

# **An Insight on Health Care Expenditure**

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*Abstract: Health care expenditure is undoubtedly the most discussed issue currently in the United States. The growing health care expenses have a reasonable impact on the national budget. There are various reasons for the growing cost of health care. The constant improvement in the health care technology has a considerable effect on the health care budget. The reasons for the driving health care cost are increased income, the pace of drug prescription, the dramatic rise in treatments of chronic diseases and increased number of aging population due to advances in medicine. The WHO summarizes a policy to oversee and assess health care expenses globally called as the National Health Accounts. The WHO keeps an account of per capita health care expenditure in countries worldwide. This explorative paper focuses on the various aspects of health care that have a growing effect on the country's national budget and also implications that can cut down these costs.*

### **INTRODUCTION**

The health care industry is one of the largest industries in the United States. According to the Congressional Budget Office, in 2009 United States health care spending was 17.6% of the Gross Domestic Product (GDP). The country's economy has always been under great pressure to meet with the rising cost of health care. Health care expenditure is growing each year surpassing the expenditures of other goods and services. Rise in cost in health care increases the burden on insurance companies, households and national budgets. This is not only the situation in United States but also in other countries worldwide. Many countries in Asia and Europe are now considering privatizing some elements of health care to lessen the burden on national health expenses. Health care expenditure has many dimensions. One of the most important aspects is

the growing GDP of a country. An increase in total health care expenditure portrays the ability of a country to spend because of the growing GDP. This is eventually highlighted by the increased per capita income of a nation. Individuals can buy and spend more on improved and advanced quality of health care services (DeGregorio & Newman 2006). Thus, the way a country spends on health care is directly linked to the economic system of the country. The health care industry comprehends on providing patient care and services to individuals in various aspects. According to the Bureau of Labor Statistics, there are about 595,800 sectors in health care, 76% of which comprises of offices of physicians and dentists and less than 1% constitute to hospitals which employ 35% of all workers. The various constituents of health care are hospitals, nursing and residential care facilities, offices of physician and offices of dentist, home health care services and ambulatory health care service.

## **FACTORS LEADING TO RISE IN HEALTH CARE EXPENDITURE**

### ***Advances in Medical Technology***

In an attempt to provide improved care, this industry has seen major technological advances over the past few years. Technology has not only improved and helped doctors to conclude to definitive diagnosis; it has also increased the speed at which treatment can be administered. Technological progress in the field of health care has made numerous diseases curable. It is possible to detect cancer in its early stages. Vaccines are available to curb infectious diseases and definitive treatments exist for conditions like cardiovascular diseases, endocrinopathies, cerebrovascular disorders, etc. Surgical interventions such as coronary bypass surgeries, dialysis procedures, joint replacement surgeries, introduction of pacemakers, bone marrow transplantation and radiological investigative procedures, have indirectly lead to increase in health care spending (Bodenheimer & Fernandez, 2005). These procedures reduce the mortality rate and provide better prognosis improving patient's standard of life. Inclusion of new apparatuses and facilities in hospitals also contributes to the rise in cost of health care expenses. The availability of new and improved drugs and various clinical trials have also added to increased health care cost. Development of technology in medicine administers improved care to the patients; however raising qualms about spending on health care or other projects (The CBO Paper, 2008).

### ***Increase in Chronic Diseases***

Improvement of lifestyle has lead to an easy, comfortable and luxurious life for many individuals. This has lead to an augmentation of numerous illnesses. Etiological factors such as stress, obesity, smoking and consumption of alcohol accelerate the progression of various diseases. Common prevalence of diabetes, heart failure, breast cancer, STDs, etc lead to an alarming rise in cost and increase spending in health care. Currently, childhood obesity is a concerning issue in many countries especially in United States. As stated in the Weight Control Information Network of the US Department of Health and Human Services, obese people pay 42% more on health care than normal weight individuals (Overweight and Obesity Statistics, 2010). All these factors are increasing the amount of treatment administered to patients, thus increasing health care expenditure. Even after the abundant spending on health care, the WHO estimates that 60% of death worldwide are due to chronic diseases.

### ***Population Factors***

There has been a considerable increase in the amount of elderly population worldwide. The advances in medical technology have led to an increase in the longevity of life. Increase in life expectancy has gradually led to rise in the per capita spending on health care (Shrestha, 2006). Treatment of aging population leads to consistent increase in amount of insurance expenditure. Improvement in the pre and post natal care has drastically decreased the infant mortality rate, leading to growth in population.

### ***Rising Personal Income***

Increase in the households income leads to an increase in spending on healthcare. People will now be able to afford better care for themselves and their families. “Economist believe that, other things being equal, rise in income will lead to an increase in the quality of medical care demanded leading to rise in spending on healthcare”(The CBO Paper, 2008).

## **EVALUATION OF HEALTH CARE SPENDING**

In many countries, health care is provided to individuals by various profit and nonprofit health organizations. However, to maintain a better quality of health care provisions the providers should be well informed about the national health expenditures. The World Health Organization, being a part of the United Nations, has developed one such policy called as the National Health Accounts (NHA). “It provides information regarding policy design and implementation, policy dialogue, monitoring and evaluation of health care interventions. They provide the evidence to help all level of policy-makers, non-governmental stakeholders, and managers to make better decisions in their efforts to improve health system performance” (National Health Accounts, 2006). The WHO aims at developing and maintaining health care quality in different countries around the world. It maintains leadership in global health issues; it monitors health reforms by setting global norms and standards, and maintains and coordinates growing health trends. The NHA is an important tool for evaluating the health care expenditures in different countries around the world. It has a specific evaluation system based on international classification. As formulated by the WHO, the international classification of health care accounts is based on four major dimensions: financing sources or financial inflow, financing agents who manage the health care expenditure, health care providers and functions which refer to health care activities provided by a system. Other factors like the pharmaceutical industry, the socio economic influences, and statistics of various diseases are considered for estimating NHA. The NHA methodology has been considered by many nations as an evaluation factor because it shows the range of global expenditures on health care. Thus, countries worldwide are able to compare and reason the amount of the national health care expenses.

*Figure 1* is a representation of the amount spent per capita in nations worldwide. According to the WHO analysis, the United States, Canada, Australia, United Kingdom, France spend \$1000 to \$5000 and above per capita on the health care expenditure. However, countries like India and China spend approximately \$26 to \$100 per capita on health care expenditure.

In 2006, the total world health care expenditure was approximately US\$4.7 Trillion. The composition of world health care expenditure as illustrated in *Figure 2* consists of 44% Social and Private Insurance, 34% General government expenditure, 18% out of pocket expense and 4% other expense (World Health Organization, 2006). Compared to other nations, United States devotes a considerable amount of its economy to health care than many other developed countries. According to Organization of Economics Co-operation and Development (OECD), in 2006 United States spent 15.3 % of its GDP, while other countries like Canada spent 10%, France spent 11%, Germany around 10.6% while UK and Japan estimated around 8.1% of their total GDP.

### **THE UNITED STATES HEALTH CARE SPENDING**

Health care expenditure is a major constituent of GDP of a nation. The GDP of the country rises with an increase in health care expenditure. The personal consumption expenditure in the last three decades has shown a steep rise in United States (Reinhardt, Hussey & Anderson, March, 2004). According to the Congressional Budget Office in 2009, the spending on health care was about 17.6% of the United States GDP. The Center for Medicare and Medicaid estimates that the US government spends over US\$ 2.5trillion in 2009.

The health care expenditure is distributed by the types of services. As shown in *Figure 3* approximately 31% of the total health care expenditure is spent on hospital care and 21% on physicians and other clinical services. The remaining 48% is spent on personal health care and other health expenditures (The Kaiser Family Foundation, 2009). The increased cost has to be paid from the out of pocket as insurance premiums and other subsequent payables, as long as individuals are covered under the insurance.

### **IMPLICATION ON HEALTH CARE EXPENDITURE**

“A report released by the CEA in June 2009 demonstrated that slowing the growth rate of health care costs would raise U.S. standards of living by freeing up resources that could be used to produce other goods and services” (as cited in Economic Report of the President, February 2010). In order to control the growing health care cost, the countries must either curtail the current health care cost or innovate ideas to reduce the future health care spending. The government should create public awareness about the health care system and its operations. With the changing lifestyles there has been an increase in a large number of diseases. Increased prevalence of obesity, smoking, alcoholism in the population leads to various diseases. The governments should put forth proposals to prevent these causes by providing incentives for workers to engage and educate people about it. This preventive measure would fairly decrease the medical cost and expensive lifelong treatments. Facilitating an optional health care system, where the people can choose between private and public health care providers, is an easy way of beginning to implement reduction in health care costs. The government should implement measures to make health care more feasible to the people. This would encourage more people to buy health care coverage for themselves and prevent from ignoring personal health issues and leading a healthy life.

## CONCLUSION

Health care cost has been increasing at an alarming rate in the past few years. The health care costs contribute a major portion of the country's economy. Health care expenses are related to the GDP of the nation. The rise in cost has been accompanied by the period of recession. This has made it difficult for common man to afford health care. The recently passed Senate's health care reform bill makes health care more accessible to people. It provides health care insurance to 32 million uninsured Americans and estimated cost of \$940 billion over the next decade (White House, 2010). Insurance companies will not be able to refuse coverage for people who have long term illnesses or pre existing conditions. The bill also enables discounts on prescriptions for senior citizens and children under the age of 26 will be covered under their parents insurance. The health care bill is a provision to help reduce nonessential medical expenses. However, the effectiveness of the bill depends on the government's ability to enforce the necessary reforms (The Economist, 2010). The government should strive to recognize the lack of strategic implications and try to provide a more consistent health care economy.

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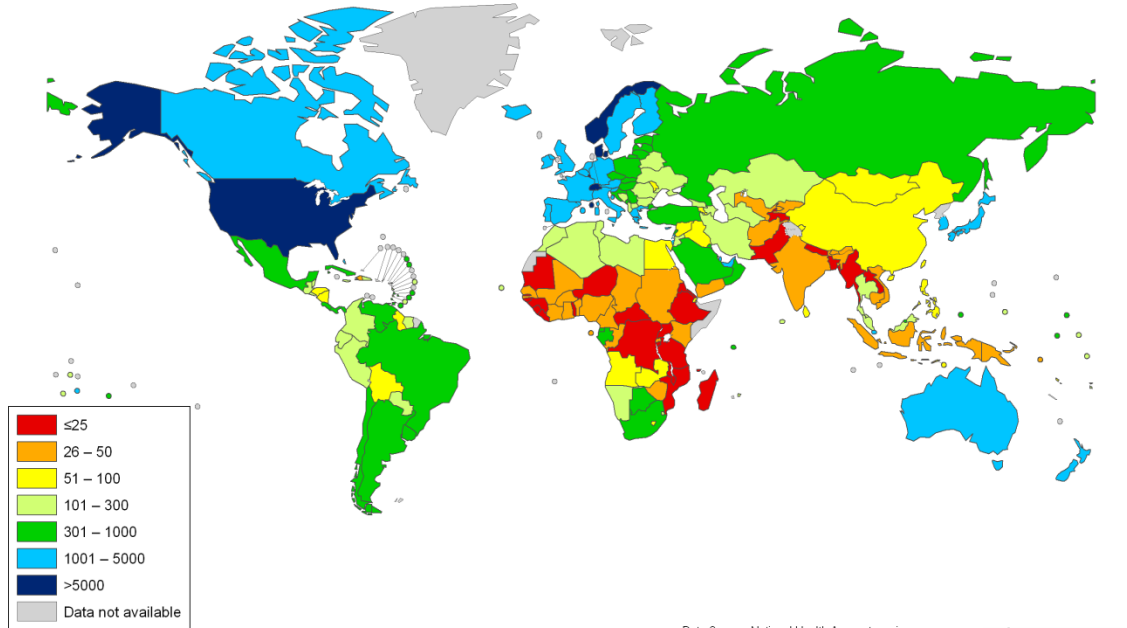
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## APPENDIX

*Figure 1*

**Total expenditure on health per capita, 2006  
(in US\$)**



The boundaries and names shown and the designations used on this map do not imply the expression of any opinion whatsoever on the part of the World Health Organization concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Dotted lines on maps represent approximate border lines for which there may not yet be full agreement.

Data Source: National Health Accounts series,  
World Health Organization  
Map Production: Public Health Information  
and Geographic Information Systems (GIS)  
World Health Organization



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*World Health Organization, National Health Accounts*



Figure 2

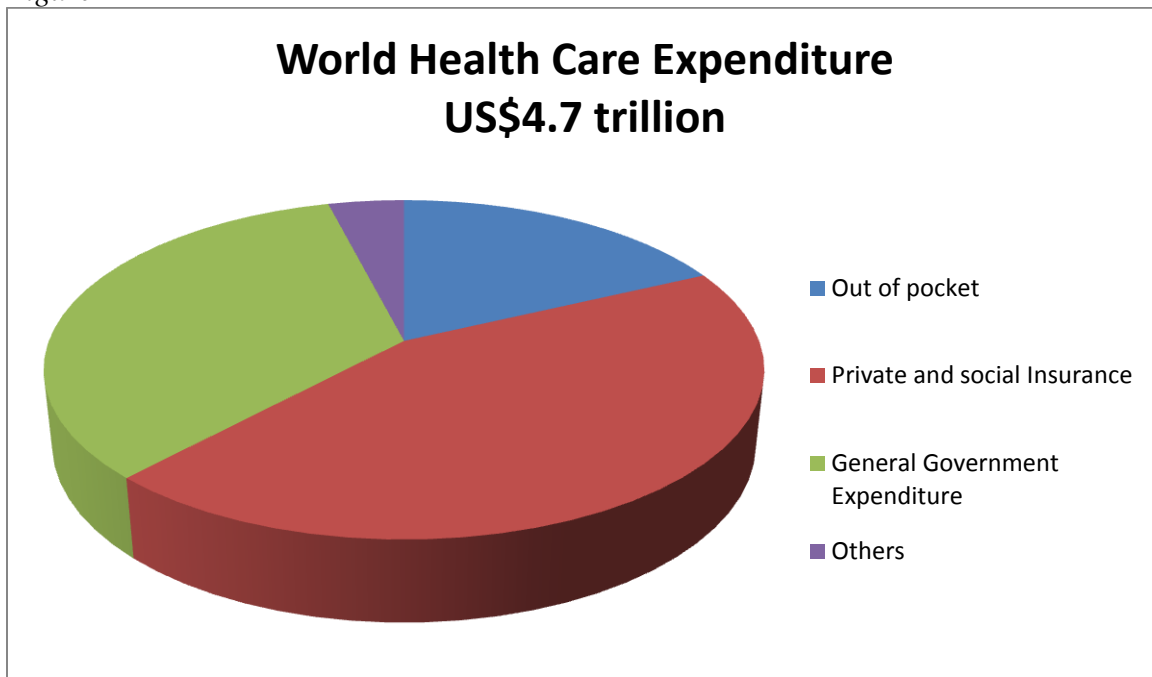
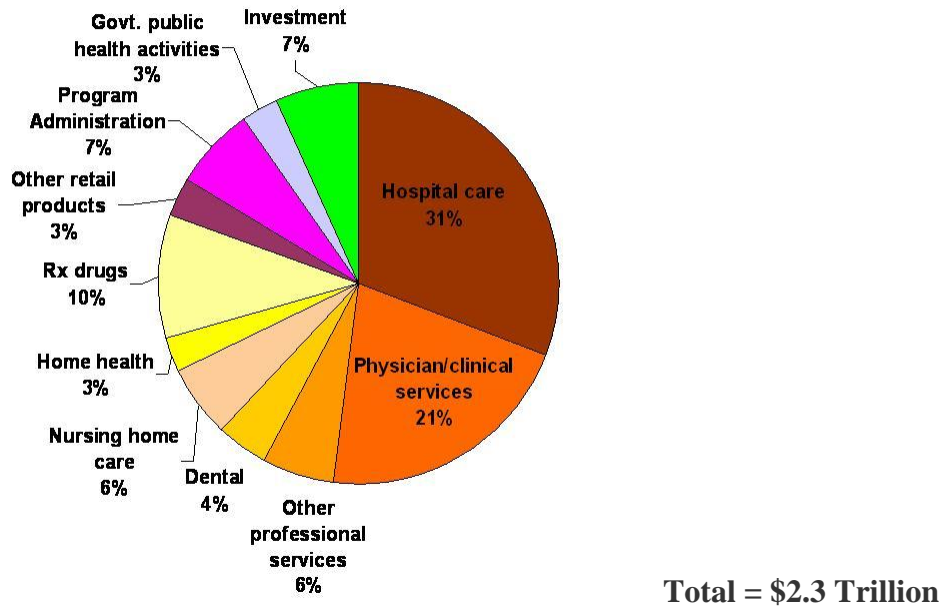


Chart derived using data from World Health Organization, 2006

Figure 3



*Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group*