

National Health Expenditures 2014 Highlights

In 2014, U.S. health care spending increased 5.3 percent following growth of 2.9 percent in 2013 to reach \$3.0 trillion, or \$9,523 per person. The faster growth experienced in 2014 was primarily due to the major coverage expansions under the Affordable Care Act, particularly for Medicaid and private health insurance. The share of the economy devoted to health care spending was 17.5 percent, up from 17.3 percent in 2013.

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

- **Hospital Care:** Spending for hospital care increased 4.1 percent to \$971.8 billion in 2014 compared to 3.5 percent growth in 2013. The faster growth in 2014 was influenced by a resurgence in growth of non-price factors, such as the use and intensity of services. In addition, hospital services experienced faster growth in Medicaid, private health insurance, and Medicare spending compared to 2013. Lastly, ACA-related coverage expansion contributed to increased hospital spending for both Medicaid and private health insurance.
- **Physician and Clinical Services:** Spending on physician and clinical services increased 4.6 percent in 2014 to \$603.7 billion from 2.5 percent growth in 2013 when spending was at a historical low. Faster growth in both price and non-price factors contributed to the acceleration in overall spending for physician and clinical services. Medicaid, private health insurance, and Medicare spending for physician and clinical services all accelerated in 2014.
- **Other Professional Services:** Spending for other professional services reached \$84.4 billion in 2014, an increase of 5.2 percent, which is an acceleration from 3.5 percent in 2013. Spending in this category includes establishments of independent health practitioners (except physicians and dentists) that primarily provide services such as physical therapy, optometry, podiatry, or chiropractic medicine.
- **Dental Services:** Spending for dental services increased 2.8 percent in 2014 to \$113.5 billion, faster than in 2013 when growth was 1.5 percent. Private health insurance (which accounted for almost half of dental spending in 2014) increased 3.4 percent after growing 1.3 percent in 2013. Out-of-pocket spending for dental services (which accounted for 40 percent of spending in 2014) increased slightly at 0.2 percent in 2014, following growth of 1.0 percent in 2013.
- **Other Health, Residential, and Personal Care Services:** Spending for other health, residential, and personal care services grew 4.1 percent in 2014 to \$150.4 billion, which was a slowdown compared to 4.7 percent growth in 2013. This category includes expenditures for medical services that are generally delivered by providers in non-traditional settings such as schools, community centers, and the workplace; as well as by ambulance providers and residential mental health and substance abuse facilities.
- **Home Health Care:** Spending growth for freestanding home health care agencies accelerated in 2014, increasing 4.8 percent to \$83.2 billion following growth of 3.3 percent in 2013. The faster growth in 2014 was attributable to increased spending by the two largest payers of home health, Medicare, with growth of 3.3 percent, and Medicaid, with growth of 3.5 percent. Combined, both payers of home health care represented 77 percent of total home health spending.
- **Nursing Care Facilities and Continuing Care Retirement Communities:** Spending for freestanding nursing care facilities and continuing care retirement communities increased 3.6 percent in 2014 to \$155.6 billion, an acceleration from growth of 1.3 percent in 2013. The faster

growth in 2014 was due to the increased spending in Medicare, with 4.1 percent growth, and Medicaid, with 3.1 percent growth.

- **Prescription Drugs:** Retail prescription drug spending accelerated in 2014, growing 12.2 percent to \$297.7 billion compared to the 2.4 growth in 2013. The rapid growth in 2014 was due to increased spending for new medications (particularly for specialty drugs such as hepatitis C), a smaller impact from patent expirations, and brand-name drug price increases. Private health insurance, Medicare, and Medicaid spending on prescription drugs all accelerated in 2014.
- **Durable Medical Equipment:** Retail spending for durable medical equipment reached \$46.4 billion in 2014 and increased 3.2 percent, faster than the 2.8 percent growth in 2013. 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 2.4 percent to \$56.9 billion in 2014. This was a slower rate of growth than in 2013, when spending grew 3.5 percent.

Health Spending by Major Sources of Funds:

- **Medicare:** Medicare spending grew 5.5 percent to \$618.7 billion in 2014, an acceleration from 3.0 percent growth in 2013. This increase was primarily attributable to faster growth in spending for prescription drugs, physician and clinical services, and government administration and the net cost of insurance. Medicare accounted for 20 percent of total health care spending.
- **Medicaid:** Total Medicaid spending, which accounted for 16 percent of total national health expenditures, increased 11.0 percent in 2014 after growing 5.9 percent in 2013. State and local Medicaid expenditures only grew 0.9 percent, while federal Medicaid expenditures increased 18.4 percent in 2014. The increased spending by the federal government was largely driven by the newly eligible enrollees under the ACA, which were fully financed by the federal government.
- **Private Health Insurance:** Total private health insurance expenditures increased 4.4 percent (33 percent of total health care spending) to \$991.0 billion in 2014, faster than the 1.6 percent growth in 2013 which was the slowest rate since 1967. The faster rate of growth reflected the impacts of the ACA, including the introduction of Marketplace plans, health insurance premium tax credits, health insurance industry fees, and mandated benefit design changes. Average monthly marketplace enrollment was 5.4 million in 2014.
- **Out-of-Pocket:** Out-of-pocket spending grew 1.3 percent in 2014 to \$329.8 billion which was slightly slower than annual growth of 2.1 percent in 2013. The slowdown in 2014 was influenced by the expansion of insurance coverage and the corresponding drop in the number of individuals without health insurance.

Health Spending by Type of Sponsor¹:

- In 2014, households (28 percent) and the federal government (28 percent) each accounted for the largest shares of spending, followed by private businesses (20 percent), and state and local governments (17 percent).
- Household health spending grew 2.0 percent in 2014—about the same rate as in 2013 (1.9 percent). Households continue to be the largest sponsor of health care at 28 percent, however their share decreased from 29 percent in 2013.
- Growth in federal government spending outpaced growth in expenditures for all other sponsors of health care in 2014, increasing 11.7 percent, compared to 3.5 percent in 2013. The faster growth

led to a 2 percentage point increase in the federal government's share of total health care spending, from 26 percent in 2013 to 28 percent in 2014. The main driver for the faster federal spending in 2014 was largely the provisions of the ACA, such as Medicaid enrollment expansion (100% financed by the federal government) and the health insurance premium tax credits.

- State and local government spending decelerated to 1.8 percent growth in 2014 versus 3.7 percent growth in 2013. The deceleration was largely influenced by the slower growth in state and local Medicaid spending, which grew 5.5 percent in 2013 but slowed to 0.9 percent in 2014, mostly as a result of the slow enrollment growth in the non-expansion population. Overall the state and local government share of total health care spending decreased 1 percentage point in 2014 to 17 percent from 18 percent in 2013.
- Health care spending financed by private businesses increased 4.2 percent in 2014 compared to 2013 when growth was 1.7 percent. The increase in private business spending in 2014 was largely influenced by a 3.7 percent increase in employer contributions to private health insurance premiums compared to the 1.1 percent growth in 2013. The private business share of overall health spending has remained fairly steady since 2010, at about 20 percent.

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