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THE WHO, WHAT, AND WHERE OF MEDICAL CARE SPENDING

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The past few years have witnessed sharp increases in the amounts spent for medical care. The continuous spiralling of health expenditures has evoked great concern. Are we receiving more and better services for our large outlays? Are rising prices for medical care eating up the growing expenditures? Can efficiency in the health industry be improved? The situation has reached crisis proportions and the answers to these and other questions are being sought in an effort to discover means of supplying quality medical care at a price the Nation can afford.

Estimates of medical care spending have been made for a number of years by the Social Security Administration and are published annually in their Bulletin. In order to provide a better understanding of the current crisis in medical care this paper presents the background facts relating to medical care spending--who pays, what and how much is bought, for whom it is spent, and how and why it has grown.

Total Expenditures

In fiscal year 1970 this Nation spent $67.2 billion for health and medical care--an increase of $7 billion in the last year alone. This growth in medical care spending has been faster than the growth of the economy in general. In fiscal 1950 medical care expenditures amounted to $12.1 billion and represented 4.6 percent of the Gross National Product. In fiscal 1960 its share of GNP was 5.3 percent; 10 years later it had risen to 7.0 percent.

For each American, these large expenditures meant an average 1970 health bill of $324--more than double the bill of just 10 years before and 4 times the average 1950 bill. The following table presents the trend in aggregate and per capita health expenditures and the percent of GNP:

Fiscal year	Health expenditures		Percent of GNP
	Total (in billions)	Per capita	
1929.....	$3.6	$29	3.6
1935.....	2.8	22	4.1
1940.....	3.9	29	4.1
1945.....	7.9	56	3.7
1950.....	12.0	78	4.6
1955.....	17.4	104	4.6
1960.....	25.9	142	5.2
1965.....	39.0	198	5.9
1970.....	67.2	324	7.0

The substantial rise in national health expenditures is the result of many factors. One is simply the growth in population; other factors are the rising costs or prices per unit of service, the increase in the average per capita utilization of health services and supplies, and the rising level and scope of services through new techniques, drugs, and treatment procedures.

The portion of the increase due to each of the factors varies considerably. The calculation of these proportions is most meaningful in terms of personal health care expenditures which represent all outlays for health and medical services for the direct benefit of the individual, such as for hospital care, physicians' services, etc. Nonpersonal health care expenditures are those outlays which are spent for the community, such as for medical-facilities construction, research, disease control and detection programs, etc.

Examining the 1950-70 period, it was found that about 46 percent of the $47.6 billion increase in personal health care expenditures could be attributed to the rise in prices, another 17 percent was the result of population growth, and the remaining 37 percent was due to greater utilization of services and the introduction of new medical techniques. The relative contribution of price, population, and all other factors (per capita use and improvement in quality) in the increase for fiscal years 1950-70 is compared below:

Factor	Aggregate increase (in billions)	Percentage distribution
Total.....	$47.6	100.0
Price.....	21.9	46.0
Population.....	8.2	17.2
All other.....	17.5	36.8

Medical Care Prices

With rising prices responsible for such a large portion of the increase in medical care expenditures, it is apparent that the sizeable growth in medical care prices is a matter of concern. A dollar for health care spent today does not go nearly as far in paying for a day of care or a unit of service as it would have several years ago.

Since World War II the consumer price index (CPI) and its medical care component have been continuously rising, with the latter rapidly outpacing the former. In recent years, however, the gap between the relative increases of these two price indexes has widened considerably. From 1960 to 1966 medical care prices jumped nearly twice as fast as prices for all consumer items. The gap continued in the three-year period 1966-69, when medical care prices increased at the annual rate of 6.4 percent while all consumer items grew 3.8 percent annually.

In the last year, however, a different picture emerged. The recent inflationary pressures in the general economy have changed the long-term relationship between the prices for all consumer items and medical care prices. Fiscal year 1970 witnessed little difference in the growth rates for all prices--6.0 percent--compared with medical care prices--6.4 percent. The extent to which the general inflation has affected the recent rise in medical prices cannot be isolated.

Particular attention has been focused on the relationship between the accelerated increases in medical care prices in 1966 and the introduction of Medicare and Medicaid, the two new public programs financing a large part of the medical care for the aged and for the poor. The major areas contributing to the rise in prices are the costs of hospital care and physician services.

The major ingredient in hospital costs is payroll which accounts for three-fifths of total hospital expenses. Wages of hospital employees had lagged significantly behind those in other sectors of the economy for many years. In February 1967 the minimum wage law was extended to hospital employees. At about the same time there were increased demands for wage increases by professional nurse organizations and unions. The ready availability of operating funds under Medicare and Medicaid allowed hospitals to accede to wage demands, to make renovations, purchase equipment and supplies, and expand patient services. Over the period 1961-65 the net income of nongovernmental nonprofit hospitals averaged $112 million, or 1.9 percent of total revenues. From 1966 on, hospital costs rose rapidly but revenues rose more rapidly. Net income increased to an average of $359 million for 1967-69, 3.4 percent of total revenue.

A part of the rise in physicians' fees occurring early in 1966 was perhaps in anticipation of the Medicare program. A more basic and continuing factor over the period is the increase in demand for physician services without a corresponding increase in the supply of physicians. The increasing awareness of the value of physician services and the lowering of financial barriers to such services through widespread insurance coverage have served to produce a greater demand for services. Medicare and Medicaid, for example, have contributed significantly to the growth of the demand for services by lowering the financial barriers for many persons.

Rapidly accelerating medical care prices do not affect any single segment of the population alone; rather, they affect every American who at some time may have to pay for medical services. While it is true that those Americans of moderate to low incomes, as well as those who require medical attention because of advanced age or severe disabilities, are more drastically affected by excessive increases in medical prices, such increases are not uniquely a problem of the poor, or the aged, or the chronically ill. Public attention has been focused on the marked and tangible, adverse impact of increased medical care prices upon the costs of the Medicare program and its beneficiaries, but the effect is in fact universal. The same effects are being experienced by other health insurers who are faced with the decision to either withhold additional protection or increase premiums to offset the increased costs. And, more dramatically, that segment of the population which is unable to purchase adequate health insurance must in many instances forego needed medical attention because of its prohibitive cost.

Age Distribution

It is evident that medical care outlays now occupy an important position in the Nation's output. As such, it is pertinent to understand for whom these expenditures are made.

The latest year for which expenditures are available by age is fiscal 1969. Of the $52.6 billion spent for personal health care in fiscal 1969, one-fourth ($13.5 billion) went for the medical care of the less than one-tenth of the population who are aged. Only 16 percent of the outlays were spent on the youngest age group (under 19) which represented 37 percent of the population. The remaining 58 percent was spent on the 19-64 age group representing 54 percent of the population.

Age	FY 1969 Expenditures (in millions)	Population (in thousands)	Percentage distribution	
			Expenditures	Population
Total.....	$52,564	205,298	100.0	100.0
Under 19.....	8,415	75,253	16.0	36.7
19-64.....	30,659	110,557	58.3	53.9
65 and over.....	13,490	19,488	25.7	9.5

The relatively large outlays spent for the aged reflects the fact that the aged have more and costlier illnesses than the younger population. The average health expenditure in fiscal year 1969 for each aged person was six times that for a youth, and two and one-half times that for a person in the 19-64 age group:

Age	FY 1969 per capita expenditures
Total.....	$256
Under 19 years.....	112
19-64.....	277
65 and over.....	692

Source of Funds

The average medical care bill of an individual today is financed both publicly and privately. By far the larger share of the medical care dollar has always come from private funds, but, as Medicare and Medicaid were added in fiscal 1967, a shift to more public financing occurred. In fiscal 1966 (before Medicare and Medicaid) the Government spent 26 cents of every medical care dollar. By fiscal 1970 the Government's portion had reached 37 cents with much of this increase coming from Federal funds.

Source of funds	Amount (in millions)		Percentage distribution	
	FY 1966	FY 1970	FY 1966	FY 1970
Total.....	$42,286	$67,240	100.0	100.0
Private.....	31,464	42,258	74.4	62.8
Public.....	10,822	24,982	25.6	37.2
Federal.....	5,390	16,667	12.7	24.8
State and local.....	5,432	8,315	12.8	12.4

The public and private share of the medical care bill varies for each of the age groups. In fiscal 1969, almost three-quarters of an aged person's bill was funded by the Government. Medicare alone financed 47 percent and Medicaid contributed 16 percent. In fiscal 1966, the year before Medicare, only three-tenths of an aged person's medical bill was paid for by public funds. (All Medicare payments are classified as public outlays, including premium payments made under the supplementary medical insurance program.)

For the average person in the 19-64 age group, public funds contributed one-fifth of his 1969 health bill; and for a youth, the public share was just one-fourth.

The private portion of a person's health bill does not all come directly out-of-pocket. Private health insurance, philanthropy, and industry, through

industrial in-plant services, help reduce these direct payments. Here, too, there is substantial variation by age.

When all ages are summarized together, the average personal health care bill in fiscal 1969 was $256 per person. Private health insurance paid $57 or 22 percent of the bill, philanthropy and industry contributed another $4 or 2 percent, and when the Government's $91 or 36 percent share was added, the amount remaining for the individual to pay directly was $104 or 41 percent.

For a person under age 65 private health insurance played a larger role, financing $60 (29 percent) of the average bill of $210. After deductions for Government, philanthropic and industrial spending, the person under 65 years of age directly spent an average of $98.

With the substantial contributions of Medicare and Medicaid to the aged person's health bill, his out-of-pocket expenses were only 24 percent or $163 of his $692 bill. Private health insurance paid $26 (4 percent) and philanthropy and industry contributed another $4 (1 percent) of the bill.

The following tabulation shows, by age, the per capita amount and health care expenditures met by third parties in fiscal 1969:

Age	Total	Direct payments	Third-party payments			
			Total	Private health insurance	Government	Philanthropy and other
	Per capita					
Total.....	$256.04	$103.82	$152.21	$57.12	$91.23	$3.87
Under age 65.....	210.30	97.58	112.72	60.40	48.45	3.86
Aged 65 and over.	692.22	163.38	528.84	25.86	499.08	3.90
	Percentage distribution					
Total.....	100.0	40.6	59.4	22.3	35.6	1.5
Under age 65.....	100.0	46.4	53.6	28.7	23.0	1.8
Aged 65 and over.	100.0	23.6	76.4	3.7	72.1	.6

It is evident that Medicare and Medicaid are the largest supporters of the aged's public health bill, contributing 65 percent and 22 percent, respectively. It is interesting to note, however, which public programs help fund the health bills of the other age groups.

For the person under age 19, Medicaid was his largest public contributor supporting 38 percent of the public effort on his behalf. The Defense Department spending in its Dependents Medical Care Program was responsible for another 28 percent and the maternal and child health care programs funded 14 percent.

For the person in the 19-64 age group, the largest public contributor was the general hospital and medical program (classified as "all other") which is primarily the State and local mental hospitals. The second largest contributors were the Veterans Administration and Defense Department which together paid one-third of the public outlays for this age group.

Public program	All ages	Under 19	19-64	65 and over
Amount--FY 1969--(in millions)	$18,729	$2,227	$6,776	$9,726
Percentage distribution	100.0	100.0	100.0	100.0
Medicare	33.6	---	---	64.8
Medicaid	23.6	37.9	21.4	21.9
Veterans Administration and Defense Department	17.2	27.8	33.7	3.4
Maternal and child health	2.0	14.1	1.0	---
All other	23.6	20.2	43.9	9.9

With so much of the total public health funds coming from Medicare and Medicaid, more than half of all the public personal health care outlays in fiscal 1969 was spent on the aged. Of the private funds, however, more than seven-tenths was spent on persons age 19-64:

Age	FY 1969 Amount (in millions)		Percentage distribution	
	Private funds	Public funds	Private funds	Public funds
Total	$33,835	$18,729	100.0	100.0
Under 19	6,189	2,227	18.3	11.9
19-64	23,884	6,776	70.6	36.2
65 and over	3,762	9,726	11.1	51.9

Type of Expenditure

After examination of the large amounts being spent for medical care, the factors affecting their growth, and the sources of medical care financing, it is useful to look at the type of health care being purchased.

The largest single item of expenditure--representing 43 percent of the average personal health care outlay--was for hospital care, including both inpatient and outpatient services. Expenditures for hospital care continue to be one of the fastest-growing categories, rising an average 16.8 percent per year in the 3-year period ending fiscal 1969. The rapid rise in hospital costs, together with an increase in hospital use contributed to the large increase in outlays.

The second largest category of expenditure was for physicians' services which comprised 23 percent of the total. This category was followed by drugs and drug sundries (12 percent), other professional services (10 percent), nursing home care (5 percent), and all other services (8 percent).

The proportion of outlays spent for each type of service varies considerably by age. For persons in both the 19-64 and 65 and over age groups, hospital care is the largest category, representing 45 and 48 percent, respectively. But for a youth, hospital care is only one-quarter of his bill and physicians' services, comprising one-third, is the largest.

Nursing-home care is the second largest category for an aged person, with 16 percent of his bill being spent for this purpose. It is less than 1 percent of the bills for persons in the younger age groups, as shown below:

Type of expenditure	Percentage distribution			
	All ages	Under 19	19-64	65 and over
Amount--FY 1969--(in millions).....	$52,564	$8,415	$30,659	$13,490
Percentage distribution..	100.0	100.0	100.0	100.0
Hospital care.....	42.9	24.6	45.4	48.4
Physicians' services.....	22.7	33.4	22.9	15.5
Other professional services.	9.7	15.2	10.8	4.0
Drugs and drug sundries.....	11.9	13.0	11.9	11.5
Nursing home care.....	4.6	.2	.7	16.1
Other health services.....	8.2	13.6	8.3	4.5

Although there are substantial differences in the amounts spent for each age group, the extent of the differences varies by type of expenditure. The average hospital expenditure of an aged person ($335) was more than 12 times that for a youth ($27) and more than two and one-half times that for a person in the intermediate age group ($126). For physicians' services, the average expenditure for the aged person ($107) was 3 times that for a youth ($37) and less than twice that for a person in the intermediate age group ($64).

The distribution by type of service also varies according to source of funds. Looking at total fiscal 1970 expenditures (both personal and nonpersonal), it was found that of the $42.3 billion spent from private sources, about three-tenths was for hospital care; of the $25.0 billion from public funds, half was for hospital care. Similarly, nursing-home care comprised less than 3 percent of private expenditures but represented 7 percent of the public outlays. The proportion spent for medical research was also smaller in the private sector: less than 0.5 percent, compared with 7 percent in the nonprivate sector.

For drugs, however, 15 percent of the private medical care dollar was spent but only 2 percent of the public dollar. Thirty-five percent of the private health dollar purchased services of health professionals--doctors, dentists, nurses, and other medical professional personnel; only 15 percent of public funds were spent for these services.

This paper has presented a brief description of spending in today's medical care system. With costs so high, it is evident that changes in the financing and delivery of medical care are needed. The direction and magnitude of these changes are yet to be determined.