## **Projected National Health Expenditures to Surpass \$7 Trillion**

On June 14, 2023, the Centers for Medicare and Medicaid Services (CMS) released health insurance enrollment and national health expenditure (NHE) projections for 2022 through 2031. The NHE, which is published annually, is the official U.S. estimate of insurance enrollment and health spending. CMS projects that from 2022 to 2031, the NHE's annual growth rate of 5.4% will surpass the U.S. gross domestic product (GDP) annual growth rate of 4.6%. As a result, health spending as a share of the U.S. GDP is set to jump from 18.3% in 2021 to 19.6% in 2031. This Health Capital Topics article will review the notable findings from CMS's projection report.

Recent legislation is expected to influence future trends in healthcare spending and insurance enrollment.5 Medicaid enrollment is set to decline in the next two years, with the greatest enrollment losses due to states resuming their annual Medicaid redeterminations.6 During the COVID-19 public health emergency (PHE), states were prohibited from removing anyone from their Medicaid rolls, even if that individual was no longer Medicaid-eligible.<sup>7</sup> The expiration of the PHE ended that prohibition and is expected to cause a significant reduction in Medicaid enrollment, with numbers falling to 81.1 million by 2025 after peaking at 90.4 million in 2022.8 In contrast, enrollment in private health insurance is expected to increase through 2025, due to the expanded eligibility for ACA Marketplace plan subsidies promulgated by the American Rescue Plan Act of 2021.9

In addition to enrollment trends, recent legislation has also influenced projected spending. The end of the PHE resulted in the expiration of add-on provider payments COVID-19 related hospital admissions. 10 Additionally, the Inflation Reduction Act (IRA) of 2022 required the U.S. Department of Health and Human Services (HHS) to negotiate pricing for some high-cost drugs. 11 The IRA will further impact spending trends by reducing out-of-pocket costs for Medicare Part D beneficiaries limiting drug pricing increases, and reducing the cost of certain high-priced pharmaceuticals through negotiation.<sup>12</sup> These various legislative initiatives, spurred by the pandemic, will have varying effects on healthcare spending, with some policy changes expected to reduce spending, while others are anticipated to increase it.13

For Medicare and Medicaid, the average annual expenditure growth rates from 2022 through 2031 are

projected to be 7.5% and 5.0%, respectively, while private health insurance spending is projected to grow 5.4%.<sup>14</sup> Due to the cap on out-of-pocket spending for Medicare Part D beneficiaries, payment responsibility will shift to Medicare, resulting in increased spending. 15 Medicare spending is expected to grow 8.9% in 2025; however, with out-of-pocket spending capped for Medicare beneficiaries, projected spending for Medicare is due to slow by 2030 and 2031, to a rate of 6.8%, as a result of slow enrollment, and IRA provisions related to inflation rebates and negotiations over drug pricing.16 The spending growth from private health insurers in 2023, with projected growth in healthcare pricing and utilization, is projected to lead to a 7.7% increase in spending.<sup>17</sup> With enhanced Marketplace plan subsidies set to expire in 2026, and enrollment expected to drop as a result, private health insurance spending is expected to decline by 10%. 18 In 2022, enhanced Marketplace plan subsidies increased enrollment by 2.5 million, improving affordability.19 Once those subsidies expire, the additional enrollees who had signed up due to lower premiums may not be able to afford it anymore, which could lead to a decline in private health insurance spending.<sup>20</sup>

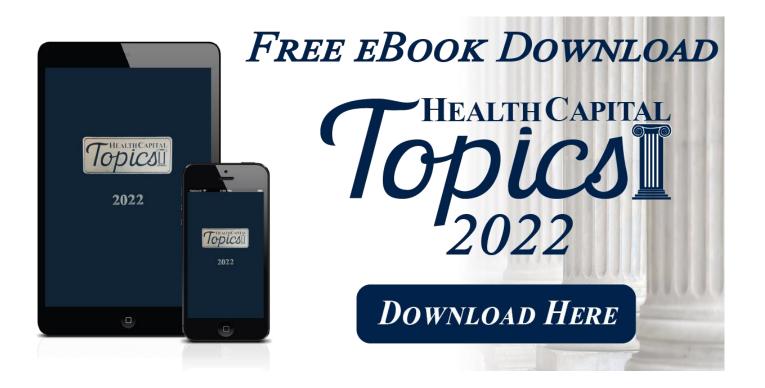
Hospital spending is expected to grow rapidly from 2022 through 2031, at an annual average rate of 5.8%.<sup>21</sup> The spending growth from the hospital sector is expected to overtake spending in both the physician and clinical services sector (5.3%) and the prescription drug sector (4.6%).<sup>22</sup> Growth in utilization rates for hospitals and pricing are expected to accelerate in 2023; however, spending trends will normalize between 2025 and 2031 due the cessation of pandemic funding.<sup>23</sup> From 2025 through 2031, spending growth for physician and clinical services is projected to be 5.7%, with Medicare spending for these services exceeding that of the private health insurance spending due largely to an uptick in Medicare enrollment.<sup>24</sup> Retail prescription drug expenditure growth during 2023 (3.6%) and 2024 (3.7%) will reflect impacts from decreasing out-of-pocket spending, a decline in Medicaid spending on prescription drugs due to declining enrollment (as discussed above), and higher Medicare spending due to the IRA's cap on enrollee outof-pocket spending.<sup>25</sup> Prescription drug spending is expected to slow to an average rate of 4.8% from 2025 through 2031.26 Trends for this sector are expected to be driven by the introduction of new pharmaceuticals and an aging population, as well as legislative action.<sup>27</sup>

While the nation's spending on healthcare slowed down during the pandemic due to disruptions in the delivery of care, growth will reach \$7.2 trillion by 2031.<sup>28</sup> The unwinding of pandemic-era provisions are expected to have a significant impact on CMS's projections, with the

number of insured expected to drop significantly.<sup>29</sup> Health spending is set to grow rapidly in the next decade, and by the year 2031, for every \$5 spent in the U.S. economy, \$1 will account for health spending.<sup>30</sup>

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