

National Health Expenditure Projections 2017-2026

Forecast Summary

Major Findings for National Health Expenditures: 2017-2026

- Under current law, national health spending is projected to grow at an average rate of 5.5 percent per year for 2017-26 and to reach \$5.7 trillion by 2026. While this projected average annual growth rate is more modest than that of 7.3 percent observed over the longer-term history prior to the recession (1990-2007), it is more rapid than has been experienced 2008-16 (4.2 percent).
- Health spending is projected to grow 1.0 percentage point faster than Gross Domestic Product (GDP) per year over the 2017-26 period; as a result, the health share of GDP is expected to rise from 17.9 percent in 2016 to 19.7 percent by 2026.
- Projected national health spending and enrollment growth over the next decade is largely driven by fundamental economic and demographic factors: changes in projected income growth, increases in prices for medical goods and services, and enrollment shifts from private health insurance to Medicare related to the aging of the population.
- Among the major payers for health care, growth in spending for Medicare (7.4 percent per year) and Medicaid (5.8 percent per year) are both substantial contributors to the rate of national health expenditure growth for the projection period. Both trends reflect the impact of an aging population, but in different ways. For Medicare, projected enrollment growth is a primary driver; for Medicaid, it is an increasing projected share of aged and disabled enrollees.
- The recent enactment of tax legislation that eliminated the individual mandate is expected to lead to a reduction in the insured rates. Economic factors, such as projected GDP growth and employment trends, are the primary factors contributing to a slight projected decline in the insured share of the population from 91.1 percent in 2016 to 89.3 percent in 2026.

Chronological Discussion of Key Trends in Projected National Health Expenditures by Sector, Payer, and Sponsor

2017

- National health spending is projected to have grown 4.6 percent in 2017, up slightly from 4.3 percent growth in 2016, and to have reached nearly \$3.5 trillion.
- Medicare spending growth is projected to have accelerated to 5.0 percent in 2017 from 3.6 percent in 2016. The acceleration results from faster projected growth in spending per beneficiary, as well as faster enrollment growth.
- The personal health care price index, which measures the rate of inflation associated with medical goods and services purchased, is projected to have increased from 1.2 percent in

2016 to 1.4 percent in 2017, due primarily to faster economy-wide inflation. Despite this slight increase, projected growth in the personal health care price index remains near historic lows.

- Private health insurance spending growth is projected to have accelerated 0.5 percentage point to 5.6 percent in 2017, partly due to increases Health Insurance Marketplace premiums.
- Medicaid spending is projected to have grown more slowly in 2017, at 2.9 percent, from 3.9 percent in 2016, due to an anticipated reduction in Medicaid's net cost of health insurance spending (or the difference between payments received by Medicaid managed care organizations and the benefits paid on behalf of their enrollees).

2018

- National health expenditure growth is expected to increase by 0.7 percentage point (5.3 percent).
- Growth in prices for health care goods and services is projected to rise to 2.2 percent in 2018 from 1.4 percent in 2017, reflecting, in part, faster projected prescription drug price growth. The acceleration in prescription drug price growth (4.4 percent in 2018 from 2.1 percent in 2017) reflects the expectation that brand-name drug prices will more strongly influence growth in that year because the dollar value of drugs losing patents in 2018 is smaller than in prior years.
- Medicaid spending growth is expected to accelerate to 6.9 percent in 2018 from 2.9 percent in 2017, primarily due to faster projected growth in Medicaid's net cost of health insurance.

2019-2020

- Over 2019-20, national health expenditures are expected to tick up 0.2 percentage point to 5.5 percent per year on average.
- Medicare spending is projected to grow by 8.0 percent per year on average over 2019-2020, 2 percentage points more rapidly on average than in 2018. The acceleration reflects the effect of incentive payments made to physicians under the Medicare Access and Children's Health Insurance Program Reauthorization Act of 2015 (MACRA), as well as projected increases growth in the volume and intensity of goods and services provided to beneficiaries rising from recent historic lows.
- Private health insurance spending is projected to slow by 0.7 percentage points to 4.1 percent per year on average for 2019-20. The deceleration reflects the effect on spending and use of reduced insured rates due to the repeal of the individual mandate.

2021-2026

- For 2021-26, national health spending growth is projected to increase by another 0.2 percentage point to 5.7 percent, on average.
- The trends in spending by payer during this period largely reflect various effects of an aging population:
 - Medicare spending is projected to grow the fastest among the major health insurance categories over 2021-26, averaging 7.7 percent, just under the 8.0-percent average growth rate projected for 2019-20. Sustained growth in both enrollment and per enrollee spending contribute to this trend.
 - Medicaid spending growth is projected to average 6.1 percent over 2021-26, up from 5.8 percent per year for 2019-20, due primarily to faster per enrollee spending associated with increasing shares of comparatively expensive aged and disabled enrollees in the program.
 - In contrast, spending for private health insurance is projected to grow relatively more slowly at 4.7 percent on average for 2021-26. This trend is driven primarily by slower enrollment growth, which is associated with the continued shift of the baby-boom generation from private health insurance to Medicare, as well as slower anticipated employment growth in the latter half of the projection period. In addition, the excise tax on high-cost insurance plans (scheduled to take effect in 2022) is also anticipated to contribute to slower growth in private health insurance spending. The excise tax is anticipated to result in some employers' reducing benefits and increasing cost-sharing requirements to keep plan costs under the thresholds for the tax. Accordingly, the presence of the tax results in faster projected growth in out-of-pocket spending (5.2 percent in 2022, compared to 4.7 percent in 2021).
- By 2026, federal, state, and local governments are projected to sponsor 47 percent of total national health expenditures, up from 45 percent in 2016. Correspondingly, national health expenditures collectively sponsored by private businesses, households, and other private revenues are projected to decline from 55 percent in 2016 to 53 percent of total spending by 2026. Demographic trends also primarily contribute to this shift in financing.