

National Health Expenditures 2012 Highlights

In 2012 U.S. health care spending increased 3.7 percent to reach \$2.8 trillion, or \$8,915 per person, the fourth consecutive year of slow growth. The share of the economy devoted to health spending decreased from 17.3 percent in 2011 to 17.2 percent in 2012, as the Gross Domestic Product increased nearly one percentage point faster than health care spending at 4.6 percent.

Health Spending by Type of Service or Product: Personal Health Care

- **Hospital Care:** Hospital spending increased 4.9 percent to \$882.3 billion in 2012 compared to 3.5-percent growth in 2011. The accelerated growth in 2012 was influenced by growth in both prices and non-price factors (which include the use and intensity of services). Growth in spending from Medicare, Medicaid, and private health insurance hospital spending all accelerated in 2012 compared to 2011.
- **Physician and Clinical Services:** Spending on physician and clinical services increased 4.6 percent in 2012 to \$565.0 billion, from 4.1-percent growth in 2011. Although growth in prices slowed slightly in 2012, non-price factors such as the use and intensity of services increased faster in 2012. Growth in spending from private health insurance and Medicare, the two largest payers of physician and clinical services, experienced diverging trends in 2012. Private health insurance spending for physician and clinical services grew at a faster pace, while Medicare spending decelerated slightly in 2012.
- **Other Professional Services:** Spending for other professional services reached \$76.4 billion in 2012, increasing 4.5 percent and about the same rate as in 2011 (4.6 percent) . Spending in this category includes establishments of independent health practitioners (except physicians and dentists) that primarily provide services such as physical therapy, optometry, podiatry, and chiropractic medicine.
- **Dental Services:** Spending for dental services increased 3.0 percent in 2012 to \$110.9 billion, faster than in 2011 when growth was 2.2 percent. Out-of-pocket spending for dental services (which accounted for 42 percent of all dental spending) increased 3.9 percent in 2012, following growth of 3.1 percent in 2011.
- **Other Health, Residential, and Personal Care Services:** Spending for other health, residential, and personal care services grew 4.5 percent in 2012 to \$138.2 billion, an acceleration from growth of 3.3 percent in 2011. This category includes expenditures for medical services that are generally delivered by providers in non-traditional settings such as schools, community centers, the workplace, ambulance providers, and residential mental health and substance abuse facilities.
- **Home Health Care:** Spending growth for freestanding home health care agencies accelerated in 2012, increasing 5.1 percent to \$77.8 billion following growth of 4.1 percent in 2011. Medicare and Medicaid spending accounted for approximately 81 percent of total home health care spending in 2012. Medicare spending grew at a faster rate in 2012 while Medicaid spending slowed.
- **Nursing Care Facilities and Continuing Care Retirement Communities:** Spending for freestanding nursing care facilities and continuing care retirement communities increased 1.6 percent in 2012 to \$151.5 billion, a deceleration from growth of 4.3 percent in 2011. The slower growth in 2012 was primarily due to a reduction in Medicare spending due to a one-time rate adjustment for skilled nursing facilities.

- **Prescription Drugs:** Retail prescription drug spending slowed in 2012, growing 0.4 percent to \$263.3 billion, compared to 2.5-percent growth in 2011. The low growth in 2012 was driven largely by a slowdown in overall prices paid for retail prescription drugs, as numerous blockbuster drugs lost patent protection in late 2011 and 2012, and generic versions of those drugs became available.
- **Durable Medical Equipment:** Retail spending for durable medical equipment reached \$41.3 billion in 2012, and increased 5.6 percent in 2012, the same rate of growth as in 2011. Spending in this category includes items such as contact lenses, eyeglasses and hearing aids.
- **Other Non-durable Medical Products:** Retail spending for other non-durable medical products, such as over-the-counter medicines, medical instruments, and surgical dressings grew 1.8 percent to \$53.7 billion in 2012. This was a slower rate of growth than in 2011, when spending grew 3.0 percent.

Health Spending by Major Sources of Funds:

- **Medicare:** Medicare spending, which represented 20 percent of national health spending in 2012, grew 4.8 percent to \$572.5 billion, a slight slowdown from growth of 5.0 percent in 2011. A one-time payment reduction to skilled nursing facilities in 2012, after a large increase in payments in 2011 due to implementation of a new payment system contributed to the slower growth.
- **Medicaid:** Total Medicaid spending grew 3.3 percent in 2012 to \$421.2 billion, an acceleration from 2.4-percent growth in 2011. The relatively low annual rates of growth in Medicaid spending in 2011 and 2012 can be explained in part by slower enrollment growth tied to improved economic conditions and efforts by states to control health care costs. Federal Medicaid expenditures decreased 4.2 percent in 2012, while state and local Medicaid expenditures grew 15.0 percent—a result of the expiration of enhanced federal aid to states in the middle of 2011.
- **Private Health Insurance:** Overall, premiums reached \$917.0 billion in 2012, and increased 3.2 percent, near the 3.4 percent growth in 2011. The net cost ratio for private health insurance —the difference between premiums and benefits as a share of premiums —was 12.0 percent in 2012 compared with 12.4 percent in 2011. Private health insurance enrollment increased 0.4 percent to 188.0 million in 2012, but still 9.4 million lower than in 2007.
- **Out-of-Pocket:** Out-of-pocket spending grew 3.8 percent in 2012 to \$328.2 billion, an acceleration from growth of 3.5 percent in 2011, reflecting higher cost-sharing and increased enrollment in consumer-directed health plans.

Health Spending by Type of Sponsor¹:

- In 2012, households accounted for the largest share of spending (28 percent), followed by the federal government (26 percent), private businesses (21 percent), and state and local governments (18 percent).
- The federal government financed 26 percent of total health spending in 2012, a slight decrease from 27 percent in 2011. The reduction in the federal share reflects the expiration in June 2011 of enhanced federal funding from the American Recovery and Reinvestment Act of 2009.
- The share of the health care bill financed by state and local governments increased from 17 percent in 2011 to 18 percent in 2012. This increased share of spending was due to states no longer receiving additional aid from the federal government in the form of enhanced matching rates.

- The remaining sponsors of health care maintained constant shares between 2011 and 2012—households (28 percent), private businesses (21 percent), and other private revenues (7 percent).

¹ Type of sponsor is defined as the entity that is ultimately responsible for financing the health care bill, such as a private business, household, or government. These sponsors pay insurance premiums, out-of-pocket costs, or finance health care through dedicated taxes or general revenues.