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Soaring cost of healthcare sets a record By Noam N. Levey February 4, 2010 Los Angeles Times

Spending was 17.3% of the economy last year. The share paid by the U.S. will soon exceed 50%, a study says.

In a stark reminder of growing costs, the government has released a new estimate that healthcare spending grew to a record 17.3% of the U.S. economy last year, marking the largest one-year jump in its share of the economy since the government started keeping such records half a century ago.

The almost \$2.5 trillion spent in 2009 was \$134 billion more than the previous year, when healthcare consumed 16.2% of the gross domestic product, according to an annual report by independent actuaries at the federal Centers for Medicare and Medicaid Services, or CMS, scheduled for release Thursday.

The nonpartisan accounting agency also projected that as early as next year, the country could mark another milestone as government picks up more than half of the nation's total healthcare tab for the first time.

The rise in current costs, driven in part by surging spending in Medicare and Medicaid, and the bleak projections for the future do not take into account changes that may come if Democrats revive their healthcare overhaul legislation.

The report appears likely to fuel further debate about the health bills now stalled in Congress.

In the absence of change, the report raises a grim prospect for the country -- a healthcare system consuming an ever greater and potentially unsustainable share of the economy even as private health coverage lags.

Last year, CMS estimated that government spending on healthcare would not overtake private spending until 2016, compared with 2011 or 2012 in the current report.

"The health system is hurting, and we are seeing that in these numbers," said Karen Davis, president of the Commonwealth Fund, a leading authority on healthcare policy.

The report also points up the financial cost of the so-called Great Recession and the growing pressure it is putting on state and local governments.

Federal and state spending on Medicaid, the nation's primary health insurance program for low-income Americans, jumped nearly 10% in 2009, according to the report. Medicare spending, meanwhile, shot up just over 8%.

Obama and many healthcare experts have argued that reshaping the healthcare system will ultimately make it more efficient, even if overall health spending continues to increase -- a claim Republicans dispute.

Fueled by new technology, an aging population, rising incomes and other changes, spending on medical care has been consuming a larger and larger share of the nation's economy for years, jumping from about 5% of the gross domestic product in 1960 to nearly 14% in 2000.

But the recession that began in 2007 accelerated that trend, as the economy contracted while healthcare spending continued to increase, according to CMS.

Even now, with the economy slowly recovering, the government expects that the growth of healthcare spending will outpace the expansion of the economy. By 2020, 1 of every 5 dollars spent in the U.S. is expected to go to healthcare.

Some economists believe that this is not necessarily a problem, as the healthcare industry can provide good jobs and improve both health and productivity.

But there is growing concern that as much as a third of the medical care delivered in this country does not help patients.

"Are we getting value for the dollar? That is the question," said Len Nichols, health policy director at the centrist New America Foundation. "If you believe that so much medical care is unnecessary, as I do, then it is criminal that we are spending so much."

Stuart Butler, vice president for domestic and economic policy at the conservative Heritage Foundation, said that the numbers underscore the need for more aggressive action to curb spending.

"The only way to do this is to simply spend less," Butler said, warning that the health bills being pushed on Capitol Hill do the opposite.

CMS officials noted that healthcare spending has been increasing even as the number of Americans without health insurance is growing, another sign of problems with the system.

"With higher unemployment, people lose their jobs [and] many of them lose their healthcare coverage in the process. And under current law, they don't have much to fall back on," said Richard S. Foster, chief actuary.

Foster said that the report by his office indicated that two of the main trends driving calls for a health overhaul -- rising costs and shrinking numbers of people with health coverage -- are essentially the same as they were when the healthcare debate began last year.

"Nothing much has changed in that regard," he said.

Inefficiency is becoming a particularly acute problem for state and federal governments, which the report shows are increasingly supporting the nation's healthcare system.

Half a century ago, government accounted for just a quarter of all healthcare spending. Now, as the cost of caring for elderly and poor Americans swells, government's share of the total bill is fast becoming greater than that of the private sector.

The trend accelerated in the recession, as Washington spent billions of dollars to help states prop up Medicaid programs being strained by the growing ranks of the unemployed and uninsured.

The healthcare legislation being debated on Capitol Hill could increase the government commitment to healthcare as the federal government boosts the Medicaid program and provides billions of dollars of subsidies to low- and moderate-income Americans to help them buy insurance.

But in a separate report a month ago, CMS actuaries estimated that the Senate healthcare bill would boost total healthcare spending by less than 1% over the next decade, in large part because the legislation includes initiatives to make Medicare more efficient.