

# National Health Expenditure Projections 2021-2030

## *Forecast Summary*

### **Major Findings for National Health Expenditure Projection: 2021-2030**

- On average over 2021-30, National Health Expenditures (NHE) and Gross Domestic Product (GDP) are both projected to grow 5.1 percent per year; as a result, the projected NHE share of GDP in 2030 (19.6 percent) is similar to 2020 (19.7 percent).
- Near-term NHE patterns are significantly influenced by the COVID-19 pandemic. NHE growth in 2021 is projected to have slowed to 4.2 percent (down from 9.7 percent growth in 2020) as federal COVID-19 supplemental funding declined substantially.
- Following the declines observed in 2020, health care utilization is expected to rebound starting in 2021 and normalize through 2024. By 2024, the government (federal and state & local) share of health spending is expected to fall to 46 percent as COVID-19 supplemental funding is expected to wane, down from an all-time high of 51 percent in 2020.
- The percentage of the population with health insurance is expected to peak in 2022 at 91.1% (mainly due to Medicaid enrollment) before falling back towards pre-pandemic levels as the public health emergency is assumed to end. The 2030 rate is projected to be 90.5%.
- For 2025-2030, factors that typically drive changes in health spending and enrollment, such as economic, demographic, and health-specific factors, are again expected to primarily influence trends in the health sector.

### **Chronological Discussion of Key Trends in Projected National Health Expenditures**

2021

- National health spending growth is projected to have decelerated, going from 9.7 percent in 2020 to 4.2 percent (with spending totaling \$4.3 trillion). Spending by other federal programs and for public health activity is projected to have declined to \$286.8 billion in 2021, down from \$417.6 billion in 2020, primarily as a result of lower levels of federal supplemental funding. In contrast, accelerations in growth rates are expected to have occurred across the three major payers (Medicare, Medicaid, and private health insurance). The insured share of the population is projected to be 91.1 percent in 2021, higher than 90.5 percent in 2020.

2022

- Growth in national health spending is expected to accelerate to 4.6 percent in 2022, primarily driven by faster projected growth in prices as measured by the national health expenditure deflator (which is expected to grow 3.6 percent in 2022 versus 2.7 percent in 2021). Underlying the expected acceleration in health care prices is the lagged effect of faster growth in projected input costs (such as for labor and supplies) that are affected by economy-wide price growth in 2021. As the prices for inputs needed to deliver care become more costly, those increases are expected to be ultimately passed on from providers as higher service prices in 2022. Also, the rate of growth in utilization is expected to remain elevated as the demand for patient care is projected to stay high.

2023-24

- Rates of growth in national health expenditures are projected to be 5.0 percent and 5.1 percent over the course of 2023 and 2024, respectively, as patient care patterns are assumed to revert to pre-pandemic levels. Underlying this stable growth pattern are differing projected rates of growth for the key payers. First, other federal spending is expected to have a less negative impact on overall health spending in 2023–24 compared with the earlier years of the projection period. Also, as a result of continued projected negative or slow growth in enrollment over the course of 2023–24, Medicaid spending growth is projected to be slower than that of private health insurance and Medicare.

2025-30

- For 2025-30, growth in national health spending is expected to average 5.3 percent and reach \$6.8 trillion by 2030. This period is expected to be influenced by traditional drivers, including changes in economic and demographic factors. By 2030 the government share of total national health spending is projected to increase to 48 percent, up from 46 percent in 2024, driven by steady expected increases in Medicare enrollment and general revenues used to finance the program—however, this share is still 3 percentage points lower than in 2020, when billions of dollars in federal payments flowed into the health sector to combat the financial effects of the pandemic. Also, by the end of the projection period, the insured share of the population is projected to fall to 89.8 percent because the employer-sponsored insurance enrollment-to-employment ratio is expected to fall related to reductions in employer offer rates and employee take-up rates.

### **Key Trends in Projected National Health Expenditures by Payer**

#### Other Federal Programs and Government Public Health Activity

- In 2021 spending on other federal programs—the National Health Expenditure Accounts category that captures federal COVID-19 relief funding—is projected to have fallen sharply following the massive inflows of federal funding that were directed to the health sector by the Coronavirus Aid, Relief, and Economic Security Act and other legislation in 2020. Despite additional funding related to the American Rescue Plan Act of 2021 that is projected to continue through 2023, the level of spending occurring through other federal programs is projected to fall to \$19.6 billion by 2024 (or about \$5.6 billion more than the level in 2019, but \$174.3 billion lower than in 2020). Spending for public health activity is also expected to have declined in 2021, by 5.2 percent, after more than doubling in 2020. By 2030 the federal portion of public health spending is projected to be 12.0 percent, similar to what it was in 2019.

#### Medicare

- Medicare expenditures are projected to have grown faster at 11.3 percent in 2021, compared to 3.5 percent in 2020, primarily reflecting faster projected growth in personal health care (PHC) expenditures. PHC spending growth is expected to have accelerated from 1.3 percent in 2020 to 12.4 percent in 2021, attributable to beneficiaries using patient care services at higher rates compared with the declines experienced in 2020, as well as to the full-year suspension of sequestration-based payment rate cuts that applied across the sectors after eight months of suspended rate cuts in 2020. Medicare spending growth is projected to moderate to 7.5 percent in 2022 and then slow further in 2023 to 5.9 percent. For 2022, slower projected rates of growth in the use and intensity of services are expected to lead to slower per beneficiary spending growth compared to 2021. The decelerating projected growth in Medicare spending in 2023 largely

reflects an expected continuation of slowing growth in the use and intensity of services. For the remainder of the projection period, 2025-30, Medicare spending growth is expected to average 6.8 percent—a rate similar to its longer-term norms. Notably, Medicare spending growth in 2030 is projected to be just 4.3 percent reflecting slowing enrollment growth (as the last of the baby boomers enroll into the program in 2029) and increasingly larger sequestration-based payment rate cuts called for under current law.

## Medicaid

- Medicaid expenditures are projected to have grown 10.4 percent in 2021, up from 9.2 percent in 2020. This trend is mostly attributable to the rising expected growth in enrollment of 8.2 percent as the Families First Coronavirus Response Act's maintenance-of-eligibility provision, which provides an incentive to states to not proactively disenroll beneficiaries in the form of an enhanced federal medical assistance percentage, remains in effect during the public health emergency. On a per enrollee basis, Medicaid spending growth is expected to have slowed to 2.0 percent in 2021, down from 4.0 percent in 2020, as a result of adding millions of new beneficiaries who are generally in the enrollment categories with lower average spending. In 2022 Medicaid spending is expected to grow much more slowly, at 5.7 percent, largely influenced by a 0.9-percent decrease in enrollment. In 2023, Medicaid enrollment is projected to drop significantly (by 2.6 million, or 3.2 percent) as states are expected to continue to proactively trim their enrollments, contributing to an overall Medicaid spending growth of 2.7 percent. In 2024, modest growth in enrollment (0.8 percent) is projected as a result of further assumed state program expansions, which in turn, contributes to somewhat faster overall projected Medicaid spending growth of 4.0 percent. Over 2025-30, Medicaid spending is projected to grow faster, at 5.6 percent on average, partly due to 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

- Private health insurance spending growth is projected to have increased from -1.2 percent in 2020 to 6.3 percent in 2021, primarily because of positive growth in both enrollment (0.8 percent) and per enrollee spending (5.5 percent) that reflects enrollees' faster utilization of medical goods and services after the pandemic-related declines of 2020. In 2022 private health insurance spending growth is projected to continue accelerating to 8.3 percent, driven partly by expected growing demand for health care services and goods as enrollees increasingly normalize their utilization. Over the course of 2023 and 2024, rates of growth in private health insurance spending are projected to remain somewhat elevated (7.1 percent and 6.2 percent, respectively), but slower relative to 2022. Over 2025-30, private health insurance spending is projected to grow 4.8 percent on average, influenced by the lagged response to income growth from earlier in the projection period.
- For out-of-pocket spending, growth is expected to have rebounded from -3.7 percent in 2020 to 4.6 percent in 2021, as supply and demand for health care increased and as private health insurers resumed more standard cost-sharing requirements after largely phasing out temporary cost-sharing waivers for COVID-19 related treatments. In 2022 out-of-pocket spending growth is projected to continue accelerating to 6.1 percent, given further projected increases in the utilization of health services. Growth in out-of-pocket spending is projected to decrease to 5.5 percent in 2023, 5.2 percent in 2024, and to an average of 4.1 percent over 2025-30. By 2030 the out-of-pocket share of national health expenditures is projected to ultimately fall from its current historic low of 9.4 percent in 2020 to 9.0 percent.

## **Key Trends in Projected National Health Expenditures by Sector**

### Hospital Care

- In 2021, hospital spending is projected to have risen 5.7 percent, down from 6.4 percent in 2020, mostly driven by expected declines in total federal COVID-19 relief funding compared with that of 2020. Growth in Medicare, Medicaid, and private health insurance spending for hospital care, however, is expected to have accelerated in 2021 with a partial rebound in use. In 2022, hospital spending growth is projected to accelerate substantially to 6.9 percent, as demand for care is expected to continue the rebound that started in 2021, and as projected price growth accelerates. Over the course of 2023–24, hospital spending is expected to slow to 5.6 percent in each year as this sector’s trends are expected to normalize and transition away from pandemic-related impacts on utilization, federal program funding, and changes in insurance enrollment. Over 2025–30, hospital spending is projected to grow 5.5 percent on average, influenced by the net effects of faster average growth in Medicaid hospital spending (due to an aging population and the expiration of disproportionate share hospital payment cap reduction under current law), and slower average growth in Medicare and private health insurance spending for hospitals.

### Physician and Clinical Services

- Spending for physician and clinical services is projected to have grown 5.1 percent in 2021 compared to 5.4 percent in 2020, with the somewhat slower growth mostly attributable to declining federal COVID-19 relief funding made available to physicians and clinics compared to 2020. Medicare spending for physician and clinical services is projected to have grown much faster in 2021 because of projected rebounds in the utilization of care and temporary fee schedule increases in Medicare physician payments. In 2022, growth in spending for physician and clinical services is projected to accelerate to 6.2 percent, largely because of private health insurance spending—which is related to consumers’ expected return to more typical patterns of utilization of care along with continued demand for testing and treatment for COVID-19-related symptoms. Over the course of 2023–24, after the high rates of rebounding utilization growth expected over 2021 and 2022, the lingering effects of the pandemic are expected to substantially diminish, resulting in slowing projected physician and clinical services spending growth of 6.0 percent by 2024 with slowdowns in growth expected across the major payers compared to 2022. Over 2025–30, physician and clinical services spending is projected to grow 5.5 percent on average, related to the lagged impact of slower disposable income growth in an earlier phase of the projection period.

### Retail Prescription Drugs

- Retail prescription drug spending growth is projected to have accelerated from 3.0 percent in 2020 to 4.7 percent in 2021, largely driven by faster Medicaid drug spending growth, which was driven, in part, by faster projected Medicaid enrollment growth. In addition, private health insurance prescription drug spending growth is expected to have remained low but still be somewhat faster than in 2020, partly due to higher utilization growth resulting from new prescriptions generated by faster growth in physician office visits. In 2022, growth in spending for prescription drugs is projected to decrease to 4.3 percent, largely because of slower Medicaid drug spending growth. During 2023 and 2024 retail prescription drug spending growth is projected to accelerate slightly to 4.7 and 5.1 percent, respectively, as a function of faster expected drug price growth, as well as faster increases in the use and intensity of prescription drugs. During the years 2025–30, average growth in prescription drug spending is expected to be 5.2 percent, mainly reflecting slightly higher price growth and the impact of new pharmaceuticals launched in the United States over the course of 2022–26.