



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 2031.¹ The NHE, which is published annually, is the official U.S. estimate of insurance enrollment and health spending.² 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%.³ 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 2031.⁴ 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.⁷ 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 for 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.¹² 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%.¹⁴ 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.¹⁷ 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.²⁰

Hospital spending is expected to grow rapidly from 2022 through 2031, at an annual average rate of 5.8%.²¹ 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%).²² Growth in utilization rates for hospitals and pricing are expected to accelerate in 2023; however, spending trends will normalize between 2025 and 2031 due to the cessation of pandemic funding.²³ 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.²⁴ 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 out-of-pocket spending.²⁵ 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.²⁷

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 2031.²⁸ 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.²⁹ 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.³⁰

1 “CMS Office of the Actuary Releases 2022-2031 National Health Expenditure Projections” Centers for Medicare and Medicaid Services, June 14, 2023, <https://www.cms.gov/newsroom/press-releases/cms-office-actuary-releases-2022-2031-national-health-expenditure-projections> (Accessed 6/20/23).

2 *Ibid.*

3 *Ibid.*

4 *Ibid.*

5 “National Health Expenditure Projections, 2022–31: Growth To Stabilize Once The COVID-19 Public Health Emergency Ends” By Sean P. Keehan, et al., Health Affairs, June 14, 2023, <https://www.healthaffairs.org/doi/10.1377/hlthaff.2023.00403> (Accessed 6/20/23).

6 Centers for Medicare and Medicaid Services, June 14, 2023.

7 “FAQ: CMS Waivers, Flexibilities, and the End of the COVID-19 Public Health Emergency” Centers for Medicare and Medicaid Services, <https://www.modernhealthcare.com/policy/covid-19-public-health-emergency-phe-end-telehealth-medicare-reimbursements> (Accessed 5/18/23).

8 Keehan, et al., Health Affairs, June 14, 2023.

9 *Ibid.*

10 *Ibid.*

11 *Ibid.*

12 Centers for Medicare and Medicaid Services, June 14, 2023.

13 “U.S. health spending projected to exceed \$7T in 2031” By Victoria Turner, Modern Healthcare, June 14, 2023, <https://www.modernhealthcare.com/policy/cms-national-health-expenditures-projections-2022-2031-health-affairs> (Accessed 6/20/23).

14 Centers for Medicare and Medicaid Services, June 14, 2023.

15 *Ibid.*

16 *Ibid.*

17 *Ibid.*

18 *Ibid.*

19 “What will happen if ARP’s insurance subsidies expire?” By Louise Norris, HealthInsurance.Org, March 29, 2022, <https://www.healthinsurance.org/blog/what-will-happen-if-arps-insurance-subsidies-expire/> (Accessed 6/22/23).

20 *Ibid.*

21 Keehan, et al., Health Affairs, June 14, 2023.

22 *Ibid.*

23 Centers for Medicare and Medicaid Services, June 14, 2023.

24 *Ibid.*

25 *Ibid.*

26 Keehan, et al., Health Affairs, June 14, 2023.

27 *Ibid.*

28 “Healthcare Spending to Pick Up Pace, Reaching \$7.2T by 2031” By Jacqueline LaPointe, Rev Cycle Intelligence, June 14, 2023, <https://revcycleintelligence.com/news/healthcare-spending-to-pick-up-pace-reaching-7.2t-by-2031> (Accessed 6/20/23).

29 Keehan, et al., Health Affairs, June 14, 2023.

30 *Ibid.*

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