

# The Rising Cost of Health Care by Year and Its Causes

## See for yourself if Obamacare increased health care costs

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In 2017, [U.S. health care costs](#) were \$3.5 trillion. That makes health care one of the country's largest industries. It equals 17.9% of [gross domestic product](#).<sup>1</sup> In comparison, health care cost \$27.2 billion in 1960, just 5% of GDP. That translates to an annual health care cost of \$10,739 per person in 2017 versus just \$147 per person in 1960.<sup>2</sup> Health care costs have risen faster than the median annual income.<sup>3</sup>

## What Caused This Increase?

There were two causes of this massive increase: government policy and lifestyle changes.

1. First, the United States relies on [company-sponsored private health insurance](#). The government created programs like [Medicare](#) and Medicaid to help those without insurance. These programs spurred demand for health care services. That gave providers the ability to raise prices. A paper in Health Affairs co-authored by Princeton University health economist Uwe Reinhardt study found that Americans use the same amount of health care as residents of other nations.<sup>4</sup> They just pay more for them. For example, U.S. hospital prices are 60% higher than those in Europe.<sup>5</sup> Government efforts to [reform health care](#) and cut costs raised them instead.<sup>6</sup>
2. Second, chronic illnesses, such as [diabetes](#) and heart disease, have increased. As of 2010, the health care costs of people with at least one chronic condition are responsible for more than 85% of health care spending. Almost half of all Americans have at least one of them. They are expensive and difficult to treat.<sup>7</sup> As a result, the sickest 5% of the population consumes 50% of total health care costs. The healthiest 50% only consume 3% of the nation's health care costs.<sup>8</sup> Most of these patients are Medicare patients. The U.S. medical profession does a heroic job of saving lives. But it comes at a cost. Medicare spending for patients in the last year of life is six times greater than the average. Care for these patients costs one-fourth of the Medicare budget. In their last six months of life, these patients go to the doctor's office around 25 times on average. In their last month of life, half go to the emergency room. One-third wind up in the intensive care unit. One fifth undergoes surgery.<sup>9</sup> <sup>10</sup>

## Government Policy

Between 1960 and 1965, health care spending increased by an average of 8.95% a year. That's because health insurance expanded. As it covered more people, the demand for health care services rose. By 1965, households paid out-of-pocket for 44% of all medical expenses. Health insurance paid for 24%.

From 1966 to 1973, health care spending rose by an average of 11.9% a year. Medicare and Medicaid covered more people and allowed them to use more health care services. Medicaid allowed seniors citizens to move into expensive nursing home facilities. As [demand](#) increased, so did prices. Health care providers put more money into research. It created more innovative, but expensive, technologies.<sup>11</sup>

Medicare helped create an overreliance on hospital care. Emergency room treatment is very expensive, making up one-third of all health care costs in America. By 2011, there were 136 million emergency room visits. An astonishing one out of five adults uses the emergency room each year.<sup>12</sup>

In 1971, [President Nixon](#) implemented wage-price controls to stop mild [inflation](#). Controls on health care prices created higher demand. In 1973, Nixon authorized [health maintenance organizations](#) to cut costs. These prepaid plans restricted users to a particular medical group. The HMO ACT of 1973 provided millions of dollars in start-up funding for HMOs.<sup>13</sup> It also required employers to offer them when available.<sup>14</sup>

From 1974 to 1982, health care prices rose by an average of 14.1% a year for three reasons. First, prices rebounded after the wage-price controls expired in 1974. Second, [Congress](#) enacted the Employee Retirement Income Security Act of 1974. It exempted corporations from state regulations and taxes if they self-insured. Companies took advantage of these lower-cost and flexible plans. Third, home health care took off, growing by 32.5% a year.<sup>15</sup>

Between 1983 and 1992, health care costs rose by an average of 9.9% each year. [Home health care](#) prices increased by 18.3% per year. In 1986, Congress passed the Emergency Medical Treatment and Labor Act. It forced hospitals to accept anyone who showed up at the emergency room.<sup>16</sup> [Prescription drug costs](#) rose by 12.1% a year.<sup>17</sup> One reason is that the FDA allowed prescription drug companies to advertise on television.<sup>18</sup>

Between 1993 and 2013, health care spending grew by an average of 6% a year. In the early 1990s, [health insurance companies](#) tried to control costs by spreading the use of HMOs once again. Congress then tried to control costs with the Balanced Budget Act in 1997. Instead, it forced many health care providers out of business. Because of this, Congress relented on payment restrictions in the Balanced Budget Refinement Act in 1999 and the Benefits Improvement and Protection Act of 2000. The Act also extended coverage to children through the Children's Health Insurance Program.<sup>19 20</sup>

After 1998, people rebelled and demanded more choice in providers. As demand increased again, so did prices. Between 1997 and 2007, drug prices tripled, according to a study in Health Affairs.

One reason is that pharmaceutical companies invented new types of prescription drugs. They advertised straight to consumers and created additional demand. The number of drugs with sales that topped \$1 billion increased to 52 in 2006 from six in 1997.<sup>21</sup> The U.S. government approved expensive drugs even if they were not much better than existing remedies. Other developed countries were more cost-conscious.<sup>22</sup>

In 2003, the Medicare Modernization Act added [Medicare Part D](#) to cover prescription drug coverage. It also changed the name of Medicare Part C to the [Medicare Advantage program](#). The number of people using those plans tripled to 17.6 million by 2016. Those costs rose faster than the cost of Medicare itself.<sup>23</sup>

The nation's reliance on the health insurance model increased administration costs. A 2003 study found that administration made up 30% of U.S. health care costs. It's twice the administrative costs in Canada. About half of that is due to the complexity of billing.<sup>24</sup>

For example, U.S. private doctors' offices use at least 11% of their revenue on administration. A big reason is that there are so many types of payers. In addition to Medicare and Medicaid, there are thousands of different private insurers. Each has its own requirements, forms, and procedures. Hospitals and doctors must also chase down people who don't pay their portion of the bill. That doesn't happen in [countries with universal health care](#).<sup>25</sup>

The reliance on corporate private insurance created [health care inequality](#). Those without insurance often couldn't afford visits to a primary care physician. By 2009, half of the people (46.3%) who used a hospital said they went because they had no other place to go for health care.<sup>26</sup> The Emergency Medical Treatment and Active Labor Act required hospitals to treat anyone who showed up in the emergency room.<sup>27</sup> Uncompensated care costs hospitals more than \$38 billion per year, some of which are passed on to the government.<sup>28</sup>

## Preventable Chronic Diseases

The second cause of rising health care costs is an epidemic of preventable diseases. The four leading causes of death are heart disease, cancer, chronic obstructive pulmonary disorder, and stroke. Chronic health conditions cause most of them. They can either be prevented or would cost less to treat if caught in time. Risk factors for heart disease and strokes are poor nutrition and obesity. Smoking is a risk factor for lung cancer (the most common type) and COPD. Obesity is also a risk factor for other common forms of cancer.<sup>29</sup>

These diseases cost more than \$5,000 per person.<sup>30</sup> <sup>31</sup> The average cost of treating diabetes, for example, is \$9,601 per person.<sup>32</sup> These diseases are difficult to manage because patients get tired of taking the medications. Those who cut back find themselves in the emergency room with heart attacks, strokes, and other complications.

## How the ACA Slowed the Rise of Health Care Costs

By 2009, rising health care costs were consuming the federal budget. [Medicare and Medicaid](#) cost \$671 billion in 2008.<sup>33</sup> That was 19% of the total budget of \$3.5 trillion. Payroll taxes cover less than half of Medicare and none of Medicaid.<sup>34</sup> This is part of so-called [mandatory spending](#) also generally includes federal and veterans' pensions, [welfare](#), and [interest on the debt](#).<sup>35</sup> It consumed 60% of the [federal budget](#).<sup>36</sup> Congress knew something had to be done to rein in these costs.

Federal health care costs are part of the [mandatory budget](#). That means they must be paid. As a result, they are eating up funding that could have gone to [discretionary budget](#) items, such as [defense](#), education, or rebuilding infrastructure.<sup>37</sup>

[Obamacare's](#) goal is to reduce these costs. First, it required insurance companies to provide [preventive care](#) for free.<sup>38</sup> That treats chronic conditions before they required expensive hospital emergency room treatments. It also reduced payments to Medicare Advantage insurers.<sup>39</sup>

Since 2010, when the [Affordable Care Act](#) was signed, health care costs rose by 4.3% a year. It achieved its goal of lowering the growth rate of health care spending.<sup>40</sup>

In 2010, the government predicted that Medicare costs would rise by 20% in just five years. That's from \$12,376 per beneficiary in 2014 to \$14,913 by 2019. Instead, analysts were shocked to find out spending had dropped by \$1,000 per person, to \$11,167 by 2014.<sup>41</sup> <sup>42</sup> It happened due to four specific reasons:<sup>43</sup>

1. The ACA reduced payments to Medicare Advantage providers. The providers' costs for administering Parts A and B were rising much faster than the government's costs. The providers' couldn't justify the higher prices. Instead, it appeared as though they were overcharging the government.
2. Medicare began rolling out accountable care organizations, bundled payments, and value-based payments. Spending on hospital care has stayed the same since 2011. Part of the reason for this is that hospital readmissions dropped by 150,000 a year in 2012 and 2013. That's one of the areas hospitals get penalized if they exceed standards. It resulted in increased efficiency and quality of patient care. <sup>44</sup>
3. High-income earners paid more in Medicare payroll taxes and Part B and D premiums. For more, see [Obamacare taxes](#).
4. In 2013, sequestration lowered Medicare payments by 2% to providers and plans.

Based on these new trends, Medicare spending was projected to grow by 7.9% a year between 2018 and 2028.<sup>45</sup>

## Health Care Costs by Year

Year	National Health Spending (Billions)	Percent Growth	Cost Per Person	Event
1960	\$27.2	NA	\$146	Recession
1961	\$29.1	7.1%	\$154	Recession ended
1962	\$31.8	9.3%	\$166	n/a
1963	\$34.6	8.6%	\$178	n/a
1964	\$38.4	11.0%	\$194	LBJ started Medicare and Medicaid
1965	\$41.9	9.0%	\$209	LBJ started Medicare and Medicaid
1966	\$46.1	10.1%	\$228	Vietnam War

1967	\$51.6	11.9%	\$253	n/a
1968	\$58.4	13.3%	\$284	n/a
1969	\$65.9	12.9%	\$318	n/a
1970	\$74.6	13.1%	\$355	Recession
1971	\$82.7	11.0%	\$389	Wage-price controls
1972	\$92.7	12.0%	\$431	<a href="#">Stagflation</a>
1973	\$102.8	11.0%	\$474	<a href="#">Gold standard</a> ended. HMO Act
1974	\$116.5	13.4%	\$534	ERISA / Wage-price controls ended
1975	\$133.3	14.4%	\$605	Inflation at 6.9%
1976	\$152.7	14.6%	\$688	Inflation at 4.9%
1977	\$173.9	13.8%	\$777	Inflation at 6.7%
1978	\$195.3	12.4%	\$865	Inflation at 9%
1979	\$221.5	13.4%	\$971	Inflation at 13.3%
1980	\$255.3	15.3%	\$1,108	Inflation at 12.5%
1981	\$296.2	16.0%	\$1,273	Fed raised rates
1982	\$334.0	12.8%	\$1,422	Recession ended
1983	\$367.8	10.1%	\$1,550	Tax hike and higher defense spending
1984	\$405.0	10.1%	\$1,692	Tax hike and higher defense spending
1985	\$442.9	9.4%	\$1,833	n/a
1986	\$474.7	7.2%	\$1,947	Tax cut
1987	\$516.5	8.8%	\$2,099	<a href="#">Black Monday</a>
1988	\$579.3	12.2%	\$2,332	Fed raised rate
1989	\$644.8	11.3%	\$2,571	<a href="#">S&amp;L crisis</a>
1990	\$721.4	11.9%	\$2,843	Recession. Inflation at 6.1%
1991	\$788.1	9.2%	\$3,070	Recession
1992	\$854.1	8.4%	\$3,287	n/a
1993	\$916.6	7.3%	\$3,487	HMOs
1994	\$967.2	5.5%	\$3,641	n/a
1995	\$1,021.6	5.6%	\$3,806	Fed raised rate
1996	\$1,074.4	5.2%	\$3,964	<a href="#">Welfare</a> reform
1997	\$1,135.5	5.7%	\$4,147	<a href="#">Balanced Budget Act</a>
1998	\$1,202.0	5.8%	\$4,345	<a href="#">LTCM crisis</a>
1999	\$1,278.3	6.4%	\$4,576	BBRA
2000	\$1,369.7	7.1%	\$4,857	BIPA
2001	\$1,486.8	8.5%	\$5,220	<a href="#">9/11 attacks</a>
2002	\$1,629.2	9.6%	\$5,668	<a href="#">War on Terror</a>
2003	\$1,768.2	8.5%	\$6,098	Medicare Modernization Act
2004	\$1,896.3	7.2%	\$6,481	n/a
2005	\$2,024.2	6.7%	\$6,855	<a href="#">Bankruptcy Act</a>
2006	\$2,156.5	6.5%	\$7,233	n/a
2007	\$2,295.7	6.5%	\$7,628	Inflation at 4.1%
2008	\$2,399.1	4.5%	\$7,897	Recession slowed spending.
2009	\$ 2,495.4	4.0%	\$8,143	n/a

2010	\$2,598.8	4.1%	\$8,412	ACA signed
2011	\$2,689.3	3.5%	\$8,644	<a href="#">Debt crisis</a>
2012	\$2,797.3	4.0%	\$8,924	<a href="#">Fiscal cliff</a>
2013	\$2,879.0	2.9%	\$9,121	ACA taxes
2014	\$3,026.2	5.1%	\$9,515	<a href="#">Exchanges opened</a>
2015	\$3,200.8	5.8%	\$9,994	n/a
2016	\$3,337.2	4.3%	\$10,348	n/a
2017	\$3,492.1	3.9%	\$10,739	<a href="#">Drug costs rose</a> just 0.4%.
2018	3,649.4	4.8%	\$11,172	n/a

Sources: "[Inflation Rate by Year](#)." National Health Spending. Percent Growth. Cost Per Person.<sup>46</sup> California Health Care Foundation.<sup>47</sup>