Healthcare spending growth slowed in 2016

Private health insurance continues to be the largest payer for healthcare goods and services, accounting for just over one-third of total spending.

Susan Morse, Senior Editor

Healthcare spending grew at a slower rate in 2016 than during the previous two years, according to new analysis released Wednesday by the Office of the Actuary for the Centers for Medicare and Medicaid Services.

In 2016, U.S. healthcare spending grew at a rate of 4.3 percent to $3.3 trillion. This compares to spending increases of 5.1 percent in 2014 and 5.8 percent in 2015.

Spending growth in 2016 was more in line with the rate of 4.2 percent from 2008 to 2015.

The slower growth is primarily due to decelerated spending for retail prescription drugs, hospital care, and on physician and clinical services, according to the Office of the Actuary report.
Spending growth also fell among the three major payers: private health insurance, Medicare and Medicaid.

The last time there was a spending drop of this type was in 2010, when there was a decrease in the three areas of goods and services - retail prescription drugs, hospital care, and physician and clinical services, CMS said.

This is the first time in memory CMS has witnessed a slowdown in goods and services spending, and among the three major payers.

For private health insurance and Medicaid, the slower growth was influenced by decelerated enrollment growth, while Medicare spending slowed because of lower enrollment increases due to defections to Medicare Advantage plans.

Medicare Advantage now makes up a third of all Medicare enrollment. This means slower growth in fee-for-service Medicare spending as MA is value-based.

CMS said it didn't have details on how other value-based models such as bundled payments have played a part in slower healthcare spending increases.

The numbers are in comparison to 2014 and 2015, CMS said, which saw major enrollment through Medicaid expansion and individual health insurance through the Affordable Care Act. Also, those years, saw rapid spending growth for retail prescription drugs.

Last year, diabetic drug cost decelerated due to prices for insulin drugs through Medicare. There was also a decline in spending for drugs to treat hepatitis C.

Fewer drugs were introduced in 2016 and there was a slower growth in prices for both brand-name and generic drugs.

Retail prescription drug spending increased 1.3 percent in 2016, compared to rates of 12.4 and 8.9 percent respectively for 2014 and 2015.

Expenditures reached $328.6 billion and represented 10 percent of overall health spending, similar to the share in 2009.
Physician and clinical services spending rose by 5.4 percent, slowing from a growth rate of 5.9 percent in 2015.

Total physician and clinical services expenditures reaching $664.9 billion, or 20 percent of overall healthcare spending in 2016.

Spending growth of 8.2 percent for clinical services outpaced the 4.6 percent growth in spending for physician services for the 12th consecutive year, the report said.

The growth in clinical services was driven primarily by continued strong spending for freestanding ambulatory surgical and emergency centers.

Hospital spending increased by 4.7 percent, reaching $1.1 trillion and representing 32 percent of overall healthcare spending.

This is a slowdown from the 5.7 percent growth in expenditures for hospital care in 2015. The reflects a decrease in the use and intensity of services, due to slower enrollment growth. This was partly offset by faster growth in hospital prices, which accelerated slightly from 0.9 percent in 2015 to 1.2 percent in 2016.

Private health insurance spending grew by 5.1 percent and reached $1.1 trillion in 2016, slower than the 6.9 percent growth in 2015. This was mainly due to slower growth in enrollment and retail prescription drugs and a shift to higher deductible plans.

On a per enrollee basis, private health insurance spending increased 5.1 percent in 2016, about the same as the 5 percent in 2015.

Private health insurance continued to be the largest payer for health care goods and services in the U.S. in 2016, accounting for just over one-third of total healthcare spending.

Medicare spending grew 3.6 percent, reaching $672.1 billion and accounting for 20 percent of total health care expenditures. This compares to a growth rate of 4.8 percent in 2015.

Spending per Medicare enrollee increased at a slower rate in 2016, 0.8 percent compared to 2.1 percent in 2015.
Medicaid accounts for 17 percent of total national health expenditures. This is slower than the 9.5 and 11.5 percent rates respectively, in 2015 and 2014, both due to the initial impact of Medicaid expansion.

On a per enrollee basis, Medicaid spending increased 0.9 percent compared to 4.5 percent in 2015, which reflects increased efforts by states to control costs, a decline in supplemental payments to hospitals, and a decrease in per enrollee costs for newly eligible adults.

Medicaid goods and services spending decelerated in 2016, with the exception of nursing care facilities and continuing care retirement communities.

Despite the slower growth in 2016, healthcare spending still increased faster than the rate of growth for gross domestic product. The share of the economy devoted to healthcare increased from 17.7 percent in 2015 to 17.9 percent in 2016.

On a per capita basis, national health spending grew at 3.5 percent, reaching $10,348 in 2016.

Changes in the age and gender mix of the population accounted for 0.6 percent of the growth. Increases in medical prices accounted for 1.4 percent, while growth in the use and intensity of healthcare goods and services accounted for the remaining 1.6 percent.

"Over the last decade, the U.S. has experienced unique events that have affected the healthcare sector, including the most severe economic recession since the Great Depression, major changes to the healthcare system because of the ACA, and historic lows in medical price inflation," said Micah Hartman, a statistician in the Office of the Actuary at CMS and lead author of the study published in Health Affairs.

The study will also appear in the January 2018 issue of Health Affairs and is part of an ongoing series on health spending in the Health Affairs blog.