



## Health Expenditures Projected to Approach \$8 Trillion by 2032

On June 12, 2024, the Centers for Medicare & Medicaid Services (CMS) released their health insurance enrollment and national health expenditure (NHE) projections for 2023 through 2032.<sup>1</sup> The annually-updated NHE is the official U.S. estimate of insurance enrollment and health spending.<sup>2</sup> CMS projects that, between 2023 and 2032, the NHE's annual growth rate of 5.6% will surpass the U.S. gross domestic product (GDP) annual growth rate of 4.3%.<sup>3</sup> As a result, health spending as a share of the U.S. GDP is expected to jump from 17.3% in 2022 to 19.7% in 2032.<sup>4</sup> This Health Capital Topics article reviews the notable findings from CMS's projections.

Future healthcare spending and insurance enrollment trends are expected to be influenced by recent legislation.<sup>5</sup> During the COVID-19 public health emergency, states were prohibited from removing anyone from their Medicaid rolls, even if that individual was no longer Medicaid-eligible.<sup>6</sup> Medicaid enrollment is anticipated to significantly decline in 2024, now that states are restarting their Medicaid eligibility redeterminations.<sup>7</sup> In contrast, private health insurance enrollment is expected to increase due to the extension of enhanced Marketplace premium tax credit subsidies included in the *Inflation Reduction Act (IRA) of 2022*, as well as a temporary enrollment period for qualified beneficiaries who lost Medicaid coverage after the aforementioned eligibility redeterminations.<sup>8</sup> The IRA is also expected to impact spending trends by reducing out-of-pocket costs for Medicare Part D beneficiaries, limiting drug price increases, and decreasing the cost of certain high-priced pharmaceuticals through Medicare's negotiations (as Medicare was just recently allowed to directly negotiate some prices with drug manufacturers).<sup>9</sup> These various legislative initiatives spurred by the pandemic are largely expected to reduce future healthcare spending.<sup>10</sup>

For Medicare and Medicaid, the average annual expenditure growth rates from 2023 through 2032 are projected to be 7.4% and 5.2% (similar to last year's projections), respectively, while the growth rates for private health insurance spending are projected to average 5.6%.<sup>11</sup> Starting in 2025, beneficiaries will pay no more than \$2,000 in out-of-pocket costs for prescription medications.<sup>12</sup> Due to the cap on out-of-pocket spending for Medicare Part D beneficiaries, payment responsibility will shift to Medicare, likely resulting in Medicare spending increases.<sup>13</sup>

In 2022, enhanced Marketplace plan subsidies expanded the financial assistance available to those who could not afford coverage and improved affordability, resulting in an enrollment increase of 2.5 million.<sup>14</sup> Once those subsidies

expire, the additional enrollees who signed up to obtain lower premiums may not be able to afford their insurance anymore, potentially leading to a decline in private health insurance enrollment and spending.<sup>15</sup> With the enhanced Marketplace plan subsidies under the IRA set to expire at the end of 2025, and enrollment expected to slow as a result, private health insurance spending is expected to slow considerably, from a growth rate of 8.1% in 2024 to 5.3% in 2025, and then to 2.4% in 2026.<sup>16</sup> While decelerated healthcare spending is often a positive trend, in this case it may be due to patients delaying/declining care, not decreasing prices.

In addition to overall payor spending continuing to grow over the next decade, spending in various settings is also expected to increase. Hospital spending, driven by increasing utilization, is expected to grow substantially between 2023 and 2032, at an annual average rate of 5.7%, similar to the projections from last year.<sup>17</sup> The spending growth from the hospital sector is expected to overtake spending in the physician and clinical services sector (5.6%), but will remain lower than spending in the prescription drug sector (6.0%), both of which rates are similar to last year's projections.<sup>18</sup> Medicare spending for physician and clinical services will exceed that of the private health insurance spending, due largely to an uptick in Medicare enrollment (i.e., Baby Boomers aging into Medicare).<sup>19</sup> Prescription drug expenditure growth is projected to slow between 2024 (6.8%) and 2032 (5.9%), reflecting the impacts of prescription drug cost-shifting due to the IRA's cap on enrollee out-of-pocket spending and lower cost sharing on Medicare-negotiated drugs.<sup>20</sup>

While national healthcare spending slowed during the COVID-19 pandemic due to disruptions in the delivery of care, the NHE is expected to grow over \$2 trillion over the next decade, from \$5.05 trillion in 2024 to \$7.7 trillion by 2032.<sup>21</sup> The sunset of pandemic-era provisions, such as Medicaid continuous enrollment and IRA Marketplace subsidies, have a mixed impact on CMS's projections in the near-term, with the number of insured expected to drop significantly.<sup>22</sup> However, in the longer-term, these impacts will subside, but spending will still continue to increase, driven largely "by traditional economic and demographic factors."<sup>23</sup> Ultimately, by 2032, for every \$5 spent in the U.S. economy, \$1 will account for health spending.<sup>24</sup>

1 “CMS Releases 2023-2032 National Health Expenditure Projections” Centers for Medicare and Medicaid Services, June 12, 2024, <https://www.cms.gov/newsroom/press-releases/cms-releases-2023-2032-national-health-expenditure-projections> (Accessed 6/24/24).

2 *Ibid.*

3 *Ibid.*

4 *Ibid.*

5 “National Health Expenditure Projections, 2023–32: Payer Trends Diverge As Pandemic-Related Policies Fade” By Jacqueline A. Fiore, et al., Health Affairs, June 12, 2024, <https://www.healthaffairs.org/doi/10.1377/hlthaff.2024.00469> (Accessed 6/24/24).

6 “FAQ: CMS Waivers, Flexibilities, and the End of the COVID-19 Public Health Emergency” Centers for Medicare and Medicaid Services, <https://www.modernhealthcare.com/policy/covid-19-public-health-emergency-phe-end-telehealth-medicare-reimbursements> (Accessed 6/24/24).

7 Fiore, et al., Health Affairs, June 12, 2024.

8 *Ibid.*

9 *Ibid.*; “CMS Releases 2023-2032 National Health Expenditure Projections” Centers for Medicare and Medicaid Services, June 12, 2024, <https://www.cms.gov/newsroom/press-releases/cms-releases-2023-2032-national-health-expenditure-projections> (Accessed 6/24/24).

10 “U.S. health spending projected to exceed \$7T in 2031” By Victoria Turner, Modern Healthcare, June 14, 2023, <https://www.modernhealthcare.com/policy/cms-national-health-expenditures-projections-2022-2031-health-affairs> (Accessed 6/24/24).

11 Centers for Medicare and Medicaid Services, June 12, 2024.

12 “Millions of People with Medicare Will Benefit from the New Out-of-Pocket Drug Spending Cap Over Time” By Tricia Neuman, Juliette Cubanski, and Anthony Damico, February 8, 2024, <https://www.kff.org/medicare/issue-brief/millions-of-people-with-medicare-will-benefit-from-the-new-out-of-pocket-drug-spending-cap-over-time/#:~:text=Pocket%20Drug%20Spending%E2%80%A6,Millions%20of%20People%20with%20Medicare%20Will%20Benefit%20from%20the%20New,Drug%20Spending%20Cap%20Over%20Time&text=In%202025%2C%20Medicare%20beneficiaries%20will,D%2C%20Medicare's%20outpatient%20drug%20benefit.> (Accessed 6/25/24).

13 Centers for Medicare and Medicaid Services, June 12, 2024.

14 “Five Things to Know about the Renewal of Extra Affordable Care Act Subsidies in the Inflation Reduction Act” By Cynthia Cox, Krutika Amin, and Jared Ortaliza, <https://www.kff.org/policy-watch/five-things-to-know-about-renewal-of-extra-affordable-care-act-subsidies-in-inflation-reduction-act/> (Accessed 6/25/24); “What will happen if ARP’s insurance subsidies expire?” By Louise Norris, HealthInsurance.Org, March 29, 2022, <https://www.healthinsurance.org/blog/what-will-happen-if-arps-insurance-subsidies-expire/> (Accessed 6/24/24).

15 “What will happen if ARP’s insurance subsidies expire?” By Louise Norris, HealthInsurance.Org, March 29, 2022, <https://www.healthinsurance.org/blog/what-will-happen-if-arps-insurance-subsidies-expire/> (Accessed 6/24/24).

16 Fiore, et al., Health Affairs, June 12, 2024.

17 Centers for Medicare and Medicaid Services, June 12, 2024.

18 *Ibid.*

19 Fiore, et al., Health Affairs, June 12, 2024.

20 *Ibid.*

21 “7 Takeaways from CMS Projections for U.S. Healthcare Spending” By Logan Lutton and Peter Wehrwein, Managed Healthcare Executive, June 24, 2024, <https://www.managedhealthcareexecutive.com/view/7-takeaways-from-cms-projections-for-u-s-healthcare-spending?slide=2> (Accessed 6/24/24); “National Health Expenditure Projections, 2023–32: Payer Trends Diverge As Pandemic-Related Policies Fade” By Jacqueline A. Fiore, et al., Health Affairs, June 12, 2024, <https://www.healthaffairs.org/doi/10.1377/hlthaff.2024.00469> (Accessed 6/24/24).

22 Fiore, et al., Health Affairs, June 12, 2024.

23 *Ibid.*

24 *Ibid.*

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