

Exorbitant Healthcare Spending in 2020 due to COVID-19

On December 15, 2021, the Centers for Medicare & Medicaid Services (CMS) released a report detailing healthcare spending in the U.S. in 2020, which confirmed the outsized impact the COVID-19 pandemic has had on the nation’s healthcare industry and on federal spending. Overall, healthcare spending increased 9.7% in 2020 (to \$4.1 trillion), double the 2019 increase of 4.3%.¹ Healthcare spending also became a larger share of the U.S. gross domestic product (GDP) in 2020. In addition to the increase in spending, the GDP declined by 2.2% (the largest decrease since 1938), resulting in healthcare comprising 19.7% of the national GDP, compared to 17.6% in 2019.² This *Health Capital Topics* article will review the notable findings included in CMS’s report.

The healthcare spending acceleration in 2020 (the fastest growth rate since 2002) was largely attributable to a 36% increase in federal healthcare expenditures in response to the COVID-19 pandemic.³ In comparison, federal healthcare expenditures grew only 5.9% in 2019.⁴ Interestingly, much of this spending was not directly related to patient care, but rather to the more than \$175 billion in financial support to healthcare providers (e.g., the Provider Relief Fund and Paycheck Protection Program), as well as increased public health activities (e.g., contact tracing and vaccination services).

Examining expenditures across service categories, hospital expenditures grew 6.4% in 2020 (comprising 31% of national health spending), barely faster than its 6.3% growth in 2019.⁵ This growth was largely attributed to the substantial funding from federal programs, which more than offset the moratoria on elective procedures as well as other voluntarily-forgone healthcare services.⁶ Expenditures on physician and clinical services similarly grew by 5.4% (comprising 20% of national health spending), faster than the 4.2% rate seen in 2019.⁷ Retail drug spending also increased 3% in 2020 (comprising 8% of national health spending), a slower rate than its 2019 growth of 4.3%.⁸ This deceleration was due to less utilization (i.e., fewer physician visits resulted in fewer new prescriptions), but also to the increase in consumers’ use of coupons, which decreased their expenditures.⁹

Analyzing expenditures by sponsor, the federal government understandably accounted for the largest portion of healthcare spending (36%), followed by households (26%), private businesses (17%), state and local government (14%), and other private revenues

(7%).¹⁰ The federal government was the only sponsor for whom expenditures increased in 2020 – expenditures by all other sponsors declined, due to the decreased utilization and reductions in retail prescription drug purchases.¹¹ Similarly, although federal healthcare spending increased rapidly, spending for those individuals with health insurance (both governmental and commercial) grew much slower in 2020 than in the year prior (3% in 2020 compared to 4.3% in 2019), and out-of-pocket spending decreased by 3.7%.¹² This was largely due to Americans seeking fewer medical services and goods,¹³ likely because of the decrease in the number of uninsured individuals, as well as the number of individuals who stayed home instead of risking infection by going to a healthcare facility.

In terms of insurance coverage, the number of uninsured individuals decreased, while the proportion of the various types of coverage shifted. The number of uninsured individuals decreased from 31.8 million in 2019 to 31.2 million in 2020, as enrollment increases in Medicaid and Affordable Care Act (ACA) Marketplace plans more than offset the pandemic’s significant effect on employment and the resulting reduction in employer-sponsored coverage (a decline of 0.8%).¹⁴

Looking ahead to what these trends may mean for 2021 healthcare spending, CMS expects that the COVID-19 pandemic will still have a significant influence on national health expenditures, due to the national vaccination campaign and the virus surges as a result of the Delta and Omicron variants. While the data is currently incomplete in order to make any conclusions, CMS does know “that the story that unfolded in 2020 and continues today is unlike anything that has happened in the past 100 years.”¹⁵

Projecting healthcare spending post-COVID, a 2020 spending report projected national healthcare spending to grow at 5.4% per year, reaching \$6.19 trillion by 2028 (a 54% increase from 2020 expenditures) and accounting for 19.7% of the U.S. GDP.¹⁶ CMS predicts that prices for medical goods and services will grow at an average annual rate of 2.4% from 2019 to 2028, accounting for 43% of total projected growth in personal healthcare spending during that time period.¹⁷ CMS states “this acceleration in price growth largely reflects faster expected growth in health-sector wages and follows the unusually slow rate of personal health care inflation

observed in 2014-18, when price growth for medical goods and services was 1.2% and represented 25% of expenditure growth.”¹⁸ Significantly, the government “is projected to pay a larger share (nearly half) of the nation’s total health bill by 2028, as the baby boomers continue aging into Medicare...”¹⁹

Many healthcare finance and economics experts assert that these spending trends highlight a key concern – price

inflation.²⁰ As a Johns Hopkins University associate professor noted, “Even without the coronavirus outbreak, the growth trajectory for health care spending isn’t going to be bent in the foreseeable future. With the coronavirus outbreak, the trajectory will be boosted instantaneously and keep ballooning as we invest more in national health security.”²¹

1 “National Healthcare Spending In 2020: Growth Driven By Federal Spending In Response To The COVID-19 Pandemic” By Michah Hartman, et al., Health Affairs, December 15, 2021, <https://www.healthaffairs.org/doi/10.1377/hlthaff.2021.01763> (Accessed 1/14/21).
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3 *Ibid.*
4 *Ibid.*
5 *Ibid.*; “NHE Fact Sheet” Centers for Medicare & Medicaid Services, December 15, 2021, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet> (Accessed 12/23/21).
6 Hartman, et al., Health Affairs, December 15, 2021.
7 Centers for Medicare & Medicaid Services, December 15, 2021.
8 Hartman, et al., Health Affairs, December 15, 2021.
9 *Ibid.*
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11 *Ibid.*
12 *Ibid.*
13 *Ibid.*
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15 Hartman, et al., Health Affairs, December 15, 2021.
16 “CMS: US health care spending will reach \$4T in 2020” Advisory Board, April 3, 2020, <https://www.advisory.com/en/daily-briefing/2020/04/03/health-spending> (Accessed 12/23/21); “Healthcare spending to consume 20% of GDP by 2028” By Alex Kacik, Modern Healthcare, March 24, 2020, [modernhealthcare.com/healthcare-economics/healthcare-spending-consume-20-gdp-2028](https://www.modernhealthcare.com/healthcare-economics/healthcare-spending-consume-20-gdp-2028) (Accessed 11/14/21).
17 Advisory Board, April 3, 2020.
18 *Ibid.*
19 *Ibid.*
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21 *Ibid.*



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