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Annual U.S. Healthcare Spending Hits \$3.8 Trillion



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I write at the intersection of healthcare technology and policy.

The last time I wrote this headline was in 2012 and the amount was \$3 trillion ([here](#)). To arrive at that figure in 2012 I added the Sustainable Growth Rate deficit (accrued over 10 years) to our National Healthcare Expenditure. The combined total was effectively \$3 trillion. Complexities and history aside, the Sustainable Growth Rate (SGR) deficit is on the books, it is all healthcare spending, so it really needs to be included in any figure summarizing annual healthcare spending.

According to the Congressional Budget Office (CBO), the cost to repeal the SGR in 2012 was about \$316 billion. Today, the CBO says it's a much more manageable \$116 billion, but neither figure includes what many say is a much needed increase to the Medicare physician payment formula. I can see where both asking and getting a pay raise in this climate is likely to be a major sticking point – in every direction.

A \$200 billion reduction in the SGR deficit is good news – and there's more good news on the SGR (aka "doc fix") front. There's a growing consensus that there may be a congressional resolution later this year. A Kaiser Health News piece from just last month ([here](#)) had this encouraging quote:

After years of legislative wrangling and last-minute patches, expectations are high among physician groups, lawmakers and Medicare beneficiaries that Congress could act this year to permanently replace the current Medicare physician payment formula.

The bad news, however, is literally the next sentence.

While committees in both chambers have approved their own "doc fix" proposals, the approaches have yet to be reconciled, and none have identified how they would pay for repeal.

Whatever happens politically, the SGR is a healthcare budgetary dilemma and it is on the books. Just like consumer revolving credit – we'll probably elect to pay it down over time, but until we formalize that decision it's a lump sum that gets punted each year (regardless of who's sitting where politically).

Recent headlines have also been positive on the smaller rate of healthcare spending growth (3.7% is "slowest growth rate on record" [here](#)). That's also welcome news relative to the historic trend, but it's also prudent to calculate the total annual healthcare spending because it's (arguably) the more important of the two metrics (growth rate versus total annual spending).

The most often quoted figure for our National Healthcare Expenditure (NHE) is the one provided by the Centers for Medicare and Medicaid Services (CMS – [pdf here](#) – Table 1, pg 5). That's certainly a reasonable baseline (with a projection of \$5 trillion by 2022), but at least one group – the Deloitte Center for Health Solutions – calculates a substantially higher figure. Somewhere in 2011, Deloitte issued a report – **The Hidden Costs of U.S. Health Care: Consumer Discretionary Health Care Spending** ([pdf here](#)) which was then revised upward for 2012. I'm hoping they'll update this for 2014, but they did skip 2013. Stay tuned.

While it's tempting to discount their findings, Deloitte itself is pretty well known globally when it comes to the business of financial accounting. More importantly, given the aging population, the "sandwich generation" (as it's now known) is also growing at a healthy clip. This group – sandwiched between kids and aging parents – is providing a lot of healthcare that the government simply has no way to calculate or include in their summaries.

With all that as a backdrop – and keeping the Deloitte figures unchanged from their original calculation in 2010 – here's the math I'm seeing for the 2014 edition of Annual U.S. Healthcare Spending.

Annual U.S. Healthcare Spending *			
	2013	2014	2015
CMS Projected NHE	\$2.915	\$3.093	\$3.273
Sustainable Growth Rate (SGR)	\$0.116	\$0.116	\$0.116
Deloitte Additional Direct Costs (*)	\$0.129	\$0.129	\$0.129
Deloitte Imputed Indirect Costs (*)	\$0.492	\$0.492	\$0.492
	\$3.652	\$3.830	\$4.010
* 2012 Deloitte Study: The Hidden Costs of U.S. Health Care * All numbers in Trillions			

On page 9 of the Deloitte study is this chart that itemizes the two additional components (\$129 billion direct costs and \$492 billion imputed indirect costs respectively).

Spending category	Costs estimated in NHEA categories (in billions)		Costs estimated with sources other than NHEA (in billions)	
	Direct Costs		Direct Costs	Indirect/ Imputed costs
Hospital care	Hospital care	\$814		
Professional services	Physician and clinical services	\$516		
	Dental services	\$105		
	Other professional services	\$68		
	Other personal health care	\$129		
			All other ambulatory	\$19
			CAM practitioner costs	\$31
			Weight-reducing centers	\$2
Long-term care (LTC)	Home health care	\$70		
	Nursing home care	\$143		
			Homes for the elderly	\$17
Prescription drugs	Prescription drugs	\$259		
Retail products and services	Durable medical equipment	\$38		
	Other non-durable medical products	\$45		
			CAM products	\$2
			Health publications	\$2
			Nutrition/supplements	\$56
Direct administrative costs	Total non-personal health care	\$408		
Supervisory care				Supervisory care \$492
Total		\$2,594	\$129	\$492

Appendix B on page 25 of the Deloitte study included this chart which describes how they calculated the \$492 billion for the category called "Supervisory Care."

Estimates for supervisory care in 2010 calculation

Variable	Source	Estimate of caregivers for special needs children (under age 18)	Estimate of caregivers for recipients age 18 and older
Number of current caregivers	Deloitte analysis of NAC 2009 and U.S. Census Data	3.2 million	39.2 million
Hours of care per caregiver per week	Deloitte analysis of NAC 2009 Data	33.7 hours per week	17.4 hours per week
Economic value of one hour of family care	National Compensation Survey. Mean hourly wage of employees whose occupation is "Nursing, psychiatric, and home health aides."	\$11.94 per hour	\$11.94 per hour
Sub-total		\$67.4 billion	\$425.0 billion
Total annual economic imputed value of supervisory care		\$492.4 billion	

Whether you agree with the Deloitte specific calculation or not, Supervisory Care is a category of healthcare that is significant and additive to the National Healthcare Expenditure (NHE).

The larger issue is simply that we're not making any headway on one of the most important healthcare measurements of all – cost. There are 4 reputable agencies that calculate the annual GDP for each country every year. The United Nations, the [IMF](#) , the World Bank and the CIA World Factbook ([here](#)). By any of these four calculations, our annual healthcare spending is an economic unit larger than the GDP of Germany (which is itself the 4th or 5th largest GDP on the planet).

"Put simply, with Obamacare we've changed the rules related to who pays for what, but we haven't done much to change the prices we pay." **Steven Brill** – Bitter Pill: Why Medical Bills Are Killing Us (Time – March 4, 2013 [subscription required here](#))



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With an enterprise software engineering background, I cover the intersections between technology, innovation, and policy that are unfolding inside one of America's largest industries – healthcare. First appearing in Forbes as a Contributor in 2011, I've written for a wide range of global brands and print publications. My first book – Casino Healthcare – released in 2016. Twitter handle is: @danmunro

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