

# National Health Expenditure Projections 2014-2024

## *Forecast Summary*

### **Major Findings for National Health Expenditures: 2014-2024**

- For 2014-24, health spending is projected to grow at an average rate of 5.8 percent per year (4.9 percent on a per capita basis).
- Health spending is projected to grow 1.1 percent faster than Gross Domestic Product (GDP) per year over this period; as a result, the health share of GDP is expected to rise from 17.4 percent in 2013 to 19.6 percent by 2024.
- Given the ACA's coverage expansions and premium subsidies together with population aging, federal, state and local governments are projected to finance 47 percent of national health spending by 2024 (from 43 percent in 2013).
- Although projected health spending growth is faster than in the recent past due to the combined effects of the Affordable Care Act's (ACA's) major coverage expansions, stronger expected economic growth, and population aging, it is still slower than the growth experienced over the last three decades prior to this most recent recession.
- After six years of growth below 5 percent, national health spending is projected to have grown 5.5 percent in 2014.
  - Faster health spending due mainly to ACA health insurance coverage expansions and rapid growth in prescription drug spending.
  - Factors moderating health spending include the effects of continued increases in cost sharing requirements in private health insurance plans and near historically low rates of medical inflation.
  - The insured rate is projected to have increased to 89 percent in 2014 (from 86 percent in 2013) as 8.4 million are projected to have gained coverage.
- After 2014, national health spending is projected to grow 5.3 percent in 2015 and peak at 6.3 percent in 2020.
  - Over this time, medical inflation rates are anticipated to return to levels closer to the decade prior to the recession.
  - Medicare spending growth is expected to accelerate after 2015 due to expected increases in use of medical goods and services by aging beneficiaries and continued baby-boomer enrollment.
- Expected improvements in the economy contribute to faster projected growth in private health insurance spending, particularly after 2018.

## **Major Findings by Payer**

### Medicare

- Medicare spending is projected to have grown by 5.3 percent in 2014, to \$616.8 billion, partially due to increased prescription drug spending from recently available hepatitis C treatments.
- Medicare spending is projected to decelerate in 2015 to 4.7 percent from increased rebates for pharmaceutical drugs and reductions in physician incentive payments.
- For 2016 through 2024, projected Medicare spending growth is expected to rebound to 7.3 percent per year due to increased enrollment by the baby boomers, greater utilization of care, and higher payment rates driven by improved economic conditions, which increase growth in the cost of input goods and services used to treat Medicare patients. These drivers of growth will be partially offset by slow growth in payment updates due to provisions in the Affordable Care Act.

### Medicaid

- Total Medicaid spending is projected to have grown 12.0 percent in 2014 due to increased enrollment of 7.6 million beneficiaries. Primarily driving the increase in enrollment are states that chose to expand coverage to adults up to 138 percent of the federal poverty level.
- The newly insured for Medicaid are expected to have required less medical care than the currently insured, thereby decreasing per beneficiary Medicaid spending from 3.8 percent in 2013 to a projected -0.8 percent in 2014.
- For 2015 to 2024, Medicaid spending growth is projected to be 5.9 percent per year on average, reflecting more gradual growth in enrollment as well as increased spending per beneficiary due to aging of the population.

### Private Health Insurance

- Private health insurance premiums are projected to have grown 6.1 percent and to have reached \$1.0 trillion, in 2014 due to higher projected per enrollee spending and increased enrollment through Marketplace plans.
- Private health insurance spending growth is expected to remain somewhat elevated at 6.4 percent in 2015, primarily due to additional enrollment into health insurance plans.
- For 2016 through 2024, private health insurance spending growth is projected to moderate to 5.4 percent per year due to the proliferation of employers providing high-deductible health plans as their only insurance option, narrow network designs for health plans, and the excise tax on high-cost employer-based insurance plans starting in 2018.

### Out-of-Pocket

- Out-of-pocket spending is projected to have decelerated due to the Affordable Care Act's coverage expansions to 1.3 percent in 2014 (\$343.8 billion)
- While out-of-pocket spending growth is projected to accelerate after 2014, reaching a peak of 5.7 percent in 2021, the out-of-pocket share of health spending is projected to fall from 11.6 percent in 2013 to 10.0 percent by 2024.

## **Major Findings by Sector**

### Hospital

- Total hospital spending is anticipated to have grown 4.4 percent in 2014 (to \$978.3 billion), which is similar to the 2013 growth rate of 4.3 percent.
- Increased enrollment from the ACA coverage expansions is projected to have differentially impacted spending among payers including decreasing out-of-pocket hospital spending by 7.2 percent, but increasing Medicaid hospital spending and private health insurance hospital spending by 8.9 percent and 6.3 percent, respectively, in 2014.
- In 2015, hospital spending is projected to increase 5.4 percent due primarily to the continued effects of the ACA insurance expansions. For 2016 through 2024, continued population aging and the impacts of improved economic conditions are expected to result in projected average annual growth of 6.1 percent.

### Physician and Clinical Services

- Growth in spending on physician and clinical services is projected to have accelerated in 2014 to 4.8 percent (\$615.0 billion), after growth of 3.8 percent in 2013. Despite the effects of the coverage expansions, growth in physician and clinical services spending, in particular, is expected to have been restrained by the proliferation of high-deductible health plans.
- Growth in prices for physician and clinical services is expected to remain near historically low rates through the early part of the projection. Several factors contribute to modest expectations of price growth for these services, including increases in cost-sharing in private health insurance plans which are expected to ease demand pressure on price and cost growth, slower growth in Medicaid payments due to the expirations of the temporary increase to primary care providers in 2015, and Medicare physician payment updates legislated to remain under 1.0 percent per year through 2019.

### Prescription Drugs

- Prescription drug spending is projected to have grown 12.6 percent in 2014 to \$305.1 billion. Driving growth were new specialty drugs designed to treat conditions such as hepatitis C coupled with increased prescription drug use among people who were newly insured and those who moved to more generous insurance plans as a result of the premium and cost-sharing subsidies offered by the Affordable Care Act.
- Prescription drug spending growth is projected to average 6.3 percent annual growth from 2015 through 2024 due to improving economic conditions, changes in benefit management designed to encourage better drug adherence for people with chronic health conditions, and anticipated changing clinical guidelines designed to encourage drug therapies at earlier stages of treatment.

### **Major Findings by Sponsor**

- Health care spending sponsored (or financed) by federal, state, and local governments is projected to have grown 8.1 percent to nearly \$1.4 trillion in 2014.
- Reflecting growth trends in private health insurance and out-of-pocket spending, outlays by businesses, households, and other private sources are projected to have risen by 3.5 percent in 2014, and to have reached \$1.7 trillion.
- The government-sponsored share of health spending is projected to increase and account for 47 percent of national health expenditures by 2024, largely driven by Medicaid coverage expansions, Marketplace plan premium and cost-sharing subsidies, and increased use and intensity in medical services for the Medicare program as the baby-boomers begin to require more care.