



Where the Money Goes: The Evolving Expenses of the U.S. Health Care System

Synopsis

U.S. expenditures on hospitals, physicians' offices, and outpatient care centers rose from \$0.8 trillion in 1997 to \$1.4 trillion in 2012. Half of these expenditures went toward labor costs, including physicians' and nurses' salaries. But the most rapidly growing category of expense was goods and services—pharmaceuticals (purchased by providers), medical devices, and other items, as well as services like accounting and engineering. By 2012, payments for such goods and services accounted for one-third of spending.

July 7, 2016

Authors Sherry Glied, Stephanie Ma, and Claudia Solís-Román

Journal *Health Affairs*, July 2016

Contact Sherry Glied, Professor and Dean, Wagner Graduate School of Public Service, sherry.glied@nyu.edu
[Access to full article.](#)

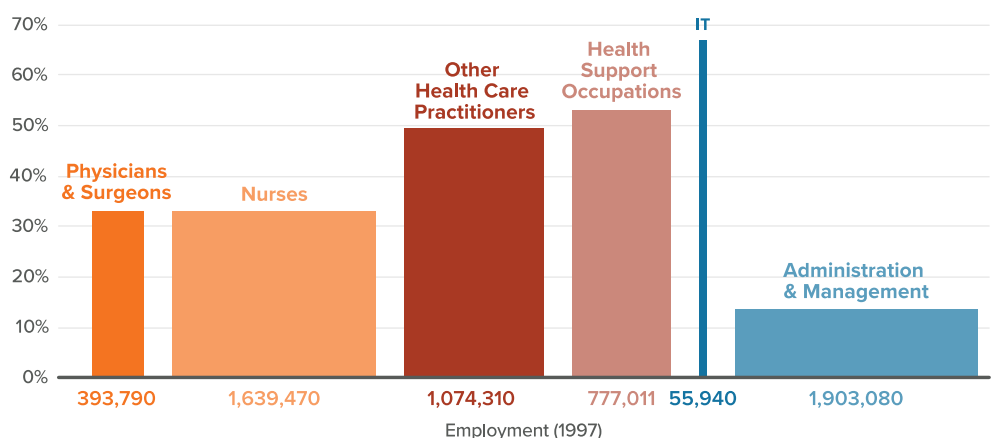
The Issue

Finding ways to control health care spending is a major concern for U.S. policymakers and a goal of many health care delivery reform efforts. And while spending levels are closely tracked, little is known about how the money spent is allocated across the system and how this has changed over time. To inform the development of strategies for cost control, a Commonwealth Fund-supported study compared expenditures and revenues in three health care sectors—hospitals, physicians' offices, and outpatient care centers in 1997, 2002, 2007, and 2012.

Key Findings

- In 2012, health care revenues exceeded expenses by 10.2 percent across the three sectors.
- Half of all revenue was paid to workers, with 23 percent going toward the wages and benefits of physicians and nurses. Although more nonprofessionals (e.g., support staff in physicians' offices) were employed in health care over the study period, this did not account for much increased spending.
- Even though labor remained the single-largest contributor to costs, the share of revenue spent on labor declined modestly from 1997 to 2012, from 53.2 percent to 49.8 percent.

Change in Employment for Selected Health-Sector Occupational Groups, 1997–2012



SOURCE: Adapted from S. Glied, S. Ma, and C. Solís-Román, "Where the Money Goes: The Evolving Expenses of the U.S. Health Care System," *Health Affairs*, July 2016 35(7):1197–1203.

- The fastest-growing expense category across the three sectors was goods and services, including pharmaceuticals, medical devices, IT systems, and accounting and engineering services. In 2012, payments for goods and services accounted for one-third of spending.

The Big Picture

The findings suggest that regulatory and market changes, economywide trends, and the expanding role of technology have all influenced health care spending. Over the study period, health care providers experienced declining payments from public insurers and from some private payers. But providers appear to have been able to adjust their expenses in response to reduced revenue. While labor costs continue to be high, overall labor compensation declined slightly. The prominent role of technology in health care is apparent in the increased share of expenses going toward goods and services.

About the Study

The researchers used data from the Bureau of Labor Statistics and the Economic Census, conducted in 1997, 2002, 2007, and 2012, and from the Economic Census's annual industry accounts. They examined intermediate costs (the monetary value of goods and services), labor costs (wages, benefits, and contract labor), capital expenses (including structures and equipment), and tax expenses (including taxes and license fees). Results are reported in constant 2012 dollars.

Changes in the health care sector—including the development of new delivery systems and the introduction of new technologies—are likely to alter where the money in the sector goes and who receives how much of it in the future.

The Bottom Line

Ongoing changes to health care delivery and the growing adoption of new technologies are likely to change where health care dollars are spent. Monitoring the different components of health care spending can help inform policymaking.

S. Glied, S. Ma, and C. Solís-Román, "Where the Money Goes: The Evolving Expenses of the U.S. Health Care System," *Health Affairs*, July 2016 35(7):1197–1203.

This summary was prepared by Martha Hostetter.