

National Health Expenditure Projections 2022-2031

Forecast Summary

Major Findings for National Health Expenditure Projections: 2022-2031

- Over 2022-31 average National Health Expenditures (NHE) growth (5.4 percent) is projected to outpace that of average GDP growth (4.6 percent) resulting in an increase in the health spending share of Gross Domestic Product (GDP) from 18.3 percent in 2021 to 19.6 percent in 2031.
- The insured share of the population is projected to reach a historic high of 92.3 percent in 2022 related to the continuous enrollment requirement of the Families First Coronavirus Response Act's (FFCRA) and gains in Marketplace enrollment and remain at that rate through 2023.
- Medicaid enrollment is projected to decline from its 2022 peak of 90.4M to 81.1M by 2025 as states disenroll beneficiaries no longer eligible for coverage. By 2031, the insured share of the population is projected to be 90.5 percent.
- The Inflation Reduction Act (IRA) is projected to result in lower out-of-pocket spending on prescription drugs for 2024 and beyond as Medicare beneficiaries incur savings associated with several provisions from the legislation including the \$2,000 annual out-of-pocket spending cap and lower gross prices resulting from negotiations with manufacturers.

Chronological Discussion of Key Trends in Projected National Health Expenditures

2022

- National health spending growth is projected to have grown from 2.7 percent in 2021 to 4.3 percent in 2022 (with spending totaling \$4.4 trillion). Although growth for most major payers is projected to have been slower in 2022, this is expected to have been more than offset by increases in funding for federal public health activity related to both the Public Health and Social Services Emergency Fund and the Centers for Disease Control and Prevention, as well as a normalization of spending for other federal programs after the large declines in 2021 associated with expiring supplemental COVID-19 funding. Also, health insurance coverage is projected to have reached a historic high in 2022, with an insured rate of 92.3 percent related to enrollment growth in both Medicaid and Marketplace plans.

2023

- Growth in national health spending is expected to accelerate to 5.1 percent in 2023. The insured rate of 92.3 percent is projected to remain unchanged, reflecting the offsetting effects of both a decline in Medicaid enrollment (0.8 million), as states begin to actively disenroll beneficiaries with the ending of the FFCRA's continuous enrollment requirement, and an increase in enrollment in direct-purchase insurance (1.8 million), particularly Marketplace plans. Spending growth rates in 2023 for the major payers are generally expected to rise compared with 2022, particularly private health insurance spending, which is expected to increase 7.7 percent, versus 3.0 percent growth in 2022, related to faster growth in use and the associated spending on benefits.

2024

- National health spending is expected to grow 5.0 percent in 2024. Medicaid enrollment is anticipated to decline by 8.9 percent (8.0 million) and Medicaid spending, in turn, is projected to contract by 2.1 percent. On a per enrollee basis, however, Medicaid spending is projected to increase 7.4 percent—its highest growth since 1991—reflecting the sizable departure of younger

and healthier beneficiaries who are no longer eligible because of the expiration of the public health emergency. Although Medicaid enrollment is expected to fall, the insured share of the population is only expected to decline to 91.5 percent as many who were not disenrolled during the public health emergency had comprehensive coverage from another source (such as through an employer). In addition, growth in medical prices (as measured by the Personal Health Care Price Index) is expected to accelerate to 3.3 percent (from 2.8 percent in 2023), reflecting the lagged impact of recent faster price growth associated with the inputs required to provide medical care, whereas growth in economywide prices (as measured by the GDP Deflator) is projected to slow further in 2024, from 3.4 percent in 2023 to 2.4 percent.

2025-31

- For 2025-31, national health spending is projected to increase at an average rate of 5.6 percent—higher than the average growth rate of 4.2 percent projected for GDP—partly as a result of faster projected average growth in medical prices (2.8 percent) compared with economywide price growth (2.1 percent). Medicare is expected to experience the highest rate of growth among the major payers at 7.8 percent per year, with upward pressure on growth as the program begins covering out-of-pocket expenditures over \$2,000 per year for Part D enrollees, and downward pressure on growth from the IRA’s provisions allowing Medicare to i) negotiate prices for certain high-cost drugs, and ii) link drug price increases to the Consumer Price Index. Medicaid expenditures are projected to average 5.6 percent growth over the course of 2025–31, with enrollment growth expected to average 0.6 percent over that period. Average private health insurance spending is expected to grow by 5.2 percent and out-of-pocket spending is expected to grow by 4.1 percent.

Key Trends in Projected National Health Expenditures by Payer

Medicare

- Medicare expenditures are projected to have grown 4.8 percent in 2022, compared with 8.4 percent growth in 2021. Slower growth in 2022 is attributable in part to i) Medicare fee-for-service beneficiaries using emergent hospital care at lower rates, and ii) the phased-in reinstatement of sequestration-based payment rate cuts of 1 percent during April–June 2022 and 2 percent for July 2022 onward, after a full-year suspension of rate cuts in 2021. Medicare spending growth is projected to accelerate to 8.0 percent, with expenditures projected to exceed \$1.0 trillion in 2023. For 2023, a rebound in Medicare hospital spending growth to 11.0 percent is attributed to an expected increase in use. Growth is expected to be mitigated somewhat by the end of the public health emergency in May 2023 including i) the expiration of the Skilled Nursing Facility 3-Day Rule Waiver, and ii) the expiration of the 20 percent increase in payments to hospitals for inpatient admissions related to COVID-19. Medicare spending growth is projected to slow to 7.2 percent in 2024 primarily reflecting slower growth in Medicare Advantage payments and slowing growth in hospital spending for Fee-For-Service beneficiaries. Finally, over 2025–31, Medicare spending growth is expected to average 7.8 percent. Notably, provisions in the IRA are projected to increase Medicare prescription drug spending in 2025-26 and slow thereafter. By 2030 and 2031, annual Medicare spending growth rates are expected to be the slowest within the 2025–31 period because of a combination of impacts of the IRA provisions and slower projected enrollment growth, following the last of the baby boomers enrolling in 2029.

Medicaid

- Medicaid spending is projected to have grown 9.6 percent in 2022, up from 9.2 percent in 2021 and the program's enrollment is projected to have reached 90.4 million. This historically high enrollment figure reflects new enrollees to the program, as well as many people remaining enrolled because of the continuous enrollment requirement of the FFCRA. In 2023, states are expected to resume actively disenrolling Medicaid beneficiaries who no longer qualify for benefits, leading to a small projected decline in enrollment of less than one percent (0.8 million). Spending growth in 2023 is projected to slow to 3.7 percent. Larger effects related to the end of the continuous enrollment requirement are expected to occur in 2024, when Medicaid enrollment is projected to drop by 8.0 million. This reduction in the number of people enrolled is subsequently expected to result in a reduction in Medicaid expenditures of 2.1 percent, reflecting declines in spending across most services. Growth on a per enrollee basis is expected to climb to 7.4 percent in 2024—its highest growth since 1991—and reflect the rapid loss of many enrollees who tend to be younger and healthier, and thus less expensive. Over 2025-31, Medicaid spending is projected to average 5.6 percent, partly due to the final impacts of Medicaid disenrollment in 2025 and the rising average growth in Medicaid hospital spending as the disproportionate share payment cap reductions are set to expire under current law in late 2027.

Private Health Insurance and Out-of-Pocket

- In 2022, growth in private health insurance spending is projected to have decelerated to 3.0 percent, following growth of 5.8 percent in 2021. This is the result of a projected slowdown in per enrollee spending related to slowing growth in use, especially for hospital services. In 2023, private health insurance spending is expected to grow 7.7 percent with per enrollee spending growth accelerating as a result of faster growth in both use and prices. In 2024, private health insurance spending growth is expected to be similar to 2023, at 7.6 percent, reflecting slower spending growth for hospital services and prescription drugs coupled with faster growth in physician and clinical services. Growth is expected to slow somewhat over 2025-31, to an average rate of 5.2 percent. This is partly because of the expiration of subsidies in 2026 for Marketplace plans and the associated 10 percent enrollment decline projected for directly purchased insurance.
- Out-of-pocket spending is projected to have grown 4.3 percent in 2022 (down from 10.4 percent in 2021). This decelerating rate of growth was largely due to slower spending trends in sectors with higher out-of-pocket spending shares (including dental, durables, and other nondurables) that experienced high growth in 2021. In 2023, out-of-pocket spending growth is expected to accelerate to 5.2 percent, in part related to faster health care price growth. During 2025-31, average out-of-pocket spending growth is projected to be 4.1 percent per year. The out-of-pocket spending trend over this time contains a projection period low rate of growth of just 3.6 percent in 2026 as the first round of Medicare Part D's lower negotiated drug prices takes effect, featuring significantly lower gross prices and accompanying lower out-of-pocket payments for the program's beneficiaries.

Key Trends in Projected National Health Expenditures by Sector

Hospital Care

- Hospital spending growth is expected to have slowed from 4.4 percent in 2021 to 0.8 percent in 2022. Declining growth in use, in part attributable to pandemic-related hospital staffing issues, contributed to projected declines in both private health insurance and out-of-pocket hospital spending, as well as low growth in Medicare. In addition, spending for other third-party payers and programs, particularly from the COVID-19 Provider Relief Fund, is expected to have continued to decline in 2022. Although Medicaid hospital spending growth remained relatively high, it also slowed in 2022 because of a decrease in severe COVID-19 cases and an increase in the number of people with overlapping coverage. In 2023, hospital spending growth is projected to accelerate substantially, to 9.3 percent, reflecting rebounding growth in use and faster growth in hospital prices (partly because of rising labor costs). In 2024, hospital spending growth is expected to slow to 5.6 percent, driven by a decline in hospital spending by Medicaid as significantly more beneficiaries are disenrolled from the program. For 2025–31, hospital spending growth is projected to average 6.1 percent per year as trends are expected to normalize and transition away from pandemic-related impacts on use and spending. Medicare is expected to experience the highest hospital spending growth over that time frame, as the last of the baby boomers enroll in 2029.

Physician and Clinical Services

- Spending for physician and clinical services in 2022 is projected to have grown 2.4 percent, slower than in 2021, when growth was 5.6 percent. The overall deceleration largely reflects slowing growth in the use of physician and clinical services after the pandemic-driven declines in use in 2020 and the rebound that occurred in 2021. The slowdown in use is also consistent with the reporting of many people foregoing doctors appointments in the midst of high economywide inflation, as well as limited availability of appointments and their associated long wait times. In the case of Medicare, growth was also affected by the phased-in reinstatement of sequestration-based payment rate cuts. In addition, declines in spending in 2022 for other third-party payers and programs, particularly the Provider Relief Fund, contributed to slower overall physician and clinical services spending growth. Spending growth for physician and clinical services is expected to accelerate in 2023 to 5.1 percent, largely due to much faster projected growth in spending for other third-party payers and programs. Although faster physician price growth is anticipated, slower growth in Medicare physician payment updates and lower negotiated commercial insurer reimbursement rates associated with the No Surprises Act both contribute to constraining projected physician price growth. In 2024, growth for physician and clinical services is expected to remain unchanged, at 5.1 percent. During the 2025–31 period, physician and clinical services spending growth is projected to average 5.7 percent. Medicare spending for these services is projected to grow most rapidly over this time frame, averaging 8.1 percent, whereas private health insurance physician and clinical services spending are expected to average 4.6 percent. This differential is primarily attributable to their respective projected enrollment trends.

Retail Prescription Drugs

- Prescription drug spending growth is expected to have decelerated in 2022 to 5.1 percent, down from 7.8 percent in 2021. Among the major payers, private health insurance prescription drug spending growth is projected to have slowed 5.4 percentage points to 3.1 percent, driven by a reduction in spending on new drug introductions. Medicaid prescription drug spending growth is projected to have remained elevated, partly as a result of continued strong enrollment growth. For 2023, prescription drug spending growth is expected to slow further to 3.6 percent. For that year, drug spending growth is projected to slow for both Medicaid (due to a decline in enrollment) and

Medicare (as a result of generic drugs reducing spending for some categories of drugs within Part D). Some key aspects of the IRA will begin to affect spending growth for Part D and overall drug spending in 2024, which, on net, result in growth of 3.7 percent. Medicare prescription drug spending growth is projected to increase significantly (12.4 percent) as a result of the IRA's provision that requires Part D plans to cover the 5-percent coinsurance payments in the catastrophic portion of the benefit that were previously paid for by beneficiaries. This provision also largely accounts for a decline in out-of-pocket prescription drug spending growth in 2024 of 5.9 percent. In addition, Medicaid prescription drug spending is anticipated to fall 1.6 percent in 2024, related to an 8.9 percent decline in enrollment. During 2025–31, prescription drug spending growth is projected to average 4.8 percent. Although spending trends for the major payers are expected to be influenced by their typical drivers, such as aging and the introduction of new drugs, they are also expected to be differentially affected by the IRA. For example, the \$2,000 cap on out-of-pocket spending that becomes effective in 2025 and drug price negotiations starting in 2026 are expected to lead to lower out-of-pocket spending for Medicare beneficiaries. The IRA is also expected to put downward pressure on Medicare's prescription drug spending growth, mainly as a result of the act's inflation rebate provisions.