

# Has the Affordable Care Act Slowed the Growth of Health Care Spending?

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*For years, health care spending has outpaced economic growth. However, in 2012, health care spending as a share of the economy declined slightly for the second year in a row, based on official government statistics released at the outset of 2014. This news was greeted in some quarters as evidence that the Affordable Care Act (ACA) was beginning to bend the cost curve downward.*



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But do these reports actually indicate that the ACA is curbing health care growth, relative to the growth of the rest of the economy? In fact, the recent slowing of health care expenditures is one of several similar slowdowns. Further, data for 2013 and the first part of 2014 indicate that the trend is already reversing and health care expenditures are rising.

**Has the Spending Growth Rate Declined?** In January 2014, actuaries with the Centers for Medicare and Medicaid Services (CMS) released their accounting of how much the nation spends on health care. The new estimates indicated that total national health expenditures (NHE) declined from 2009 to 2012.

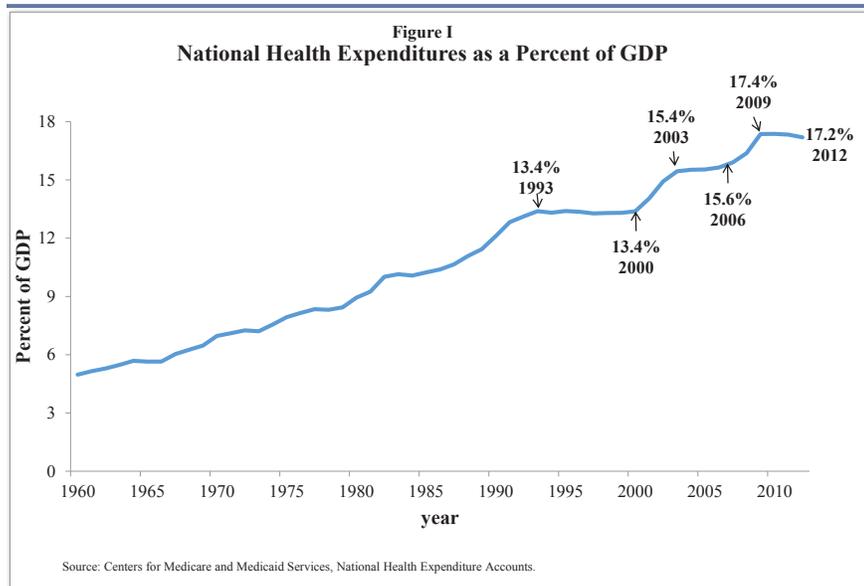
Figure I depicts the path of health care spending as a percent of gross domestic product (GDP) for the period from 1960 to the close of 2012. The touted 2009 to 2012 decline is clear in the figure. But the figure also clearly shows that the recent slowdown is one of several periods during which the share remained relatively stable:

- From 2009 to 2012, health care spending as a percent of GDP declined from 17.4 percent to 17.2 percent (\$2.8 trillion).
- Previous periods of relative stability occurred over the seven years from 1993 to 2000 when health care spending hovered at about 13.4 percent of GDP.
- Another period of relative stability was from 2003 to 2006, when the share grew modestly from 15.4 percent to 15.6 percent.

Importantly, these three periods of stability were all associated with economic expansions.

Striking in Figure I is the switchover from a steady rise in health care as a share of GDP from 1960 to 1993 to a stair-step rise thereafter. Therefore, the question is: Are we on a plateau that will continue — as touted by those attributing the 2009 to 2012 decline in the health care share of GDP to the ACA — or are we just preparing for the next step upward? More recent evidence, derived from National Income and Product Accounts data from the Bureau of Economic Analysis, indicates that the recent slowdown in

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between the growth rate in per capita health care spending and per capita GDP is often referred to as the excess cost growth rate. Per capita health care spending growth exceeded real per capita GDP growth, when averaged over the preceding 10 years, for the entire period from 1969 through 2013. [See Figure II.]

While there have been periods of long-run decline, such as from 1991 to 2000, the more recent period from 2000 to 2009 was one of rising health care excess cost growth. [See Figure III.<sup>4</sup>] Clearly, the series is affected over the course of the business cycle, with the 1991 to 2000 decline corresponding to a period of economic expansion and the rising long-run averages from 2000 to 2009 spanning two recessions, including the recent severe recession.

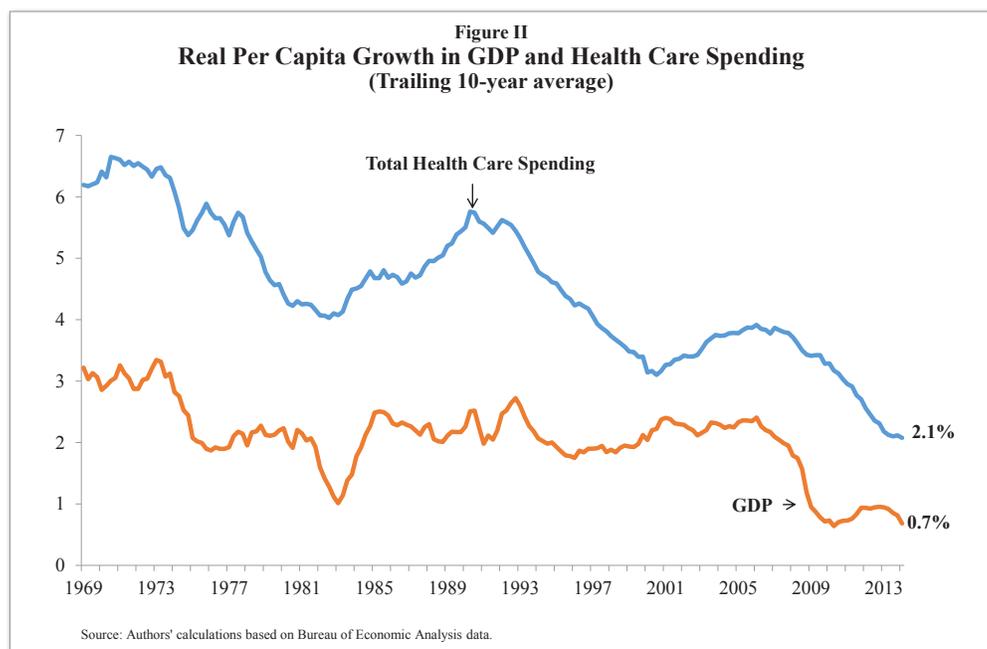
health spending growth relative to overall GDP growth may be reversing:

- Real per capita GDP growth over the last year, from the first quarter of 2013 to the first quarter of 2014, was 0.8 percent, while real per capita health care spending experienced a higher, 2.2 percent growth rate.<sup>2</sup>
- Preliminary estimates of health care spending as a share of GDP indicate an increase from 17.2 percent at the end of 2012 to 17.4 percent as of the first quarter of 2014.<sup>3</sup>

**Excess Cost Growth Rate.** The long-run difference

In general, excess cost growth for health care has declined over time:

- From 1969 to the first quarter of 2014, the 10-year average health care excess cost growth rate has declined at a rate of about 0.04 percentage points per year.
- If this rate of decline were to continue, the health care excess cost growth rate would be in the range of 1 percent within the next 11 to 12 years and would be 0 percent within the next 33 years.



However, the increase in the excess cost growth rate during the recent period, combined with the expansion in health insurance coverage through the Affordable Care Act, makes projecting the future path uncertain.

Moreover, the most recent empirical evidence from the first quarter of 2014 suggests that health care spending growth has exceeded GDP growth and, therefore, health care's share of the economy has grown.

**Health Care Employment Growth Rates.** Data relating to employment confirms that the health

care sector continues to grow faster than the economy as a whole. Moreover, not only has the health care sector grown relative to the rest of the economy, but its growth is less affected by the business cycle than other sectors. Generally, as a recession is a downturn in economic activity, one would expect output and employment to suffer during those periods. However, employment in the health care industry has grown steadily and has been largely unaffected by business cycles:

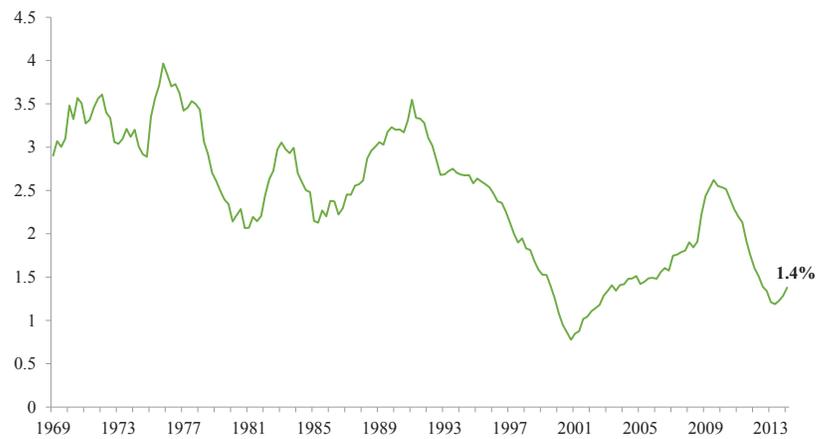
- From 1990 to the present, health sector employment grew at 2.5 percent per year, the highest rate among all industries.
- Further, from the peak to the trough of the 2007 to 2009 recession, total nonfarm employment fell 5.4 percent, led by the construction and manufacturing sectors, where employment dropped 19.8 percent and 14.7 percent, respectively.
- In contrast, health sector employment grew 3.3 percent during the “great recession.”

**Performance of Health Care Stocks.** Stock market performance is another indicator of how the health care sector has fared relative to the rest of the economy over the business cycle. Stock prices reflect investors’ expectations of future profitability and are very sensitive to market-wide and industry-specific events that might affect future earnings. In the health care sector, stocks have grown faster, and been less volatile, than those in the broader market.

- From January 1998 to the recession trough of June 30, 2009, the monthly total return in the health care sector was more than double the average return of stocks in Standard & Poor’s 500 stock index.
- Post-recession, the monthly return in the S&P 500 was 1.4 percent, while the health care sector monthly total return was 1.6 percent.
- Between the passage of the ACA and the present, the total return in the health care sector outpaced the market, rising at a monthly rate of 1.4 percent compared to 1.2 percent — about 18 percent higher.

Based on the evidence from the stock market, the future appears favorable for the health care sector. How do these

**Figure III**  
**Health Care Spending “Excess Cost Growth”**  
 (Trailing 10-year average)



Source: Authors' calculations based on Bureau of Economic Analysis data.

observations inform forecasts of future spending? In general, they suggest that per capita health care spending growth will likely continue to outpace per capita GDP growth, at least in the near term.

**Public Health Care Spending.** Over the last 50 years, health care cost growth has coincided with a persistent reduction in the proportion of health care actually paid for on an individual basis. Two developments have contributed to the reduction in individual responsibility for health care consumption: First, the introduction of Medicare and Medicaid in 1965 substantially increased the government’s share of health care spending. Second, the steady rise in the role of private third-party payers has separated individuals from the full cost of their health care purchases.

Fast-forward to the passage of the Affordable Care Act. The proponents of the ACA touted the law as solving two major issues in the health care debate: expanding health insurance coverage to the uninsured and controlling costs.

Provisions within the ACA designed to slow federal Medicare spending are anticipated to face the same obstacles as the Sustainable Growth Rate, a 1997 measure designed to contain Medicare costs by limiting physician reimbursements, but which has failed to materialize because Congress, under pressure, has repeatedly overridden it. Additionally, the expansion of health insurance coverage through the ACA, if broadly successful, will place upward pressure on health care spending.

**Conclusion.** The ACA includes provisions designed to constrain federal health care spending and to expand health insurance coverage. It is unlikely that the provisions intended to constrain Medicare spending will achieve their desired results. However, the ACA expands insurance coverage to the uninsured through subsidized, mandated insurance purchases and by extending Medicaid benefits to individuals under the age of 65 who earn up to 138 percent of the poverty level in states that have chosen to expand coverage. Both of these reforms are expected to increase health care demand and thus spending in coming years.

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The full text of the study, “Health Care Spending and the Affordable Care Act,” is available at [http://www.ncpa.org/pdfs/Health\\_Care\\_Spending\\_and\\_the\\_Affordable\\_Care\\_Act.pdf](http://www.ncpa.org/pdfs/Health_Care_Spending_and_the_Affordable_Care_Act.pdf).

## Endnotes

<sup>1</sup>Based on Andrew J. Rettenmaier, Thomas R. Saving and Zijun Wang, “Health Care Spending and the Affordable Care Act,” Private Enterprise Research Center, Texas A&M University, July 2014.

<sup>2</sup>The estimates for the annual rates from the first quarter of 2013 to the first quarter of 2014 are based on the BEA revisions released on June 25-26, 2014. The relative growth rates for real per capita

GDP and health care spending were 1.3 percent and 4.0 percent respectively, based on the previous release of first quarter 2014 data.

<sup>3</sup>All of the NIPA data series used to calculate total health spending are available on a quarterly basis, with the exception of government consumption expenditures and investment on health, which are available on an annual basis. The most recent update is for 2012. Here, the 2012 shares of GDP for the affected series are used to impute the shares for each quarter of 2013 and for the first quarter of 2014. Together, these series accounted for 8.5 percent of health care spending in 2012. The realized government consumption and investment on health will differ from these assumptions, but given the share of GDP exhibited by the other components of the total, holding the government share constant at the 2012 level likely produces a reasonable estimate for 2013 and the first quarter of 2014.

<sup>4</sup>The real per capita health care spending and GDP estimates series on which the growth rates are calculated have not been adjusted for the changing age and sex structure of the population, so the excess cost growth rates in Figure III are approximations.

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