



Healthcare Spending Slowed in 2021 due to COVID-19

On December 14, 2022, the Centers for Medicare & Medicaid Services (CMS) released a report detailing healthcare spending in the U.S. for 2021, highlighting the decrease in government spending due to reductions in federal spending for COVID-19. Overall, healthcare spending grew 2.7% in 2021 (to \$4.3 trillion), much slower than the 10.3% increase in 2020.¹ Healthcare spending as a share of the U.S. gross domestic product (GDP) declined from 19.7% in 2020 to 18.3% in 2021 (although still higher than the 17.6% share in 2019).² The overall GDP increased 10.7% in 2021 after having dipped in 2020 – a much faster rate than healthcare spending.³ This Health Capital Topics article will review the notable findings included in CMS’s report.

The healthcare spending deceleration in 2021 was largely attributed to the 62.7% decline in federal healthcare expenditures that were crucial to combatting COVID-19.⁴ Supplemental funding programs such as the Provider Relief Fund and the Paycheck Protection Program, combined with a decrease in public health activities, resulted in a \$121 billion decline.⁵ While this was significantly lower than the \$193.1 billion spent in 2020, the federal government still spent more in 2021 than in 2019, when federal healthcare expenditures were approximately \$14 billion.⁶

Examining the expenditures across service categories, hospital expenditures grew 4.4% in 2021 (comprising 31% of overall healthcare spending), relatively slower than the rate observed in 2020 (6.2%).⁷ This was a result of decreases in federal funding, including COVID-19 relief payments. Expenditures on physician and clinical services increased 5.6% (comprising 20% of healthcare spending), which was lower than the 6.6% growth in 2020. Much like hospital care, the slow growth in physician and clinical services was attributed to a decline in federal funding. In contrast, retail prescription drug expenditures increased 7.8% in 2021 (comprising 9% of healthcare spending), a faster rate than in 2020 when spending increased by only 3.7%. This increase was attributed to the higher utilization of prescription drugs in 2021 (i.e., more physician visits resulting in an increase of new prescriptions).⁸

Analyzing expenditures by sponsor, the federal government understandably continued to account for the largest share of healthcare spending (34%), followed by households (27%), private businesses (17%), state and local governments (15%), and other private revenues

(7%).⁹ While the federal government was the only sponsor with increases in expenditures in 2020, in 2021, all sponsors other than the federal government experienced faster spending growth. Again, this difference was driven by the decrease in federal COVID-19 relief funding. Federal government spending declined 3.5% in 2021, after a 36.8% increase in 2020.¹⁰ Household health spending increased 6.1% in 2021 after a 1.2% growth in 2020, due to household out-of-pocket spending.¹¹ State and local governments experienced a spending growth in 2021, with spending increasing by 5.8% compared to the 1.9% decline in 2020, driven by the increase in state Medicaid spending.¹² Finally, spending by private businesses increased 6.5% in 2021 after experiencing a decrease of 2.9% in 2020. This was largely due to the increase in contributions to employer-sponsored private health insurance premiums.¹³

In terms of insurance coverage, the number of uninsured individuals in 2021 decreased to 28.5 million from the 2020 total of 31.2 million.¹⁴ Enrollment increased in both Medicaid and the Affordable Care Act (ACA) Marketplace plans. These high enrollment totals are due to policies enacted over the past two years to ensure continued insurance coverage during the pandemic. However, the end of the COVID-19 public health emergency is expected to result in a reversion to previous Medicaid criteria, resulting in the loss of Medicaid coverage for 5 to 14 million Americans.¹⁵

There is significant uncertainty as to what these trends may mean for 2022 healthcare spending. In the first half of 2022, overall economic output declined, then grew at a slow rate in the third quarter.¹⁶ During the summer of 2022, economy-wide inflation reached a four-decade high.¹⁷ Data is currently incomplete to make a proper conclusion, but recent economic trends may have negatively impacted the health sector.

Looking beyond the COVID-19 pandemic, the severity of the pandemic and its impact on healthcare spending is expected to lessen healthcare expenditures.¹⁸ Utilization trends are slowly stabilizing, and federal government funding for COVID-19 has largely ceased, with the U.S. continuing to inch toward a pre-pandemic state of normal. With the current volatility of the U.S. economy, and the unknown impact of 2022’s inflation, there are many variables subject to change, which may have substantial impact on overall GDP and healthcare spending.

Healthcare finance and economics experts assert that healthcare expenditure trends highlight a key concern – price inflation. 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.”¹⁹

- 1 “National Health Spending Grew Slightly in 2021” Office of the Actuary, Centers for Medicare and Medicaid Services, December 14, 2022, <https://www.cms.gov/newsroom/press-releases/national-health-spending-grew-slightly-2021> (Accessed 12/19/22).
- 2 “National Health Care Spending in 2021: Decline in Federal Spending Outweighs Greater Use of Health Care” by Anne B. Martin, et al., Health Affairs, December 14, 2022, available at: <https://www.healthaffairs.org/doi/10.1377/hlthaff.2022.01397> (Accessed 12/19/22).
- 3 *Ibid.*
- 4 Office of the Actuary, Centers for Medicare and Medicaid Services, December 14, 2022.
- 5 *Ibid.*
- 6 *Ibid.*
- 7 *Ibid.*
- 8 Martin, et al., Health Affairs, December 14, 2022.
- 9 *Ibid.*
- 10 *Ibid.*
- 11 *Ibid.*

- 12 *Ibid.*
- 13 Office of the Actuary, Centers for Medicare and Medicaid Services, December 14, 2022.
- 14 Martin, et al., Health Affairs, December 14, 2022.
- 15 “Key Facts about the Uninsured Population” by Jennifer Tolbert, et al., Kaiser Family Foundation, December 19, 2022, <https://www.kff.org/uninsured/issue-brief/key-facts-about-the-uninsured-population/> (Accessed 12/20/22).
- 16 Martin, et al., Health Affairs, December 14, 2022.
- 17 “Inflation Hits Fresh Four-Decade High, According to Fed’s Preferred Measure” By Gwynn Guilford, The Wall Street Journal, July 29, 2022, <https://www.wsj.com/articles/inflation-hits-fresh-four-decade-high-according-to-feds-preferred-measure-11659102840> (Accessed 12/20/22).
- 18 Martin, et al., Health Affairs, December 14, 2022.
- 19 “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 12/20/22).

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