UCLA CENTER FOR HEALTH POLICY RESEARCH

Health Policy Brief

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Public Funds Account for Over 70 Percent of Health Care Spending in California

Andrea Sorensen, Narissa J. Nonzee, and Gerald F. Kominski

"California's health care is primarily a publicly funded system."

SUMMARY: In California, personal health care expenditures are estimated to total more than $367 billion in 2016. Approximately 71 percent of these expenditures will be paid for with public funds (i.e., taxpayer dollars). This estimated contribution of public funds to health care expenditures is much higher than estimates that include only major health insurance programs such as Medicare and Medicaid. Several additional public funding sources also contribute to health care expenditures in the state, including government spending for public employee health benefits, tax subsidies for employer-sponsored insurance and the Affordable Care Act (ACA) insurance exchange, and county health care expenditures. As health care reform continues to take effect, it will be important to monitor the public versus private contributions to state health care expenditures to ensure that funds are being distributed both efficiently and equitably.

In 2015, the Centers for Medicare and Medicaid Services (CMS) estimated that U.S. national health expenditures (NHE) totaled over $3 trillion.[1] These expenditures are paid for with both public funds (federal and state taxpayer dollars) and private funds (payments from private insurers and individuals). While one CMS analysis found that public funds contribute to approximately 45 percent of total U.S. health care expenditures, this estimate is potentially too low if it is limited to only major health insurance programs such as Medicare, Medicaid, and the Children's Health Insurance Program (CHIP).[2, 3] In a recent NHE analysis that incorporated these major public insurance programs— as well as payments for public employees' health benefits and forgone tax revenue from employer-sponsored insurance (ESI) tax subsidies—the proportion of NHE attributable to public funds was one and a half times higher than CMS estimates.[4]

In this policy brief, we adopt a similar framework to that employed in the national-level analysis[4] to document the percentage of health care expenditures paid for with public funds in California. Our framework includes four major publicly funded payment categories: (1) payments for public health insurance programs (e.g., Medicare and Medicaid); (2) government payments for health insurance coverage for public employees; (3) tax subsidies for both ESI and the ACA marketplace exchange for individuals with incomes between 139 percent and 400 percent of the Federal Poverty Level (FPL); and (4) county health care expenditures.

Health Care Expenditures in California

The majority of health care expenditures will be paid for with public funds in 2016

In California, health care expenditures in 2016 are estimated to total more than $367 billion; our estimates suggest that

Exhibit 1 California Health Care Expenditures (Billions of Dollars), 2016

Health Care Expenditure Category	Expenditures, in Billions (% of Total Expenditures)
Public health care expenditures	
Direct government expenditures	
Medicare	$74.7 (20.3%)
Medi-Cal/Healthy Families	
Federal share	$62.8 (17.1%)
State share	$37.4 (10.2%)
Other government programs	$10.0 (2.7%)
County health expenditures	$10.0 (2.7%)
Government employer premium contributions	
FEHB	$1.9 (0.5%)
CalPERS	$7.1 (1.9%)
TRICARE	$4.1 (1.1%)
Tax subsidies	
Tax subsidies for ESI	
Federal	$33.1 (9.0%)
State and local	$10.9 (3.0%)
ACA subsidies	$8.9 (2.4%)
Total public health care expenditures	**$260.9 (71.0%)**
Private health care expenditures	
Employer share of premiums	$58.3 (15.9%)
Employee share of premiums	
FEHB premiums	$0.7 (0.2%)
CalPERS premiums	$1.0 (0.3%)
Private employee premiums	$18.7 (5.1%)
Premium contributions for individually purchased insurance	
Covered California	$3.8 (1.0%)
Outside Exchange	$8.6 (2.3%)
OOP expenses for covered benefits	$15.5 (4.2%)
Total private health care expenditures	**$106.6 (29.0%)**
Total California health care expenditures	**$367.5 (100.0%)**

Notes:

"Other government programs" includes VA health care, Indian Health Services, and Maternal and Child Health Services.

OOP: Out-of-pocket

CalPERS: California Public Employees' Retirement System; manages health benefits for public employees and their families in California

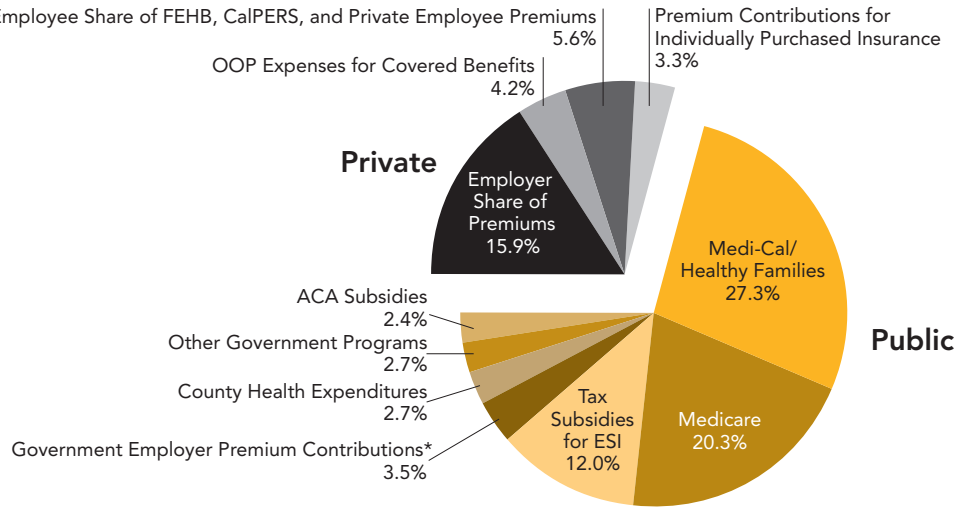
FEHB: Federal Employee Health Benefits Program

TRICARE: Health program that provides benefits to military personnel, military retirees, and their dependents

ESI: Employer-sponsored insurance

Percentages may not add to 100.0% due to rounding error.

Total Health Care Expenditures in California, 2016 **Exhibit 2**



Note: Public health care expenditures in California totaled an estimated $260.9 billion in 2016.

* "Government Employer Premium Contributions" includes FEHB, CalPERS, and TRICARE.

71 percent of these expenditures will be paid for with public funds. Medi-Cal/Healthy Families will comprise the largest proportion of total spending (27 percent), followed by Medicare (20 percent). Tax subsidies for ESI (12 percent); government spending for public employee insurance (4 percent); county health expenditures (3 percent); other government programs—Veterans Affairs (VA) health care, Indian Health Services, and Maternal and Child Health (3 percent altogether); and ACA marketplace exchange subsidies (2 percent) will account for the remainder of total expenditures. Private expenditures for covered benefits will comprise approximately 29 percent of total health care spending in California in 2016. These expenditures include employer share of premiums (16 percent), employee share of premiums (6 percent), out-of-pocket expenditures for covered benefits (4 percent), and premium contributions for individually purchased insurance (3 percent).

Medi-Cal/Healthy Families is the largest source of public health care expenditures

Among total public expenditures in California ($261 billion), Medi-Cal/Healthy Families is the largest source of public funding (38 percent). Medicare is the second-largest source of public funds (29 percent), followed by tax subsidies (17 percent). Benefit expenditures for public employees account for 5 percent, county health expenditures and other government programs each comprise approximately 4 percent, and expenditures for ACA subsidies comprise approximately 3 percent of the public funds.

Public funding in California compared to public funding at the national level

While our analysis does not exactly reflect that conducted with national figures (e.g., we include estimates for ACA tax subsidies, but do not include National Institutes of Health research funds), and our analysis relies on 2016 estimates rather than the 2015

"Medi-Cal/Healthy Families was the largest source of California public health care expenditures."

"It will be increasingly important for policymakers to consider whether these public funds are being distributed efficiently and effectively."

estimates used in the national analysis, it is informative to observe how California's share of public funds compares to such shares at the national level. We find that the share of publicly funded health care expenditures in California is higher than the 2015 national estimate (71 percent in California versus 65 percent nationally). While the share of Medicare spending in California is equal to the national-level findings (20 percent in both), the share of Medicaid spending is substantially higher in California than in the nation as a whole (27 percent in California versus 17 percent nationally). One possible explanation for this is that almost 33 percent of the population in California is enrolled in Medicaid, which is notably higher than the average enrollment across the U.S. With regard to the share of tax subsidies for ESI, the contribution in California is slightly higher compared to the national level (12 percent for California versus 10 percent nationally). Finally, the share of health care benefits for public employees is slightly lower in California than it is nationally (5 percent for California versus 7 percent nationally).[4]

Conclusion and Recommendations

Public funds in California contribute to approximately 71 percent of total state health care expenditures. As an increasing number of individuals gain health insurance coverage under the ACA, as health care expenditure growth rates continue to increase, and as policy debates continue to mount around introducing a public insurance option, it is important that public funding for health care expenditures be monitored. Comparable to national-level analyses, these findings run contrary to the assumption that U.S. health care expenditures are funded primarily by private payers.[4] If public funds continue to comprise the majority of total health care expenditures, it will be increasingly important for policymakers to consider whether these public funds are being distributed efficiently and effectively, and whether alternatives such as a state single-payer system would be a more effective use of public and private health spending.

Data Sources and Methods

Data from 2016 were used when available; when they were not, we used the most recent existing year data extrapolated to 2016. We did not include funds for medical research, construction and building costs, or institutionalized individuals (such as prisoners). Kaiser Family Foundation and CMS Office of Actuary data were used for Medicare expenditure estimates.[2] Kaiser Family Foundation and the Medicaid Budget and Expenditure System/State Children's Health Insurance Program Budget and Expenditure System (MBES/CBES) data were used to derive Medicaid estimates.[5,6] Expenditure data from the California Health Benefits Review Program (CHBRP) were used for private insurer payment categories,[7] and data from the California Public Employees' Retirement System were used for the CalPERS estimates.[8] National Center for Veterans Analysis and Statistics data were used for VA expenditure estimates,[9] and California State Controller data were used for county health spending estimates.[10] Department of Health and Human Services data were used for Indian Health Services estimates.[11] Maternal and child health estimates were obtained from data from the Maternal, Child, and Adolescent Health division of the California Department of Public Health.[12] TRICARE and Federal Employee Health Benefit estimates were obtained from federal annual reports and state-level enrollment data.[13-16]

CMS NHE data, Congressional Budget Office data, U.S. Census Bureau data (state government tax collections), and CHBRP data were used for the tax subsidy estimates.[4,7,17,18] We estimated the ESI tax subsidy figure for California based on the share of total ESI spending in the state relative to ESI spending at the national level. In the U.S., the government subsidizes health care provided by employers. ESI will account for nearly two-thirds of coverage (155 million individuals) in the U.S. in 2016; this coverage will result in a subsidy for ESI of $266 billion, according to CBO estimates.[17] Notably, tax subsidies for ESI are not actual cash expenditures but are forgone federal tax revenue.[19]

There are limitations to our analysis. Some funding sources that contribute to personal health expenditures are not included in our table because estimates are not available. For example, there are government agencies in California that are self-insured,[20] but the data are not well documented. However, we do not anticipate that this figure would significantly affect our findings, as CalPERS is the predominant public insurer in California. Another estimate that we were not able to generate is the private payments made for TRICARE premiums. Specifically, there are certain plans within TRICARE that require modest premiums at the family level, but we were not able to estimate the percentage of families at the state level who selected these plans.

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Endnotes

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