

National Health Expenditure Projections 2016-2025

Forecast Summary

Major Findings for National Health Expenditures: 2016-2025

- National health spending is projected to grow at an average rate of 5.6 percent per year for 2016-25, and 4.7 percent per year on a per capita basis.
 - Health spending is projected to grow 1.2 percentage points faster than Gross Domestic Product (GDP) per year over the 2016-25 period; as a result, the health share of GDP is expected to rise from 17.8 percent in 2015 to 19.9 percent by 2025.
 - Throughout the 2016-25 projection period, growth in national health expenditures is driven by projected faster growth in medical prices (from historically low growth in 2015 of 0.8 percent to nearly 3 percent by 2025). This faster expected growth in prices is partially offset by projected slowing growth in the use and intensity of medical goods and services.
- Although the largest health insurance coverage impacts from the Affordable Care Act's expansions have already been observed in 2014-15, the insured share of the population is projected to increase from 90.9 percent in 2015 to 91.5 percent in 2025.
 - This expectation is mainly a result of continued anticipated growth in private health insurance enrollment, in particular for employer-sponsored insurance, during the first half of the decade in response to faster projected economic growth.
- Health spending growth by federal and state & local governments is projected to outpace growth by private businesses, households, and other private payers over the projection period (5.9 percent compared to 5.4 percent, respectively) in part due to ongoing strong enrollment growth in Medicare by the baby boomer generation coupled with continued government funding dedicated to subsidizing premiums for lower income Marketplace enrollees.
- National health spending growth is projected to have decelerated from 5.8 percent in 2015 to 4.8 percent in 2016 as the initial impacts associated with the Affordable Care Act's major coverage expansions fade. Medicaid spending growth is projected to have decelerated sharply from 9.7 percent in 2015 to 3.7 percent in 2016 as enrollment growth in the program slowed significantly. Similarly, private health insurance spending growth is projected to have slowed from 7.2 percent in 2015 to 5.9 percent in 2016 (also largely attributable to slowing expected growth in enrollment).
- Health spending is projected to grow 5.4 percent in 2017 related to faster growth in Medicare and private health insurance spending.

- Medicare spending growth is projected to accelerate from 5.0 percent in 2016 to 5.9 percent in 2017, in part because the decline in utilization in inpatient hospital services is not expected to continue into 2017.
 - Private health insurance spending growth is expected to accelerate 0.6 percentage point to 6.5 percent partly due to faster premium growth in Marketplace plans due to previous underpricing of premiums and the elimination of risk corridor payments.
- Health expenditures are projected to grow at an average rate of 5.9 percent for 2018-19, the fastest of the sub-periods examined, as projected spending growth in Medicare and Medicaid accelerates.
 - Medicare spending is projected to grow an average of 7.1 percent per year due to an expected return to higher utilization rates for Medicare services that more closely resemble the program's long-term historical averages, as well as continued enrollment growth amongst the baby boomers.
 - Projected average growth of 5.9 percent in Medicaid is driven by an expected increase in the use and intensity of medical services to meet the needs of the increasingly larger share of aged and disabled enrollees in the program.
- Through the second half of the projection (2020-25), increasing medical prices are offset by projected decelerations in growth in the use and intensity of medical goods and services, leading to average growth of 5.8 percent per year for national health expenditures.
 - Medicaid spending growth is expected to average 5.9 percent during this portion of the projection period reflecting two somewhat offsetting trends. First, enrollment growth is projected to average 1.1 percent annually (slower than the 1.7-percent average projected growth for 2018-19). Average spending on a per enrollee basis, however, is expected to accelerate 0.6 percentage point to 4.8 percent related to population aging and the expiration of cuts to disproportionate-share hospital payments late in the period.
 - Out-of-pocket spending growth is projected to average 5.2 percent for 2020-25 following average growth of 4.4 percent for 2016-19 influenced partly by the reduction in scope of insurance coverage and the accompanying increase in cost-sharing associated with employers being affected by the excise tax.

Major Findings by Payer

Medicare

- Medicare spending is projected to grow at an average rate of 7.1 percent for 2016-25, the net result of slower growth early in the period and faster growth during the second half of the projection.
- The sub-period with the most rapid projected growth is 2020-2025 (7.6 percent) including the projection period peak growth of 8.0 percent in 2020. Relatively higher growth during this time reflects the expectation of continued growth in the use and intensity of goods and services coupled with more baby boomers reaching the age of Medicare entitlement.

Medicaid

- Following consecutive years of expected slow growth of 3.7 percent in both 2016 and 2017 (related to slower enrollment growth following expansion), Medicaid spending growth is projected to quicken and average nearly 6 percent for the remainder of the projection period. This faster growth largely reflects the intensification of care needs by the increasingly larger proportion of the program's population that is aged or disabled.
- Part of the slower projected growth in Medicaid for 2016 was an actual decline Medicaid's net cost of health insurance (or the difference between premiums received by Medicaid managed care organizations and the benefits paid on behalf of the Medicaid beneficiaries enrolled in those plans). Spending in this category fell 5.2 percent related to the collection of Medicaid risk mitigation payments for rates paid to managed care organizations in 2014 and 2015 for newly eligible beneficiaries.

Private Health Insurance

- Enrollment in private health insurance is projected to continue growing throughout the decade, but at a slower pace than observed in 2014-15 (averaging 0.5 percent for 2016-25 compared to 2.5-percent average growth in the two prior years).
- For 2018 through 2019 private health insurance spending growth is projected to grow at an average rate of 5.7 percent per year due to faster growth in disposable incomes, and faster growth in prescription drug prices as fewer drugs lose patent protection over this timeframe.
- Private health insurance spending is projected to decelerate in growth in 2020 to 4.8 percent in response to the excise tax on high cost insurance plans, and then grow at an average rate of 5 percent per year for 2020 through 2025 in lagged response to slowing growth in disposable incomes.

Out-of-Pocket

- Out-of-pocket spending growth is projected to accelerate 3.6 percent in 2016 from 2.6 percent in 2015 as the number of individuals covered through high-deductible health plans continues to grow.
- For 2016 through 2025, out-of-pocket spending growth is projected to average 4.8 percent per year, steadily increasing to a projection period high of 5.8 percent in 2020 (when the excise tax on high-cost health plans is scheduled to become effective) and then averaging 5.0-percent growth in the final years of the period.

Major Findings by Sector

Hospital

- Total hospital spending is projected to grow at an average rate of 5.5 percent per year for 2016-25, compared to 4.9 percent for 2010-15. This faster growth partly reflects anticipated increases in growth in the use and intensity of hospital services by Medicare's beneficiaries over the coming decade.
- Hospital price growth is projected to rise from 0.9 percent in 2015 to an average rate of 2.4 percent for 2016-25 related to expected faster growth in the prices of inputs required to provide hospital care.

Physician and Clinical Services

- Growth in spending on physician and clinical services is projected to have accelerated slightly in 2016 to 6.6 percent, from 6.3 percent in 2015, largely reflecting an acceleration in prices (from -1.1 percent in 2015 to 0.2 percent in 2016).
- Physician and clinical services spending growth is projected to slow to 5.9 percent in 2017, as the effects of the coverage expansions moderate—particularly for private health insurance and Medicaid.

Prescription Drugs

- Prescription drug spending growth is projected to decelerate from 9.0 percent in 2015 to 5.0 percent in 2016 due to reduced use of newly approved specialty drugs to treat conditions such as Hepatitis C, as well as an increase in the number of brand name drugs losing patent protection.
- Prescription drug spending growth is expected to peak in 2018 at 7.6 percent, as relatively fewer brand-name drugs are expected to lose patent protection and the downward price pressure typically associated with the introduction of generic substitutes is somewhat mitigated.
- Prescription drug spending is projected to grow an average of 6.3 percent per year for 2016 through 2025 as the influence on spending from the coverage expansions and newly approved specialty drugs is expected to fade after two years of above-average impacts for 2014-15.

Major Findings by Sponsor

- Health care spending sponsored (or financed) by federal, state, and local governments is projected to have grown 4.4 percent to \$1.5 trillion in 2016.
- Reflecting growth trends in private health insurance and out-of-pocket spending, outlays by businesses, households, and other private sources are projected to have risen by 5.1 percent in 2016, and to have reached \$1.8 trillion.
- The government-sponsored share of health spending is projected to increase and account for 47 percent of national health expenditures by 2025 (up from 46 percent in 2015), driven by continued growth in enrollment in Medicare due to baby-boomers and ongoing subsidies paid on behalf of lower-income Marketplace plan enrollees.