



# *Backgrounder*

## AMERICAN ACADEMY *of* ACTUARIES

### Rising Health Spending

The number of uninsured Americans has been climbing steadily and reached 47 million in 2006, according to the U.S. Census Bureau. State and federal policymakers have been pursuing various approaches to expanding health insurance coverage. Generally, the most prominent are comprehensive proposals that would rely on the private insurance market as well as expansions of public coverage. Even if this effort to achieve universal coverage is successful, however, it would address only part of the problem of the uninsured. In general, these various proposals don't address the root of the problem—the rising costs of health care.

Recent National Health Expenditure data reveal that health care spending increased 6.7 percent in 2006, slightly higher than the 6.5 percent growth rate in 2005. Although these growth rates are lower relative to those earlier in the decade, they nevertheless exceed the overall growth in the economy. As a result, health care spending has continued to grow as a share of the economy, reaching 16 percent of the gross domestic product (GDP). If the growth in health care spending does not slow, attempts to achieve universal coverage will fall short. Many individuals will find insurance premiums, even subsidized premiums, too expensive.

The Kaiser Family Foundation and the Health Research and Education Trust found that since 2001, employer-sponsored health insurance premiums increased 78 percent, or 10 percent per year on average. These increases are not only higher than the rate of inflation, but higher than wage growth rates as well. Higher premiums make it less likely that employers will offer health insurance to their workers and, even when they do, workers are less likely to be able to afford their share of the premiums.

Rising health care costs also mean that costs to the government for public health insurance coverage will rise, putting a strain on state and federal budgets. Medicaid now rivals elementary and secondary education spending as the largest budget item for states. Similarly, Medicare is becoming a larger component of the federal budget. In 2005, nearly one out of every seven federal revenue dollars was used for Medicare. By 2050, this could increase to one out of every two dollars. Although some of this increase is due to the aging of the population, rising health care costs play an even larger role.

If the growth in health care costs does not slow, attempts to achieve universal coverage will likely be in vain. Reducing health insurance premiums in one year will provide only a temporary respite if rising health care costs mean that premiums will return to their original levels within a few years and continue to rise rapidly thereafter. Any health reform proposals, therefore, must focus seriously on controlling health spending.