

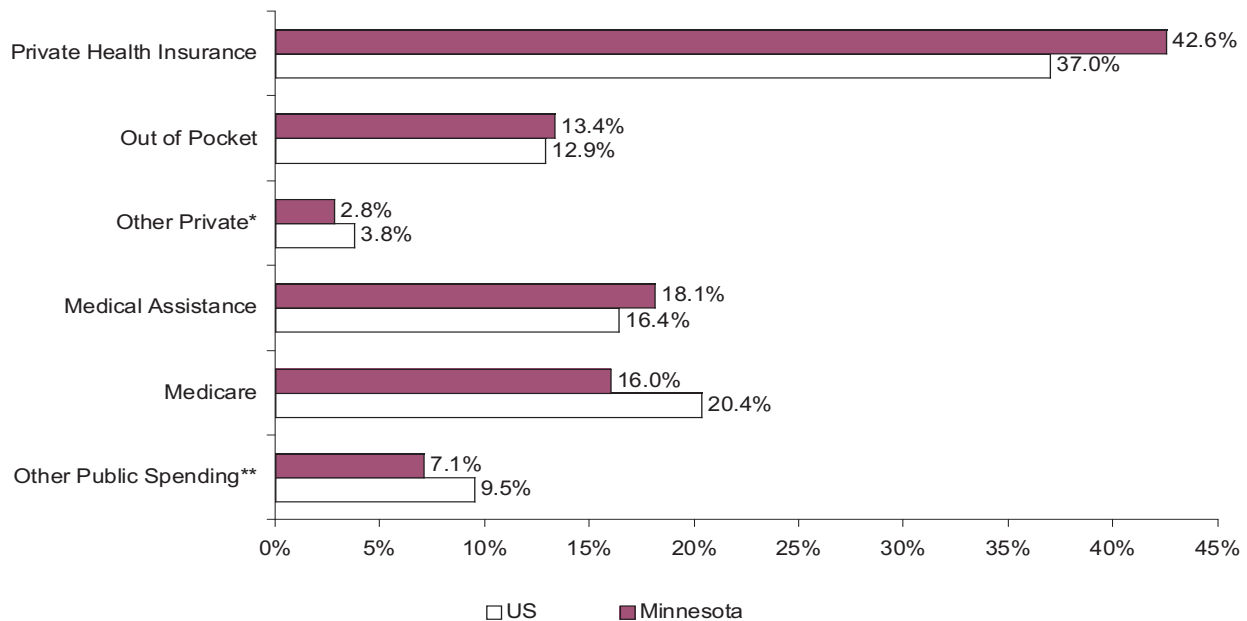
Minnesota Health Care Spending in 2006

This issue brief provides detailed estimates for 2006 health care spending in Minnesota, with analysis of recent trends and comparisons to the national average. The estimates follow the framework of the national estimates developed by the Centers for Medicare and Medicaid Services (CMS) and track data by source of funds and category of spending. However, the Minnesota estimates use state specific data.¹

Sources of Funds

An estimated \$30.7 billion was spent in Minnesota on health care in 2006, an increase of 6.7 percent from 2005. About 60 percent of the total spending on health care in the state comes from private sources (private health insurance, out of pocket and other private spending), with the remaining 40 percent coming from public sources (see Figure 1).

Figure 1
2006 Minnesota and US Health Care Spending
Where It Came From



Source: MDH Health Economics Program; Centers for Medicare & Medicaid Services

*Other major private payers include Private Workers' Compensation and Auto Medical.

**Includes, among others, MinnesotaCare, General Assistance Medical Care, Government Workers' Compensation, Veterans Affairs, and Minnesota Comprehensive Health Association



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The distribution of total spending between public and private sources has been fairly stable over time. However, there have been some shifts within these categories (see Table 1). For example, the share of total health care spending coming from private health insurance increased from 40.3 percent in 2002 to 42.6 percent in 2006, while the share of out of pocket spending by consumers and from other private sources declined. This trend of an increasing share of health care spending from private insurance has been occurring for over a decade (in 1993, private insurance accounted for 34.7 percent of total spending), and it remains despite the recent erosion of private insurance coverage.

Although the share of total spending paid by Medicare increased by 1.1 percentage points between 2002 and 2006, overall public program spending as percent of total spending has been stable. The increase in the share of spending paid by Medicare is likely due in part to the implementation of Medicare prescription drug benefit program that occurred in 2006; in 2006, Medicare spending grew significantly faster than overall spending (10.7 percent compared to 6.7 percent).

Table 1
Shares of Minnesota Health Care Spending by Payer
2002 to 2006

	2002	2003	2004	2005	2006
Public					
Public Spending, Total	41.3%	40.1%	40.8%	41.0%	41.2%
Medicare	14.9%	14.2%	14.8%	15.4%	16.0%
Medicaid	19.1%	18.6%	18.7%	18.3%	18.1%
Other Public Spending*	7.2%	7.3%	7.3%	7.3%	7.1%
Private					
Private Spending, Total	58.7%	59.9%	59.2%	59.0%	58.8%
Private Health Insurance	40.3%	42.0%	41.7%	42.1%	42.6%
Out of Pocket	14.7%	14.5%	14.3%	13.8%	13.4%
Other Private**	3.7%	3.3%	3.2%	3.1%	2.8%

* Major components of other public spending are MinnesotaCare, General Assistance Medical Care, Government Workers Compensation, Veterans Administration, Minnesota Comprehensive Health Association

**Other major private payers include Private Workers' Compensation and Auto Medical.

These updated estimates show that growth in total health care spending is slightly slower in Minnesota than the nation as a whole. In 2006, health care spending grew at 6.7 percent in Minnesota compared to 6.8 percent nationally. In 2006, public spending grew faster than private spending in Minnesota. This is consistent with national trends and also with Minnesota's experience in 2005.

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Table 2
Minnesota and US Health Care Expenditure Growth

	2005		2006	
	MN	US	MN	US
Public	7.1%	7.2%	7.3%	8.5%
Private	6.2%	6.4%	6.3%	5.4%
Total Spending	6.6%	6.8%	6.7%	6.8%

Consistent with historical trends, Minnesota still spends less on health care per capita than the country as a whole (see Table 3). This difference amounted to \$667 per capita, or 10.1 percent less per person (\$5,947 in Minnesota compared with \$6,614 nationally). Since 2002, Minnesota per capita health spending has increased by a total of 29.1 percent compared to 27.1 percent nationally. As a result, the spending gap between Minnesota and the nation overall has narrowed compared to 2002.

Minnesota also devotes a smaller portion of its economy to health care compared to the nation as a whole (12.7 percent compared to 15.0 percent). As shown in Table 3, both Minnesota and the nation are spending increasing shares of their total economies on health care.

Table 3
Minnesota and US Per Capita Health Care Spending and Share of Economy
2002 to 2006

	2002	2003	2004	2005	2006
Per Capita Spending:					
Minnesota	\$4,608	\$5,140	\$5,302	\$5,620	\$5,947
U.S.	\$5,204	\$5,588	\$5,911	\$6,253	\$6,614
Health Care Spending as a Share of the Economy:					
Minnesota	11.7%	12.5%	12.1%	12.4%	12.7%
U.S.	14.3%	14.8%	14.8%	14.9%	15.0%

Note: National comparison uses spending for health services and supplies, the category that is most comparable to Minnesota spending estimates

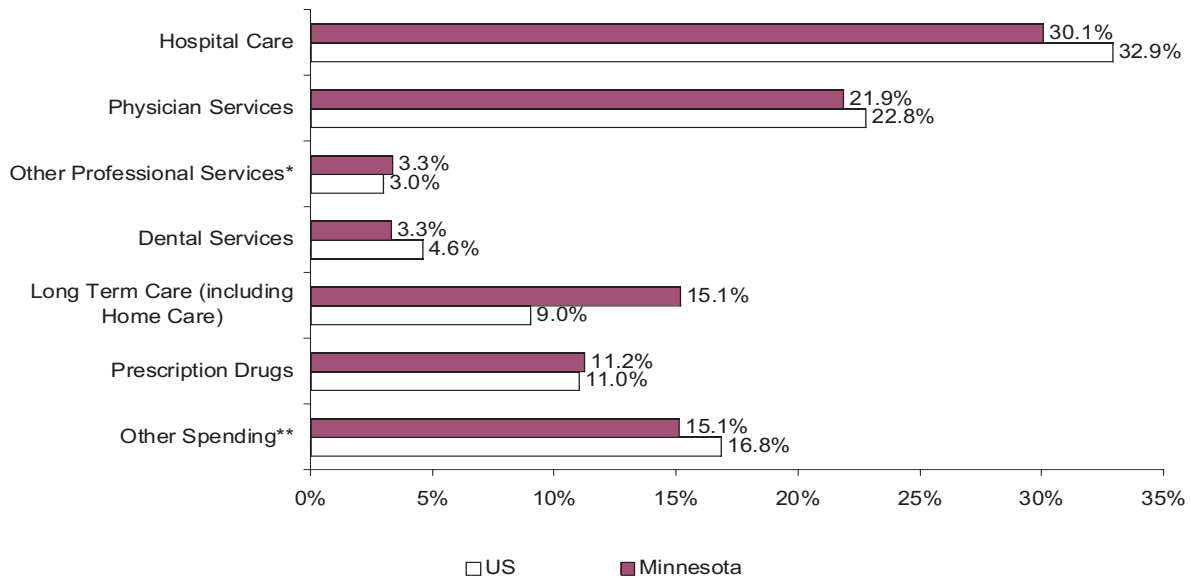
Spending by Type of Service

In Minnesota and the nation as a whole, hospital care (inpatient and outpatient) and physician services represent the largest categories of spending (see Figure 2 and Table 4), accounting for over half of total spending. Shares of spending in Minnesota are lower for hospital care and higher for long term care compared with national figures. This is partially explained by methodological differences in estimating Minnesota and national health spending. National estimates count long term care spending in facilities that are attached to a hospital as hospital spending, while the Minnesota estimates allocate this spending to the long term care category.

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Spending for prescription drugs continues to account for a comparatively small portion of overall spending. In 2006 prescription drug spending represented 11.2 percent of overall spending. The passage of the Medicare prescription drug benefit did not change this significantly; it primarily shifted the sources of funding (from out of pocket and Medicaid to Medicare).

Figure 2
2006 Minnesota and US Health Care Spending
Where It Went



Some of the spending defined as Long Term Care in the Minnesota estimate is defined as hospital spending in the national figures.
Source: MDH Health Economics Program; Centers for Medicare & Medicaid Services
*Includes services provided by health practitioners who are not physicians or dentists.
**Covers all other spending, including Federal block grants for public health.

The distribution of spending by type of service has been fairly stable over time (see Table 4). However, there have been some shifts in the categories of spending in recent years. For example, hospital care (inpatient and outpatient combined) has steadily increased as a share of total spending from 28.4 percent in 2002 to 30.1 percent in 2006. This is mainly attributable to the increasing share of total spending that outpatient hospital care represents. In addition, other professional services² continues to grow as a share of total spending over time. In 2002, other professional services accounted for 2.7 percent of total spending compared to 3.3 percent in 2006.

Long term care has steadily declined as a share of total spending in Minnesota, although it has been increasing in absolute terms. Between 2002 and 2006, its share of total spending decreased by 1.8 percentage points, from 16.9 percent to 15.1 percent of total spending. The trend of long term care representing a smaller share of total health care spending also occurred at the national level.

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Table 4
Minnesota Health Care Spending by Type of Expense, 2002 to 2006 (in millions)

	2002	2003	2004	2005	2006
Inpatient Hospital	\$4,657	\$5,127	\$5,373	\$5,779	\$6,188
Outpatient Hospital	\$1,924	\$2,213	\$2,483	\$2,799	\$3,024
Physician Services	\$5,145	\$5,859	\$5,624	\$6,060	\$6,700
Long Term Care (incl. Home Care)	\$3,917	\$4,164	\$4,328	\$4,515	\$4,641
Prescription Drugs	\$2,596	\$3,123	\$3,311	\$3,352	\$3,442
Dental	\$784	\$919	\$945	\$1,007	\$1,002
Other Professional Services	\$636	\$729	\$807	\$903	\$1,025
Other Spending	\$3,476	\$3,836	\$4,092	\$4,321	\$4,633
Total	\$23,135	\$25,969	\$26,963	\$28,737	\$30,655

Percent of Total

Inpatient Hospital	20.1%	19.7%	19.9%	20.1%	20.2%
Outpatient Hospital	8.3%	8.5%	9.2%	9.7%	9.9%
Physician Services	22.2%	22.6%	20.9%	21.1%	21.9%
Long Term Care (incl. Home Care)	16.9%	16.0%	16.1%	15.7%	15.1%
Prescription Drugs	11.2%	12.0%	12.3%	11.7%	11.2%
Dental	3.4%	3.5%	3.5%	3.5%	3.3%
Other Professional Services	2.7%	2.8%	3.0%	3.1%	3.3%
Other Spending	15.0%	14.8%	15.2%	15.0%	15.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Endnotes

¹Both national and state level estimates are periodically revised as more accurate data becomes available and the methodology is improved.

²This category includes services provided by health practitioners who are not physicians or dentists.

The Health Economics Program conducts research and applied policy analysis to monitor changes in the health care marketplace; to understand factors influencing health care cost, quality and access; and to provide technical assistance in the development of state health care policy.

For more information, contact the Health Economics Program at (651) 201-3550. This issue brief, as well as other Health Economics Program publications, can be found on our website at: <http://www.health.state.mn.us/healthconomics>.

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