The Senate Health, Education, Labor, and Pensions (HELP) committee recently held the first of a series of planned hearings on the rising costs of healthcare in the U.S. Various testimonies were provided about the increasing costs of healthcare in the U.S. and what is causing that rapid growth.

**How Much Does the U.S. Spend on Healthcare?**

The United States has one of the highest costs of healthcare in the world. In 2017, the U.S. spent about $3.5 trillion on healthcare, which averages to about $11,000 per person. Relative to the size of the economy, healthcare costs have increased dramatically over the past few decades, from five percent of GDP in 1960 to 18 percent in 2017. The Center for Medicare and Medicaid Services (CMS) projects that such costs will climb to $6 trillion, or about $17,000 per person, and will represent about 19 percent of GDP by 2027.
Why Is Healthcare Spending Increasing in the U.S.?

Generally, healthcare spending can be thought of as a function of price (dollars charged for healthcare services) and utilization (the amount of service used). There are several underlying factors that can increase price and utilization, thereby boosting spending on healthcare. The most notable of those factors are an aging population and rising healthcare prices.

An Aging Population

In 2017, individuals age 65 and over accounted for 16 percent of the U.S. population. The U.S. Census Bureau projects that this figure will exceed 20 percent by 2030. Since people age 65 and over, on average, spend more on healthcare than any other age group, growth in the number of older Americans is expected to increase total healthcare costs over time.
Furthermore, as individuals turn 65, they will become eligible for Medicare. As a result, the number of Medicare enrollees is expected to increase from 57 million in 2017 to 74 million by 2027. That expansion in enrollment is expected to significantly increase the cost of Medicare over time. In fact, the Congressional Budget Office projects that Medicare spending will reach almost six percent of GDP by 2048, doubling from about three percent today.
Increasing Prices

Arguably the largest driver of healthcare spending in the U.S., prices on healthcare services have grown faster than other prices in the economy. In the past 20 years, the Consumer Price Index (CPI) — the average change in prices paid by urban consumers for various goods and services — has grown annually at an average of 2.2 percent while the CPI for medical care has grown at an average rate of 3.5 percent per year.
There are many possible reasons for this increase in healthcare prices:

- The introduction of new, innovative healthcare technology can lead to better, more expensive procedures and products.
- The complexity of the U.S. healthcare system can lead to administrative waste in the insurance and provider payment systems.
- The consolidation of hospitals can lead to a lack of competition or even a hospital monopoly, granting providers the opportunity to increase prices.

More research needs to be done, though, to confirm the reasons that healthcare costs grow so quickly.

**Why It Matters**

High healthcare spending is not necessarily a bad thing, especially if it leads to better health outcomes. However, that is not the case in the U.S. When evaluating common health metrics, the U.S. lags behind other countries despite higher healthcare spending.
High healthcare costs put pressure on an already strained fiscal situation. Containing our rising healthcare costs is important for our nation’s long-term fiscal and economic well-being. For ideas on how to solve some of these issues, visit our Solutions page.

Related: Infographic: U.S. Healthcare Spending

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