

US health spending projected to grow an average of 5.8 percent annually through 2022

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New estimates released 9/18/13 from the Office of the Actuary at the Centers for Medicare and Medicaid Services (CMS) project that aggregate health care spending in the United States will grow at an average annual rate of 5.8 percent for 2012-22, or 1.0 percentage point faster than the expected growth in the gross domestic product (GDP). The health care share of GDP by 2022 is projected to rise to 19.9 percent from its 2011 level of 17.9 percent.

The findings appeared as a *Health Affairs* Web First article, which is published in the October issue. The article provides an analysis of how Americans are likely to spend their health care dollars in the coming decade, with projections for spending by different sectors, payers, and sponsors. The projections reflect a combination of factors affecting [health care spending](#), including provisions of the Affordable Care Act (ACA) that increase [health insurance](#) coverage and forecasted changes in the nation's economy.

For 2013 health care spending [growth](#) is projected to remain under 4 percent because of the sluggish economic recovery, continued increases in cost-sharing requirements for the privately insured, and slow growth for Medicare and Medicaid spending.

But starting in 2014 growth in [national health](#) spending will accelerate to 6.1 percent, reflecting expanded insurance coverage through the ACA, through either Medicaid or the marketplaces. The use of medical services and goods, especially prescription drugs and physician and

clinical services, among the newly insured is expected to contribute significantly to spending increases in Medicaid (12.2 percent) and [private health insurance](#) (7.7 percent). Out-of-pocket spending is projected to decline 1.5 percent in 2014 due to the new coverage and lower cost sharing for those with improved coverage.

By 2022 the ACA is projected to reduce the number of uninsured people by thirty million, add approximately 0.1 percentage points to average annual health spending growth over the full projection period, and increase cumulative health spending by \$621 billion.

Analysis by the CMS Office of the Actuary of the past fifty years of National Health Expenditure Accounts data, which explores the relationship between economic and health spending growth, suggests that health spending growth is likely to accelerate once economic conditions improve markedly. "Although projected growth is faster than in the recent past," says Gigi Cuckler, the lead author for the study, "it is still slower than the growth experienced over the longer term."

Key national health expenditure projections for specific timeframes include the following:

2012

- National health spending is estimated to have reached \$2.8 trillion and grew 3.9 percent—the same rate as in 2011—reflecting the persistent effects of the recession and the modest recovery.
- In 2012 prescription drug spending is estimated to have accounted for \$260.8 billion of national health spending, a decline of 0.8 percent, compared to 2.9 percent growth in 2011. The decline was due to increased use of generic drugs as some popular brand-name drugs lost patent protection, increases in cost-

sharing requirements, and lower spending on new medicines.

- Medicare spending growth is estimated to have fallen to 4.6 percent in 2012, down from 6.2 percent in 2011 despite faster enrollment growth. This was due, in part, to reductions in the rate at which payments to certain providers are updated; slower growth in the use of Part A services, such as skilled nursing facility and home health services; and reductions in prescription drug prices as patents for several popular drugs expired.

2013

- National spending on health care is projected to remain below 4 percent in 2013 as consumers remain sensitive to rising health costs and businesses seek to restrain costs. In line with this, private health insurance spending is expected to slow to 3.4 percent.
- Medicare spending is projected to grow 4.2 percent in 2013, down from 4.6 percent in 2012, because of the 2 percent reduction in Medicare provider payments mandated in the Budget Control Act of 2011, referred to as sequestration.

2014

- As the major provisions of the Affordable Care Act go into effect in 2014, including health care coverage expansions, projected growth in spending is 6.1 percent, compared to 4.5 percent growth without these reforms.
- Many of the eleven million newly insured are anticipated to be generally younger and healthier and are expected to devote a larger share of their health care spending to prescription drugs and physician and clinical services and a smaller share to hospital spending.

- The Affordable Care Act is also expected to influence growth rates for the major payers, with a rise in private health insurance spending to 7.7 percent and a decrease in individual out-of-pocket spending by 1.5 percent.
- Medicaid enrollment is expected to increase by 8.7 million people in 2014, with total Medicaid spending projected to grow 12.2 percent to \$490.0 billion. Nearly all of this growth is a result of the Affordable Care Act's expansion of coverage.

2015-2022

- National health spending is projected to remain near 6 percent in 2015 because of two main factors. First, eight million more Americans will gain insurance coverage through Medicaid or the exchanges. Second, the expected pace of the economic recovery will increase in 2014-15, with projected growth in the GDP exceeding 5 percent for the first time since 2006. The resulting gains in disposable personal income will drive increased use of health care goods and services.
- The most significant one-time effects of coverage expansions will subside starting in 2016. As a result, projected total [health spending](#) growth for 2016-18 will be largely influenced by an improving economy and increases in disposable income and medical spending. Health spending growth per capita is projected to average 5.0 percent annually for 2016-18, compared to per capita GDP growth of 4.7 percent.
- Medicare expenditures are projected to grow an average of 7.9 percent per year for 2019-22, compared to 7.3 percent per year for 2016-18, as baby boomers continue to enroll in the program.
- An additional 8.8 million people are projected to enroll in Medicaid by 2016 because some states are expected to expand their Medicaid programs after 2014. Medicaid spending is projected to grow by 7.9 percent on average in 2015 and 2016.

From 2017-22 Medicaid spending is expected to grow 6.6 percent, primarily because of the increasing proportion of elderly and disabled Medicaid beneficiaries.

- Private health insurance spending will remain somewhat elevated in 2015 at 6.2 percent primarily because of continued enrollment through the exchanges, through employer-offered coverage, and increased use of medical goods and services spurred by faster economic growth. For 2016-22 the effects of improved economic conditions are expected to result in average private health insurance [spending](#) growth of 5.8 percent per year.
- By 2022 [health care](#) financed by federal, state, and local governments is projected to account for 49 percent of total national health expenditures and reach a total of \$2.4 trillion. The federal government will account for more than 63 percent of this total, or about \$1.5 trillion, reflecting expanded Medicaid eligibility, premium and cost-sharing subsidies through the Health Insurance Marketplaces (exchanges), and growth in Medicare enrollment as baby boomers continue to enter the program.

In deriving its estimates, the report incorporates two major changes from previous projections. First, the estimates incorporate the June 2012 US Supreme Court ruling that made Medicaid eligibility expansion under [health](#) reform optional for the states. Second, the estimates presume that scheduled Medicare physician payment rate reductions under the Sustainable Growth Rate formula do not occur, including a 24.7 percent reduction as of January 1, 2014.

Provided by Health Affairs

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