

Healthcare Spending Surged in 2023

On December 18, 2024, the Centers for Medicare & Medicaid Services (CMS) released its annual report on U.S. healthcare spending. The report highlighted accelerated spending growth in 2023, driven by increased insurance coverage and utilization, raising concerns about long-term cost sustainability.¹ Total healthcare spending grew 7.5% in 2023 (to \$4.9 trillion), much faster than the 4.6% and 3.2% increases in 2022 and 2021, respectively.² Healthcare spending as a share of the U.S. gross domestic product (GDP) increased from 17.4% in 2022 to 17.6% in 2023 while the overall GDP increased only 2.9% in 2023, substantially slower than the 9.1% increase in 2022.³

Examining the expenditures across service categories, hospital expenditures grew 10.4% in 2023 (comprising 31% of overall healthcare spending), over three times the growth rate observed in 2022 (3.2%).⁴ Similarly, expenditures on physician and clinical services increased 7.4% (comprising 20% of healthcare spending), much faster than the 4.6% growth in 2022. Increases in both categories were a result of “nonprice factors,” including increased utilization and the rendering of more high-intensity services.⁵ Retail prescription drug expenditures increased 11.4% in 2023 (comprising 9% of healthcare spending), a faster rate than 2022’s spending increase of 7.8%.⁶ This increase was attributed to increase in diabetes and obesity drugs (which are typically higher-cost, brand-name drugs), as well as growth in prescription drug prices.⁷

Analyzing expenditures by sponsor, the federal government predictably continued to account for the largest share of healthcare spending (32%), followed by households (27%), private businesses (18%), state and local governments (16%), and other private revenues (7%).⁸ Federal government spending increased 3.4% in 2023, after only 1.9% growth in 2022.⁹ This was driven largely by Medicare’s spending increase of 12.9% (compared to only 1.11% growth in 2022, which was attributable to the Inflation Reduction Act’s initial impacts and more spending for Medicare hospital,

physician, and clinical services. Household health spending increased 6.8% in 2023, slower than the 7.7% increase in 2022.¹⁰ State and local governments experienced a substantial spending growth in 2023, with spending increasing by 11.6% compared to the 6.0% increase in 2022. This increase can be attributed to the phasing-out of some state Medicaid funding under the *Families First Coronavirus Response Act*.¹¹ Finally, spending by private businesses increased 11.0% in 2023, which was faster than the 6.8% increase in 2022.¹² This was largely due to the increase in private health insurance enrollment and the increased share of employer-sponsored health insurance paid for by the employer.¹³

In terms of insurance coverage, the number of uninsured individuals in 2023 decreased to 24.9 million from 26.6 million in 2022.¹⁴ Enrollment increased in Medicare, Medicaid, private insurance, and the Affordable Care Act (ACA) Marketplace plans.¹⁵ In fact, the national insurance rate reached a record high of 92.5% in 2023, breaking 2022’s record of 92%. However, the end of the COVID-19 public health emergency in May 2023 resulted in a reversion to previous Medicaid criteria, resulting in a marked decrease in Medicaid enrollment compared to the previous year (a growth of only 0.8%).¹⁶

The numbers and trends above indicate that 2023 may close out the COVID era of healthcare spending. Although spending trends were more erratic during this time, on average, its growth and contraction largely mirrored the GDP. In 2023, the share of the economy devoted to healthcare was similar to that in 2019.¹⁷ While spending grew significantly, this was driven by utilization from a record high insured population. This may indicate that significant year-over-year spending increases may become the norm as the last of the Baby Boomers enroll in Medicare and require more healthcare services. Economic experts believe that “Although there is uncertainty about the future, expectations are that the traditional economic and demographic drivers of health spending will lead to the return of health care accounting for a larger share of the economy.”¹⁸

1 “National Health Expenditures In 2023: Faster Growth As Insurance Coverage And Utilization Increased” By Anne B. Martin, et al., Health Affairs, December 18, 2024, <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2024.01375> (Accessed 12/19/24).

2 “National Health Expenditures 2023 Highlights” Office of the Actuary, Centers for Medicare and Medicaid Services, December 19, 2024, <https://www.cms.gov/files/document/highlights.pdf> (Accessed 12/19/24); “National Health Expenditures 2022 Highlights” Office of the Actuary, Centers for Medicare and Medicaid Services, December 13, 2023, <https://www.cms.gov/newsroom/fact-sheets/national-health-expenditures-2022-highlights> (Accessed 12/20/24).

3 *Ibid.*

4 Martin, et al., Health Affairs, December 18, 2024.

5 *Ibid.*

6 Office of the Actuary, Centers for Medicare and Medicaid Services, December 19, 2024.

7 Martin, et al., Health Affairs, December 18, 2024.

8 Office of the Actuary, Centers for Medicare and Medicaid Services, December 19, 2024.

9 *Ibid.*

10 Martin, et al., Health Affairs, December 18, 2024.

11 *Ibid.*

12 Office of the Actuary, Centers for Medicare and Medicaid Services, December 19, 2024.

13 *Ibid.*

14 *Ibid.*

15 *Ibid.*

16 *Ibid.*

17 Martin, et al., Health Affairs, December 18, 2024.

18 *Ibid.*

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