

# National Health Expenditure Projections 2023-2032

## *Forecast Summary*

### **Major Findings for National Health Expenditure (NHE) Projections: 2023-2032**

- Over 2023-32 average NHE growth (5.6 percent) is projected to outpace that of average GDP growth (4.3 percent), resulting in an increase in the health spending share of GDP from 17.3 percent in 2022 to 19.7 percent in 2032.
- 2023 NHE growth projected to have been 7.5 percent and reflected broad increases in the use of care associated with the increasingly higher insured share of the population.
- The insured share of the population in 2023 is projected to have reached 93.1 percent, an unprecedented high. This is largely related to a record-high level of Medicaid enrollment (91.2M) in 2023, as well as gains in direct-purchase enrollment.
- Medicaid enrollment is projected to decline to 81.0M in 2024 and slightly further to 79.4M by 2025 following the expiration of the Families First Coronavirus Response Act's continuous enrollment requirement.
- Direct-purchase enrollment is expected to decline by 7.3M in 2026 (-19.2 percent) due to expiration of the Inflation Reduction Act's (IRA) temporary extension of enhanced subsidies and associated temporary Special Enrollment Period (SEP).
- The IRA is projected to influence spending growth for:
  - Medicare
    - Early in the period, upward pressure on growth is expected because of the IRA's Part D benefit restructuring (elimination of Part D's 5% coinsurance for catastrophic coverage; \$2,000 cap on out-of-pocket spending on Part D; rebates shift from program to point of sale when drug negotiations begin);
    - Further into the period, downward pressure is expected as manufacturer discounts for the low-income population start in 2025, drug price negotiations become applicable starting in 2026, and the linking of price increases to the Consumer Price Index continues (began in 2023).
  - Out-of-pocket
    - Lower spending is projected related to the more generous Medicare Part D benefits reflecting the elimination of the 5% coinsurance for catastrophic coverage in 2024, the implementation of a \$2,000 cap on out-of-pocket spending on Part D drugs in 2025, and the applicability of drug price negotiations beginning in 2026.

### **Chronological Discussion of Key Trends in Projected National Health Expenditures**

#### 2023

- Growth in national health spending is projected to have accelerated to 7.5 percent in 2023. The insured share of the population is expected to have increased 1.1 percentage point to 93.1 percent, reflecting a peak in Medicaid enrollment of 91.2 million, as well as PHI enrollment growth due to both the temporary extension of enhanced Marketplace subsidies under the IRA and a temporary special enrollment period for qualified individuals losing Medicaid coverage.

#### 2024

- National health spending is expected to grow 5.2 percent in 2024. Medicaid enrollment is anticipated to decline by 11.2 percent (10.2 million) and Medicaid spending, in turn, is projected

to contract by 2.2 percent. On a per enrollee basis, however, Medicaid spending is projected to increase 10.2 percent—its highest growth since 1991—reflecting the sizable departure of younger and healthier beneficiaries who are no longer eligible because of the expiration of the public health emergency. Although Medicaid enrollment is expected to fall, the insured share of the population is only expected to decline to 92.7 percent as many who were disenrolled during the public health emergency had comprehensive coverage from another source (such as through an employer). In addition, growth in medical prices (as measured by the Personal Health Care Price Index) is expected to accelerate to 3.1 percent (from 2.5 percent in 2023), reflecting the lagged impact of recent faster price growth associated with the inputs required to provide medical care, whereas growth in economywide prices (as measured by the GDP Deflator) is projected to slow further in 2024, from 3.7 percent in 2023 to 2.2 percent.

## 2025-26

- During this period, total spending growth is expected to level out at an average growth of 4.9 percent. For the first time since 2020, PHI enrollment is expected to decline (by 1.0 percent), largely due to the projected drop of 7.3 million direct-purchase enrollees when the enhanced Marketplace subsidies expire in 2026. PHI per enrollee spending growth is also expected to decelerate, resulting in total PHI spending growth to decelerate over 4 percentage points to 3.8 percent. Medicaid spending growth rates are both expected accelerate during this period as growth in enrollment moderates.

## 2027-32

- For 2027-32, national health spending is projected to increase at an average rate of 5.6 percent—higher than the average growth rate of 4.1 percent projected for GDP—partly because of faster projected average growth in medical prices (2.7 percent) compared with economywide price growth (2.1 percent). Medicare is expected to experience the highest rate of growth among the major payers at 7.6 percent per year, with downward pressure on growth, in part, from the IRA's prescription drug provisions. Medicaid expenditures are projected to average 6.2 percent growth over the course of 2027-32, with enrollment growth expected to average 0.9 percent over that period. Average private health insurance spending is expected to grow by 4.8 percent, with nearly all of this growth attributable to per enrollee spending, as enrollment is expected to remain roughly unchanged.

## **Key Trends in Projected National Health Expenditures by Payer**

### Medicare

- Medicare expenditures are projected to have accelerated to 8.4 percent growth in 2023, up from 5.9 percent in 2022. This projected increase is largely due to Medicare spending per beneficiary growth and increased hospital spending, as well as continued increases in Medicare Advantage (MA) enrollment. Medicare spending growth is projected to decelerate to 6.1 percent, with expenditures projected to exceed \$1.1 trillion in 2024. For this period, slower MA enrollment and slower projected per enrollee physician spending are projected to drive the overall deceleration in spending. Medicare spending growth is projected to increase to an average of 7.1 percent in 2025-26, inclusive of the initial IRA drug price negotiations that result in higher rebates, which get shifted to point of sale and result in higher Medicare spending. Finally, over 2027-32, Medicare spending growth is expected to average 7.6 percent. Faster spending across most sectors is expected to be partially offset by a slowdown in prescription drug spending growth related to the IRA negotiation and other price constraining provisions.

## Medicaid

- Medicaid spending is projected to have grown 5.7 percent in 2023, down from 9.6 percent in 2022 and the program's enrollment is projected to have reached a peak of 91.2 million. This historically high enrollment figure reflects new enrollees to the program, as well as many people remaining enrolled because of the continuous enrollment requirement of the FFCRA, which ended in 2023. In 2024, enrollment is projected to drop by 10.2 million (-11.2 percent) as state redeterminations of eligibility continue. Spending growth in 2024 is projected to decrease 2.2 percent. However, per beneficiary spending is projected to increase 10.2 percent, the highest since 1991, as the continued redetermination of benefits is expected to result in the rapid loss of relatively younger and healthier enrollees. Medicaid expenditures are projected to rebound to 5.7 percent in 2025-2026, as other personal care spending accelerates due to states' continued expansions and use of home and community-based services. Over 2027-32, Medicaid spending is projected to average 6.2 percent, partly due to the expiration of the disproportionate share hospital payment rate cap reductions under current law in late 2027.

## Private Health Insurance and Out-of-Pocket

- In 2023, growth in private health insurance spending is projected to have accelerated to 11.1 percent, following growth of 5.9 percent in 2022. This acceleration is due to the projected increased use driving faster per enrollee spending (8.0 percent) and increased enrollment in direct-purchase plans related to the temporary SEP and enhanced Marketplace subsidies. Private health insurance spending is expected to grow 8.1 percent in 2024 with further gains in direct-purchase plan enrollment. Over 2025-26, private health insurance spending growth is expected to decelerate to an average of 3.8 percent growth, reflecting negative average enrollment growth of -1.0 percent, as direct-purchase enrollment is expected to decrease by 7.3 million in 2026. Overall spending growth is expected to increase at an average rate of 4.8 percent over 2027-32, with enrollment levels remaining roughly stable.
- Out-of-pocket spending is projected to have grown 7.9 percent in 2023 (up from 6.6 percent in 2022) resulting from faster growth in the use of services and goods. Out-of-pocket spending is projected to decelerate slightly to 6.7 percent in 2024 as growth in utilization slows across most major services and goods. Total spending is projected to further decelerate to an average of 3.7 percent in 2025-26. This is due in part to IRA cost-sharing provisions that shift out-of-pocket spending on prescription drugs from the beneficiary and more toward the Medicare program. Over 2027-32, out-of-pocket spending is expected to grow at the slowest average rate of 4.2 percent, partly due to growth in prescription drug spending that is slower than it otherwise would have been absent the IRA's related drug provisions.

## **Key Trends in Projected National Health Expenditures by Sector**

### Hospital Care

- Hospital spending growth is expected to have accelerated substantially, going from 2.2 percent in 2022 to 10.1 percent in 2023, with expenditures of \$1.5 trillion. Due to increasing use, hospital spending growth is expected to have rebounded for most payers. In 2024, hospital spending growth is projected to slow to 4.6 percent and to be broadly reflected across all payers. The Medicaid program is projected to have the sharpest deceleration in growth, from 4.4 percent in 2023 to a decline of 5.7 percent in 2024, consistent with projected enrollment declines for this program. Despite divergent public and private payer enrollment growth over 2025-26, hospital spending growth is projected to remain stable for the most part and to average 4.7 percent. Over 2027-32, hospital spending growth is projected to average 5.6 percent per year as trends are

expected to continue to normalize. Medicare is projected to experience the highest hospital spending growth over the course of 2027–32, with an average annual increase of 7.6 percent as the last of the baby boomers enroll.

### Physician and Clinical Services

- Spending for physician and clinical services is expected to have increased by 8.4 percent in 2023 (with expenditures totaling \$959.1 billion) compared with growth of 2.7 percent in 2022. In 2023, the rate of price growth for these services is estimated to have remained somewhat low at 0.5 percent. For 2024, spending growth for physician and clinical services is projected to decelerate to 4.9 percent with Medicaid spending on these services expected to drop by 4.8 percent, consistent with projected declines in enrollment for this program. For 2025–26, spending growth on physician and clinical services is expected to remain stable and to average 4.8 percent, the net result of disparate private and public enrollment trends. During 2027–32, annual spending growth for physician and clinical services is projected to average 5.5 percent. Of the major payers, Medicare is projected to experience the fastest spending increase, with average growth of 7.9 percent, whereas growth in private health insurance spending is expected to average 4.1 percent.

### Retail Prescription Drugs

- Prescription drug spending growth is projected to have slowed in 2023 to 7.0 percent, down from 8.4 percent in 2022, with spending having reached \$434.1 billion. For 2024, growth in prescription drug spending is projected to slow slightly, to 6.8 percent. Conversely, faster growth in Medicare drug spending (13.3 percent) is expected in 2024, primarily related to the IRA's elimination of the 5 percent coinsurance component for catastrophic coverage. These savings are partially offset by higher program costs that are associated with the start of the \$2,000 Part D out-of-pocket spending cap for Medicare beneficiaries. In 2026, Medicare prescription drug spending is projected to increase 12.0 percent, mostly due to the expected reductions in rebates on drugs with negotiated prices. For 2027–32, growth in prescription drug spending is projected to average 5.9 percent, reflecting average prescription drug spending growth for private health insurance, Medicaid, Medicare, and out-of-pocket of 6.1 percent, 6.1 percent, 6.3 percent, and 4.7 percent, respectively. Although subject to considerable uncertainty, the introduction of new drugs, especially for oncology, immunology, and diabetes, is expected to put upward pressure on growth across all payers.