

SECTION 6

Health Care Spending

This section provides an overview of health care spending in California and the United States. Specifically, the section includes trend data on total expenditures per capita for health care services (known as personal health care expenditures) and expenditures per Medicare and Medicaid enrollee. Also included is data on expenditures by type of service (hospital, physician, drugs, etc.) and spending by type of service for Medicare and Medicaid. Trend data on personal health care expenditures as a percent of Gross State Product and Gross Domestic Product, and State health care expenditures as a share of total state expenditures, are included.

Exhibit 6.1

Per Capita Personal Health Care Expenditures

Personal health care expenditures (spending for health care services) in 1998 totaled \$112 billion in California and \$1.016 trillion in the United States as a whole. Per capita personal health care spending rose in both California and the United States between 1991 and 1998, though California's total increase (27%) and average annual increase (3.5%) were lower than in the United States (40% and 4.9%, respectively). Except for 1991, per capita expenditures were lower in California compared to the United States throughout the time period; in 1998, personal health care expenditures in California averaged \$3,429 per capita compared to \$3,759 per capita in the United States. (Exhibit 6.1a)

The annual rates of change in per capita personal health care expenditures in both California and the United States declined from 1992 to 1994 and then remained fairly constant through 1997, with California's rates remaining below those of the United States. However, in 1998, the California rate of increase (5.0%) rose sharply and exceeded that of the United States (4.2%). In 1992, the rates of change in California and the United States were over twice that of the consumer price index, but in 1994 the California rate fell below the CPI and remained there until 1998, when the increase in California was 3 times greater than the CPI. (Exhibit 6.1b)

While overall personal health care expenditures per capita were lower in California compared to the United States in 1998 (\$3,429 vs. \$3,759), Medicare expenditures per enrollee were higher (\$5,947 vs. \$5,506). The largest difference between personal health care expenditures in California and the United States was for Medicaid expenditures, which in California were half that of the United States (\$2,866 vs. \$5,032). (Exhibit 6.1c)

Medicare personal health care expenditures per Medicare enrollee grew annually in both California and the United States between 1991 and 1998, but increased more slowly in California (47%) than in the United States (60%). Throughout this time period, Medicare per enrollee health care expenditures were consistently higher in California than the United States; in 1998, California Medicare expenditures averaged \$5,947 per enrollee, compared to \$5,506 in the United States. (Exhibit 6.1d)

Exhibit 6.1 (Continued)

Per Capita Personal Health Care Expenditures

Medicaid personal health care expenditures per Medicaid enrollee grew between 1991 and 1998, but at a lower rate in California (37%) than in the United States (41%). Throughout this time period, Medicaid per enrollee spending was consistently lower in California (California spending was about one-half to two-thirds of per enrollee spending in the United States). In 1998, California spending averaged \$2,866 per enrollee, compared to \$5,032 in the United States. (Exhibit 6.1e)

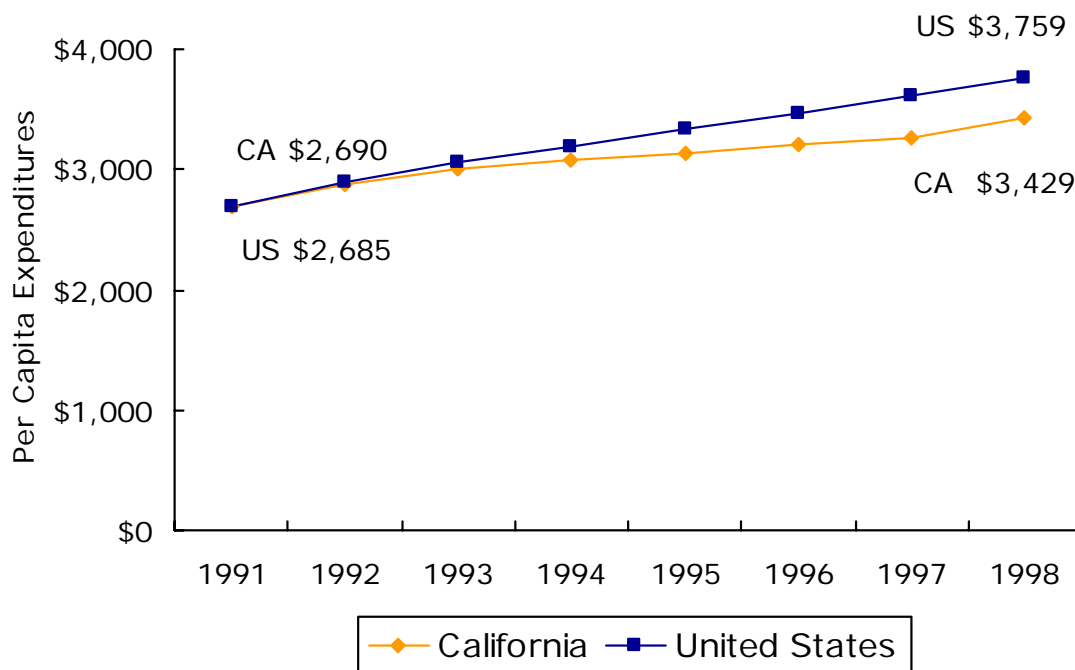
In 1998, California's per capita spending was lower than United States per capita spending for all types of services except Physicians/Other Professional Services (Hospital services were 19% lower; Drugs, 21% lower; Nursing Homes, 47% lower; Home Health, 44% lower). Physician/Other Professional Services per capita spending was 22% higher in California than in the United States. California's per capita Physician spending was higher than its per capita spending for any other service. The average annual percent growth from 1991-1998 for these health services was typically lower in California than in the United States, except for Nursing Homes. (Exhibit 6.1f)

In 1998, California's highest Medicare expenditures per enrollee were for Hospitals, followed by Physicians, Nursing Homes, Home Health, and Drugs. California Medicare spending was higher than spending in the United States for Hospitals, Physicians, and Drugs, and lower for Nursing Homes and Home Health. The average annual percent growth from 1991-1998 was typically lower in California than in the United States. (Exhibit 6.1g)

In 1998, California's highest Medicaid expenditures per enrollee were for Hospitals, followed by Physicians, Drugs, Nursing Homes, Home Health, and Other Professional Services. California Medicaid spending was lower than spending in the United States for all service types, especially Nursing Homes where California spending represented one-quarter of the United States total. The average annual percent growth from 1991-1998 was typically lower in California except for a large growth in Home Health (65.1%), and Physicians (5.0%). (Exhibit 6.1h)

Exhibit 6.1a

Trends in Personal Health Care Expenditures Per Capita, California and the United States, 1991-1998

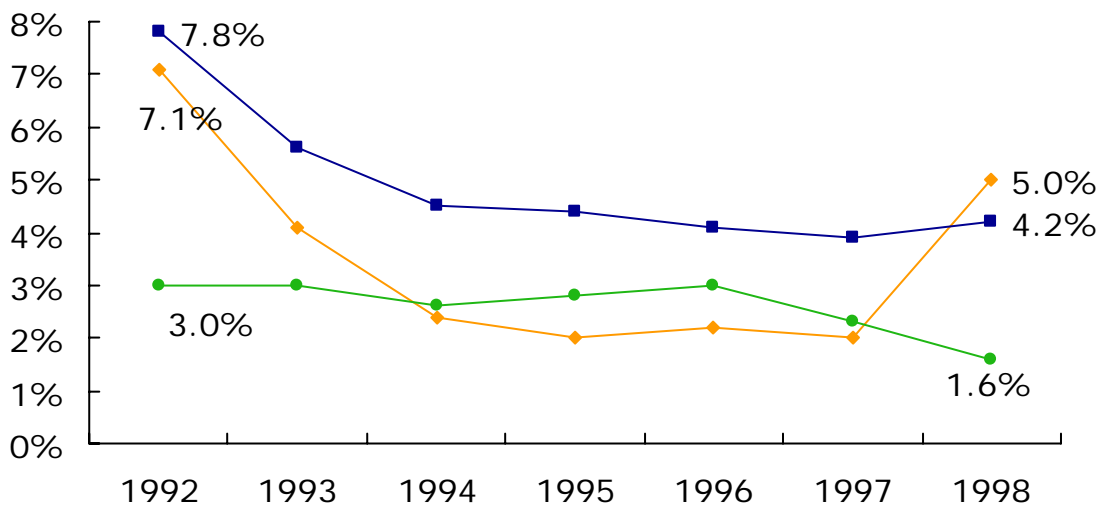


Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence/.

Exhibit 6.1b

Annual Change in Personal Health Care Expenditures Per Capita and the CPI, California and the United States, 1992-1998



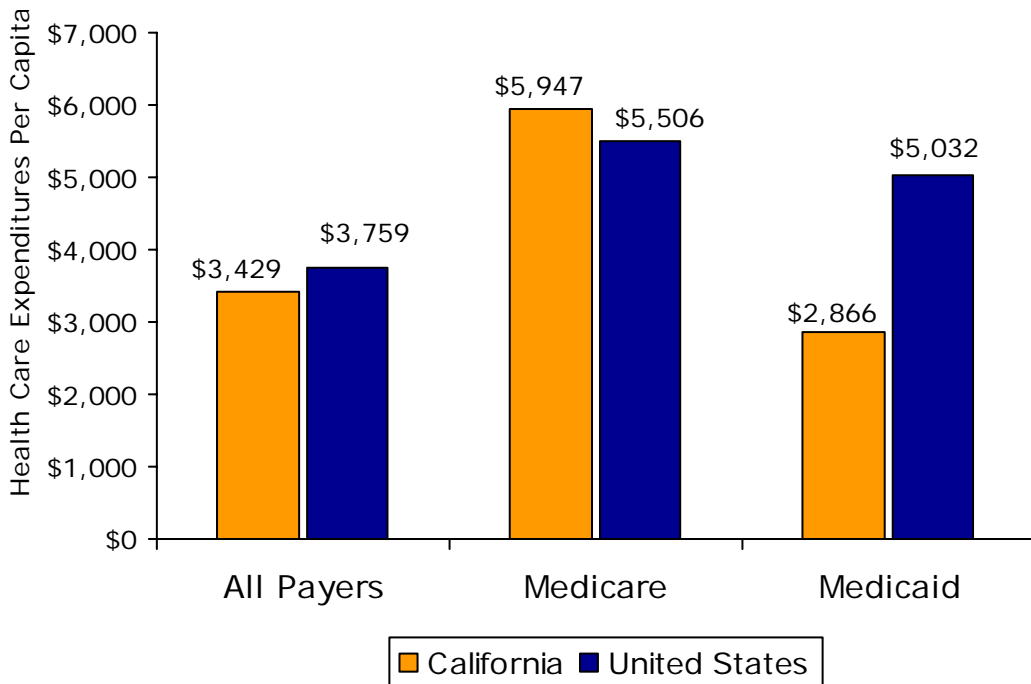
—◆— Annual Change in California Personal Health Care Expenditures Per Capita
—■— Annual Change in U.S. Personal Health Care Expenditures Per Capita
—●— Annual Change in U.S. Consumer Price Index (All Urban Consumers, All Items)

Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, [www.cms.hhs.gov/statistics/nhe/state-estimates-residence/\(CA and US data\)](http://www.cms.hhs.gov/statistics/nhe/state-estimates-residence/(CA%20and%20US%20data)). U.S. Department of Labor, Bureau of Labor Statistics, <ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt> (CPI data).

Exhibit 6.1c

Personal Health Care Expenditures Per Capita, by Source of Payment, California and the United States, 1998

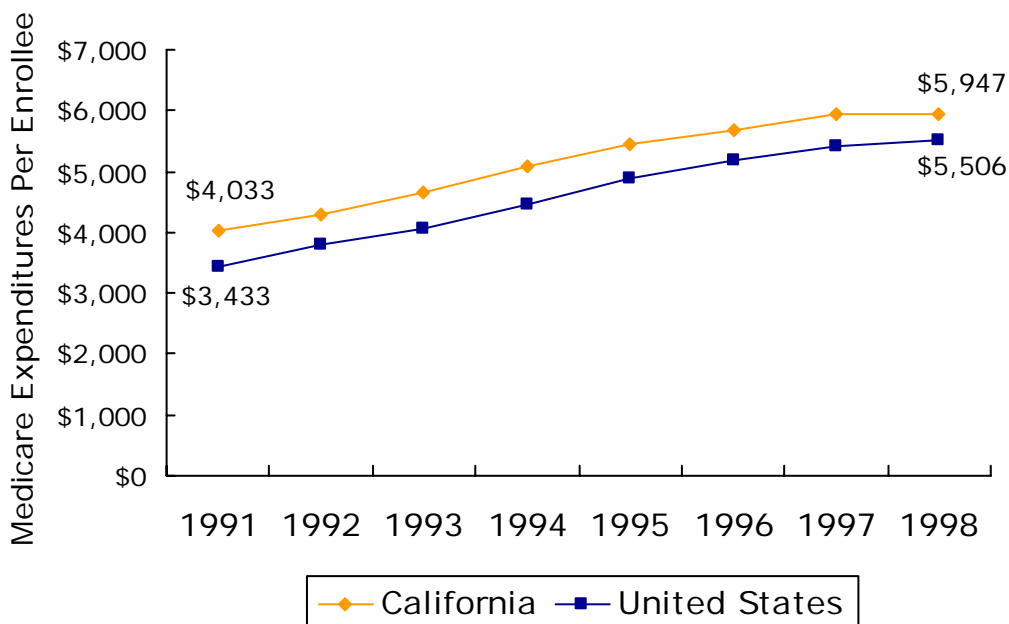


Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence/.

Exhibit 6.1d

Trends in Medicare Personal Health Care Expenditures Per Enrollee, California and the United States, 1991-1998

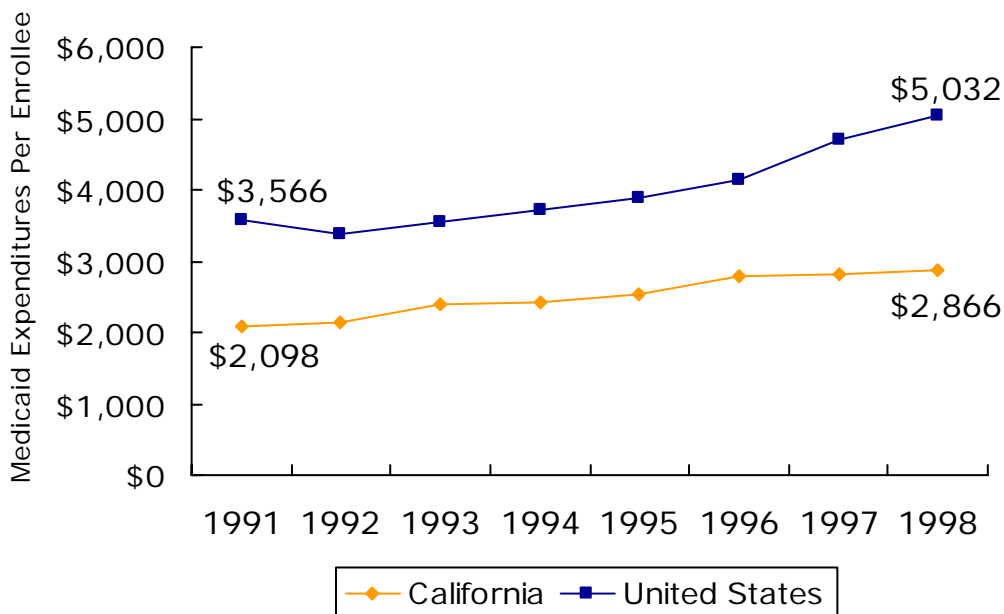


Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence/.

Exhibit 6.1e

Trends in Medicaid Personal Health Care Expenditures Per Enrollee, California and the United States, 1991-1998

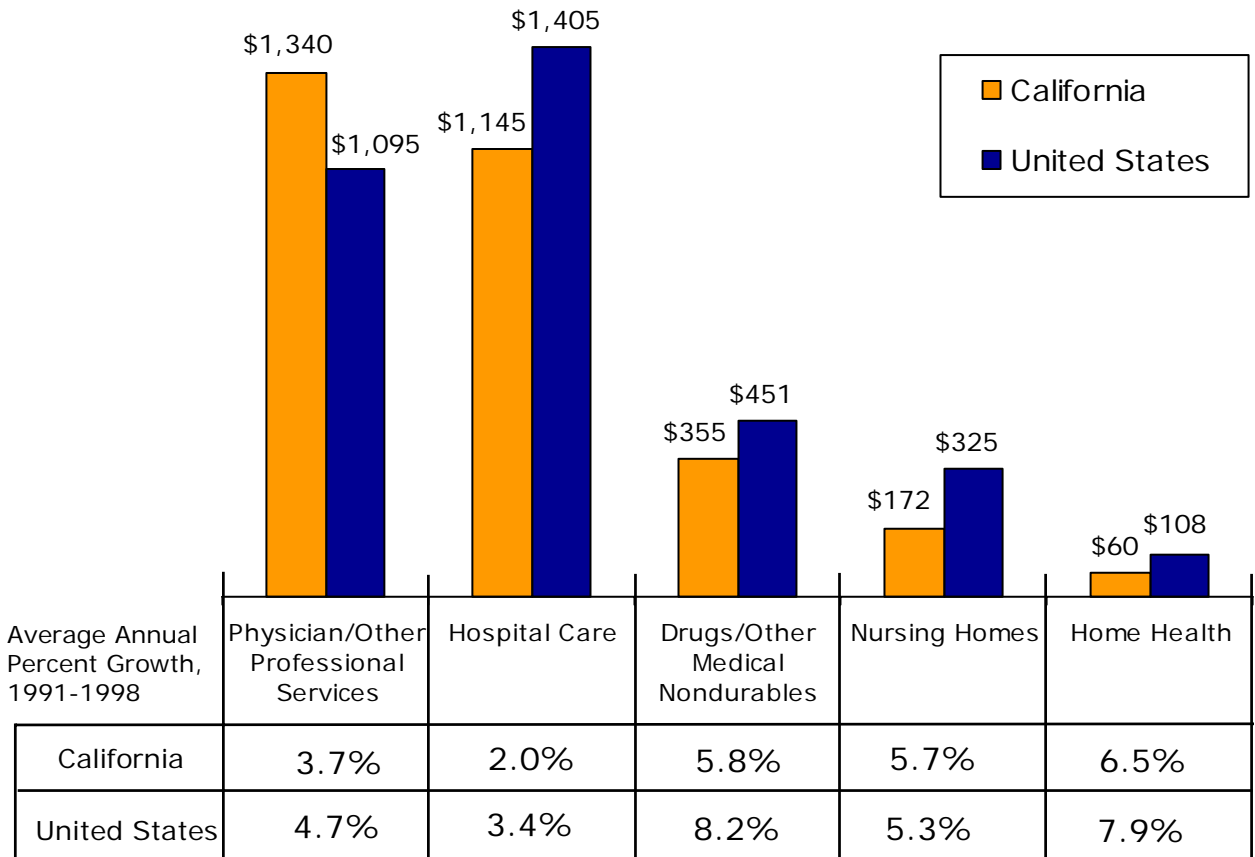


Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence/.

Exhibit 6.1f

Per Capita Health Care Spending by Type of Service in 1998, and Average Annual Percent Growth, 1991-1998, California and the United States

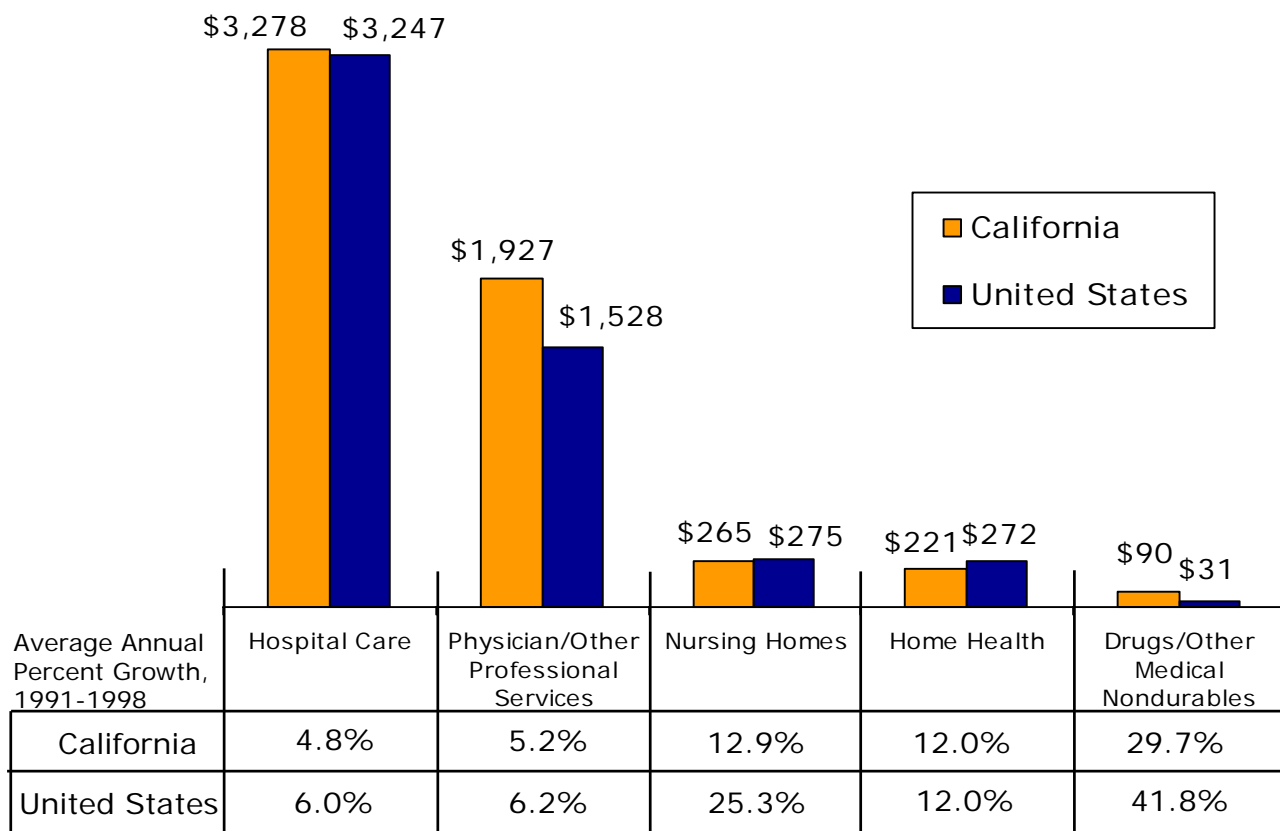


Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence .

Exhibit 6.1g

Per Enrollee Medicare Health Care Spending by Type of Service in 1998, and Average Annual Percent Growth, 1991-1998, California and the United States

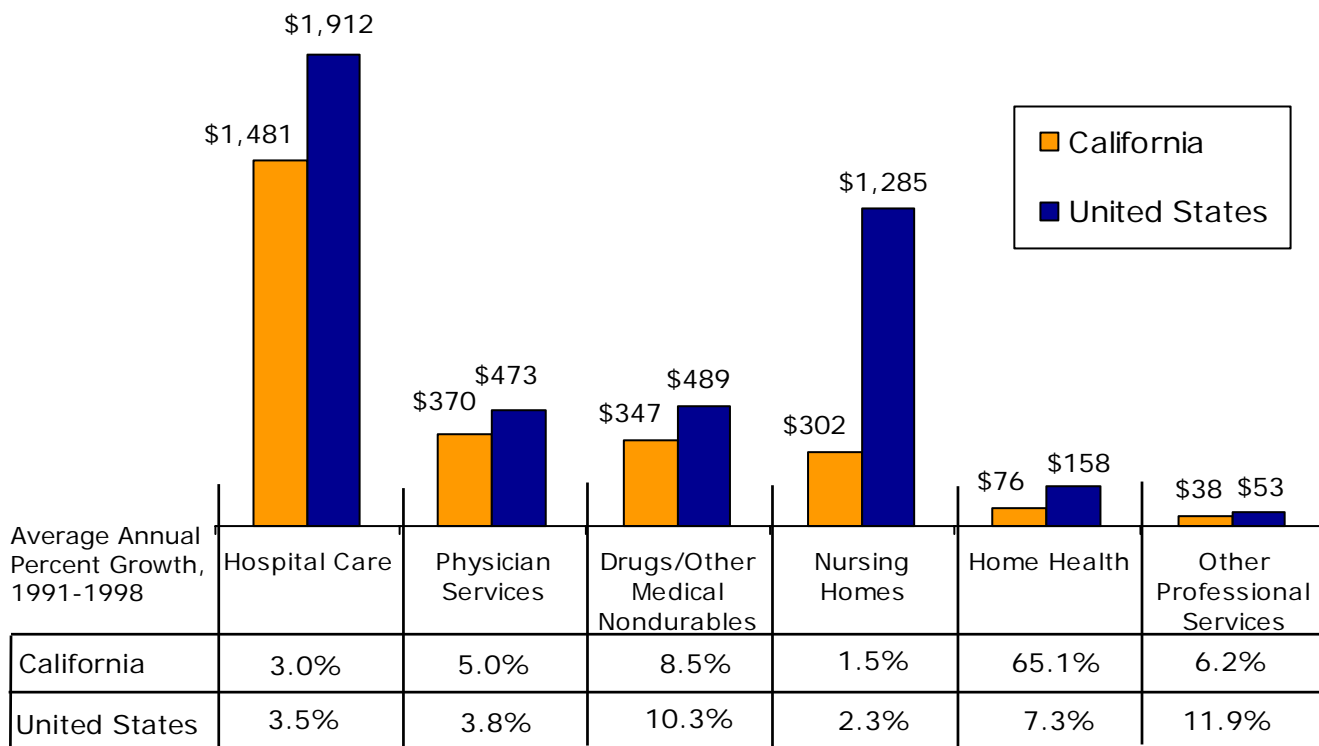


Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence.

Exhibit 6.1h

Per Enrollee Medicaid Health Care Spending by Type of Service in 1998, and Average Annual Percent Growth, 1991-1998, California and the United States



Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence/.

Exhibit 6.2

Personal Health Care Expenditures by Type of Service

Across all payers, over a third of 1998 total personal health care expenditures in California were spent on Physician Services (39%), followed closely by Hospital Care (33%); in the United States as a whole, most spending was for Hospital Care (37%), followed by Physician Services (29%). Spending on Nursing Home Care was just over half the proportion in California (5%) that it was in the United States (9%). (Exhibit 6.2a)

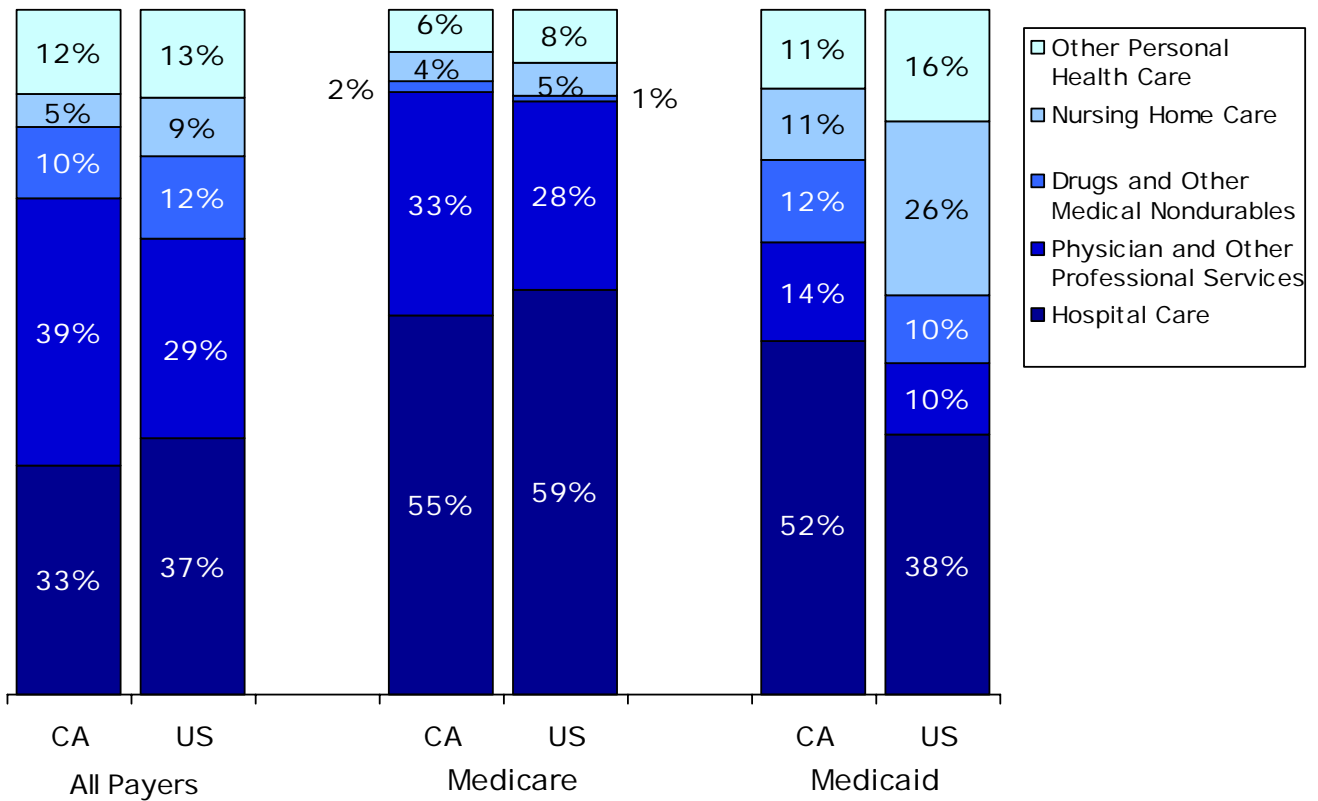
Over half of Medicare expenditures in California and the United States in 1998 were spent on Hospital Services. California spent a smaller proportion on these services than the United States, 55% vs. 59%. The second highest expenditures were for Physician Services, and in this case, California spent a greater proportion than the United States, 33% vs. 28%. California and United States spending patterns for other services were similar. (Exhibit 6.2a)

The proportion of Medicaid expenditures for Hospital Care were considerably higher in California compared to the United States in 1998 (52% vs. 38%). The share for Physician Services was also higher in California (14% vs. 10%). The proportion spent by California's Medicaid program for Nursing Home Care was less than half of that spent in the United States (11% vs. 26%). (Exhibit 6.2a)

Rates of increase for different types of health care services have grown in California from 1992-1998 for Drugs/Other Medical Nondurables, from 7% to 12%, the highest rate of increase for all service types, and for Hospital Care, which started at 7%, declined during the mid-1990's, then abruptly rose 8% in 1998. Rates of increase declined in California for Nursing Home Care, from 11% to 6%, and for Physician/Other Professional Services, from 10% to 5%. (Exhibit 6.2b)

Exhibit 6.2a

Distribution of Total Personal Health Care Expenditures by Payer and Type of Service, California and the United States, 1998

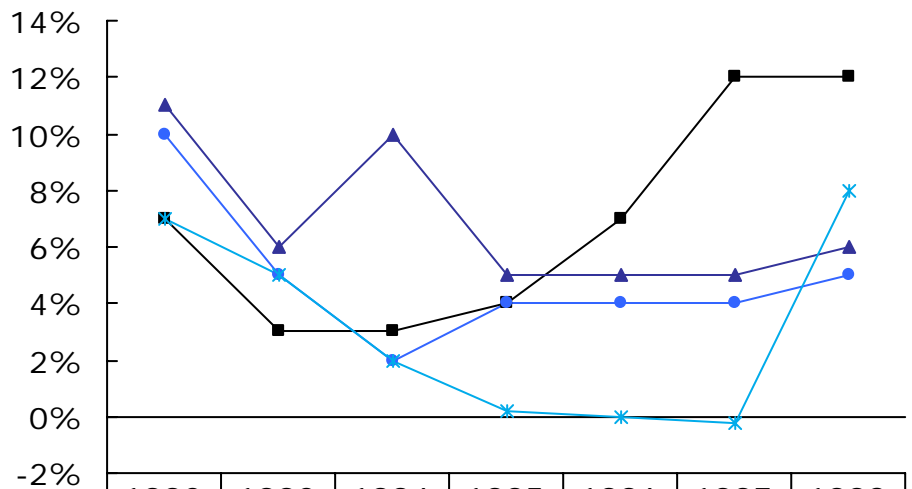


Notes: May not total 100% due to rounding. Other Personal Health Care includes medical durables, dental services, and home health care. This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence/.

Exhibit 6.2b

Trends in Rates of Increase in Personal Health Care Expenditures by Type of Service, California, 1992-1998



	1992	1993	1994	1995	1996	1997	1998
—■— Drugs and Other Medical Nondurables	7%	3%	3%	4%	7%	12%	12%
—▲— Nursing Home Care	11%	6%	10%	5%	5%	5%	6%
—●— Physician and Other Professional Services	10%	5%	2%	4%	4%	4%	5%
—*— Hospital Care	7%	5%	2%	0.2%	0.0%	-0.2%	8%

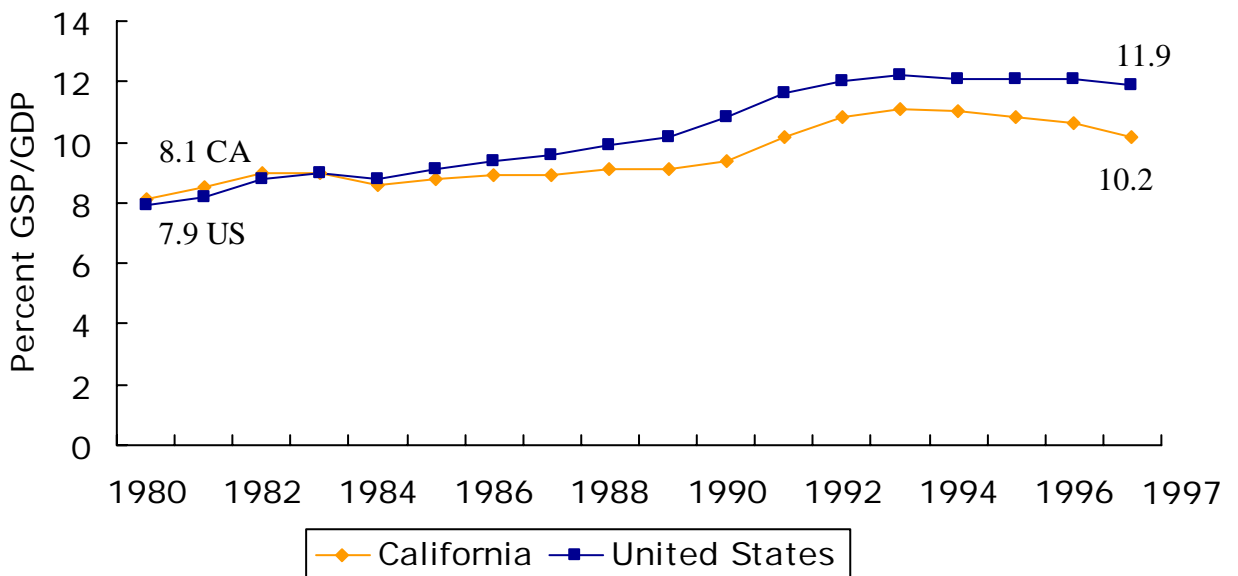
Notes: This exhibit uses Health Accounts data by state of residence. See Detailed Notes and Sources at the end of Section 6 for more information.

Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Residence, www.cms.hhs.gov/statistics/nhe/state-estimates-residence/ .

Exhibit 6.3

Personal Health Care Expenditures as a Percent of GSP/GDP, California and the United States, 1980-1997

Between 1980 and 1997, personal health care expenditures consumed an increasing share of both California's Gross State Product (GSP) and the United States' Gross Domestic Product (GDP), with the share rising less in California (+25%) than in the United States (+50%). While California and the United States spent almost the same proportions of GSP/GDP in the early 1980's, the United States proportion began to grow at a greater rate in 1986. By the mid-1990's, spending as a percent of GSP/GDP began to fall in California but held steady in the United States, until by 1997 the difference between California (10.2%) and the United States (11.9%) was the largest it had been since 1980.



Notes: This exhibit uses Health Accounts data by state of provider. See Detailed Notes and Sources at the end of Section 6 for more information.

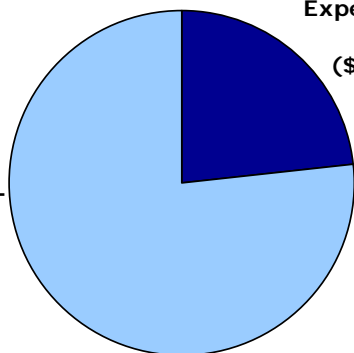
Source: Centers for Medicare and Medicaid Services, Health Expenditures by State of Provider, www.cms.hhs.gov/statistics/nhe/state-estimates-provider/.

Exhibit 6.4

State Health Care Expenditures as a Percent of Total State Expenditures, California and the United States, Fiscal Year 2001

California spent 23% (\$32.0 billion) of its total budget of \$137.7 billion on health care in FY 2001, which includes funding from both state and federal sources. In comparison, the United States as a whole spent a larger share (30%) on health care. Medicaid represented the largest portion of California's health care expenditures (73% compared to 69% among all states in the U.S.), and 17% of California's total budget (compared to 21% for all states).

California

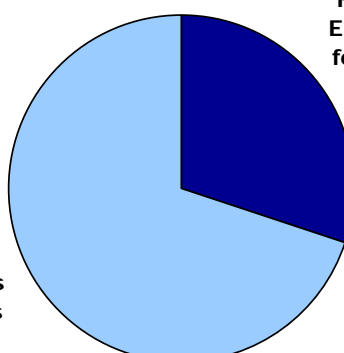


California Health Care Expenditures
23%
(\$32.0B)

California Non-Health Care Expenditures
77%
(\$105.7B)

Total California Expenditures = \$137.7 billion

United States



Health Care Expenditures for All States
30%
(\$290.7B)

Non-Health Care Expenditures for All States
70%
(\$681.4B)

U.S. Total State Expenditures = \$972.0 billion

Notes: California and United States health care expenditures include state spending for Medicaid, State Childrens' Health Insurance Program, state employees' benefits, corrections, higher education, insurance and access expansion, direct public health care, state facility-based services, community-based services, and population health expenditures.

Source: Milbank Memorial Fund, the National Association of State Budget Officers, and the Reforming States Group, *2000-2001 State Health Care Expenditure Report*, April 2003, Tables 14 and 46, www.milbank.org/reports/2000shcer/index.html.

Detailed Notes and Sources for Section 6

Exhibits 6.1a-h and 6.2a-b, 6.3:

State Health Expenditures by State of Provider and State of Residence

The Centers for Medicare and Medicaid Services (CMS; formerly called the Health Care Financing Administration, HCFA) calculates health care spending data known as the Health Accounts, which include National Health Expenditures (both historical and projected) and State Health Expenditures. The Health Accounts measure spending for health care by type of service delivered (hospital care, physician services, nursing home care, etc.) and by source of funding for those services (private health insurance, Medicare, Medicaid, out-of-pocket spending, etc.). See the CMS website at <http://www.cms.gov/statistics/nhe/default.asp> .

State of Provider Data. Traditionally, State Health Expenditures were calculated using the state in which the provider of the health care services was located, which may not have been the state in which the individual who received the service resided. State Health Expenditures by *state of provider* present estimates of health care spending for 1980-1998 by type of establishment delivering care (hospitals, physicians and clinics, nursing homes, etc.) and for medical products (prescription drugs, over-the-counter medicines, and sundries and for durable medical products such as eyeglasses and hearing aids) purchased in retail outlets. Source of funding estimates by state are also provided for Medicare and Medicaid. CMS indicates that these estimates are useful in measuring health spending's role in a state's economy; they caution that they should not be used to calculate estimates of spending per person in a state (see State of Residence estimates).

State of Residence Data. In 2002, CMS released recalculations of the 1991-1998 State Health Expenditures to provide data by state of residence, instead of state of provider. State Health Expenditures by *state of residence* present aggregate and per capita estimates of health care spending for 1991-1998 by type of establishment delivering care (hospitals, physicians and clinics, nursing homes, etc.) and for medical products (prescription drugs, over-the-counter medicines and sundries and durable medical products such as eyeglasses and hearing aids) purchased in retail outlets. Source of funding aggregate and per enrollee estimates by state are also provided for Medicare and Medicaid.

All of the exhibits in Section 6 of this chartbook, except for Ex. 6.3, use State Health Expenditures by state of residence (since most of the data is per capita). The data in this chartbook may vary from the earlier version of this chartbook, which presented data by the state of the provider.

Population Notes

All Payers: Centers for Medicare and Medicaid Services obtained population data from the U.S. Bureau of the Census, 2001.

Exhibits 6.1g and 6.2a:

For Medicare spending on drugs and other medical nondurables, most of these amounts represent benefits paid by Medicare Managed Care/Medicare+Choice plans to enrolled beneficiaries, since the traditional Medicare program does not cover most out-patient prescription drugs. Large growth rates may result from small expenditure increases in these very small spending estimates.