Increased Spending On Health Care: Long-Term Implications For The Nation

Projections show ever more personal income and economic resources shifting to health care—and the outlook is growing worse.

by Michael E. Chernew, Richard A. Hirth, and David M. Cutler

ABSTRACT: This paper updates one we published in 2003, describing the implications of continued health care spending growth for the consumption of nonhealth goods and services. Our estimates now show that at approximately long-run average rates of excess health spending growth, 119 percent of the real increase in per capita income would be devoted to health spending over the 2007–2083 projection period. We argue that an alternative scenario, under which health spending grew just one percentage point faster than real per capita income, is “affordable,” although 53.6 percent of real income growth over the period would go to health care. Moreover, even with the more favorable assumption, the nation would still face important challenges paying for care and dividing up the burden. This analysis thus supports the argument that reforms that would dramatically slow the rate of health care spending growth are necessary, especially if the nation hopes to maintain a reasonable amount of consumption of nonhealth goods and services. [Health Aff (Millwood). 2009;28(5):1253–5; 10.1377/hlthaff.28.5.1253]

In 2003 we published a paper in Health Affairs describing the implications of continued health care spending growth for consumption of nonhealth goods and services. Our projections used two different spending-growth scenarios. The first assumed a one-percentage-point gap between real per capita national health care spending growth and real per capita growth in gross domestic product (GDP). The second assumed that gap was two percentage points.

Updating the analysis. In this paper we update our previous analysis, using 2007 per capita national health expenditures ($7,421) and GDP ($45,722) as a base. Between 1999, when our data ended in the previous paper, and 2007, the last year for which we currently have data, real per capita health care spending grew an average of 2.2 percentage points faster than GDP per year. As a result, between 1999 and 2007, health care consumed 35.7 percent of the real increase in per capita income, and the share of GDP devoted to health care rose from 13.7 percent to 16.2 percent. Offsetting these more negative base values is an increase in the assumed rate of real per capita GDP growth.

We focus on the projected impact of different rates of health care spending growth on...
nonhealth spending and the share of income growth devoted to health care, with base values updated to 2007 and dates revised to reflect 2007 to 2083 (Exhibit 1).

Consistent with results published in our 2003 paper, under the one-percentage-point gap assumption, spending on non–health care goods will continue to increase through 2083, although at an increasingly smaller rate. The percentage of per capita income growth devoted to health care is projected to be roughly 54 percent in this seventy-five-year period (compared to the figure of 54.8 percent from 1999 to 2075 that we reported earlier).1 We now predict that 40.1 percent of income growth will be devoted to health care between 2010 and 2050, as opposed to 45.5 percent in our earlier work. These somewhat less dire estimates reflect faster assumed income growth.

Under the two-percentage-point gap assumption, non–health care spending growth will continue to increase through 2050. The preceding figures reflect the updated, more rapid assumption about real per capita GDP growth. Our previous qualitative conclusions—that a two-percentage-point gap between real per capita health care spending and GDP growth will cause substantial reductions in consumption of nonhealth goods and services—are robust to our updating. To allow comparability with earlier work and to explore the impact of the increase in the CMS’s GDP assumptions, we replicated our earlier analysis (Exhibit 1, right-hand panels) inflating real per capita GDP by 1.2 percent.6 As expected, these changes make the projected impact of health care spending more dire than we reported earlier, with 47.1 percent of income growth going to health care over 2010–2050 (versus 45.5 percent) and 61.9 percent over the next seventy-five years under the one-percentage-point gap (versus 54.8 percent reported for 1999–2075).1

**Limitations.** This work shares several limitations with our past work. Specifically, following convention of the current-law forecasts of Centers for Medicare and Medicaid Services (CMS) actuaries, we assumed that

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**EXHIBIT 1**
Percentage Real Change In Health Spending And Percentage Increase In Real Income Devoted To Health Care, 2007–2083

<table>
<thead>
<tr>
<th>Differential between real per capita GDP growth and health care spending growth</th>
<th>New analysis</th>
<th>Using previous income growth assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One percentage point</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average annual percent increase in inflation-adjusted non–health care spending per capita</td>
<td>1.4%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Percent of real increase in per capita income devoted to health care</td>
<td>31.3</td>
<td>42.0</td>
</tr>
<tr>
<td><strong>Two percentage points</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average annual percent increase in inflation-adjusted non–health care spending per capita</td>
<td>1.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Percent of real increase in per capita income devoted to health care</td>
<td>44.3</td>
<td>74.8</td>
</tr>
</tbody>
</table>

**SOURCE:** Authors’ tabulations. The previous income growth assumption is from Chernew ME, Hirth RA, Cutler DM. Increased spending on health care: how much can the United States afford? Health Aff (Millwood). 2003;22(4):15–25.

**NOTE:** The previous income growth assumption inflates gross domestic product (GDP) by 1.2 percent.
GDP growth is exogenous (that is, related to outside factors). This is surely not the case. Health cost growth of the magnitude suggested will likely affect GDP growth. The magnitude of that impact will depend on how spending is financed. In addition, as in our earlier work, we did not capture distributional effects. The impact of health spending growth will likely be more onerous on economically disadvantaged individuals and families who do not qualify for public subsidies. Moreover, the impact of rising health care spending (particularly Medicaid) on state budgets may have serious consequences. States with balanced budget rules or difficulty raising taxes have had to enact severe cuts in education, social services, and other areas. The items crowded out may be worth more than the typical dollar of health spending. As health spending increases, the potential for crowding out other important public services rises. These distributional and financing issues may eclipse the aggregate concern about health spending as an increasing share of the population cannot afford access to coverage or care and public payers are increasingly strained.

Finally, our estimates are not intended to be forecasts. Instead, they are meant to illustrate the burden that health care spending will have on the economy if spending growth continues to exceed GDP growth. If care provides sufficient value, we may opt to collectively shoulder that burden, but the distributional and financing issues will be daunting.

Most importantly, our analysis highlights the imperative to reduce the well-documented inefficiencies in the current system, not only to improve the health care system, but also to support overall economic well-being.

The authors thank Mark Freeland, Steve Heffler, Sean Kechen, and Todd Caldis from the Centers for Medicare and Medicaid Services Office of the Actuary for providing data regarding the age/sex effects on spending growth and the assumption about real per capita gross domestic product growth. Michael Chernew has been a paid author, speaker, or consultant for the following entities: Altarum; America’s Health Insurance Plans; Anthem; the Association of American Medical Colleges; Avalere; the BlueCross BlueShield Association; Hewitt Associates; and the Robert Wood Johnson Foundation (RWJF). He has received research grants from the Pharmaceutical Research and Manufacturers of America (PhRMA), Pfizer, RWJF, and the Commonwealth Fund (CMWF). He is on advisory boards for Abbott; the Centers for Medicare and Medicaid Services; CMWF; the Congressional Budget Office; Genentech; the Medicare Payment Advisory Commission; and Pfizer. David Cutler has received funding from PhRMA and the National Institute on Aging.

NOTES
2. The Centers for Medicare and Medicaid Services uses these sources in its analysis: CMS, Office of the Actuary, National Health Statistics Group; and U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.
5. We inflated real per capita GDP by 1.7 percent per year and national health expenditures by 1.7 percent plus 0.32 to account for demographic changes, plus one or two percentage points depending on the scenario. These values are based on correspondence with the CMS Office of the Actuary and are different from the values used in our previous work (1.2 percent for GDP and national health expenditure growth and 0.43 percent for demographic changes). We then computed the statistics reported.
6. We still apply the updated demographic adjustment assumption, which changed from 0.43 percent to 0.32 percent.