

National Healthcare Spending

The Past & The Future

Table of Contents

Executive Summary	3
How has healthcare spending changed over time?	4
How much is healthcare spending expected to grow in the future?	13
Conclusion	21

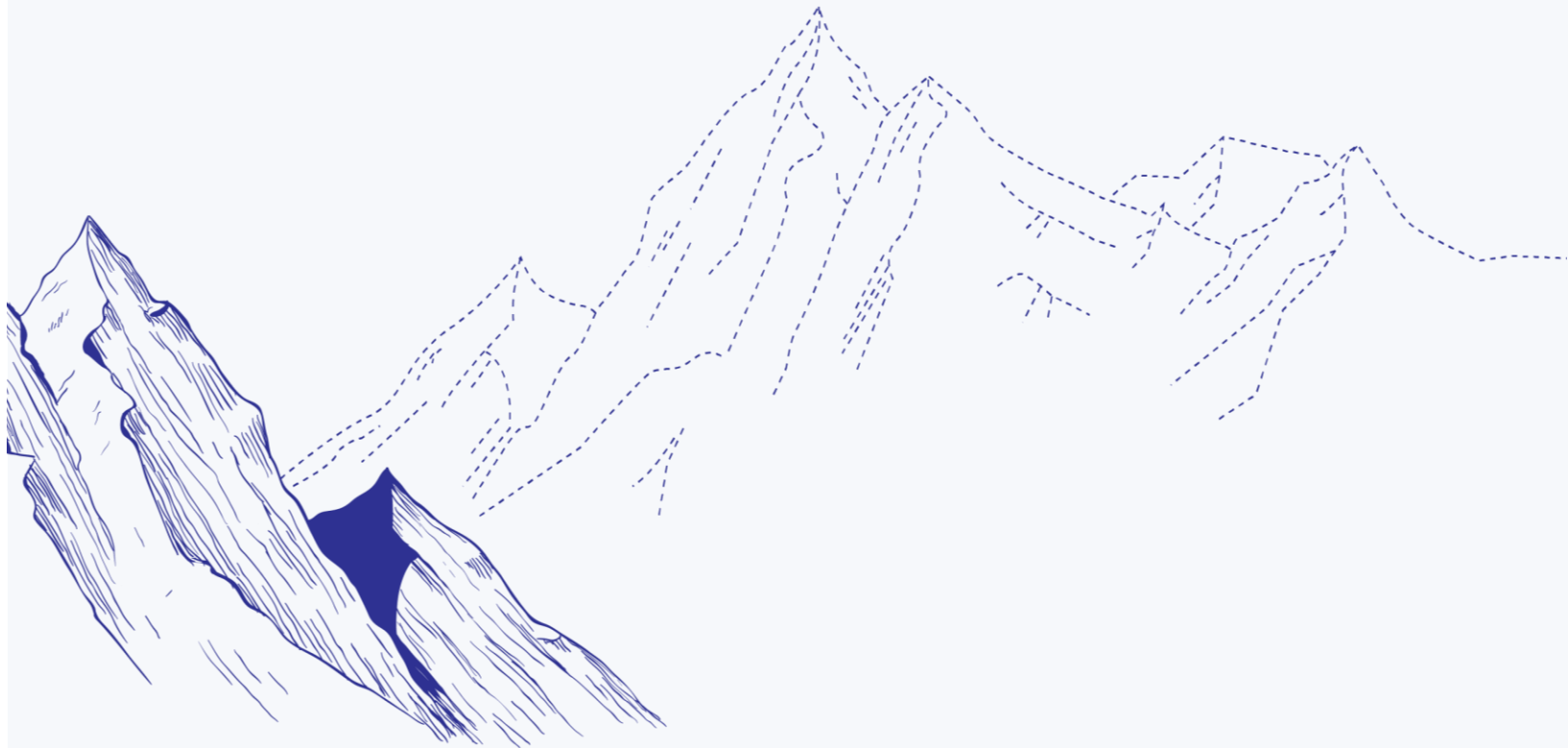
National Healthcare Spending

Executive Summary

This executive summary provides an overview of healthcare spending trends in the United States over time and offers insightful forecasts for the future. The analysis uses National Health Expenditure data that is released by CMS every year to offer a nuanced understanding of the evolving landscape of healthcare expenditure.

Healthcare spending in the United States has been steadily increasing for decades, outpacing economic growth and accounting for a growing share of the national economy. In 2022, total healthcare spending reached \$4.7 trillion, representing 17.7% of the gross domestic product (GDP). This upward trend is projected to continue, with spending expected to reach \$6.8 trillion by 2030 and account for 19.6% of GDP.

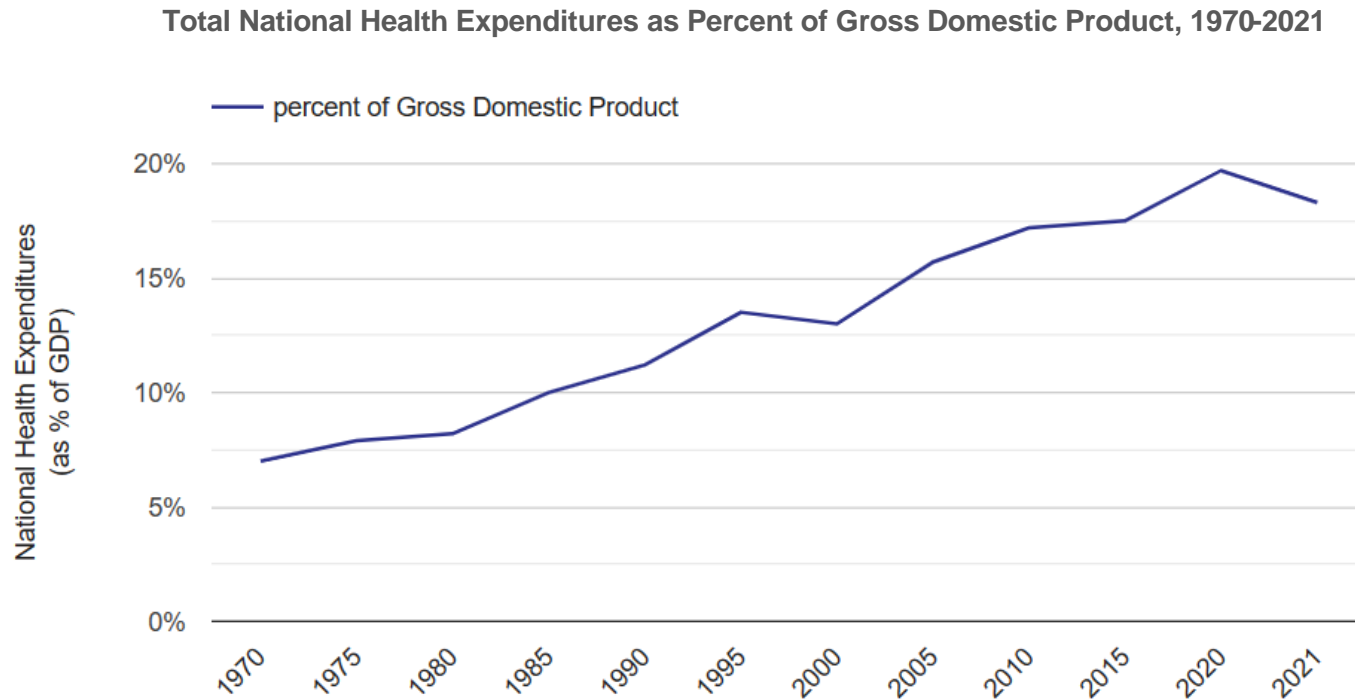
The report outlines how prescription drug spending, hospital and physician services, and out-of-pocket expenditures are expected to evolve relative to each other. Notably, it is observed that prescription drug spending growth is projected to fall below that of hospital and physician services.



How has healthcare spending changed over time?

Health spending accounts for nearly one-fifth of the U.S. economy

The share of the GDP devoted to health care reached 19.7% in 2020, an uptick from prior years as health spending increased and GDP decreased.



Source: National Health Expenditure Data, CMS

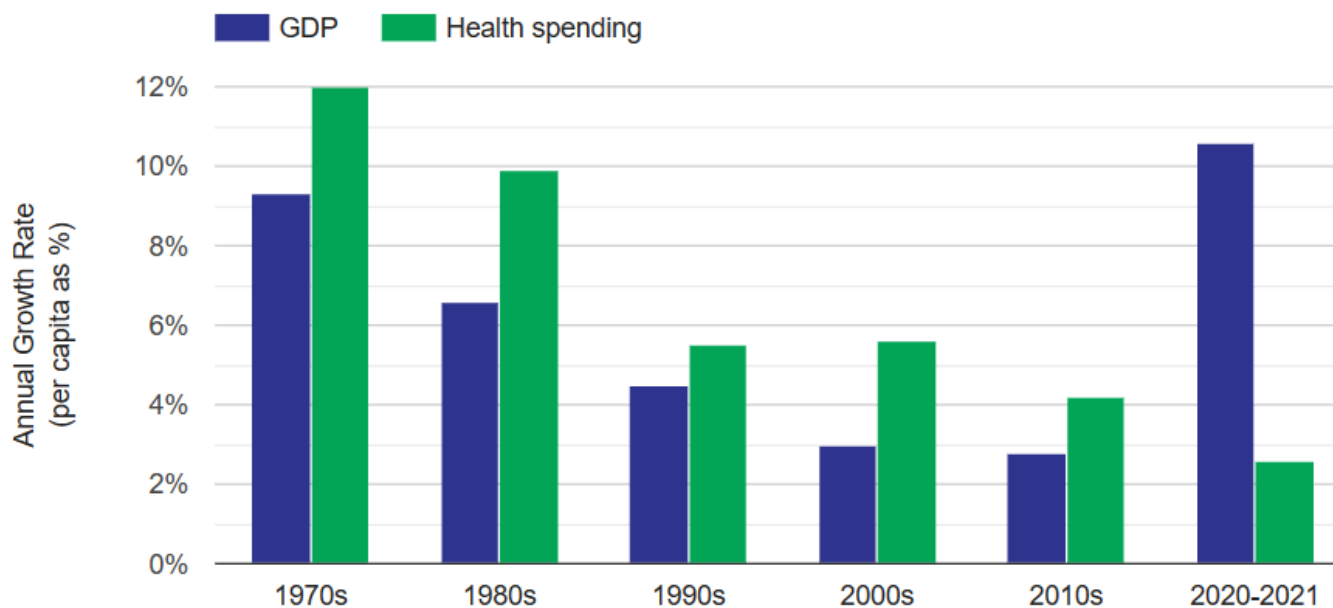
- In 2021, total national health expenditures as a share of GDP fell to 18.3% as the economy recovered and health spending increased moderately.
- Still, health expenditures represented a larger share of the economy in 2021 compared to pre-pandemic levels.

How has healthcare spending changed over time?

Health spending growth slowed in recent decades but consistently exceeded GDP growth until 2021

From 1970 through 1980, the average annual per capita growth in the U.S. economy was 9.3% per year, compared to per capita health spending growth of 12.0%. Although health spending growth rate has since moderated, it generally continues to outpace growth of the economy.

Average annual growth rate of GDP per capita and total national health spending per capita, 1970-2021

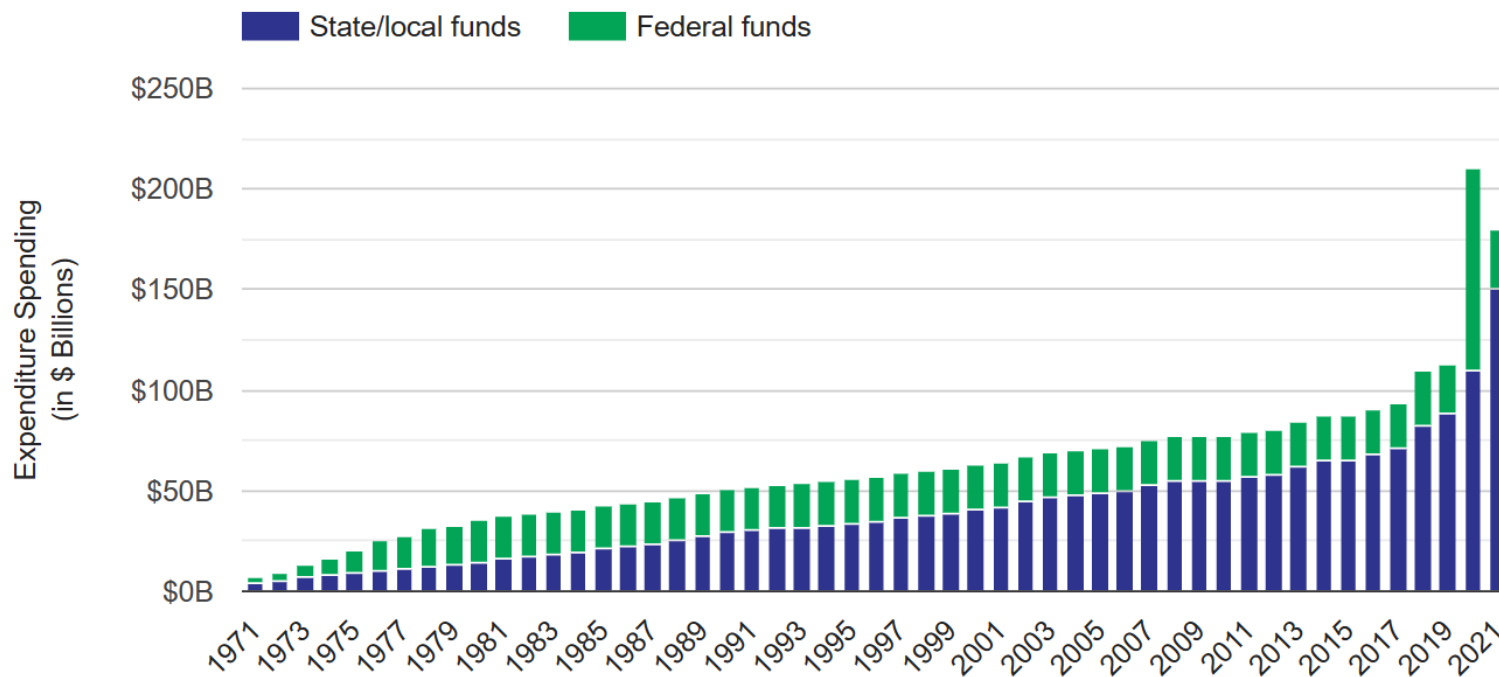


Source: National Health Expenditure Data, CMS

Federal spending on public health decreased in 2021 from 2020 but remains above pre-pandemic levels

Spending on public health fell from 2020 to 2021, with the sharp increase in 2020 driven by the federal response to the COVID-19 pandemic. Federal public health spending decreased 42%, from \$135.8 billion to \$78.8 billion from 2020 to 2021. Meanwhile, state and local public health spending grew 6.1%, in line with previous years.

Local and federal expenditures on public health, US \$Billions, 1971-2021

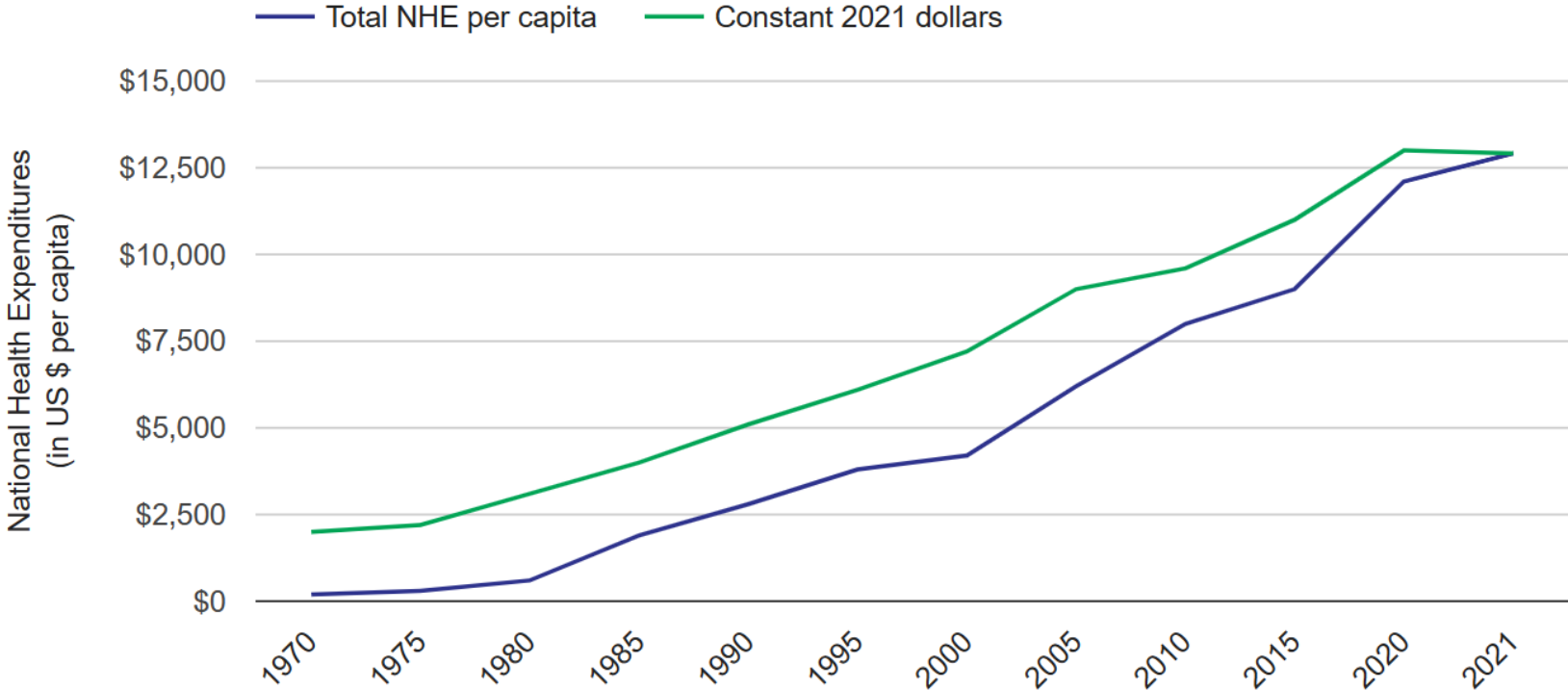


Source: National Health Expenditure Data, CMS

On a per capita basis, real health spending decreased slightly in 2021

On a per capita basis, health spending has increased in the last five decades, from \$353 per person in 1970 to \$12,914 in 2021. In constant 2021 dollars, the increase was from \$1,951 in 1970 to \$12,914 in 2021.

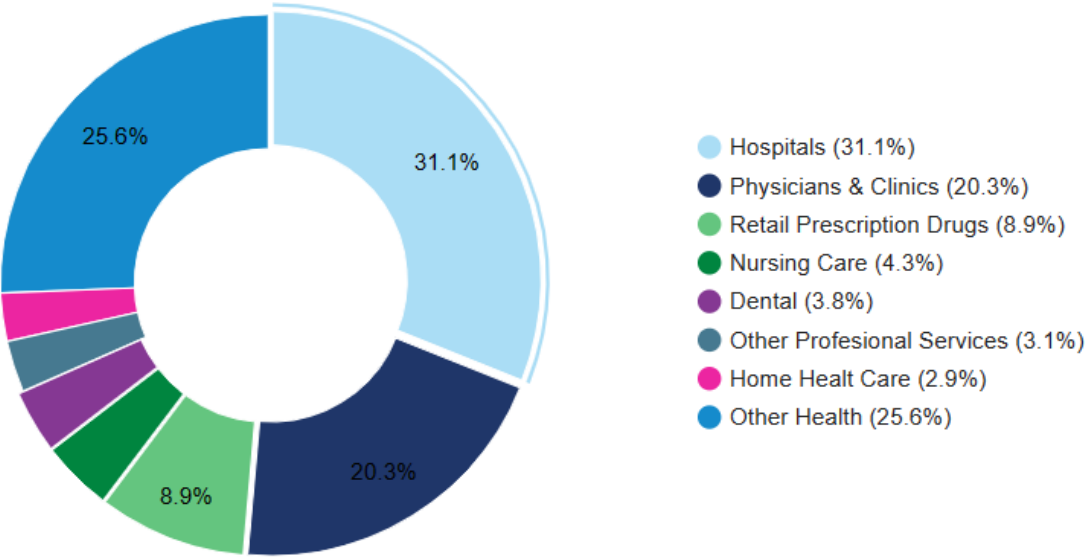
Total national health expenditures, US \$ per capita, 1970-2021



Hospital and physician services represent half of total health spending

Hospital spending represented close to a third (31.1%) of overall health spending in 2021, and physicians/clinics represented 20.3% of total spending. Prescription drugs accounted for 8.9% of total health spending in 2021.

Relative contributions to total national health expenditures, by service type, 2021

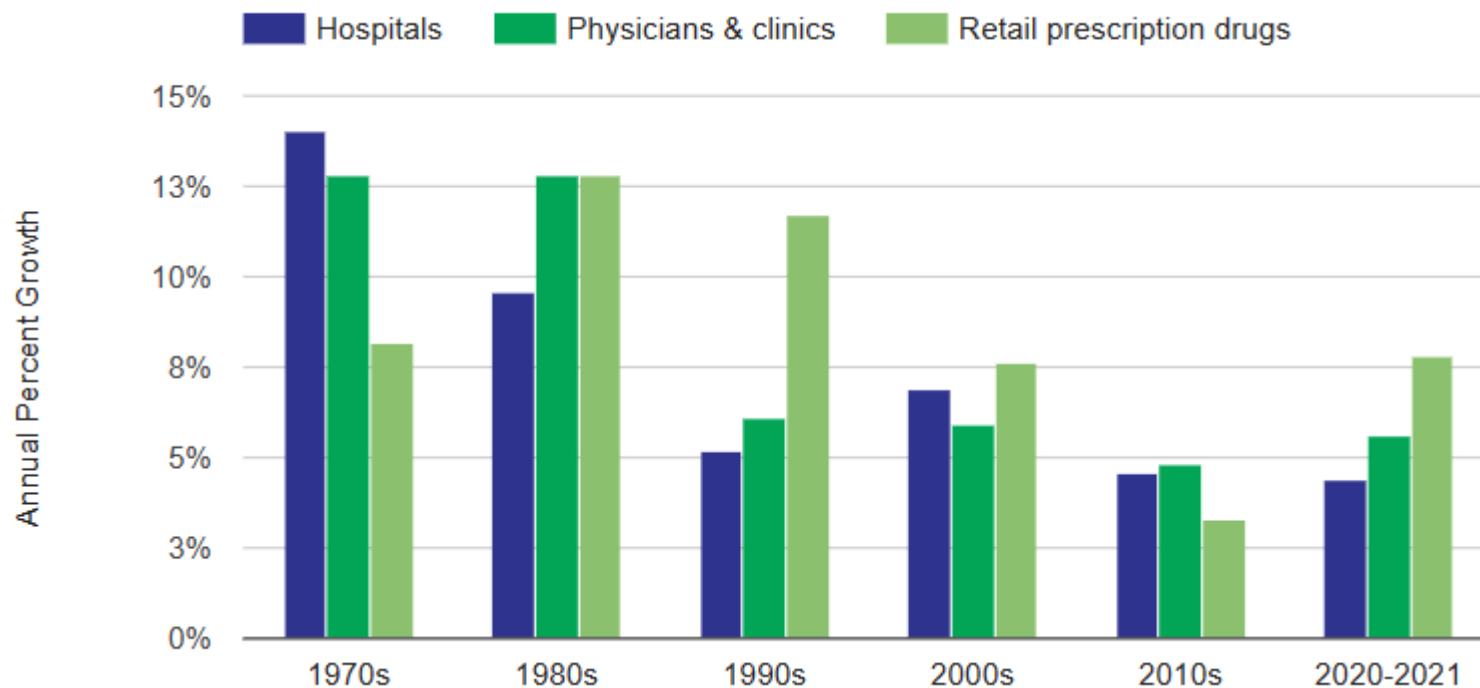


Source: National Health Expenditure Data, CMS

In the last decade, spending growth on hospitals has slowed

From 2020 to 2021, retail prescription drugs experienced the fastest growth in spending at 7.8%, following 3.3% annual average growth from 2010 to 2020. Hospitals and physicians/clinics average spending growth between 2020 and 2021 was 4.4% and 5.6%, respectively.

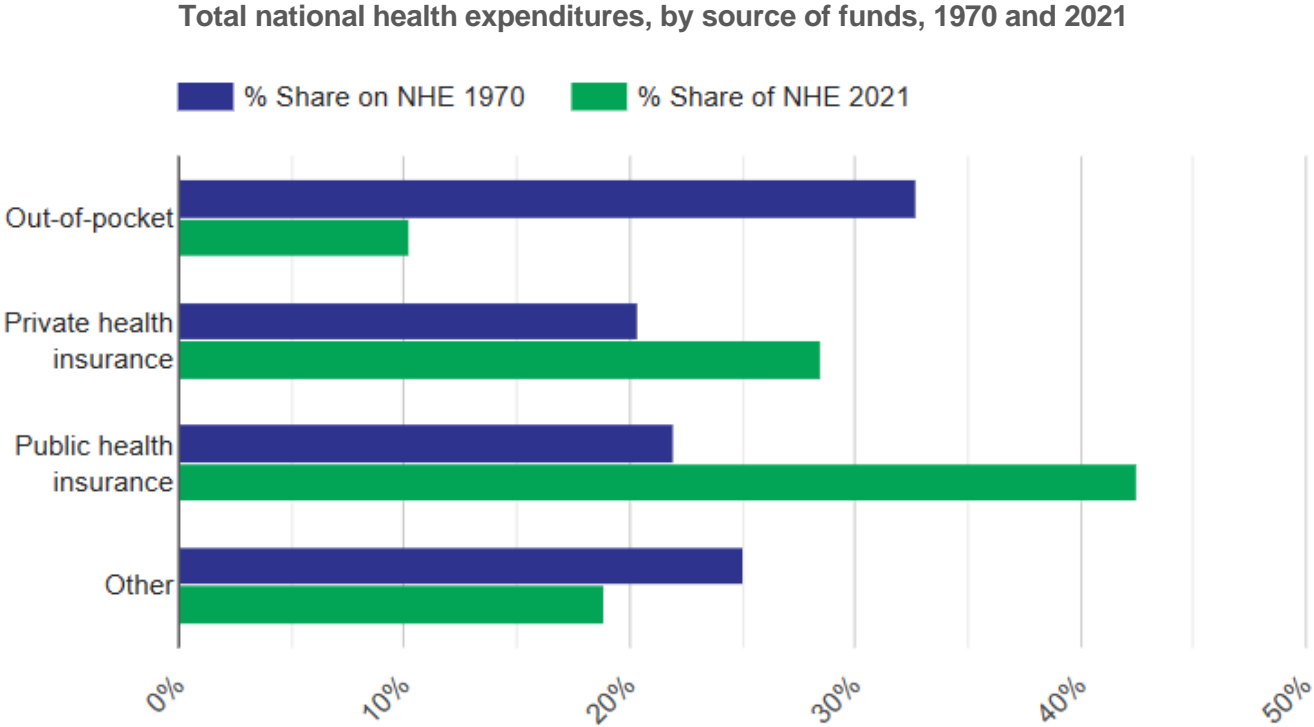
Average annual expenditures growth rate select service types, 1970-2021



Source: National Health Expenditure Data, CMS

Health insurance is a growing share of total health expenditures and out-of-pocket spending is a smaller portion than in 1970

Private insurance expenditures now represent 28.5% of total health spending (up from 20.4% in 1970), and public insurance (Medicare, Medicaid, CHIP, VA), represented 42.5% of overall health spending in 2021 (up from 22% in 1970).

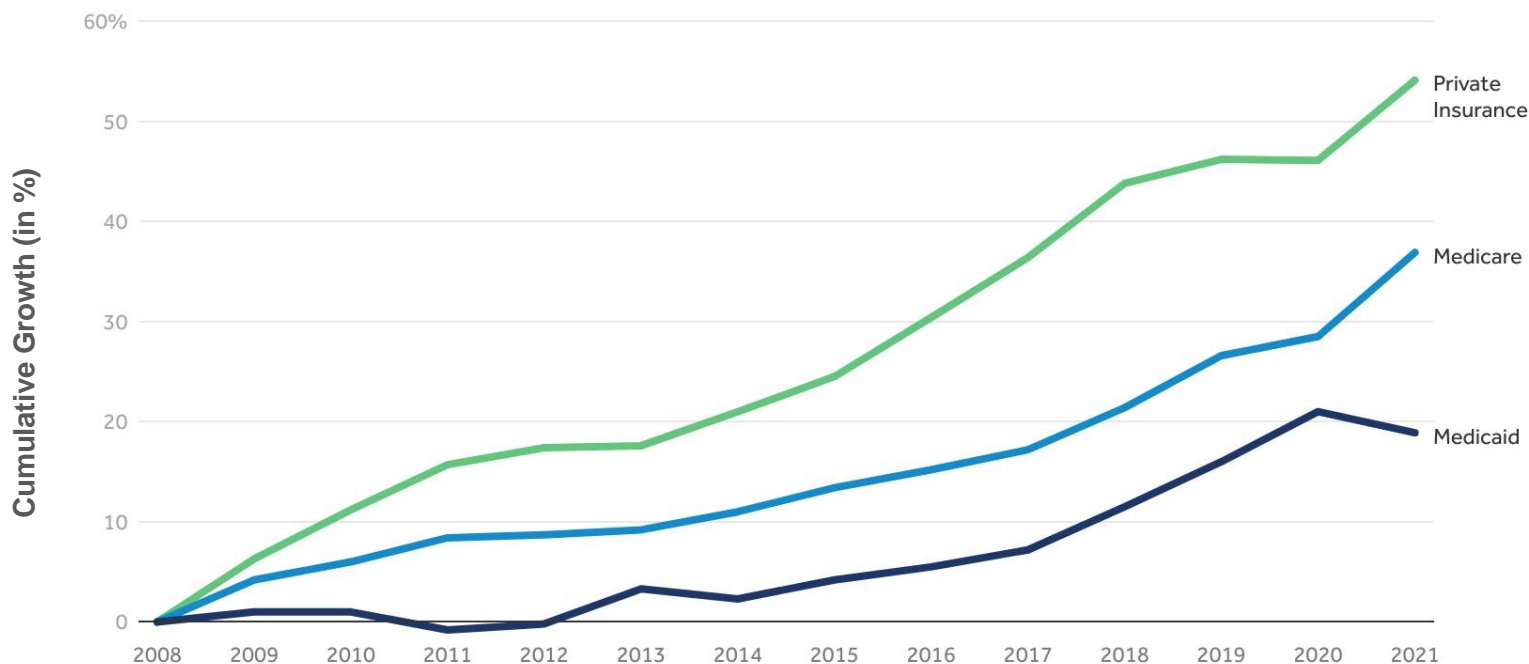


Source: National Health Expenditure Data, CMS

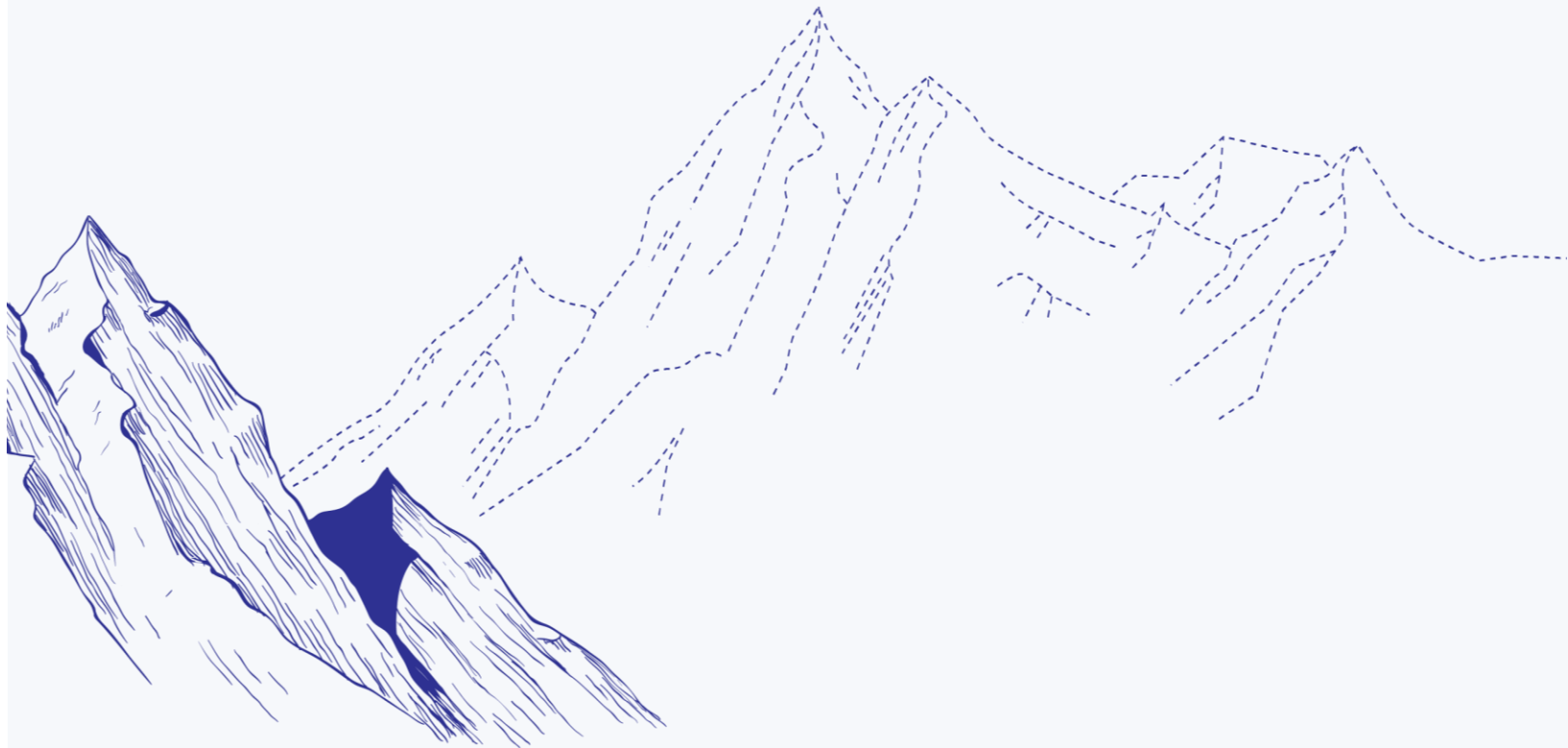
On a per enrollee basis, private insurance spending has typically grown much faster than Medicare and Medicaid spending

Per enrollee spending by private insurance grew by 54.1% from 2008 to 2021 — much faster than both Medicare and Medicaid spending growth per enrollee (36.9% and 18.9%, respectively).

Cumulative growth in per enrolled person spending by private insurance, Medicare, and Medicaid, 2008-2021



Source: National Health Expenditure Data, CMS

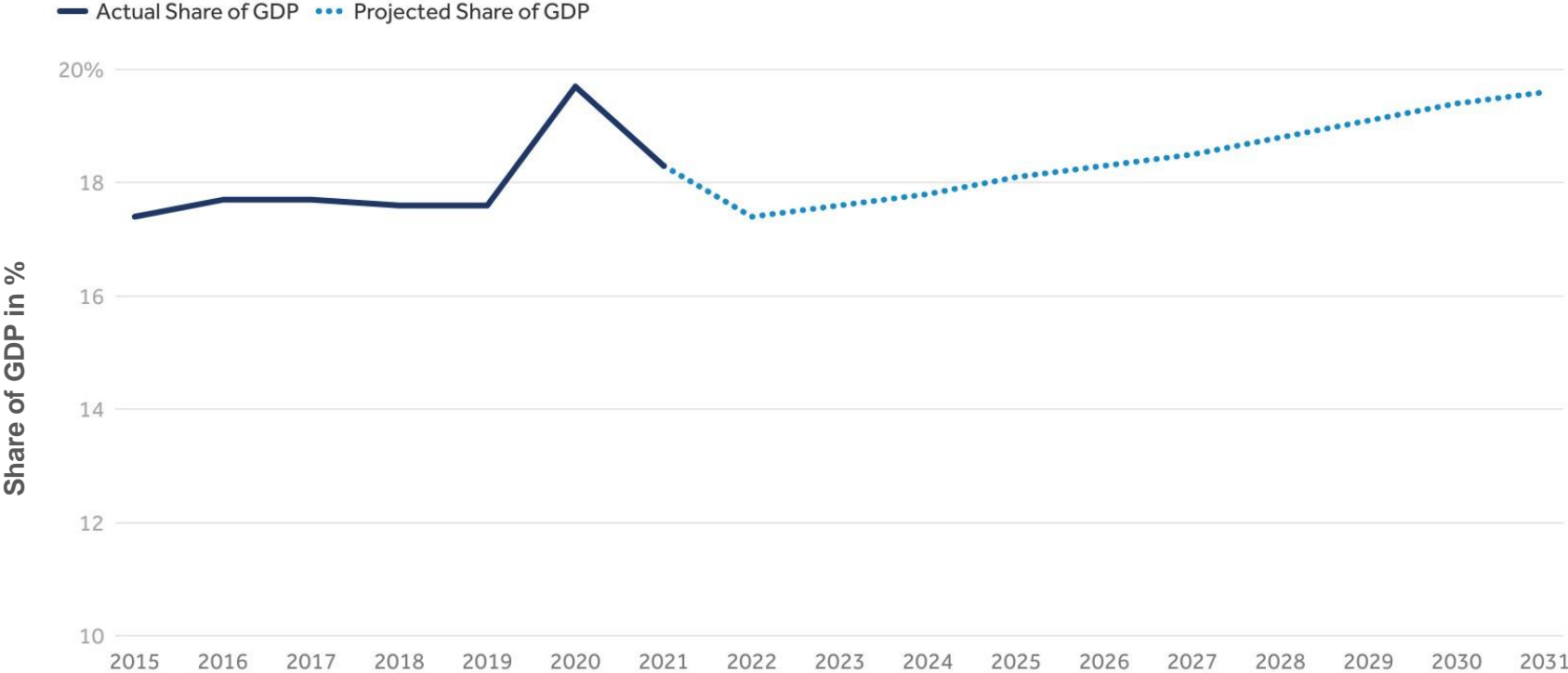


What is the anticipated growth for healthcare spending in the future?

By 2031, it is projected that health spending will continue to represent almost one-fifth of the U.S. economy.

Health spending is estimated to have grown more slowly than the economy in 2022 and is estimated to have returned to pre-pandemic levels (17.4% of GDP). However, health spending growth is expected to outpace growth in the overall economy starting in 2023 and eventually hit 19.6% of GDP by 2031.

Health spending as a percent of Gross Domestic Product (GDP), 2015 - 2021; projected 2022 - 2031

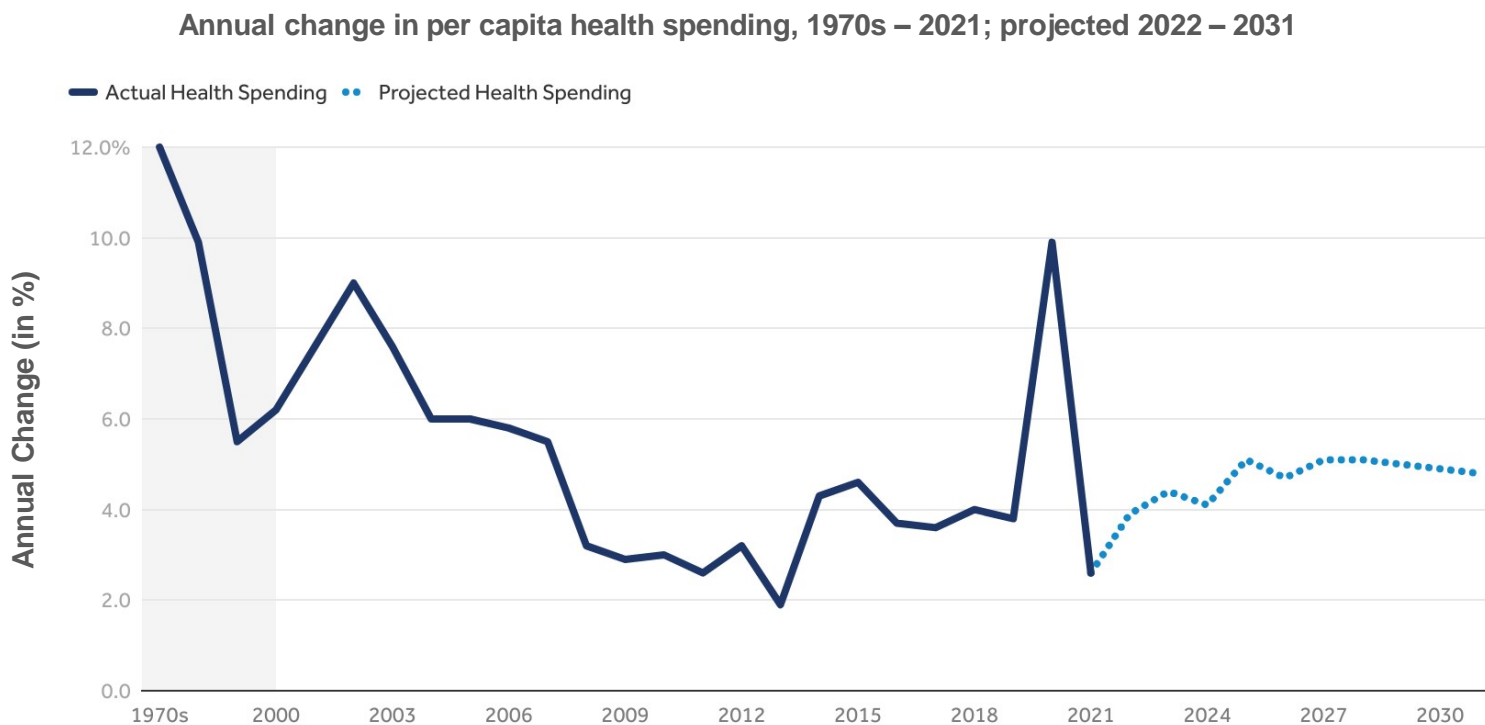


Source: National Health Expenditure Data, CMS

What is the anticipated growth rate for healthcare spending in the future?

Healthcare spending experienced a significant slowdown in 2021 but is anticipated to bounce back in the years to come.

Anticipated to average an annual rate of 4.8% from 2022 to 2031, this growth slightly surpasses the pre-pandemic rates, which averaged 3.9% from 2014 to 2019



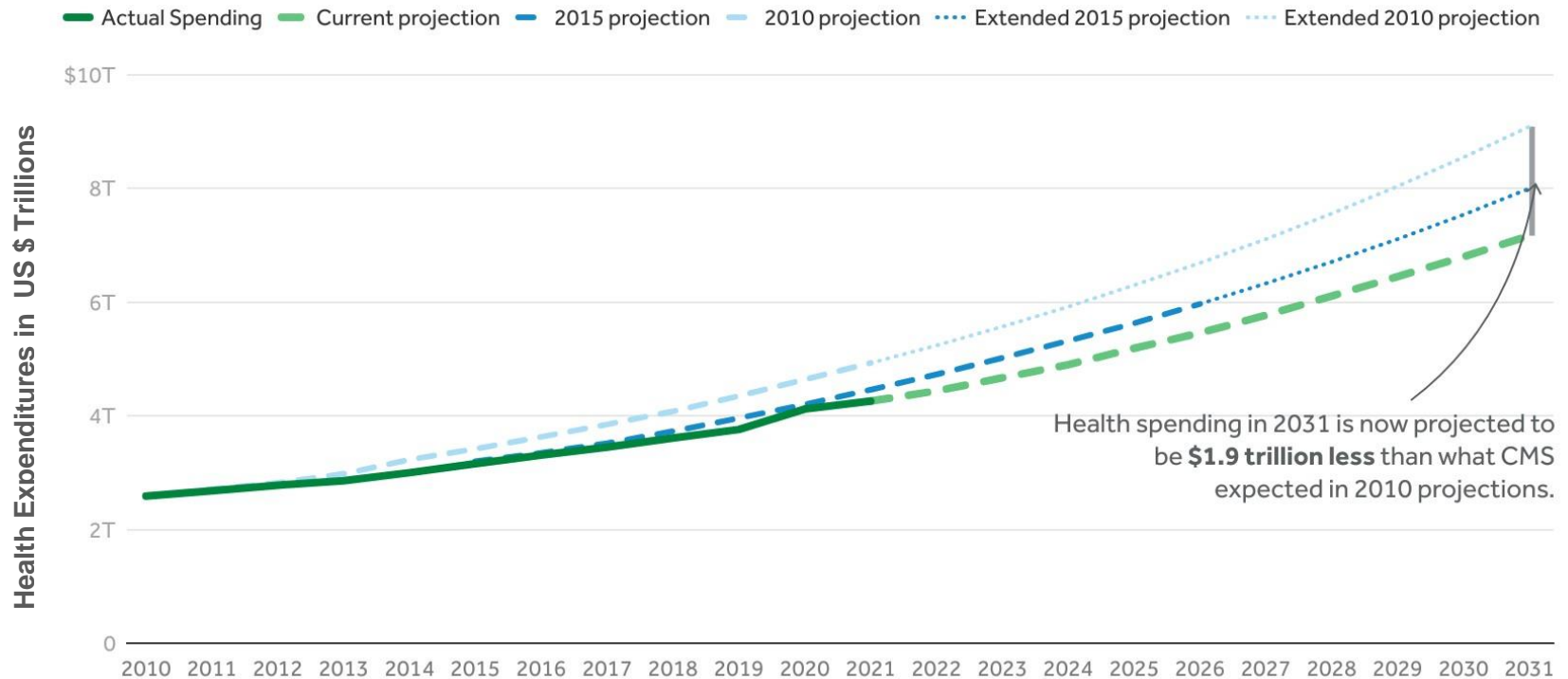
Source: National Health Expenditure Data, CMS

What is the anticipated growth rate for healthcare spending in the future?

Projections for health spending in 2030 are currently 20% below what the CMS had anticipated a decade ago.

CMS actuaries' estimates of total health expenditures from 2010 and 2015 projections extended out through 2031 indicate that health spending is now expected to be \$1.9 trillion less than what CMS had expected in 2010 projections and \$800 billion less than 2015 projections.

CMS projections of national health expenditures, in US \$ trillions



Source: National Health Expenditure Data, CMS

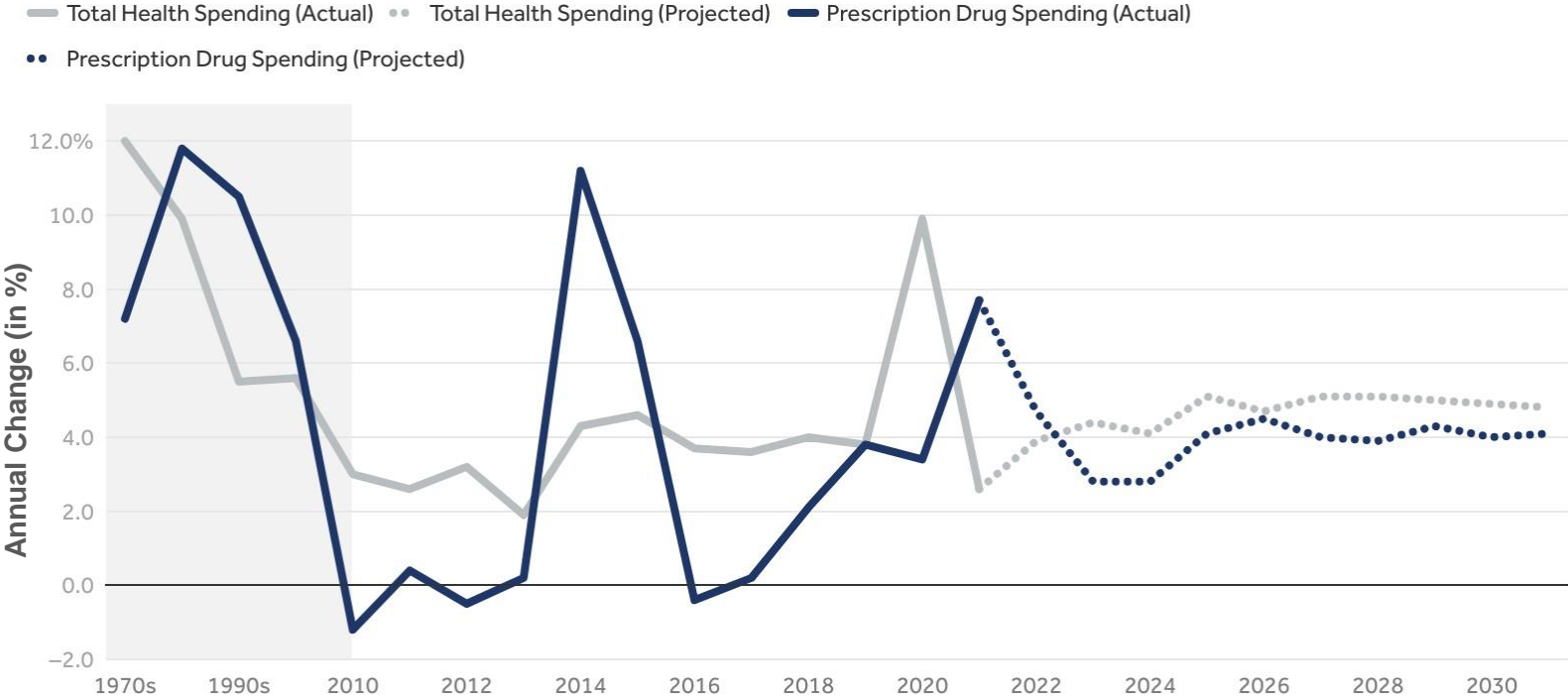
- The variance in these projections can be attributed, in part, to a deceleration in the growth of health expenditure towards the end of the 2010s. It is also probable that the provisions established by the IRA, enabling Medicare to negotiate prices for specific high-cost drugs and tethering drug price increments to the Consumer Price Index (CPI), have played a role in this divergence.

What is the anticipated growth rate for healthcare spending in the future?

Prescription drug spending witnessed a notable increase in growth in 2021 but is projected to decline to lower rates in the foreseeable future.

In 2022, slower Medicaid enrollment is expected to have slowed growth to 4.7% per capita. Growth in drug spending is projected to slow to 2.8% per capita in 2023, as Medicaid enrollment declines.

Annual change in per capita prescription drug spending, 1970s - 2021; projected 2022 - 2031



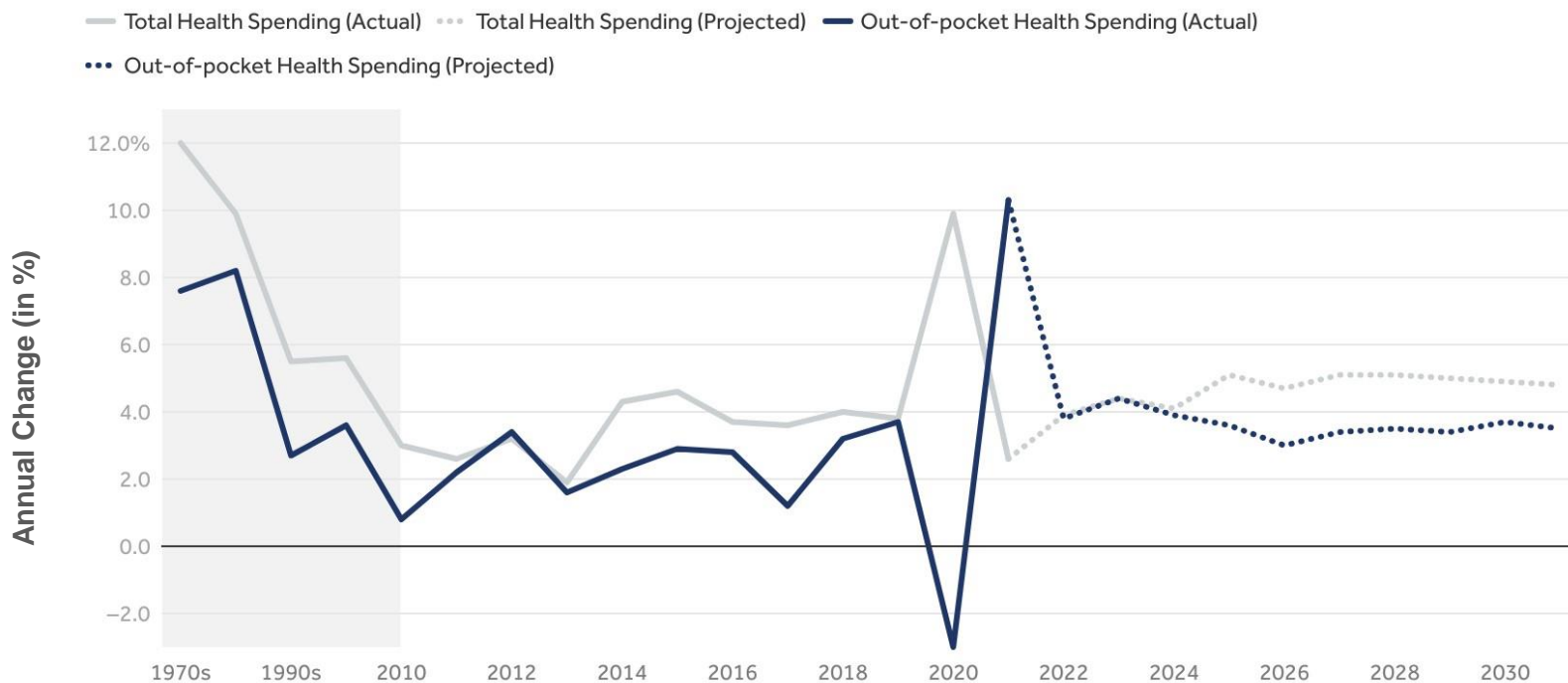
Source: National Health Expenditure Data, CMS

What is the anticipated growth rate for healthcare spending in the future?

Out-of-pocket spending per person rebounded in 2021 following a decline in 2020, but it is projected to stabilize in the future.

Out-of-pocket spending is expected to have grown by 3.8% per capita in 2022 and 4.4% per capita in 2023, but to drop to an average of 3.4% per capita for the following seven years.

Annual change in per capita out-of-pocket health spending 1970s – 2021; projected 2022 – 2031



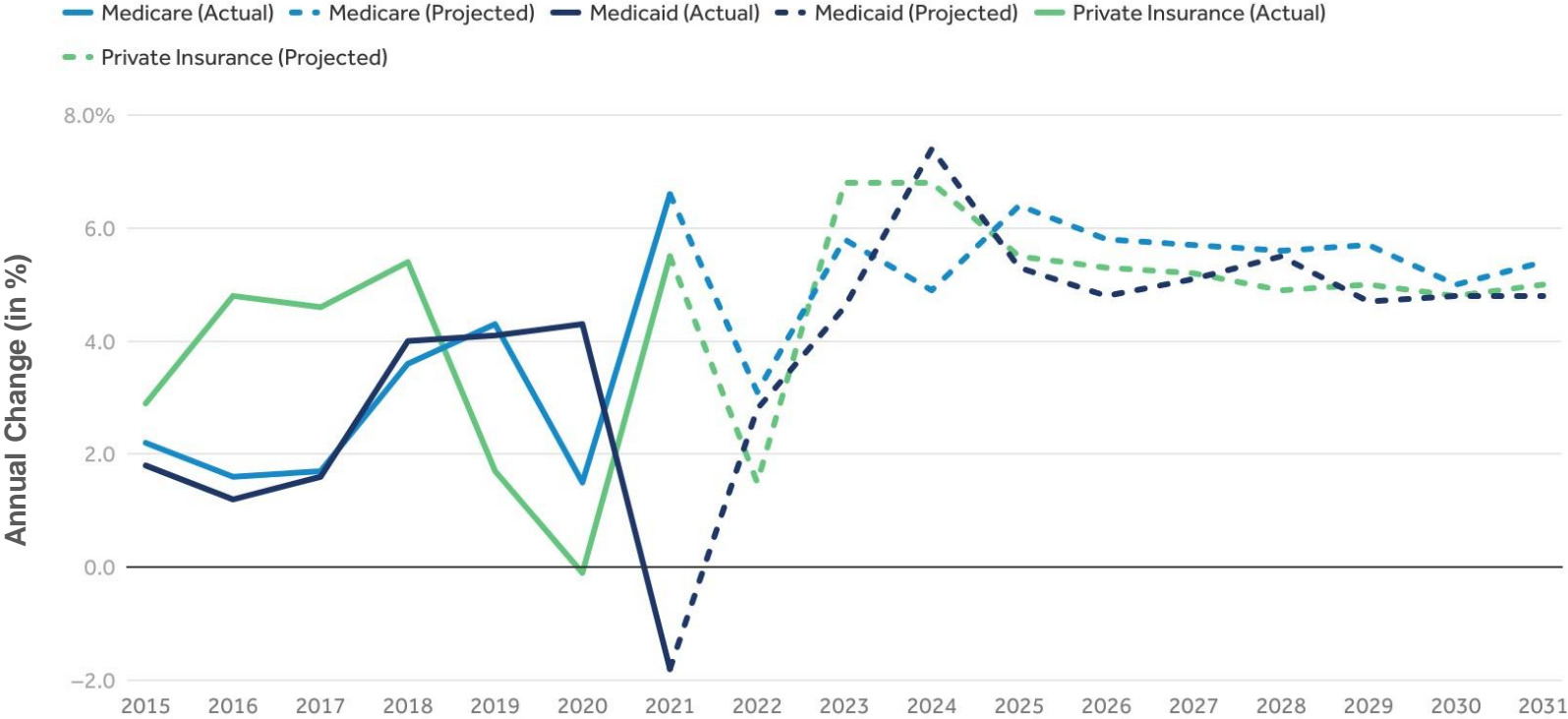
Source: National Health Expenditure Data, CMS

What is the anticipated growth rate for healthcare spending in the future?

Per enrollee spending across all payers is anticipated to experience a short-term acceleration.

Growth in per enrollee Medicare spending is estimated to have slowed in 2022 to 3.1%, but is expected to rebound in 2023, partly driven by return in hospital use after a decrease in 2022.

Annual change in per enrollee health spending, by payer, 2015-2021; projected 2022-2031

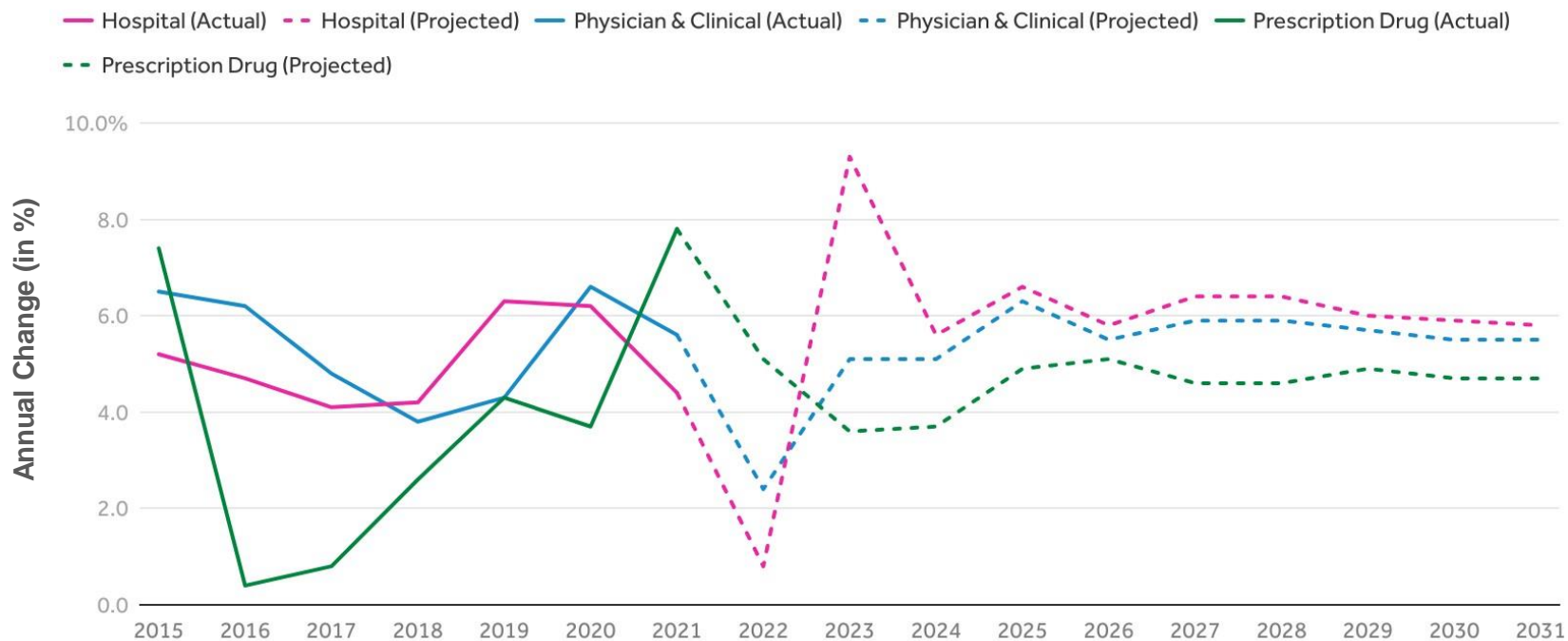


Source: National Health Expenditure Data, CMS

The growth in prescription drug spending is anticipated to decrease, falling below that of hospital and physician services.

In 2023, aggregate hospital spending is expected to increase by 9.3% due to a rebound in utilization and higher prices due to rising labor costs. Starting in 2025, hospital spending is expected to grow at average annual rate of 6.0% as hospitals transition away from pandemic-related use and spending.

Annual change in total spending on hospitals, physicians and clinics, and retail prescription drugs, 2015 – 2021; projected 2022 – 2031



Note: 2010 and 2015 projections were extended beyond their respective 10-year period using the annual growth rate from the last 5 years.

Source: National Health Expenditure Data, CMS

Conclusion

The system is not perfect, but the future is promising.

The examination of U.S. healthcare spending trends delineated in this report paints a portrait of adaptability and transformation within the sector. While acknowledging that healthcare spending is far from perfect, there are glimpses of hope - evident in the disparities between current projections and the expectations set by the Centers for Medicare & Medicaid Services (CMS) a decade ago. The slowdown in health expenditure growth during the latter part of the 2010s, coupled with strategic provisions such as Medicare's negotiation authority for high-cost drugs and linkage of drug price increases to the Consumer Price Index (CPI), signals a shifting paradigm.

Looking forward, the forecasted trajectory of healthcare spending offers a promising outlook. Projections anticipate a more sustainable and efficient allocation of resources, paving the way for a healthcare system that not only adapts to challenges but proactively addresses them. This optimistic glimpse into the future serves as an opportunity for stakeholders to collaboratively shape policies and strategies that foster accessibility, affordability, and quality in the U.S. healthcare system. As we navigate this evolving landscape, the insights provided in this report become integral in driving informed decision-making and fostering a healthcare ecosystem that is not only responsive but resilient in the face of ongoing change.