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National Health Spending In 2014: Faster Growth Driven By Coverage Expansion And Prescription Drug Spending

ABSTRACT US health care spending increased 5.3 percent to \$3.0 trillion in 2014. On a per capita basis, health spending was \$9,523 in 2014, an increase of 4.5 percent from 2013. The share of gross domestic product devoted to health care spending was 17.5 percent, up from 17.3 percent in 2013. The faster growth in 2014 that followed five consecutive years of historically low growth was primarily due to the major coverage expansions under the Affordable Care Act, particularly for Medicaid and private health insurance, which contributed to an increase in the insured share of the population. Additionally, the introduction of new hepatitis C drugs contributed to rapid growth in retail prescription drug expenditures, which increased by 12.2 percent in 2014. Spending by the federal government grew at a faster rate in 2014 than spending by other sponsors of health care, leading to a 2-percentage-point increase in its share of total health care spending between 2013 and 2014.

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The National Health

Expenditure Accounts Team is recognized in the acknowledgments at the end of the article.

Total spending for health care in the United States increased 5.3 percent and reached \$3.0 trillion in 2014, or \$9,523 per person (Exhibit 1). This was faster than the rate of growth in 2013 (2.9 percent), which was the lowest in the fifty-five-year history of the National Health Expenditure Accounts. The acceleration in health spending growth in 2014 followed five consecutive years of historically low growth, which averaged 3.7 percent. Health care spending grew 1.2 percentage points faster than the overall economy in 2014 (when the nominal gross domestic product [GDP] increased 4.1 percent), resulting in a 0.2-percentage-point increase in the health spending share of GDP—to 17.5 percent. By comparison, the health spending share of GDP remained between 17.3 percent and 17.4 percent from 2009 to 2013.

The acceleration in health spending growth in 2014 was primarily driven by faster growth in private health insurance and Medicaid spending

in 2014, compared to 2013, as well as by rapid growth in spending on retail prescription drugs (Exhibit 2). Total private health insurance spending growth accelerated from 1.6 percent in 2013 to 4.4 percent in 2014, driven in part by the expansion of health insurance coverage under the Affordable Care Act (ACA), which contributed to faster growth in 2014 benefit spending for prescription drugs, physician and clinical services, and hospital care, compared to 2013. Enrollment in private health insurance increased by 2.2 million in 2014, or 1.2 percent, largely as a result of the net effect of enrollment in health insurance Marketplace plans (Exhibit 3).

Medicaid spending growth also accelerated in 2014, increasing at a rate of 11.0 percent, compared to a growth rate of 5.9 percent in 2013 (Exhibit 3). The acceleration in 2014 was primarily due to provisions in the ACA that expanded eligibility (while providing full federal financing for all newly eligible enrollees) and enhanced

EXHIBIT 1

National Health Expenditures (NHE), Aggregate And Per Capita Amounts, Share Of Gross Domestic Product (GDP), And Annual Growth, By Source Of Funds, Calendar Years 2008-14

Source of funds	2008 ^a	2009	2010	2011	2012	2013	2014
EXPENDITURE AMOUNT							
NHE, billions	\$2,402.6	\$2,496.4	\$2,595.7	\$2,696.6	\$2,799.0	\$2,879.9	\$3,031.3
Health consumption expenditures	2,254.6	2,357.5	2,452.9	2,547.1	2,645.8	2,727.4	2,877.4
Out of pocket	295.8	294.6	299.5	309.7	318.7	325.5	329.8
Health insurance	1,697.8	1,796.3	1,876.3	1,955.1	2,027.6	2,087.9	2,216.9
Private health insurance	804.7	832.7	863.1	902.5	934.1	949.2	991.0
Medicare	467.0	498.8	520.5	546.1	569.2	586.3	618.7
Medicaid	344.2	374.5	397.2	406.4	422.0	446.7	495.8
Federal	203.1	247.3	266.3	247.0	242.8	257.7	305.1
State and local	141.1	127.1	130.8	159.4	179.2	189.0	190.6
Other health insurance programs ^b	81.9	90.3	95.6	100.1	102.2	105.6	111.4
Other third-party payers and programs and public health activity	261.0	266.6	277.1	282.3	299.5	314.0	330.7
Investment	148.0	139.0	142.7	149.5	153.2	152.5	153.9
Population (millions)	303.8	306.4	309.0	311.2	313.6	315.9	318.3
GDP, billions of dollars	\$14,718.6	\$14,418.7	\$14,964.4	\$15,517.9	\$16,155.3	\$16,663.2	\$17,348.1
NHE per capita	\$7,909	\$8,147	\$8,402	\$8,666	\$8,927	\$9,115	\$9,523
GDP per capita	\$48,449	\$47,053	\$48,436	\$49,869	\$51,523	\$52,741	\$54,502
Prices (2009 = 100.0)							
Chain-weighted NHE deflator	97.7	100.0	102.7	105.1	106.9	108.3	110.2
GDP price index	99.2	100.0	101.2	103.3	105.2	106.9	108.7
Real spending							
NHE, billions of chained dollars	\$2,460	\$2,496	\$2,529	\$2,565	\$2,619	\$2,660	\$2,750
GDP, billions of chained dollars	\$14,830	\$14,419	\$14,784	\$15,021	\$15,355	\$15,583	\$15,962
NHE as percent of GDP	16.3	17.3	17.3	17.4	17.3	17.3	17.5
ANNUAL GROWTH							
NHE	4.6%	3.9%	4.0%	3.9%	3.8%	2.9%	5.3%
Health consumption expenditures	4.5	4.6	4.0	3.8	3.9	3.1	5.5
Out of pocket	1.8	-0.4	1.6	3.4	2.9	2.1	1.3
Health insurance	5.5	5.8	4.5	4.2	3.7	3.0	6.2
Private health insurance	3.6	3.5	3.6	4.6	3.5	1.6	4.4
Medicare	7.9	6.8	4.3	4.9	4.2	3.0	5.5
Medicaid	5.7	8.8	6.1	2.3	3.8	5.9	11.0
Federal	9.5	21.8	7.7	-7.2	-1.7	6.1	18.4
State and local	0.6	-9.9	2.9	21.8	12.4	5.5	0.9
Other health insurance programs ^b	9.9	10.1	5.9	4.7	2.2	3.3	5.5
Other third-party payers and programs and public health activity	1.3	2.1	4.0	1.9	6.1	4.9	5.3
Investment	6.9	-6.1	2.7	4.7	2.5	-0.5	0.9
Population	0.9	0.9	0.8	0.7	0.8	0.8	0.7
GDP, billions of dollars	1.7	-2.0	3.8	3.7	4.1	3.1	4.1
NHE per capita	3.7	3.0	3.1	3.1	3.0	2.1	4.5
GDP per capita	0.7	-2.9	2.9	3.0	3.3	2.4	3.3
Prices (2009 = 100.0)							
Chain-weighted NHE deflator	2.0	2.4	2.7	2.4	1.7	1.3	1.8
GDP price index	1.9	0.8	1.2	2.1	1.8	1.6	1.6
Real spending							
NHE, billions of chained dollars	2.6	1.5	1.3	1.4	2.1	1.6	3.4
GDP, billions of chained dollars	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4

SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group; and US Department of Commerce, Bureau of Economic Analysis and Bureau of the Census. **NOTES** Definitions, sources, and methods for NHE categories can be found in Centers for Medicare and Medicaid Services, National Health Accounts methodology paper, 2014: definitions, sources, and methods [Internet]. Baltimore (MD): CMS; 2015 [cited 2015 Dec 2]. Available from: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/dsm-14.pdf>. Numbers may not add to totals because of rounding. Percentage changes are calculated from unrounded data. ^aAnnual growth, 2007-08. ^bIncludes health-related spending for Children's Health Insurance Program (CHIP) Titles XIX and XXI; Department of Defense; and Department of Veterans Affairs.

EXHIBIT 2
National Health Expenditures (NHE) Amounts And Annual Growth, By Spending Category, Calendar Years 2008–14

Spending category	2008 ^a	2009	2010	2011	2012	2013	2014
EXPENDITURE AMOUNT							
NHE, billions	\$2,402.6	\$2,496.4	\$2,595.7	\$2,696.6	\$2,799.0	\$2,879.9	\$3,031.3
Health consumption expenditures	2,254.6	2,357.5	2,452.9	2,547.1	2,645.8	2,727.4	2,877.4
Personal health care	2,013.9	2,115.9	2,194.1	2,280.4	2,371.8	2,441.3	2,563.6
Hospital care	727.6	778.1	817.6	853.2	902.7	933.9	971.8
Professional services	649.4	669.5	691.3	721.2	749.5	767.5	801.6
Physician and clinical services	483.7	500.5	516.4	540.9	563.0	576.8	603.7
Other professional services	63.7	66.6	69.9	73.3	77.6	80.3	84.4
Dental services	101.9	102.3	105.0	107.1	108.9	110.4	113.5
Other health, residential, and personal care	114.5	123.3	129.0	131.8	137.9	144.5	150.4
Home health care	62.3	67.4	71.1	73.6	76.9	79.4	83.2
Nursing care facilities and continuing care retirement communities	131.5	136.9	140.9	146.8	148.3	150.2	155.6
Retail outlet sales of medical products	328.6	340.9	344.2	353.8	356.5	365.8	401.0
Prescription drugs	241.4	252.7	253.0	258.7	259.1	265.3	297.7
Durable medical equipment	37.7	37.8	39.9	42.3	43.7	44.9	46.4
Other nondurable medical products	49.5	50.3	51.2	52.8	53.7	55.6	56.9
Government administration	29.2	29.6	30.2	32.4	33.5	36.3	40.2
Net cost of health insurance	140.0	137.9	153.2	160.3	164.4	173.2	194.6
Government public health activities	71.5	74.1	75.4	74.0	76.0	76.6	79.0
Investment	148.0	139.0	142.7	149.5	153.2	152.5	153.9
Noncommercial research	44.3	45.4	49.2	49.6	48.4	46.5	45.5
Structures and equipment	103.7	93.6	93.5	99.8	104.8	106.0	108.3
ANNUAL GROWTH							
NHE	4.6%	3.9%	4.0%	3.9%	3.8%	2.9%	5.3%
Health consumption expenditures	4.5	4.6	4.0	3.8	3.9	3.1	5.5
Personal health care	4.9	5.1	3.7	3.9	4.0	2.9	5.0
Hospital care	5.2	6.9	5.1	4.3	5.8	3.5	4.1
Professional services	5.6	3.1	3.3	4.3	3.9	2.4	4.4
Physician and clinical services	5.5	3.5	3.2	4.7	4.1	2.5	4.6
Other professional services	7.9	4.6	4.9	4.8	5.9	3.5	5.2
Dental services	5.1	0.4	2.7	2.0	1.6	1.5	2.8
Other health, residential, and personal care	5.7	7.7	4.6	2.2	4.6	4.7	4.1
Home health care	8.4	8.1	5.5	3.6	4.4	3.3	4.8
Nursing care facilities and continuing care retirement communities	4.1	4.1	2.9	4.2	1.0	1.3	3.6
Retail outlet sales of medical products	2.5	3.7	1.0	2.8	0.8	2.6	9.6
Prescription drugs	2.5	4.7	0.1	2.2	0.2	2.4	12.2
Durable medical equipment	1.6	0.4	5.6	5.8	3.4	2.8	3.2
Other nondurable medical products	3.6	1.7	1.8	3.1	1.7	3.5	2.4
Government administration	0.3	1.4	2.2	7.2	3.3	8.5	10.7
Net cost of health insurance	-2.4	-1.5	11.1	4.6	2.6	5.3	12.4
Government public health activities	8.5	3.5	1.8	-1.8	2.7	0.7	3.1
Investment	6.9	-6.1	2.7	4.7	2.5	-0.5	0.9
Noncommercial research	4.0	2.5	8.5	0.9	-2.4	-4.1	-2.0
Structures and equipment	8.3	-9.8	-0.1	6.7	5.0	1.2	2.2

SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. **NOTES** Definitions, sources, and methods for NHE categories can be found in the National Health Accounts methodology paper (see Exhibit 1 Notes). Numbers may not add to totals because of rounding. Percentage changes are calculated from unrounded data. ^aAnnual growth, 2007–08.

payments to primary care providers. Medicaid enrollment grew by 7.7 million in 2014, an increase of 13.2 percent (compared to growth of 1.7 percent in 2013), as twenty-six states plus the District of Columbia expanded coverage. Expansion in eligibility and enrollment resulted in faster growth for almost all Medicaid benefit categories in 2014 compared to 2013—most no-

tably, physician and clinical services—and led to additional spending on government administration and the net cost of insurance associated with Medicaid managed care plans.

A rapid increase in prescription drug spending growth—from 2.4 percent in 2013 to 12.2 percent in 2014 (Exhibit 2)—also contributed to the acceleration in overall health expenditure growth

EXHIBIT 3

National Health Expenditures (NHE) And Health Insurance Enrollment, Aggregate And Per Enrollee Amounts, And Annual Growth, By Source Of Funds, Calendar Years 2008–14

Source of funds	2008 ^a	2009	2010	2011	2012	2013	2014
PRIVATE HEALTH INSURANCE							
Expenditure (billions)	\$804.7	\$832.7	\$863.1	\$902.5	\$934.1	\$949.2	\$991.0
Expenditure growth	3.6%	3.5%	3.6%	4.6%	3.5%	1.6%	4.4%
Per enrollee expenditure	\$4,108	\$4,390	\$4,646	\$4,878	\$4,972	\$5,056	\$5,218
Per enrollee expenditure growth	4.5%	6.9%	5.8%	5.0%	1.9%	1.7%	3.2%
Enrollment (millions)	195.9	189.7	185.8	185.0	187.9	187.7	189.9
Enrollment growth	-0.8%	-3.2%	-2.1%	-0.4%	1.5%	-0.1%	1.2%
MEDICARE							
Expenditure (billions)	\$467.0	\$498.8	\$520.5	\$546.1	\$569.2	\$586.3	\$618.7
Expenditure growth	7.9%	6.8%	4.3%	4.9%	4.2%	3.0%	5.5%
Per enrollee expenditure	\$10,520	\$10,971	\$11,173	\$11,439	\$11,456	\$11,434	\$11,707
Per enrollee expenditure growth	5.2%	4.3%	1.8%	2.4%	0.1%	-0.2%	2.4%
Enrollment (millions)	44.4	45.5	46.6	47.7	49.7	51.3	52.8
Enrollment growth	2.6%	2.4%	2.5%	2.5%	4.1%	3.2%	3.1%
MEDICAID							
Expenditure (billions)	\$344.2	\$374.5	\$397.2	\$406.4	\$422.0	\$446.7	\$495.8
Expenditure growth	5.7%	8.8%	6.1%	2.3%	3.8%	5.9%	11.0%
Per enrollee expenditure	\$7,293	\$7,372	\$7,316	\$7,277	\$7,376	\$7,676	\$7,523
Per enrollee expenditure growth	2.1%	1.1%	-0.8%	-0.5%	1.4%	4.1%	-2.0%
Enrollment (millions) ^b	47.2	50.8	54.3	55.9	57.2	58.2	65.9
Enrollment growth	3.5%	7.6%	6.9%	2.9%	2.4%	1.7%	13.2%
UNINSURED AND POPULATION							
Uninsured (millions)	42.2	45.9	48.1	45.6	44.8	44.2	35.5
Uninsured growth	2.7%	8.9%	4.7%	-5.1%	-1.9%	-1.3%	-19.5%
Population (millions)	303.8	306.4	309.0	311.2	313.6	315.9	318.3
Population growth	0.9%	0.9%	0.8%	0.7%	0.8%	0.8%	0.7%
Insured share of total population	86.1%	85.0%	84.4%	85.3%	85.7%	86.0%	88.8%

SOURCES Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group; and US Department of Commerce, Bureau of the Census. **NOTES** Definitions, sources, and methods for NHE categories can be found in the National Health Accounts methodology paper (see Exhibit 1 Notes). Numbers may not add to totals because of rounding. Percentage changes are calculated from unrounded data. ^aAnnual growth, 2007–08. ^bBased on an unpublished analysis by the CMS Office of the Actuary of the following sources: (1) enrollment data from the Medicaid Statistical Information System state summary database: Medicaid.gov. MSIS Medicaid Statistical Information System [Internet]. Baltimore (MD): CMS; [cited 2015 Nov 13]. Available from: <http://medicaid.gov/medicaid-chip-program-information/by-topics/data-and-systems/msis/medicaid-statistical-information-system.html>; and (2) CMS-64 quarterly state reports: CMS.gov. CMS-64 quarterly expense report [Internet]. Baltimore (MD): CMS; [last modified 2012 Mar 28; cited 2015 Nov 13]. Available from: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Computer-Data-and-Systems/MedicaidBudgetExpendSystem/CMS-64-Quarterly-Expense-Report.html>.

in 2014. This rapid increase, which was the highest rate since 2002, was in part due to the introduction of new drug treatments for hepatitis C as well as of those used to treat cancer and multiple sclerosis.¹

In 2014 the number of uninsured individuals fell by 8.7 million, a decline of 19.5 percent (Exhibit 3). As a result, the insured share of the total population increased from 86.0 percent in 2013 to 88.8 percent in 2014—the highest share since 1987.

The federal government's share of health care spending increased from 26 percent in 2013 to 28 percent in 2014 as federal expenditures grew 11.7 percent, or 8.2 percentage points faster than in 2013 (discussed below). A 100 percent federal match rate for newly eligible Medicaid enrollees, as well as health insurance premium tax credits and cost-sharing subsidies paid by the federal

government, accounted for much of the increased share. In contrast, the shares of spending by households (28 percent) and state and local governments (17 percent) each fell by 1 percentage point from 2013 to 2014. The private business share of health care spending remained steady in 2013 and 2014, at 20 percent.

The Affordable Care Act

Since its enactment in 2010, numerous provisions of the ACA have affected the health sector. However, the most significant provisions took effect in 2014, including major coverage expansions through private health insurance and Medicaid. In 2014 Medicaid coverage expanded in some states to most people under age sixty-five with incomes of up to 138 percent of the federal poverty level,² and enhanced federal matching

payments were provided for newly eligible enrollees. This change in the eligibility criteria is estimated to have led to an additional 6.3 million enrollees in 2014.³ As a result of this expanded coverage, enrollment in Medicaid increased 13.2 percent in 2014 (up from growth of 1.7 percent in 2013), and spending increased 11.0 percent (up from growth of 5.9 percent in 2013) (Exhibit 3).

Health insurance was also expanded through private insurers, including health plans purchased in the health insurance Marketplaces. The Marketplaces allow individuals and small businesses (those with fewer than 100 employees) to purchase policies that by law must guarantee availability of coverage, prohibit annual dollar limits on coverage received, and create an essential health benefits package that provides comprehensive health benefits. Marketplace average monthly enrollment was 5.4 million in 2014.^{4,5} Additionally, the ACA provides health insurance premium tax credits and cost-sharing subsidies to eligible individuals and imposes new fees on the health insurance sector.⁶

Other provisions of the ACA that took effect before 2014 continued to affect overall health spending. These include changes to Medicare and Medicaid provider payments, increased Medicaid prescription drug rebates, reductions to the size of the Medicare Part D coverage gap, prescription drug industry fees, and implementation of the medical loss ratio requirement for private insurers.⁷

Factors Accounting For Growth

Aggregate national health spending grew 5.3 percent in 2014, or 4.5 percent per capita (Exhibit 1). This per capita growth can be examined further by analyzing the impact of medical price inflation (which includes overall economywide price inflation and medical-specific price inflation) and nonprice factors, such as shifts in the age and sex mix of the population and residual use and intensity of services. Of the 4.5 percent increase in per capita health spending in 2014, changes in the age and sex mix of the population accounted for 0.6 percentage point, medical price inflation accounted for 1.8 percentage points, and the change in residual use and intensity accounted for the remaining 2.1 percentage points (Exhibit 4).

There was a substantial increase in the portion of health spending growth attributed to residual use and intensity of services in 2014. In 2013 the growth rate for this factor was just 0.2 percent, but it accelerated to 2.1 percent in 2014 and accounted for almost half of per capita health spending growth. As Medicaid and private

health insurance coverage expanded, faster growth in residual use and intensity of services occurred for almost all health care goods and services in 2014 compared to 2013, particularly for hospital care, physician and clinical services, and prescription drugs.

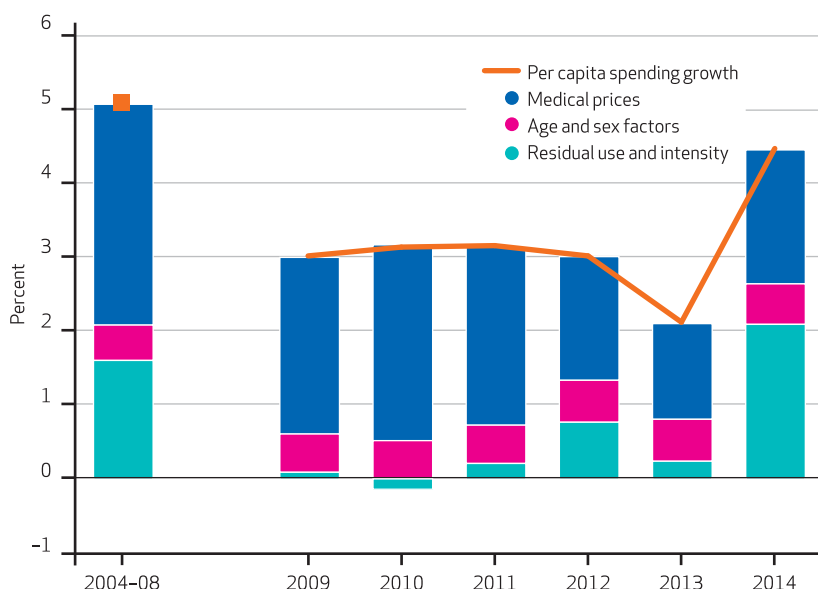
Medical price growth increased at a rate of 1.8 percent in 2014, following growth of 1.3 percent in 2013. Economywide inflation (as measured by the GDP price index) increased 1.6 percent in both 2013 and 2014, while medical-specific price growth increased 0.1 percent after a decline of 0.3 percent in 2013. Faster price growth for expenditures outside of personal health care (such as the net cost of insurance and investment in structures and equipment) more than offset a slight deceleration in overall prices for personal health care services, such as for hospital care and other professional services.

Revisions To The National Health Expenditure Accounts

The health spending estimates in this article differ in two ways from those released December 3, 2014.⁷ First, these estimates reflect new and revised source data that were unavailable for previous vintages of the National Health Expendi-

EXHIBIT 4

Factors Accounting For Growth In Per Capita National Health Expenditures, Selected Calendar Years 2004-14



SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. **NOTE** Medical price growth, which includes economywide and excess medical-specific price growth (or changes in medical-specific prices in excess of economywide inflation), is calculated using the chain-weighted national health expenditures (NHE) deflator for NHE. "Residual use and intensity" is calculated by removing the effects of population, age and sex factors, and price growth from the nominal expenditure level.

ture Accounts. In particular, the 2013 growth rate for national health spending was revised down from 3.6 percent to 2.9 percent, mainly because of downward revisions to the estimates for physician and clinical services and hospital spending.

Second, every five years the National Health Expenditure Accounts undergo a comprehensive review and revision process that ensures that the concepts, definitions, methods, and data sources used in the accounts reflect the most current and complete information available. Most revisions prior to 2013 largely reflect this comprehensive review. Notable revisions include the incorporation of data from the 2012 Economic Census⁸ and other “benchmark” data sources, as well as shifts within payer and service categories to more accurately align the estimates, such as a new method for estimating Medicaid managed care spending by service.

In total, changes due to the comprehensive and routine revisions resulted in a downward

revision of \$18.3 billion in 2012, or 0.7 percent of national health expenditures, compared to last year’s report. In addition, the GDP was revised down by \$7.9 billion for 2012.⁹ As a result, the health spending share of GDP for 2012 is now reported as 17.3 percent, down from the previously reported share of 17.4 percent.⁷

Sponsors Of Health Care

The main sponsors of health care are households, private businesses, the federal government, and state and local governments that finance the nation’s health care bill. In 2014 households and the federal government accounted for the largest shares of spending (28 percent each), followed by private businesses (20 percent), and state and local governments (17 percent) (Exhibit 5). Overall, total government expenditures accounted for a larger share of health spending in 2014 (45 percent) than in either 2012 or 2013 (44 percent). The

EXHIBIT 5

National Health Expenditures (NHE) Amounts, Annual Growth, and Percent Distribution, By Type Of Sponsor, Calendar Years 2008–14

Type of sponsor	2008 ^a	2009	2010	2011	2012	2013	2014
EXPENDITURE AMOUNT							
NHE, billions	\$2,402.6	\$2,496.4	\$2,595.7	\$2,696.6	\$2,799.0	\$2,879.9	\$3,031.3
Businesses, household, and other private revenues	1,411.5	1,412.1	1,444.6	1,505.6	1,581.0	1,618.3	1,672.6
Private businesses	513.8	514.6	518.8	546.7	571.9	581.9	606.4
Household	724.6	729.8	751.2	777.5	811.7	827.4	844.0
Other private revenues	173.1	167.8	174.6	181.5	197.4	209.1	222.2
Governments	991.1	1,084.3	1,151.1	1,190.9	1,218.0	1,261.6	1,358.7
Federal government	581.1	680.0	731.1	730.8	730.0	755.5	843.7
State and local governments	409.9	404.3	420.0	460.2	488.0	506.0	515.0
ANNUAL GROWTH							
NHE	4.6%	3.9%	4.0%	3.9%	3.8%	2.9%	5.3%
Businesses, household, and other private revenues	2.9	0.0	2.3	4.2	5.0	2.4	3.4
Private businesses	1.3	0.1	0.8	5.4	4.6	1.7	4.2
Household	4.4	0.7	2.9	3.5	4.4	1.9	2.0
Other private revenues	1.7	-3.1	4.1	4.0	8.8	5.9	6.3
Governments	7.1	9.4	6.2	3.5	2.3	3.6	7.7
Federal government	10.0	17.0	7.5	-0.1	-0.1	3.5	11.7
State and local governments	3.3	-1.4	3.9	9.6	6.1	3.7	1.8
PERCENT DISTRIBUTION							
NHE	100%	100%	100%	100%	100%	100%	100%
Businesses, household, and other private revenues	59	57	56	56	56	56	55
Private businesses	21	21	20	20	20	20	20
Household	30	29	29	29	29	29	28
Other private revenues	7	7	7	7	7	7	7
Governments	41	43	44	44	44	44	45
Federal government	24	27	28	27	26	26	28
State and local governments	17	16	16	17	17	18	17

SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. **NOTES** Definitions, sources, and methods for NHE categories can be found in the National Health Accounts methodology paper (see Exhibit 1 Notes). Numbers may not add to totals because of rounding. Percentage changes are calculated from unrounded data. ^aAnnual growth, 2007–08.

shift toward more government spending was influenced mainly by strong growth in federal government spending, along with continued low growth in household expenditures in 2014.

Growth in federal government spending outpaced growth in expenditures for all other sponsors of health care in 2014, increasing 11.7 percent, compared to 3.5 percent in 2013. This faster growth led to a 2-percentage-point increase in the federal government's share of total health spending—from 26 percent in 2013 to 28 percent in 2014. The acceleration was mainly the result of provisions of the ACA, such as Medicaid enrollment expansion and health insurance premium tax credits. Medicaid spending by the federal government increased 18.4 percent in 2014, compared to 6.1 percent in 2013.

Households continued to be the largest sponsor of health care in 2014 at 28 percent, although their share was down from 29 percent in 2013. Compared to growth of 4.4 percent in 2012, household health spending growth was slower in 2013 and 2014, increasing 1.9 percent and 2.0 percent, respectively. Household health spending includes out-of-pocket payments, household payments for private health insurance and Medicare premiums, and payroll taxes dedicated to the Medicare program. Household contributions to private health insurance premiums (representing a 38 percent share of total household expenditures) increased just 0.1 percent in 2014 after growing 1.4 percent in 2013, mainly as a result of health insurance premium tax credits paid by the federal government. These credits reduced the premiums that households with eligible individuals paid for Marketplace plans. Out-of-pocket spending (which accounted for 39 percent of total household expenditures) grew at a slightly slower rate in 2014, increasing 1.3 percent following growth of 2.1 percent in 2013.

Health spending by private businesses, which includes employers' contributions to private health insurance premiums and other health care programs, increased 4.2 percent in 2014, compared to a growth rate of 1.7 percent in 2013. Despite the accelerated growth in 2014, private businesses continued to account for 20 percent of total health spending—a share that has remained stable since 2010. The major driver of growth in private business spending in 2014 was employer contributions to private health insurance premiums, which accounted for a 76 percent share of this category and increased 3.7 percent, compared to growth of 1.1 percent in 2013.

State and local governments accounted for 17 percent of health spending in 2014, a 1-percentage-point decline from their share in 2013. Growth in health expenditures for state and local

governments slowed to 1.8 percent in 2014, compared to 3.7 percent in 2013. The deceleration was driven by slower growth in state and local Medicaid spending, which grew 5.5 percent in 2013 but only 0.9 percent in 2014, mostly as a result of slow enrollment growth in the nonexpansion population.

Private Health Insurance

Total private health insurance spending increased 4.4 percent and reached \$991.0 billion in 2014, accounting for one-third of total national health care expenditures. This was a faster growth rate than in 2013 (1.6 percent), when private health insurance spending grew at the slowest pace since 1967. In 2014 numerous ACA provisions became effective, including the implementation of Marketplace plans, the introduction of health insurance premium tax credits, new health insurance industry fees, and mandated changes to benefit designs, all of which created upward pressure on 2014 private health insurance spending growth.

The number of people in the United States covered by private health insurance reached 189.9 million in 2014, up from 187.7 million in 2013—an increase of 1.2 percent. Private health insurance enrollment grew primarily because of individuals who gained coverage under the new Marketplace plans. Per enrollee private health insurance spending increased 3.2 percent in 2014, following a smaller increase of 1.7 percent in 2013.

Expenditures for private health insurance medical benefits grew 4.1 percent in 2014, accelerating from growth of 1.5 percent in 2013. This acceleration was driven by faster growth in spending for retail prescription drugs, physician and clinical services, and hospital care in 2014, compared to 2013. Rapid growth in retail prescription drug spending in 2014 was due in part to the introduction of new drug treatments for hepatitis C.¹ Faster growth in private health insurance expenditures for physician and clinical services and hospital care in 2014, compared to 2013, was driven by increased use mainly due to enrollment growth.

Although spending for private health insurance benefits increased in 2014, their share of total private health insurance spending was down slightly, from 87.9 percent in 2013 to 87.7 percent in 2014. Growth in the net cost of insurance, or the difference between revenue and benefits, was 6.6 percent in 2014 and primarily reflected fees associated with the ACA, as well as other administrative costs related to increased private health insurance enrollment.

12.2%

Growth

A rapid increase in prescription drug spending growth, from 2.4 percent in 2013 to 12.2 percent in 2014, contributed to the acceleration in overall spending growth seen in 2014.

Medicaid

Total Medicaid spending by the federal government and state and local governments reached \$495.8 billion in 2014 and accounted for 16 percent of total national health expenditures. Following growth of 5.9 percent in 2013, Medicaid spending increased 11.0 percent in 2014—the fastest rate of growth since 2001.

The primary driver of faster Medicaid spending growth in 2014 was enrollment in Medicaid resulting from the eligibility expansion under the ACA. After growing 1.7 percent in 2013, enrollment jumped an estimated 13.2 percent in 2014—the fastest rate of growth since 1991, when Medicaid enrollment increased 13.8 percent. This growth rate was also faster than during the two most recent recessions in 2002 and 2009, when enrollment growth peaked at 9.8 percent and 7.6 percent, respectively.

Per enrollee Medicaid spending declined at a rate of 2.0 percent in 2014 after growing 4.1 percent in 2013, as the newly insured tended to be lower-cost individuals.² The share of total Medicaid enrollees who were adults and children (groups that are generally less expensive than the aged and disabled) increased in 2014, compared with 2013.²

Faster growth in spending for government administration and the net cost of insurance was also a contributor to the overall acceleration in Medicaid spending growth in 2014, with expenditures increasing 30.4 percent after growing 13.8 percent in 2013. This faster rate of growth in 2014 was driven primarily by increased enrollment, particularly for managed care, as new enrollees tended to join Medicaid managed care plans.

Medicaid spending for physician and clinical services, hospital care, and prescription drugs increased at a faster rate in 2014 than in the previous year. Expenditures for physician and clinical services grew 22.8 percent, up from growth of 11.0 percent in 2013, because of both increased enrollment and ACA provisions that required states to pay fees to primary care providers that were at least equal to the fees that Medicare paid to primary care providers in 2013 and 2014.¹⁰ After growing 4.0 percent in 2013, Medicaid hospital spending increased 7.6 percent in 2014, largely reflecting increased enrollment. Medicaid prescription drug expenditures grew 24.3 percent in 2014, up from growth of 4.2 percent in 2013, as a result of increased enrollment and spending for drugs that treat hepatitis C.¹⁰

Federal Medicaid expenditures grew at a much faster rate than did state and local Medicaid spending in 2014. Federal Medicaid expenditures increased 18.4 percent—compared to

growth of 6.1 percent in 2013—since expenditures for newly eligible enrollees under the ACA were fully financed by the federal government. State and local Medicaid spending grew just 0.9 percent (compared to 5.5 percent in 2013), primarily as a result of the low enrollment growth of the nonexpansion population.

Medicare

Total Medicare spending reached \$618.7 billion in 2014 and accounted for 20 percent of total health expenditures. After growing 3.0 percent in 2013, Medicare spending grew 5.5 percent in 2014. This was the fastest rate of growth since 2009 (when spending increased by 6.8 percent) and was primarily attributable to faster growth in spending for prescription drugs, physician and clinical services, and government administration and the net cost of insurance.

Fee-for-service Medicare expenditures, which accounted for 70 percent of total Medicare spending in 2014, increased 3.1 percent compared to growth of 1.3 percent in 2013. Medicare Advantage spending accounted for the remaining 30 percent of total Medicare expenditures, and in 2014 these expenditures increased 11.6 percent, following growth of 7.7 percent in 2013.

Total Medicare enrollment increased 3.1 percent in 2014, similar to the increase of 3.2 percent in 2013. Continued strong enrollment growth in Medicare Advantage plans helped offset slower enrollment growth in traditional fee-for-service plans in 2014. Medicare Advantage enrollment increased 10.0 percent in 2014 (compared with growth of 9.4 percent in 2013). This was considerably faster than growth in fee-for-service enrollment, which increased only 0.4 percent (compared with 1.0 percent in 2013).

Medicare per enrollee spending growth accelerated in 2014, increasing 2.4 percent after increasing just 0.1 percent in 2012 and declining 0.2 percent in 2013.¹¹ In the two years prior to 2014, slower and declining per enrollee expenditures were influenced by a combination of one-time payment reductions and policies put in place by the ACA and budget sequestration.

Faster growth in per enrollee spending in 2014 was also affected by increased use of health care goods and services, especially prescription drugs and physician services. Following growth of 9.5 percent in 2013, Medicare prescription drug spending increased 16.9 percent in 2014, primarily because of the use of new and expensive specialty drugs, including those used in treating hepatitis C.¹² Additionally, growth in Medicare spending for physician and clinical services accelerated in 2014—increasing 5.0 percent from

The return to faster growth and an increased share of GDP in 2014 was largely influenced by the coverage expansions of the Affordable Care Act.

2.9 percent in 2013—because of a larger increase in the physician fee schedule payment update and an increase in the volume and intensity of services.

Also contributing to the increase in total Medicare expenditures in 2014 was faster spending growth for government administration and the net cost of insurance, which increased 8.1 percent in 2014 after growing 2.1 percent in 2013. The net cost of Medicare Advantage accounted for just over half of all Medicare administration spending in 2014, with expenditures increasing 9.7 percent, compared to 1.6 percent in 2013. These Medicare Advantage net cost expenditures increased mainly as a result of health insurance industry fees that were imposed on Medicare Advantage plans in 2014, as mandated by the ACA.¹³

Out-Of-Pocket Spending

Total out-of-pocket spending—which includes direct consumer payments such as copayments, deductibles, coinsurance, and any spending on noncovered services—increased 1.3 percent in 2014, reaching \$329.8 billion, and accounted for 11 percent of total health care expenditures. Following growth of 2.1 percent in 2013, the slightly slower growth in out-of-pocket spending in 2014 was affected by changes in health care coverage, most notably fewer out-of-pocket payments by those without insurance and more by those with Medicaid and directly purchased coverage.¹⁴

Compared to 2013, faster out-of-pocket spending growth in 2014 for prescription drugs (particularly because of increased use of high-cost specialty drugs) and other professional services was more than offset by a decline in out-of-pocket

spending for hospital services and slower growth in such spending for physician and clinical services (both of which were due to increased insurance coverage).

Retail Prescription Drugs

In 2014 growth in total retail prescription drug expenditures accelerated sharply, increasing 12.2 percent to \$297.7 billion. This rate compares to growth of 2.4 percent in 2013 and 0.2 percent in 2012 and represents the largest annual increase since 2002. The strong growth in prescription drug expenditures in 2014 was caused by increased spending on new medicines (particularly for specialty drugs such as those used to treat hepatitis C), a smaller impact from patent expirations than in previous years, and price increases for brand-name drugs.¹ The single largest driver of growth in specialty drug spending in 2014 was the impact of new treatments for hepatitis C, which contributed \$11.3 billion in new spending.¹

Prescription drug price growth continued to be affected by faster growth in 2014 (compared to 2013) in prices for brand-name medications and declines in prices for generic drugs.¹⁵ Because generic drugs cost substantially less than their brand-name counterparts,¹⁶ it is not uncommon to see increases in the generic dispensing rate, especially when blockbuster drugs lose their patent protection. In 2014 the generic dispensing rate was 81.7 percent, up from 80.1 percent in 2013 and 77.3 percent 2012.¹⁷

Nonprice factors also grew at a faster rate in 2014. The number of retail prescriptions dispensed increased 1.8 percent in 2014 (compared to growth of 1.2 percent in 2013), primarily because the number of Medicaid prescriptions dispensed grew dramatically—a result of the ACA's enrollment expansion.¹

The growth rate for prescription drug expenditures increased in 2014 for private health insurance, Medicare, and Medicaid. Private health insurance spending on prescription drugs increased 11.3 percent, following growth of 1.0 percent in 2013. Medicare spending on prescription drugs also accelerated, growing 16.9 percent in 2014 compared to 9.5 percent in 2013, while growth for Medicaid prescription drug spending accelerated from 4.2 percent in 2013 to 24.3 percent in 2014.

Hospital Care

Expenditures for hospital care increased 4.1 percent in 2014, accelerating from growth of 3.5 percent in 2013, and reached \$971.8 billion. The faster growth in hospital spending in 2014 re-

flected a resurgence in growth of nonprice factors, such as the use and intensity of services. For example, the number of inpatient days and hospital discharges increased by 0.8 percent and 0.7 percent, respectively, in 2014,^{18,19} following slower or declining growth in inpatient admissions, inpatient surgeries, and outpatient visits in 2013.²⁰ In contrast, price growth, as measured by the Hospital Producer Price Index, increased at a slower rate in 2014 than in 2013—1.3 percent and 2.2 percent, respectively.²¹

For Medicaid, private health insurance, and Medicare, spending growth for hospital services accelerated in 2014. Following growth of 4.0 percent in 2013, Medicaid spending for hospital services increased 7.6 percent in 2014, primarily as a result of expanded Medicaid coverage.² Private health insurance spending for hospital care increased 3.5 percent in 2014, following growth of 2.7 percent the year before—the slowest rate since 1996. Similar to Medicaid, private health insurance spending for hospital services was influenced by increased private health insurance enrollment. Compared to the hospital spending growth rates for Medicaid and private health insurance, growth in Medicare hospital expenditures experienced a smaller acceleration, increasing 2.9 percent in 2014, compared to 2.2 percent in 2013.

Out-of-pocket spending on hospital services, which includes expenditures for copayments and deductibles, declined 4.1 percent in 2014, down from a growth rate of 4.7 percent in 2013. This decline was influenced by expanded coverage through Medicaid and private health insurance.

Physician And Clinical Services

Spending for physician and clinical services grew 4.6 percent in 2014, reaching \$603.7 billion. This was an acceleration from 2013, when spending grew at a historically low rate of 2.5 percent.

As with hospital services and retail prescription drugs, expenditure growth for physician and clinical services accelerated in 2014 for Medicaid, private health insurance, and Medicare. Spending for Medicaid physician and clinical services—which increased 22.8 percent in 2014, compared to 11.0 percent in 2013—was influenced by expanded Medicaid enrollment eligibility under the ACA and increased primary care provider fees that affected growth in 2013 and, to a greater extent, in 2014.¹⁰ Private health insurance spending also contributed to the acceleration in expenditure growth for total physician and clinical services, increasing 1.2 percent

in 2014 after a decline of 0.1 percent in 2013. Finally, Medicare spending for physician and clinical services increased 5.0 percent in 2014, following a smaller increase of 2.9 percent in 2013.

Physician expenditures accounted for 80 percent of spending for total physician and clinical services in 2014. Over the past decade the physician share declined, as spending for clinical services continued to increase more rapidly than physician expenditures. In 2014 spending for physician services increased 4.6 percent (accelerating from growth of 1.7 percent in 2013), while spending for clinical services increased 5.0 percent (slowing from 5.5 percent in 2013). Continued strong growth in spending for clinical services in 2014 resulted from rapid spending growth in outpatient care centers, such as community health centers, and in kidney dialysis centers. However, for overall clinical services, expenditure growth was moderated by a decline in spending for freestanding ambulatory surgical centers.

For physician and clinical services, growth in both price and nonprice factors, such as residual use and intensity, accelerated in 2014 compared to 2013. Prices increased 0.5 percent in 2014 (up slightly from growth of 0.1 percent in 2013),²² influenced in part by a Medicare physician payment update of 0.5 percent compared to an update of 0.0 percent in 2013.¹² Nonprice factors also grew faster in 2014—driven, in part, by coverage expansions resulting from the ACA, particularly for Medicaid.²³

Conclusion

The expansion of insurance coverage, particularly through Medicaid and private health insurance, and rapid growth in retail prescription drug spending fueled a 5.3 percent increase in total national health care expenditures in 2014. This increase compares to historically low health spending growth from 2009 to 2013, when growth averaged only 3.7 percent. Health expenditures grew faster than the overall economy in 2014, as the GDP increased 4.1 percent. As a result, the health spending share of GDP increased from 17.3 percent in 2013 to 17.5 percent in 2014. The return to faster growth and an increased share of GDP in 2014 was largely influenced by the coverage expansions of the Affordable Care Act. But how the health sector responds to the evolving access and incentive landscape, as well as underlying economic conditions, will determine the future trajectory of health spending growth. ■

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