

National Health Expenditure Accounts 2006 Highlights

U.S. health care spending growth accelerated slightly in 2006, increasing 6.7 percent compared to 6.5 percent in 2005. Total health expenditures reached \$2.1 trillion, which translates to \$7,026 per person or 16 percent of the nation's Gross Domestic Product (GDP). The health spending share of GDP remained relatively stable in 2006, up by only 0.2 percentage point from 2003. This is a result of relatively slower health spending growth (since a recent peak of 9.1 percent in 2002), coupled with strong overall economic growth.

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

- **Hospital:** Hospital spending continued a gradual deceleration (from 8.2 percent growth in 2002), growing 7.0 percent in 2006 to \$648.2 billion. The 2006 trend was partially driven by a lower utilization of hospital services, especially within Medicare, as fee-for-service inpatient hospital admissions declined.
- **Physician and Clinical Services:** Spending on physician and clinical services also slowed, growing 5.9 percent in 2006 to \$447.6 billion; this is the slowest rate of growth since 1999. The slowdown was driven by a deceleration in price growth, fueled by a near freeze on Medicare physician payments (the fee schedule update was 0.2 percent in 2006) which influenced private payers as well.
- **Other Professional Services:** Spending on other professional services, which include therapists, chiropractors, optometrists, and podiatrists, decelerated in 2006, growing 4.9% to \$58.9 billion.
- **Dental Services:** Spending on dental services also slowed in 2006, growing 5.7 percent to \$91.5 billion.
- **Other Personal Health Care:** Spending for other personal health care services accelerated in 2006, growing 9.5 percent to \$62.2 billion.
- **Home Health:** Spending for freestanding home health care services decelerated from 12.3 percent in 2005 to 9.9 percent in 2006, partially due to a reduction in price growth. Despite the 2006 deceleration, home health care continues to be the fastest growing component of Personal Health Care spending. Expenditures were \$52.7 billion in 2006.
- **Nursing Homes:** Spending for freestanding nursing homes reached \$124.9 billion in 2006. Growth was 4.9 percent in 2005 and decelerated to 3.5 percent in 2006, which is the slowest rate of growth since 1999. This deceleration is partially attributable to a reduction in nursing home price growth.
- **Prescription Drugs:** Prescription drug spending accelerated for the first time in six years, from a low of 5.8 percent in 2005 to 8.5 percent in 2006. Spending reached \$216.7 billion. Roughly half of this growth was due to increased use of prescription drugs (partly a result of coverage now available under Part D), as well as new indications for existing drugs, growth in therapeutic classes, and increased use of specialty drugs. A higher generic dispensing rate in 2006 helped to restrain spending growth, which despite the acceleration still remained well below the average annual growth of 13.4 percent per year between 1995 and 2004.
- **Durable Medical Equipment:** Spending on durable medical equipment, which includes items such as eyeglasses and hearing aids, accelerated in 2006, growing 2.3 percent and reaching \$23.7 billion.

- **Other Non-durable Medical Products:** Spending on other non-durable medical products, such as over-the-counter medicines, slowed in 2006, growing 3.5 percent to \$35.6 billion.

Health Spending by Major Sources of Funds:

- **Medicare:** In 2006, total Medicare spending grew to \$401.3 billion. The introduction of the Part D benefit, which provided beneficiaries with coverage for prescription drugs, accelerated total Medicare spending; it grew 18.7 percent in 2006 compared to 9.3 percent in 2005. A 25 percent increase in Medicare Advantage enrollment in 2006 influenced a dramatic 48 percent increase in Medicare Advantage spending. At the same time, traditional fee-for-service enrollment declined 3.8 percent and its share of total Medicare spending fell from 86 to 82 percent.
- **Medicaid:** Total Medicaid spending declined for the first time since the program's inception, falling 0.9 percent to \$308.6 billion. The introduction of Part D, which shifted drug coverage for dual eligibles from Medicaid into Medicare, contributed to the decline. Other reasons for the decline include continued cost containment efforts by states and slower enrollment growth, due to more restrictive eligibility criteria and a stronger economy.
- **Private Health Insurance:** Private health insurance premiums grew 5.5 percent in 2006 to \$723.4 billion. This is the slowest rate of growth since 1997. This slowdown reflects a decline in private health insurance spending for prescription drugs, as well as a slowdown in underlying benefits. Benefit payment growth slowed, from 6.9 percent in 2005 to 6.0 percent in 2006, reaching \$634.6 billion. The ratio of net cost of private health insurance (the difference between premiums and benefits) to total private health insurance premiums was 12.3 percent in 2006, slightly lower than 12.7 percent in 2005.
- **Out-of-Pocket:** Out-of-pocket spending grew 3.8 percent to \$256.5 billion, a deceleration from 2005. This slowdown is attributable to the negative growth in out-of-pocket payments for prescription drugs, mainly due to the introduction of Medicare Part D benefit. Out-of-pocket spending accounted for 12 percent of national health spending in 2006; this share has steadily declined since 1998, when it accounted for 15 percent of health spending. Out-of-pocket spending relative to overall household spending, however, has remained fairly flat since 2003.