

Public Health & Policy

Healthcare Spending Increase to Set Record in 2009

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WASHINGTON, Feb. 24 -- America's healthcare spending will top \$2.5 trillion in 2009, a whole percentage point higher than last year's expenditures and the largest annual increase ever, the Center for Medicare and Medicaid Services (CMS) reported today.

Healthcare will account for 17.6% of all the nation's spending in 2009 and one-fifth of the economy by 2018, according to the annual CMS forecast, published in *Health Affairs*.

The report comes less than two months after CMS reported that healthcare spending was increasing at its slowest rate since 1998, largely because of an increased reliance on generic drugs.

But, CMS's chief actuary predicted then that the "good news" wouldn't continue once the projections from 2008 and beyond were released, because use of generic drugs can only grow so much.

He was right.

Current annual healthcare spending is running around \$2.4 trillion, but at the current rate of increase of 6.2% per year, the total will reach \$4.4 trillion in 2018, according to the forecast.

Meanwhile, the current recession will produce the first yearly decrease in the nominal Gross Domestic Product since 1949, the report said. That, in turn, is causing people to rely more on public insurance as they lose their jobs and private health coverage. The CMS economists, led by

Andrea Sisko, predicted that by 2018 the government will be largest source of healthcare funding.

Even so, there are predictions that the upward pressure on healthcare spending will abate in 2010, with a national growth rate of 4.6%, down 7.4% this year.

But a major factor in that projection is a planned 21% cut in Medicare physician payment rates according to the government's sustainable growth rate (SGR), the mechanism governing physician reimbursements in Medicare. That cut alone would slow Medicare spending by 5.5% from 2009 to 2010.

But because Congress has voted to stall the cuts every year since 2003, the CMS report assumed it would happen again at the last minute this year. If payment rates remain at their current levels, Medicare spending growth would slow less dramatically and projected health spending grow at a rate of 5.4% in 2010, rather than 4.6%.

Notably, the report did not take into account the recently-enacted bill to expand the State Children's Health Insurance Program, or the economic stimulus bill, both of which will certainly increase healthcare spending.

(See: [President Signs Final SCHIP Bill](#) and [Senate Passes Stimulus Bill with \\$19 Billion for Health IT](#))

The report also found:

- Personal health expenditures, such as prescriptions, office visits, and elective hospital procedures, will increase over the next decade, largely because of cost increases.
- Prescription drugs will be the fastest-growing component of the Medicare program as more Baby Boomers become eligible for Medicare and enroll in Part D plans. Drugs are projected to account for 14.7% of healthcare spending by 2018, up from 10.9% in 2007.

While the recession will drive down out-of-pocket spending on prescription drugs for a few years, it will rebound as the economy improves in 2010.

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