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Health Spending Exceeded Record \$2 Trillion in 2006

By ROBERT PEAR

WASHINGTON — National health spending soared above \$2 trillion for the first time in 2006 and has nearly doubled in the last decade, amounting to an average of \$7,000 a person, the government reported on Monday.

With the advent of a prescription drug benefit in 2006, Medicare spending grew at its fastest pace since 1981, the report said.

Private health insurance spending grew at the slowest rate since 1997, and spending on Medicaid, which covers low-income people, declined for the first time since creation of the program in 1965.

Over all, the report said, health spending increased 6.7 percent in 2006, slightly faster than in 2005, and now accounts for 16 percent of the total output of good and services, a slightly larger share than in 2005.

Introducing the Medicare drug benefit for older Americans and people with disabilities caused changes that rippled through the entire health care sector.

Health spending by businesses grew 5.7 percent in 2006, to \$496.8 billion, the slowest rate of increase since 1997.

Aaron C. Catlin, an economist at the Health and Human Services Department, said the “deceleration in employer payments for private health insurance” resulted, in part, from the fact that Medicare now subsidized drug costs for many retirees.

Employers lobbied for such subsidies when Congress created the benefit.

Retail spending on prescription drugs shot up 8.5 percent in 2006, to \$216.7 billion, in part because more prescriptions were filled by Medicare beneficiaries, especially those lacking drug coverage in the past.

The increase was much greater than the 5.8 percent increase in 2005, but well below the average increase of 13.4 percent a year from 1995 to 2004.

Other factors that drove up drug spending included the use of existing drugs for new purposes and the increased use of high-cost biotechnology products, the report said.

National health spending first exceeded \$1 trillion in 1995. Since then, even when adjusted for inflation, health spending has grown at a rapid clip, increasing 64 percent in 11 years.

The data, published in the journal Health Affairs, showed that spending on hospitals, doctors and nursing homes grew more slowly in 2006 than in 2005. But administrative costs increased more than twice as fast.

One reason is that private insurance companies have a larger role in Medicare, and they typically have higher administrative costs than the traditional fee-for-service Medicare program, federal health economists said.

Medicare spending increased 18.7 percent in 2006, to \$401.3 billion, while spending on Medicaid, which is jointly financed by the federal government and the states, declined 1 percent, to \$310.6 billion.

The new drug benefit contributed to an overall increase in drug spending and a profound shift in who pays. Public programs accounted for 34 percent of retail drug spending in 2006, up from 28 percent in 2005.

Medicare's share of drug spending surged, to 18 percent in 2006, from 2 percent in the previous year, while Medicaid's share fell to 9 percent, from 19 percent.

Mr. Catlin, the economist, said most of the decline in Medicaid spending had occurred because drug costs for six million people shifted to Medicare from Medicaid.

The decline also reflects the fact that some states restricted eligibility for Medicaid and froze or reduced payments to health care providers. Enrollment in Medicaid grew two-tenths of 1 percent in 2006, the smallest increase since 1998, the report said.

Private insurers, which manage the drug benefit for Medicare, negotiate discounts with pharmaceutical companies. The discounts were generally smaller than those provided under Medicaid, the report said.

The growth of drug spending in 2006 would have been even higher but for the increased use of generic drugs and the emergence of drug-discount programs at big retailers like Wal-Mart, the report said.

In 2006, the figures show 63 percent of prescriptions were filled with generics, an increase from 56 percent in 2005.

Analyzing trends over the last two decades, federal researchers found that government programs were paying a larger share of health costs, while households were paying a smaller share and private businesses were paying about the same proportion, 25 percent.

Despite the attention paid to pharmaceuticals, retail drug spending accounts for just over 10 percent of all health spending.

Spending for doctors' services grew 5.9 percent in 2006, to \$447.6 billion. This was the slowest rate of growth since 1999 and reflected constraints imposed by Medicare and private insurers.

Spending on nursing homes also grew at the slowest pace since 1999, rising 3.5 percent, to \$124.9 billion.