medicaid

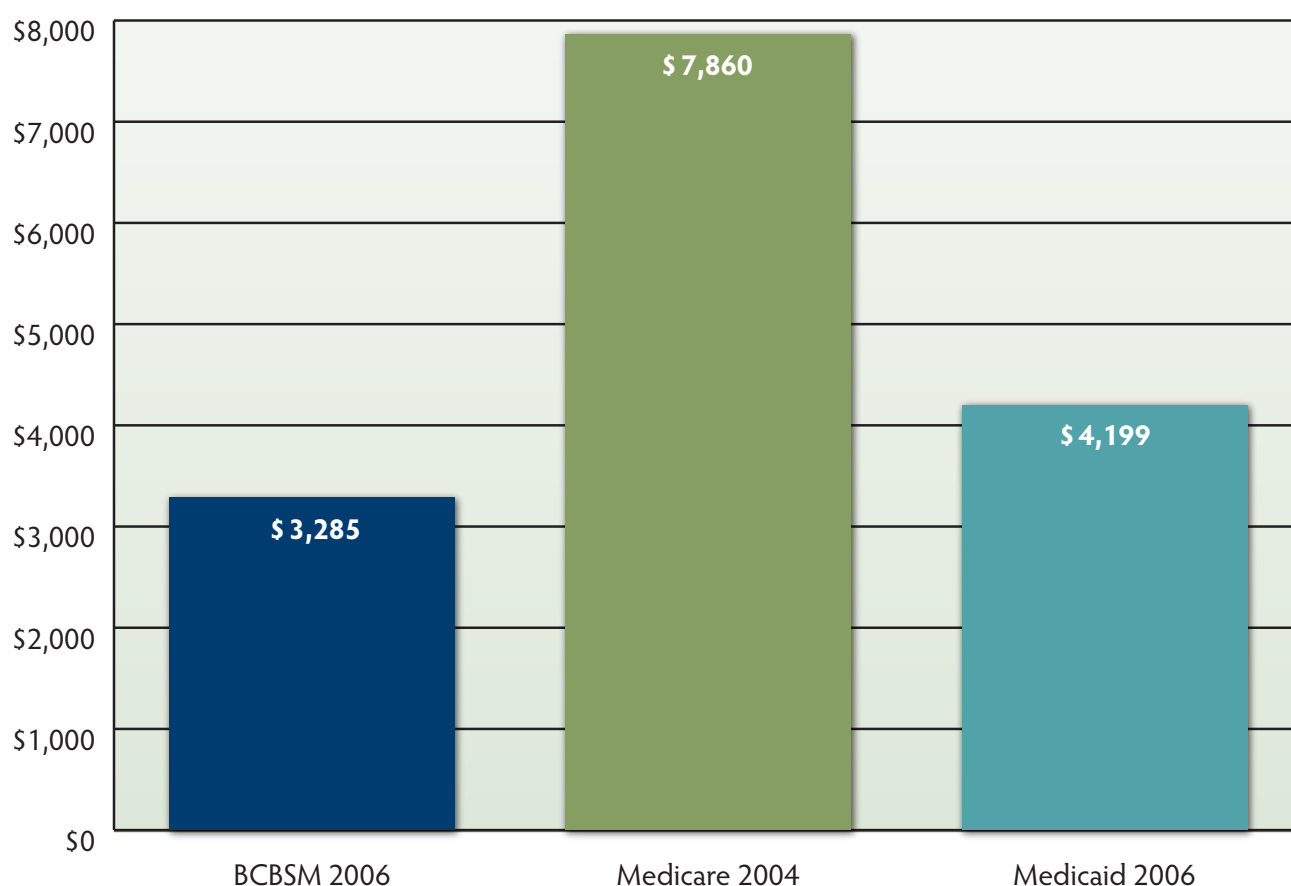
spending is heavily weighted toward the elderly and disabled populations; Medicare spending is primarily focused on those 65 years and older.

⁸ Blue Cross Blue Shield of Michigan, Special Data Request, August 2009. Administrative and medical expenditures; excludes member liability.

⁹ National Health Expenditure Data, Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group.

¹⁰ Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on data from Centers for Medicare and Medicaid Services-64 reports, March 2009.

Figure 8: Average Spending Per Enrollee in Michigan: BCBSM, Medicare, Medicaid



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