Chapter 2. Historical Trends in Medicare Expenditure Growth

This chapter reviews trends in aggregate Medicare expenditures for physicians' services and compares them to expenditures by other payers. To provide further context, it also reviews trends in aggregate Medicare payments and compares them to aggregate expenditures for other payers.

The first part of the chapter reviews trends in the Medicare expenditure targets and updates, including the Volume Performance Standard (VPS) and the Sustainable Growth Rate (SGR). Trends in price updates for services included in the Medicare Physician Fee Schedule are also described. The second part of the chapter compares trends in Medicare physicians' services expenditures with trends in other types of national health expenditures, trends in other types of Medicare services, and trends in expenditures by other payers. Medicare expenditures for physician services are compared to similar expenditures for Medicaid beneficiaries and privately insured Americans.

Trends in Performance Targets and Updates

Trend data for updates, targets, and conversion factors for Medicare physician services were collected from final rules published for physician payment updates, volume performance standards, and the sustainable growth rate in the *Federal Register* between 1991and 1998. Data on updates and targets are reported in their original form.

Targets for growth in Part B expenditures for physician services during the 1990s are shown in Table 5. In 1990, physicians were collectively expected to hold expenditure growth to 9.1 percent; overall, the targets for expenditure growth remained between 7.3 and 10 percent until 1996. In 1996 the target was reduced to 1.8 percent, and then to –0.3% in 1997.

When the VPS was introduced, there were separate targets for surgical and other nonsurgical services. The surgical services target was 3.3 percent in 1991 and increased to 8.4 percent in 1993 and to 9.1 percent in 1994 and 1995. In 1996, the surgical target decreased to –0.5 percent and then to –3.7 percent in 1997. In 1994, the primary care target was introduced and set at 10.5 percent. Primary care targets increased substantially between 1994 and 1997, peaking at 13.8 percent in 1995. Targets for other nonsurgical services increased in the 1990s between 8.6 percent in 1991 and 9.2 percent in 1994, falling to 0.5 percent in 1997. In 1998, the Sustainable Growth Rate of 1.5 percent replaced the other separate targets.

Updates and Conversion Factors

Update factors determine the year-to-year change in the dollar conversion factor, used to reimburse physicians and others reimbursed through the physician fee schedule. Table 6 shows the trends in the updates to the fee schedules between 1992 and 1997 and the single conversion factor introduced in 1998. The update to the fee schedule in 1993 was below 2 percent. In 1994 and 1995 the weighted average update surged to around 7 percent, but then the update factor dropped below 1 percent in 1996 through 1998. Between 1993 and 1997 the fee schedule updates contained different update factors for surgical services, primary care (after 1994), and

nonsurgical services; but the Balanced Budget Act replaced these updates with a single update factor and conversion factor.[11]

The update factors determine the changes in prices paid per RVU over the period 1993 to 1998. Table 6 shows the update factors and correspondingly updated dollar conversion factors. (The conversion factors are multiplied by the RVUs for a physician service to produce payment amount.) Updates are shown in percentages while conversion factors are shown in dollars (rounded to two decimal places). In 1998 the single conversion factor was rebased at $36.69.

The Balanced Budget Act and the move to a single rebased conversion factor had the most significant impact on surgical services. The surgical conversion factor increased from $31.96 in 1993 to $41.00 in 1997. After the introduction of the single conversion factor, surgical services were reimbursed at the uniform conversion factor of $36.70 in 1998.

The first column of Table 7 shows the cumulative increase in the conversion factors for different service types between 1993 and 1998. The cumulative increase in the conversion factor for surgical services was 14.7 percent. Primary care and nonsurgical services increased by 17.3 percent between 1993 and 1998. The cumulative increase for surgical services over this period was lower than the increase for other services because of introduction of the uniform conversion factor in 1998. Table 6 shows the difference between primary and nonsurgical conversion factors, which is not reflected in the cumulative growth of 17.3 between 1993 and 1998 in Table 7. The cumulative primary and nonsurgical rate is the same because primary services were updated by the nonsurgical update in 1993, and in 1998 the conversion factors were also identical.

Table 7 compares the annualized growth rate between 1993 and 1997 (center column) and 1993 and 1998, shown in the final column. The impact of the single conversion factor introduced in 1998 is shown in the final column. Between 1993 and 1997 the annualized growth rate for surgical services was 6.4 percent, but between 1993 and 1998 the growth rate was lower at 2.8 percent, reflecting the influence of the lower uniform conversion factor. Primary care services grew at relatively similar rates between 1993 and 1997 and between 1993 and 1998, mainly because the 1998 uniform conversion factor was based on the 1997 primary care services conversion factor. Nonsurgical services grew at an average rate of 2 percent between 1993 and 1997 and by 3.2 percent between 1993 and 1998.

Changes in the update factors during the study period largely reflect the feedback loop between target and actual expenditures. As reported in Table 3 of Chapter 1, the Performance Adjustment Factor for surgical services was 0.4 percent in 1993, 12.8 percent in 1995 and –0.1 percent in 1997. This was because expenditures in years prior to 1995 had not met the VPS targets, while those in 1993 and 1997 were close to targets. The Medicare Economic Index was fairly stable between 1993 and 1998. During the study period, the Medicare Economic Index ranged between 2.0 and 2.7 percent. The fee schedule update ranged between 0.6 percent and 7.5 percent. In addition, especially in the early years of the 1990s, there were relatively high initial expenditure targets for most types of services.

[11] Prior to 1994, primary care services were updated using the nonsurgical services update. When the primary care update and conversion factor was introduced in 1994, the name of the nonsurgical update was changed to “other nonsurgical services.”

Historical Trends in Health Expenditures

Data and Methods

To describe the trends between 1993 and 1998 in expenditures for physician services, we collected data from a variety of sources. National health expenditure data from the Health Care Financing Administration's National Health Accounts data set *National Health Expenditures*, released in March 2001, were used. This data set contains national health expenditures for categories of services from 1960 and 1999. Data were also gathered from Physician Payment Review Commission reports, MedPAC reports, reports of the Supplementary Medical Insurance Trust Fund, and various issues of the *Green Book* data compilations published by the House Ways and Means Committee of the United States Congress. Medicare benefit payments data for Part B services and Medicare enrollment data for managed care and fee-for-service enrollees were collected from Health Care Financing Administration publications, including the *Health Care Financing Review's Medicare and Medicaid Statistical Supplement* and from various issues of the *Statistical Abstract of the United States.* Below we describe the composition of the National Health Accounts, other data sources, and some of the strengths and limitations of the data sources.

National Health Accounts data disaggregate expenditures according to standard categories. In the National Health Accounts, the type of product consumed or, in the case of services, the type of establishment providing the service determines what is included or excluded from health care spending (Health Care Financing Administration, 2001). We used expenditure categories from the National Health Accounts to quantify trends in physician service expenditure. The first expenditure category is "physician and clinical services." This category of expenditure comprises services provided in establishments operated by Doctors of Medicine (M.D.) and Doctors of Osteopathy (D.O.), outpatient care centers, plus the portion of medical laboratories services that are billed independently by the laboratories. This category also includes services rendered by a doctor of medicine (M.D.) or doctor of osteopathy (D.O.) in hospitals, if the physician bills independently for those services. The second major category of health expenditure classification used in the National Health Accounts is "other professional services," which includes services of registered and practical nurses in private duty, podiatrists, optometrists, physical therapists, clinical psychologists, chiropractors, naturopaths, and Christian Science practitioners. Finally, the National Health Accounts separately list expenditures for dental services.

The second major type of data used is Medicare program expenditures, the amounts Medicare paid physicians or other suppliers.[12] These data have various strengths and weaknesses. Published Medicare expenditure data are highly aggregated and do not break down expenditures to a high level of detail (Welch, 1998). Available expenditure data do not correspond to the statutory definition of physician services.[13] Published Medicare program

[12] These do not include beneficiary out-of-pocket expenditures.

[13] In our analyses in chapter 3 we use raw claims level data that we can aggregate to match the statutory definition of physicians' services.

expenditures are not compiled consistently.[14] Medicare data are reported in different ways between 1990 and 1998 in the statistical sources examined, with two conventions used: "physicians and suppliers" or expenditure reimbursed under the "Physician Fee Schedule." Data showing expenditures for Physicians and Suppliers are available between 1990 and 1998. Physician Fee Schedule expenditure data are available between 1993 and 1998. "Physicians and suppliers" includes a wider range of services[15] than "physician fee schedule." Medicare Physician Fee Schedule expenditures include expenditures for services reimbursed under the Medicare Fee Schedule, and include both physicians and other providers. However, one of the advantages of Medicare program expenditure data is that program expenditures exclude Part B managed care enrollee expenditures, whereas National Health Accounts includes this group. With increasing enrollment in Medicare managed care plans in the 1990s, this factor is particularly important. We report both estimates of program expenditures.

The National Health Accounts and the Medicare program expenditure data sources provide different, but complementary, estimates of Part B physician expenditures. National health accounts data enable comparisons between public and private expenditures over time, and between Medicare and Medicaid expenditures. Differences exist in the age, income, and health status of these population groups, however, and their benefit packages are not comparable. Despite differences in the populations served and the services provided, the National Health Accounts have the strong advantage of using a consistent method of compiling annual data over time.

Population and enrollee data were used to develop per person expenditure estimates. The number of Medicare beneficiaries was growing more rapidly than the number of persons covered by private insurance over this time period, making comparisons of per capita expenditures important (Moon, 1999). Medicare fee-for-service Part B enrollee counts were used to create Medicare Part B per capita expenditures. Where Medicare expenditures are disaggregated as fee-for-service and managed care expenditures, the appropriate enrollee population was used to estimate fee-for-service or managed care cost estimates. National population data from the Census were used to create per capita figures for other population groups in the National Health Accounts.

In sum, comparing per person physician expenditures across payers and across times requires data from a variety of data sources. The mix of data sources provides complementary estimates of physician expenditures during the study period.

Expenditure Trends

The 1990s saw major shifts in the financing of health care, which influenced the rate of health care inflation in the public and private sectors. Whereas in 1990 total health expenditures

[14] Published data on Medicare physician program expenditures are based on Health Care Financing Administration data. The published sources consulted included *Health Care Financing Review Statistical Abstract* (1999), the House Ways and Means *Green Book* series, and the *Statistical Abstract of the United States*.

[15] Medicare Program expenditures for "physician and suppliers" under Medicare Supplementary Medical Insurance (Part B) includes the package of services defined in the introduction. For example, this includes medical care; anesthesia; X-rays; mammography; psychological, physical and occupational therapy; lab tests; and some drugs. "Physicians and Suppliers" excludes expenditures for prepaid or managed care plans, home health agencies, and independent laboratories. However, this category also includes "durable medical equipment" and "other services" that are not part of the package of services included in this study. Therefore, this estimate will tend to overstate expenditures.

grew from the previous year by almost 12 percent, expenditure growth was 5.4 percent over the previous year in 1995, and 5.6 percent in 1999. These lower growth rates for health expenditure were experienced by private, Federal, State and local payers, and across all types of care except for drugs, home health services, and some types of personal health care services and supplies.

Table 8 compares the trends in total (per capita) health expenditures of privately insured Americans over the last thirty years compared to Americans insured under Medicare. The real average annual change in expenditures for the Medicare insured was 5.3 percent, compared to 6.5 percent for privately insured Americans. Between 1985 and 1991, Medicare's inflation-adjusted annual growth slowed to around 3.3 percent compared to 8.1 percent per enrollee for the privately insured. As more privately insured Americans enrolled in managed care insurance plans in the early and mid-1990s, average growth rates fell for this group compared to Medicare. Private insurance expenditures began to grow more rapidly towards the end of the 1990s. Between 1997 and 1998, Medicare's expenditures fell by .1 percent in real terms while expenditures for privately insured Americans increased 5.9 percent.

Although year-to-year growth in total national health expenditures was slowing in the middle years of the 1990s, personal health expenditures were increasing at a faster rate than all health expenditures (see Table 9). Expenditure trends for physicians' services mirrored the trends of slower growth in total health expenditures during most of the 1990s. Physician and clinical service expenditure increased at a faster rate than hospital care, but not as fast as total personal health expenditure. Hospital services grew at a much slower rate than physician and clinical services in the latter half of the 1990s.

Table 10 shows that between 1970 and 1999 third party payments increased as a proportion of total expenditures for physician and clinical services. Direct consumer payments decreased as a percentage of all payments while third party payments increased. Third party payers accounted for 54 percent of physician service expenditure in 1970. By 1990 third party payers were funding 81 percent of physician service expenditure. Through the 1990s this trend continued and by 1999 third party payers were responsible for almost 89 percent of physician expenditures.

Direct consumer payments for physician and clinical services declined from 19 percent in 1990 to 11 percent of total expenditures in 1999. The decreasing share of out-of-pocket payments for physician services reflects changing insurance coverage and the role of public programs such as Medicaid and Medicare in paying for physician services. The proportion of payments for physicians' services made by private insurance grew between 1970 and 1999, from 30 percent to 43 percent in 1990 and to 48 percent of physician expenditures by 1999. Medicare's share of payments increased from 12 percent in 1970 to 19 percent in 1990. Throughout the 1990s Medicare's share remained between 18 and 20 percent of total physician expenditures.

For services provided by other health professionals, out-of-pocket payments also fell as private third party payments for these services increased between 1970 and 1999. Out-of-pocket payments for other professional services fell from 44 to 30 percent of all expenditures for these services, as shown in Table 11. Whereas the public sector has increased its expenditures over time for physician services, the share of expenditures paid by Federal, State, and local sources for other professional services declined in relation to other payers between 1970 and 1999. The decline in the share of public payments occurred outside of the Medicare and Medicaid programs. Medicare financed 5 percent of these services in 1970 and 11 percent in 1999, while Medicaid expenditures decreased by one percentage point relative to other payers.

Table 12 shows the increases in expenditures by private insurers and individuals between 1990 and 1999. Per person expenditures for physician, clinical, other professional, and dental services increased from $411 in 1990 to $716 in 1999 (592 in constant 1990 dollars), real increase of 44 percent. Total private insurance expenditures increased by 57 percent for physician and clinical services.

Medicaid expenditures for physician and clinical services were considerably lower than expenditures in either Medicare or by private insurers (Table 10), but the rate of growth in total expenditures was higher (Table 13). In part this was a result of increased enrollment throughout this period, rather than comparatively faster increases in per person expenditures. Medicaid expenditures per enrollee increased nearly 27 percent in real terms between 1990 and 1998 (Table 14). Physician and other clinical service expenditures increased by almost 24 percent, and other professional service expenditures 49 percent in real terms.

Table 15 shows growth in Medicare expenditures in the 1990s and the effect of payment policy changes across different types of services. Expenditures for some services grew more rapidly than expenditures for others. Medicare inpatient hospital costs for the period 1992-1997 were increasing at a rate of almost 6 percent, while physician services grew on average by just under 5 percent. Between 1992 and 1997, the fastest growing areas of Medicare expenditure were skilled nursing facility providers and home health providers. Growth in expenditures per beneficiary was fastest before 1998, partly because of high growth in home health and skilled nursing facility expenditures. Following the Balanced Budget Act, the average change in expenditures for physician services was under 4 percent, and expenditures declined by 0.5 percent in the hospital sector.

Medicare expenditures for physician, clinical, dental, and other professional services between 1990-1999 are shown in Table 16. The rows at the top of the table are based on National Health Accounts and the lower rows show program expenditure estimates. National Health Accounts data show considerably higher overall expenditures, probably as a result of including managed care enrollees. Total expenditures on physician, clinical, dental, and other professional services increased from almost $32 billion in 1990 to almost $60 billion in 1999 (46.5 billion in 1990 constant dollars), a real increase of 46 percent between 1990 and 1998, with an average annual growth rate of 4.8 percent. Physician and clinical services increased by 42.6 percent over the period, with an average annual growth rate of 4.5 percent. Other professional service expenditures increased by 97 percent in real terms between 1990 and 1998, an average annual increase of 8.9 percent. (Dentists' expenditures were very low in dollar terms at the start of the decade ($2 million) but they increased at a rapid rate between 1990 and 1998.)

Data from benefits paid are shown in the lower section of the table. Medicare program expenditures on physicians and suppliers grew from $29.6 billion in 1990 to $44.2 billion in 1998 ($37 billion in 1990 dollars). These expenditures are for non-ESRD fee-for-service enrollees only, and during this period the number of Medicare enrollees enrolling in Medicare managed care plans increased. Over this period the expenditures grew 25 percent, with an average annual increase of 2.8 percent. Physician fee schedule expenditures, which are a subset of national health expenditures and physician and supplier expenditures, are also shown in Table 16. Total expenditures paid for under the physician fee schedule grew at similar rate. Medicare physician fee schedule expenditures grew by 2.3 percent annually between 1993 and 1998.

Per person (enrollee) estimates of Medicare expenditures are shown in Table 17. Medicare expenditure data for each year from the National Health Accounts was divided by the number of

Part B enrollees.[16] Physician fee schedule and physician and suppliers expenditures were divided by the number of fee-for-service or non-ESRD fee-for-service enrollees.

National Health Accounts data show that Medicare expenditures increased from $978 to $1590 per enrollee between 1990 and 1998 ($1316 in constant dollars), a real increase of 29.4 percent (Table 17). This parallels the expenditures for private health insurers discussed above. The real average annual percentage increase for per person physician services expenditures paid by Medicare was 3.4 percent. Physician and clinical services increased 26.5 percent and other professional service expenditures 73.9 percent in real terms between 1990 and 1999.

Medicare program expenditures show similar trends to National Health Accounts estimates, although the time periods available differ. Physician and supplier expenditures increased at a real average annual rate of 3.4 percent per year. This is close to the National Health Accounts average annual increase of 3.3 percent. Physician fee schedule expenditures increased at a real annualized rate of 3.2 percent, from $820 per person to $1065 per person in 1998 ($893 in constant dollars).

In conclusion, the real average annual increases for Medicare benefits paid for physicians and suppliers were 3.4 percent for the period 1990 through 1997. Medicare expenditures for physician and clinical services estimated by the National Health Accounts show a similar 3.3 percent annualized average growth rate for physician and clinical services for the period 1990 through 1998. These estimates are close to the annualized percentage growth rates shown in Table 9 for the period 1990 through 1998 of 3.7 percent for physician and clinical service expenditures across all payers. These growth rates suggest some similarities in expenditures for physician and clinical services, despite different enrollee populations.

Discussion

The 1990s were a period of important changes in the health care sector, as payers in the public and private sectors sought greater control over costs. Within the Medicare program, a number of policy changes were introduced that affected the financing of Medicare Part B services. The physician fee schedule update and the expenditure targets discussed in the Background and Introduction sections of Chapter 1 were the principal tools used to influence expenditure growth in the Medicare program.

The broad trends suggest similarities in expenditure increases during the 1990s for physician services across a variety of payers. Per person private expenditures increased at a real annual average rate of 4 percent between 1990 and 1999. Medicaid expenditures increased by 3.0 percent (Table 13 and 14). Per person National Health Accounts estimates of physician and clinical services expenditures financed by Medicare also showed a real annual average increase (between 1990 and 1999) of 3.3 percent, and Medicare program expenditure data showed a real average annual increase of 3.4 percent between 1990 and 1998.

Similar trends in expenditure growth by payers across National Health Accounts data raise the question of what common factors are driving these trends. Aggregate expenditure data do not enable us to understand the factors driving these trends. As mentioned in the Data and Methods section of this chapter, comparisons between public and private sector expenditures are made possible using the National Health Accounts, which have similar data collection strategies

[16] As mentioned in the discussion on data and methods, National Health Accounts data do not allocate expenditures to managed care and fee-for-service enrollees; therefore, the expenditures are divided by the number of total Part B enrollees.

and service definitions. However, there are differences between Medicare and private health insurance programs in terms of the health and demographic characteristics of the population covered and the range and level of benefits provided, among other factors.

These increases in Medicare expenditures may be explained by a number of factors, including the types of benefits provided, the mix and intensity of services utilized by Medicare beneficiaries, and changes in the enrolled population. The next chapter of the report assesses the direction of these trends by examining data on the utilization and expenditures of Medicare beneficiaries.

Table 5: Medicare volume performance standard, 1990-1997, and sustainable growth rate 1998[1]

	Medicare Volume Performance Standard 1990-1997								Sustainable Growth Rate 1998[1]
	1990	1991	1992	1993	1994	1995	1996	1997	
All/weighted average	9.10%	7.30%	10.00%	10.00%	9.40%	7.50%	1.80%	-0.30%	1.50%
Surgical services	….	3.30%	6.50%	8.40%	9.10%	9.20%	-0.5%	-3.70%	….
Primary care services	….	….	….	….	10.50%	13.80%	9.30%	4.50%	….
Nonsurgical	….	8.60%	11.20%	10.80%	9.20%	4.40%	0.6%	-0.50%	….

[1] The new and updated code effect for 1996 is -0.6. This is because while the median RVU use in 1996 was higher than the median use based on the 1993 schedule by 0.4 RVUs (due to the addition of new codes and the updating of existing ones), the mean value is lower. This is likely due to devaluing over the period 1994-1996 of the practice expense RVUs for certain services, largely provided in inpatient settings, that were thought to be overvalued.

Note: The Medicare Volume Performance Standard and the Sustainable Growth rates are shown in this table. The rates are expenditure target growth rates for Medicare. The targets are established prospectively and then performance (how the actual growth rate compared to the target for that year) is retrospectively assessed. The performance adjustment factor is then used to reduce or increase the physician fee schedule update relative to the Medicare Economic Index. The physician fee schedule update is used to update the conversion factor.

Sources:
Centers for Medicare & Medicaid Services Office of the Actuary (2002), *Estimated Sustainable Growth Rate and Final Conversion Factor, for Medicare Payments to Physicians in 2002*. February 4.
http://www.hcfa.gov/pubforms/actuary/SGR/sgr2002f.htm.
Final Rule, *Federal Register*, Vol. 56, No. 227, Monday, November 25, 1991.
Final Notice, *Federal Register*, Vol. 57, No. 228. Wednesday, November 25, 1992.
Final Notice with Comment Period, *Federal Register*, Vol. 58, No. 230, Thursday, December 2, 1993.
Final Notice, *Federal Register*, Vol. 59, No. 235, Thursday, December 8, 1994.
Final Notice, *Federal Register*, Vol. 60, No. 236, Friday, December 8, 1995.
Final Notice, *Federal Register*, Vol. 61, No. 227, Friday, November 22, 1996.
Final Notice, *Federal Register*, Vol. 62, No. 211, Friday, October 31, 1997.

Table 6: Physician fee schedule updates and conversion factors by service type, 1993-1998

	1993	$CF	1994	$CF	1995	$CF	1996	$CF	1997	$CF	1998	$CF
1998 Single conversion factor											0.60%	$36.69
All services	1.40%		7.00%		7.50%		0.80%		0.60%			
Surgical	3.10%	$32.00	10%	$35.20	12.20%	$39.50	3.80%	$40.80	1.90%	$41.00		
Primary care[1]			7.90%	$33.70	7.90%	$36.40	-2.30%	$35.40	2.50%	$35.80		
Nonsurgical	0.80%	$31.30	5.30%	$32.90	5.20%	$34.60	0.40%	$34.60	-0.80%	$33.90		

$CF = Dollar Conversion Factor.

[1] The primary care conversion factor commenced in 1993. In 1998 the separate conversion factors were replaced with a single conversion factor. Between 1993 and 1997 “all services” is a weighted mean of all services. This was not an update category between 1993 and 1997.

Sources:
Final Notice, *Federal Register*, Vol. 57, No. 228. Wednesday, November 25, 1992.
Final Notice with Comment Period, *Federal Register*, Vol. 58, No. 230, Thursday, December 2, 1993.
Final Notice, *Federal Register*, Vol. 59, No. 235, Thursday, December 8, 1994.
Final Notice, *Federal Register*, Vol. 60, No. 236, Friday, December 8, 1995.
Final Notice, *Federal Register*, Vol. 61, No. 227, Friday, November 22, 1996.
Final Notice, *Federal Register*, Vol. 62, No. 211, Friday, October 31, 1997.

Table 7: Average annual percentage change in all conversion factors

	1993-1998[1] Cumulative Increase	1993-1997 Annualized Growth Rate	1993-1998 Annualized Growth Rate
Surgical	14.7%	6.4%	2.8%
Primary care, 1994-1998	17.3%	3.4%	3.2%
Nonsurgical	17.3%	2.0%	3.2%

[1] In 1993 there was no separate primary care conversion factor. The conversion factor used to calculate increases is the nonsurgical rate.

Source: Calculated from data reported in the *Federal Register*:
Final Notice, *Federal Register*, Vol. 57, No. 228. Wednesday, November 25, 1992.
Final Notice with Comment Period, *Federal Register*, Vol. 58, No. 230, Thursday, December 2, 1993.
Final Notice, *Federal Register*, Vol. 59, No. 235, Thursday, December 8, 1994.
Final Notice, *Federal Register*, Vol. 60, No. 236, Friday, December 8, 1995.
Final Notice, *Federal Register*, Vol. 61, No. 227, Friday, November 22, 1996.
Final Notice, *Federal Register*, Vol. 62, No. 211, Friday, October 31, 1997.

Table 8: Average annual growth in per enrollee Medicare and private health insurance expenditure for all services

	1969-1998	1985-1991	1991-1993	1993-1997	1997-1998
Medicare	5.3%	3.3%	6.2%	5.5%	-.1%
Private insurance	6.5%	8.1%	5.4%	1.5%	5.9%

Source: *35-Year Anniversary Chart Book.* Health Care Financing Administration, 2000.

Note: All figures inflation-adjusted using a GDP deflator (**http://w3.access.gpo.gov/usbudget/fy2001/hist.html** Table 10)

Table 9: Year-to-year percentage increase in health expenditure (all payers)

	1990	1993	1994	1995	1996	1997	1998	Average Annualized Percentage Growth, 1993-1998
National health expenditures	7.9	6.0	3.2	3.3	3.3	3.7	3.5	3.8
All personal health expenditures[1]	8.9	7.9	2.5	9.2	6.3	6.4	6.2	6.2
Hospital care	6.3	5.5	1.6	1.3	1.7	1.6	1.3	2.0
Physician and clinical	7.3	5.9	2.9	3.9	3.4	3.4	3.2	3.7
Other professional services	7.4	6.0	2.3	2.7	2.1	3.4	4.2	3.4

[1] "Personal health expenditures" are a subset of national health expenditures. Personal health expenditures include hospital, physician and clinical, other professional services, and other goods and services such as drugs and nursing care.

Source: *Health Care Financing Review*, Summer 2001 Volume 22 (4):102.

Note: All figures inflation-adjusted using a GDP deflator (**http://w3.access.gpo.gov/usbudget/fy2001/hist.html** Table 10)

Table 10: Sources of payments for physician and clinical services, selected calendar years, 1970-1999

Percentage of Total Expenditures								
Year	**Medicare[1] (%)**	**Medicaid[1] (%)**	**Out-of-pocket Payments (%)**	**Private Health Insurance (%)**	**Other Private Funds (%)**	**Federal (%)**	**State and Local (%)**	**Total columns (3) – (7) (%)**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1970	12	5	46	30	2	16	6	100
1980	17	5	30	35	4	24	7	100
1990	19	5	19	43	7	25	6	100
1991	18	5	18	45	7	24	6	100
1992	17	6	16	46	7	24	7	100
1993	17	6	15	48	7	24	6	100
1994	18	7	13	48	8	25	6	100
1995	19	7	12	49	8	26	6	100
1996	19	7	12	49	8	26	6	100
1997	20	7	12	48	8	26	6	100
1998	20	7	12	48	8	27	5	100
1999	20	7	11	48	9	27	5	100

[1] Medicare and Medicaid are subsets of the Federal and State payments, but are given as percentages of total national expenditures on physician and clinical services.

Source: National Health Accounts, Health Care Financing Administration: http://www.hcfa.gov/stats/nheoact/tables/t6.htm#d.

Table 11: Sources of payments for other health professional services, selected calendar years, 1970-1999

Percentage of total								
Year	**Medicare[1] (%)**	**Medicaid[1] (%)**	**Out-of-pocket Payments (%)**	**Private Health Insurance (%)**	**Other Private Funds (%)**	**Federal (%)**	**State and Local (%)**	**Total columns (3) – (7) (%)**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1970	5	5	44	6	5	32	14	100
1980	8	5	46	23	8	13	10	100
1990	10	2	31	35	9	12	13	100
1991	11	3	29	34	9	14	13	100
1992	12	3	29	35	9	15	12	100
1993	12	3	28	36	9	15	11	100
1994	13	3	27	36	9	16	11	100
1995	13	4	27	38	9	16	10	100
1996	13	4	27	39	9	16	10	100
1997	12	4	28	39	9	15	9	100
1998	12	4	30	39	9	14	9	100
1999	11	4	30	39	8	14	9	100

[1] Medicare and Medicaid are subsets of the Federal and State payments, but are given as percentages of total national expenditures on physician and clinical services.

Source: National Health Accounts, Health Care Financing Administration: http://www.hcfa.gov/stats/nheoact/tables/t6.htm#d.

Table 12: Total and per person private insurance and out-of-pocket expenditures, 1990-1999, in 1990 constant dollars

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Growth 1990-99	Average Annual Growth
Population (in millions)	254	257	260	263	265	268	270	273	275	278	9%	1%
Physician and clinical -- Private health insurance (in millions)	$67,698	$75,709	$82,997	$88,514	$91,472	$94,392	$95,948	$98,687	$102,158	$106,448	57%	5%
Physician and clinical -- Out-of- pocket (in millions)	$30,401	$29,885	$28,928	$27,348	$25,137	$23,137	$23,299	$24,404	$25,086	$25,388	-16%	-2%
Other professional services – Private insurance (in millions)	$6,280	$6,466	$7,316	$8,094	$8,370	$9,446	$10,313	$11,000	$11,593	$12,342	97%	8%
Other professional services -- Out-of-pocket (in millions)	$5,699	$5,591	$6,033	$6,372	$6,296	$6,795	$7,100	$8,011	$8,943	$9,416	65%	6%
Dental – Private insurance (in millions)	$15,178	$15,565	$17,038	$17,443	$18,382	$19,563	$20,411	$21,049	$21,851	$22,916	51%	5%
Dental – Out-of-pocket (in millions)	$15,364	$15,403	$16,485	$16,509	$17,019	$17,720	$18,078	$19,526	$20,557	$21,224	38%	4%
Total national expenditure, (in millions)	$140,434	$148,781	$159,351	$165,214	$168,039	$172,896	$177,481	$184,200	$191,482	$199,427	42%	4%
Total expenditure, per person	$411	$441	$479	$500	$516	$533	$545	$556	$573	$592	44%	4%

Source: Centers for Medicare & Medicaid Services (2001) *National Health Accounts Data* (2001 edition). [Computer File] http://www.hcfa.gov/stats/nhe-oact/.

Note: All figures inflation-adjusted using a GDP deflator (http://w3.access.gpo.gov/usbudget/fy2001/hist.html, Table 10)

Table 13: Total Medicaid expenditure on physician, clinical, and other professional services, 1990-1999, in 1990 constant dollars

National Health Expenditure Estimates, Millions of Dollars	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Growth 1990-99	Average Annual Growth
Medicaid physician and clinical services expenditures	$7,025	$8,784	$10,504	$11,652	$12,301	$12,997	$13,451	$13,780	$13,999	$14,643	108.4%	8.5%
Medicaid other professional services	$445	$529	$560	$767	$772	$893	$1,048	$1,116	$1,088	$1,144	157.2%	11.1%
Dental	$756	$911	$1,127	$1,540	$1,566	$1,590	$1,626	$1,681	$1,720	$1,825	141.5%	10.3%
Total Medicaid[1]	$7,470	$9,313	$11,064	$12,419	$13,073	$13,890	$14,499	$14,896	$15,087	$15,787	111.3%	8.7%

[1] Excludes Children's health insurance expansion programs.

Source: Centers for Medicare & Medicaid Services (2001) *National Health Accounts Data* (2001 edition). [Computer File] http://www.hcfa.gov/stats/nhe-oact/.

Note: All figures inflation-adjusted using a GDP deflator (**http://w3.access.gpo.gov/usbudget/fy2001/hist.html**, Table 10)

Table 14: Medicaid expenditure on physicians' services per recipient, 1990-1998, in 1990 constant dollars

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Percentage Growth 1990-98	Average Annual Growth Rate (%)
Medicaid recipients (in millions)	25.255	28.28	30.926	33.432	35.053	36.282	35.118	34.872	40.649	61.0%	6.1%
Physician and clinical services (in dollars)	$278	$311	$339	$348	$351	$358	$383	$395	$345	23.9%	2.7%
Other professional services (in dollars)	$18	$18	$18	$23	$22	$25	$30	$32	$27	49.0%	5.1%
Dental (in dollars)	$30	$32	$37	$46	$45	$44	$47	$48	$42	39.7%	4.3%
Total (in dollars) per enrollee[1]	$326	$362	$394	$417	$418	$427	$459	$475	$413	26.8%	3.0%

[1] Excludes children's health insurance expansion programs.

Source: Centers for Medicare & Medicaid Services (2001) *National Health Accounts Data* (2001 edition). [Computer File] http://www.hcfa.gov/stats/nhe-oact/.

Note: All figures inflation-adjusted using a GDP deflator (**http://w3.access.gpo.gov/usbudget/fy2001/hist.html** ,Table 10)

Table 15. Average annual Medicare expenditure growth rates by provider sector: before and after the Balanced Budget Act

Percent Average Annual Expenditure Growth Rate per Medicare Fee-for-Service Beneficiary	1992–1997[1]	1997–1999[1]
Inpatient hospital	5.3	-1.8
Home health (combined Parts A and B)	21.4	-28.2
Skilled nursing facility	30.4	-0.9
Physician services	4.3	2.4
Outpatient hospital	6.2	-6.4
Medicare+Choice (per M+C beneficiary)	7.4	5.2
Total Medicare (per beneficiary)	7.5	-2.0

[1] Years are fiscal years.

Source: Office of the Actuary, HCFA. Reproduced from MedPAC. *Medicare Payment Policy: Report to Congress*, March 2000.

Note: These figures are not inflation-adjusted.

Table 16: Total Medicare expenditure on physician services, 1990-1998, in 1990 constant dollars

National Health Accounts[1] (in millions of dollars)	1990	1991	1992	1993	1994	1995	1996	1997	1998	Growth 1990-98	Average Annual Growth 1990-98
Physician and clinical services	$30,153	$30,646	$31,137	$31,950	$34,159	$36,655	$38,120	$40,229	$43,009	42.6%	4.5%
Other professional services	$1,755	$2,181	$2,467	$2,715	$2,966	$3,257	$3,376	$3,392	$3,459	97.1%	8.9%
Dental services	$2	$2	$5	$17	$22	$33	$47	$62	$76	3713.9%	57.6%
Total Medicare	$31,910	$32,829	$33,608	$34,681	$37,147	$39,945	$41,544	$43,684	$46,545	45.9%	4.8%
Medicare benefits paid (in millions of dollars)										**Change**	**Average Annual Increase**
Physician and suppliers	$29,609	$31,163	$30,593	$31,797	$33,191	$35,620	$35,605	$36,003	$37,026	25.0%	2.8%
Physician fee schedule				$24,060	$25,802	$27,485	$26,730	$26,618	$26,948	12.0%	2.3%

[1] National Health Accounts data, current dollars.

* Change 1993-1998.

Source: Medicare Trustees Report, 2002 and the Health Care Financing Review *Statistical Supplement* (1999 and 2000).

Note: All figures inflation-adjusted using a GDP deflator (**http://w3.access.gpo.gov/usbudget/fy2001/hist.html**, Table 10)

Table 17: Annual Medicare expenditures per enrollee, 1990-1999, in 1990 constant dollars

Enrollment	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Cumulative Growth 1990-1998	Average Annual Increase
non-ESRD enrollment				31.93	32.13	32.03	31.58	30.88	30.19			
Fee for service enrollees only	31.25	31.68	32.12	32.35	32.08	31.57	30.93	30.41	30.43	30.19	-2.6	-0.3
All Part B enrollees (in millions)	32.63	33.24	33.93	34.61	35.17	35.69	36.14	36.46	36.78	37.04	12.7	1.5
National Health Accounts (in millions of dollars)												
Physician and clinical services	$924	$922	$918	$923	$971	$1,027	$1,055	$1,104	$1,169	$1,221	26.5%	3.0%
Other professional services	$54	$66	$73	$78	$84	$92	$93	$93	$94	$113	73.9%	7.2%
Dentists[1]	$0	$0	$0	$1	$1	$1	$2	$2	$2	$2		
Total	$978	$988	$991	$1,002	$1,056	$1,119	$1,149	$1,198	$1,266	$1,316	29.4%	3.3%
Medicare benefits paid (in millions of dollars)											Change	Average annual increase
Physicians and suppliers	$947	$984	$952	$983	$1,034	$1,128	$1,151	$1,184	$1,217	….	28.5%	3.4%
Physician fee schedule				$754	$803	$858	$846	$862	$893	….	18.4%	3.2%

[1] Actual per person dental expenditures for Medicare were not zero between 1990 and 1992 but were less than one dollar for every enrollee.

Source: Centers for Medicare & Medicaid Services (2001), *National Health Accounts Data* (2001 edition). [Computer File] http://www.hcfa.gov/stats/nhe-oact/. Medicare benefits paid data from the *Statistical Abstract of the United States*, 2000, and the Health Care Financing Review *Statistical Supplement* (1999).

Note: Percentage changes are 1990-1997 for physician and suppliers, and 1995-1998 for physician fee schedule expenditures.

All figures inflation-adjusted using a GDP deflator (**http://w3.access.gpo.gov/usbudget/fy2001/hist.html** ,Table 10)