

National Health Care Spending In 2016: Spending and Enrollment Growth Slow After Initial Coverage Expansions

**Office of the Actuary
National Health Statistics Group**

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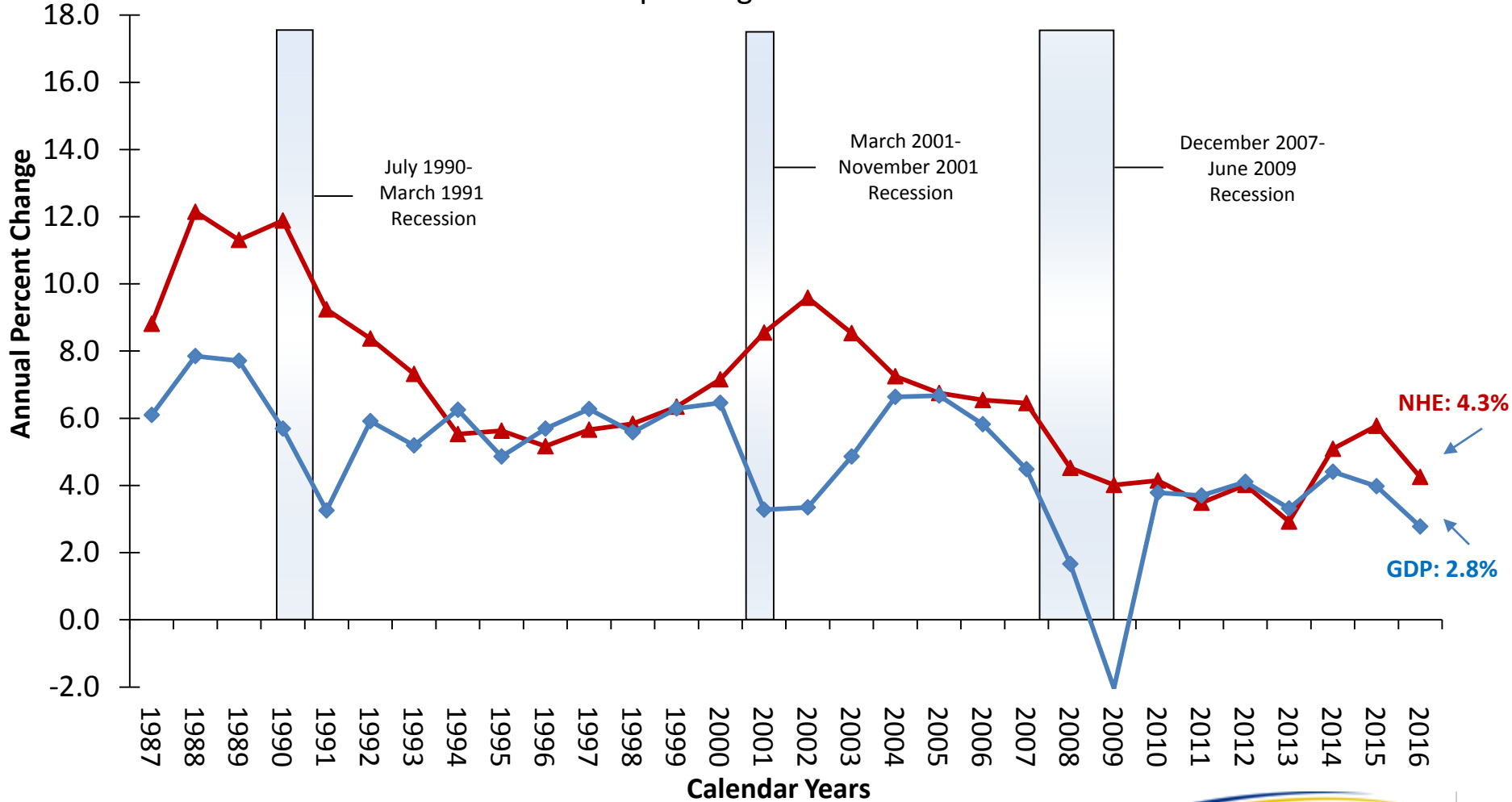
The National Health Expenditure Accounts Team

Overview

- National Health Expenditures reached \$3.3 trillion, or \$10,348 per person in 2016.
- National health spending increased 4.3 percent in 2016 following 5.8 percent growth in 2015.
 - Slower spending growth for the major payers and services
 - Enrollment growth slowed for Medicaid and private health insurance (PHI)
- Slower growth in Medicaid (3.9 percent) and retail prescription drugs (1.3 percent).
- The share of Gross Domestic Product (GDP) devoted to health was 17.9 percent in 2016—up from a 17.7 percent share in 2015.

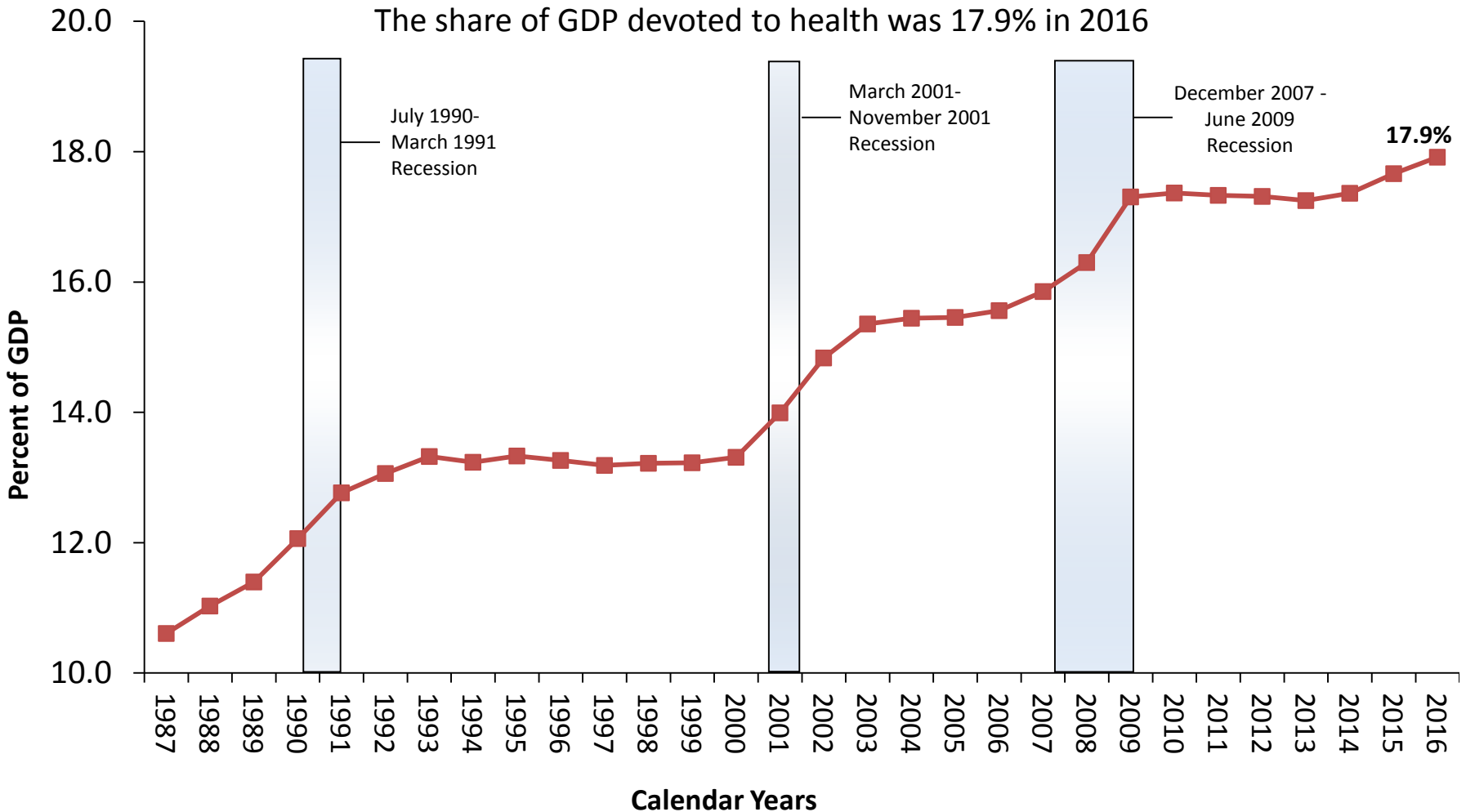
Growth in National Health Expenditures and Gross Domestic Product, 1987-2016

National health spending increased 4.3% in 2016



SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group; U.S. Department of Commerce, Bureau of Economic Analysis and National Bureau of Economic Research, Inc.

National Health Expenditures as a Share of Gross Domestic Product, 1987-2016



SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group; U.S. Department of Commerce, Bureau of Economic Analysis and National Bureau of Economic Research, Inc.

Drivers of Growth

2014 & 2015:

- Faster enrollment and spending growth as a result of the ACA (PHI, Medicaid).
 - Increased use and intensity of services
- Rapid growth in retail prescription drug spending, particularly hepatitis C drugs.

2016:

- Slower growth in enrollment (PHI, Medicaid) and spending (all three major payers).
 - Slower growth in use and intensity of services
- Rapid slowdown in growth in retail prescription drug spending from fewer new drugs and decline in hepatitis C spending.



Enrollment in Private Health Insurance, Medicaid, and Medicare, and the Uninsured (Levels in Millions)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Private Health Insurance	187.6	192.8	196.3	196.4
Employer Sponsored	169.2	169.8	172.2	173.1
Individual	20.0	24.5	25.6	24.8
<i>Marketplace</i>		<i>5.4</i>	<i>9.0</i>	<i>10.0</i>
Medicaid	58.9	65.9	69.1	71.2
Medicaid Newly Eligible		6.6	9.6	11.4
Medicare	51.3	52.8	54.3	55.8
Uninsured	44.2	35.5	29.5	28.6
Insured Share of Population	86.0%	88.8%	90.8%	91.1%

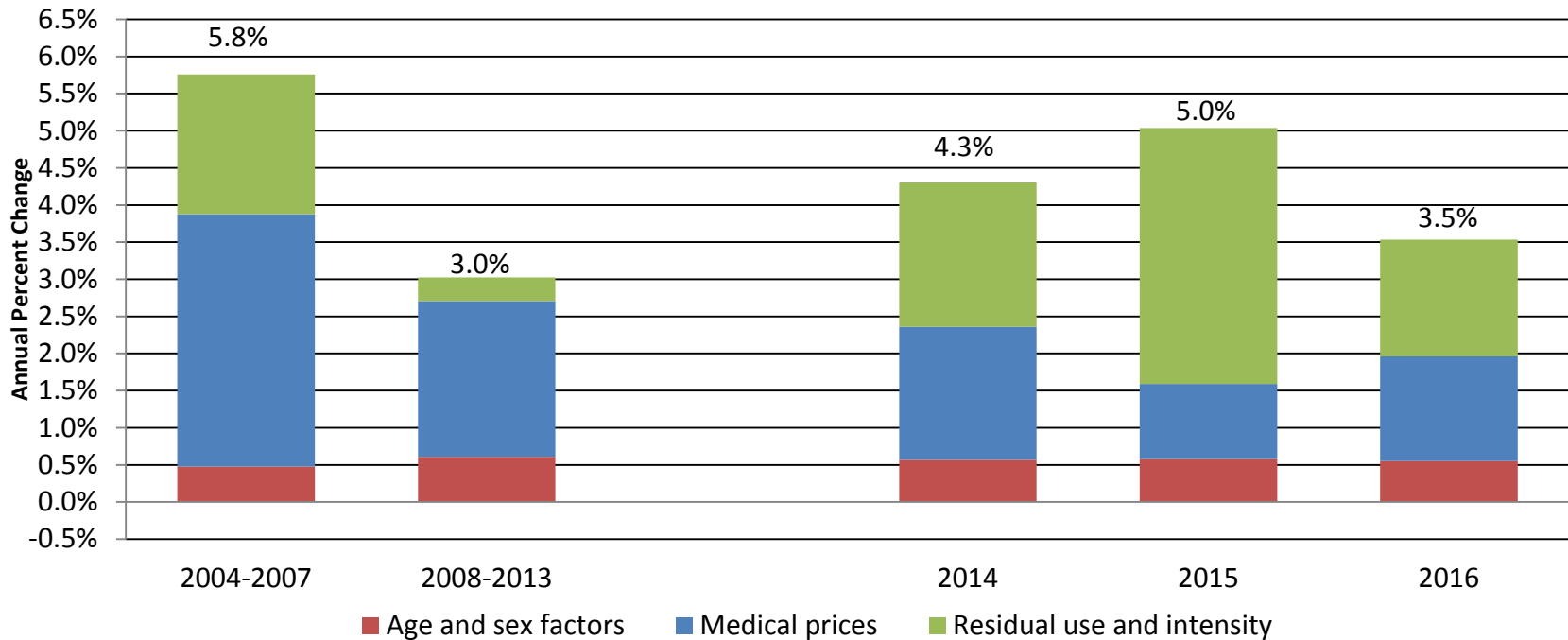
NOTE: Enrollment estimates are not mutually exclusive. The estimate of Marketplace enrollment reflects average monthly enrollment and not enrollment at the end of the year.

SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.



Factors Accounting for Growth in Per Capita National Health Expenditures, Selected Calendar Years 2004-2016

Per capita health spending grew 3.5% in 2016

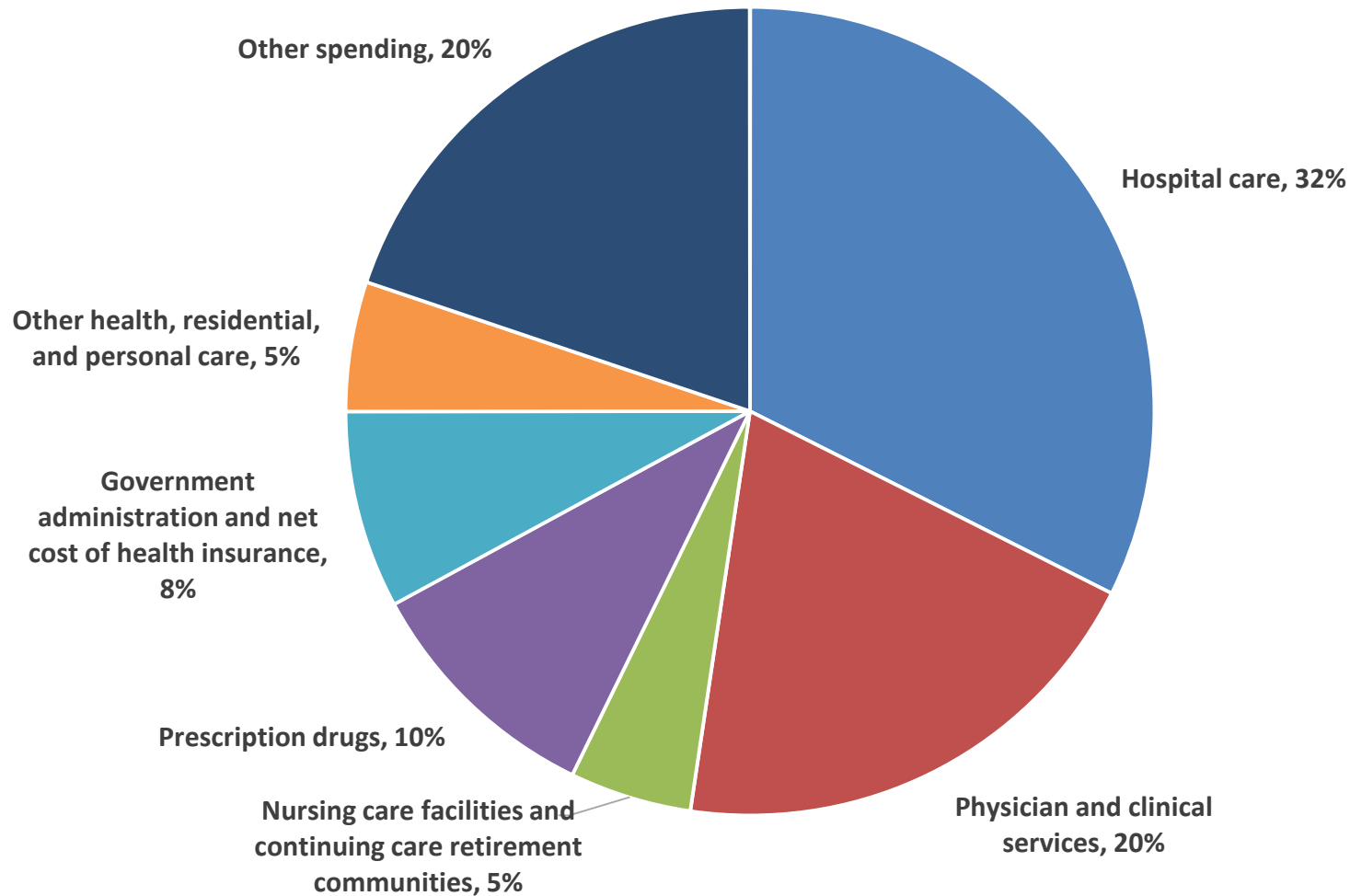


NOTES: Medical price growth, which includes economywide and excess medical-specific price growth (or changes in medical-specific prices in excess of economywide inflation), is calculated using the chain-weighted national health expenditures (NHE) deflator for NHE. "Residual use and intensity" is calculated by removing the effects of population, age and sex factors, and price growth from the nominal expenditure level.



SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

The Nation's Health Dollar, Calendar Year 2016: Where It Went

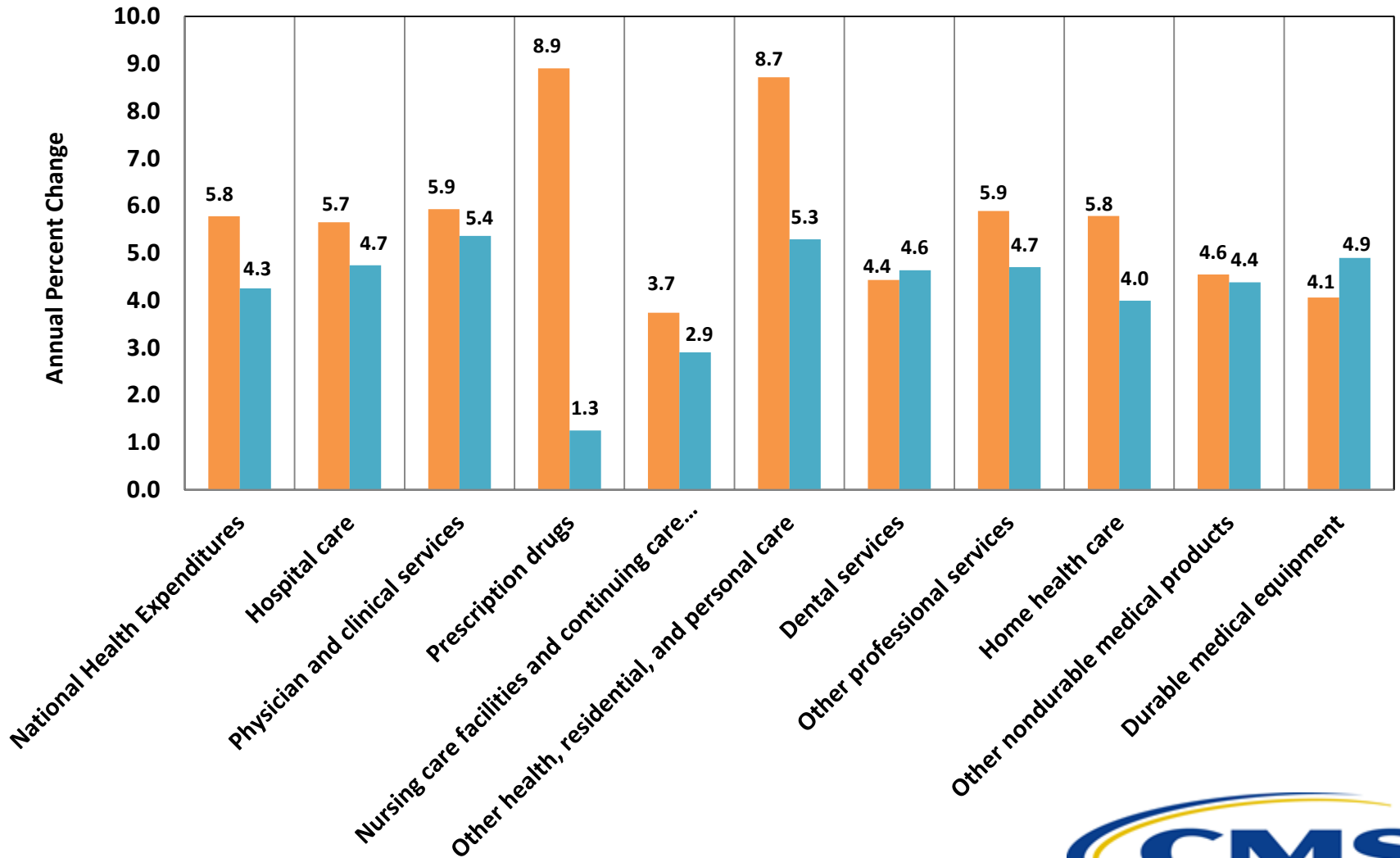


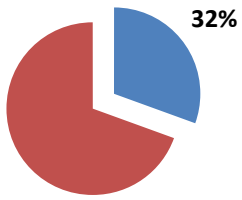
NOTE: "Other spending" includes Dental services, Other professional services, Home health care, Durable medical equipment, Other nondurable medical products, Government public health activities, and Investment.

SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

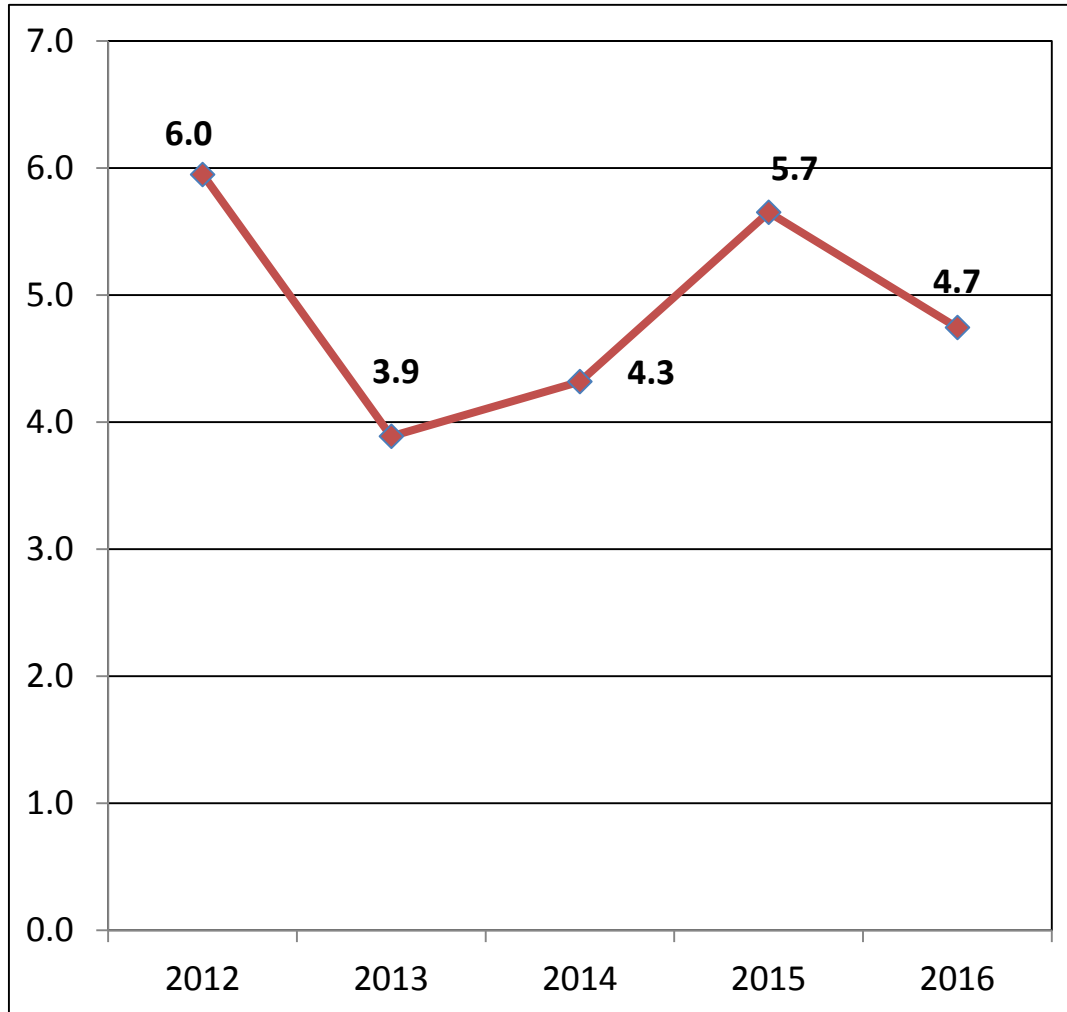
Annual Growth in Spending by Type of Good and Service, 2015-2016

2015 2016



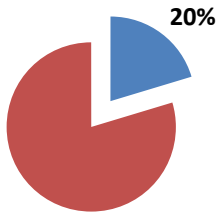


Annual Growth in Hospital Spending, 2012-2016

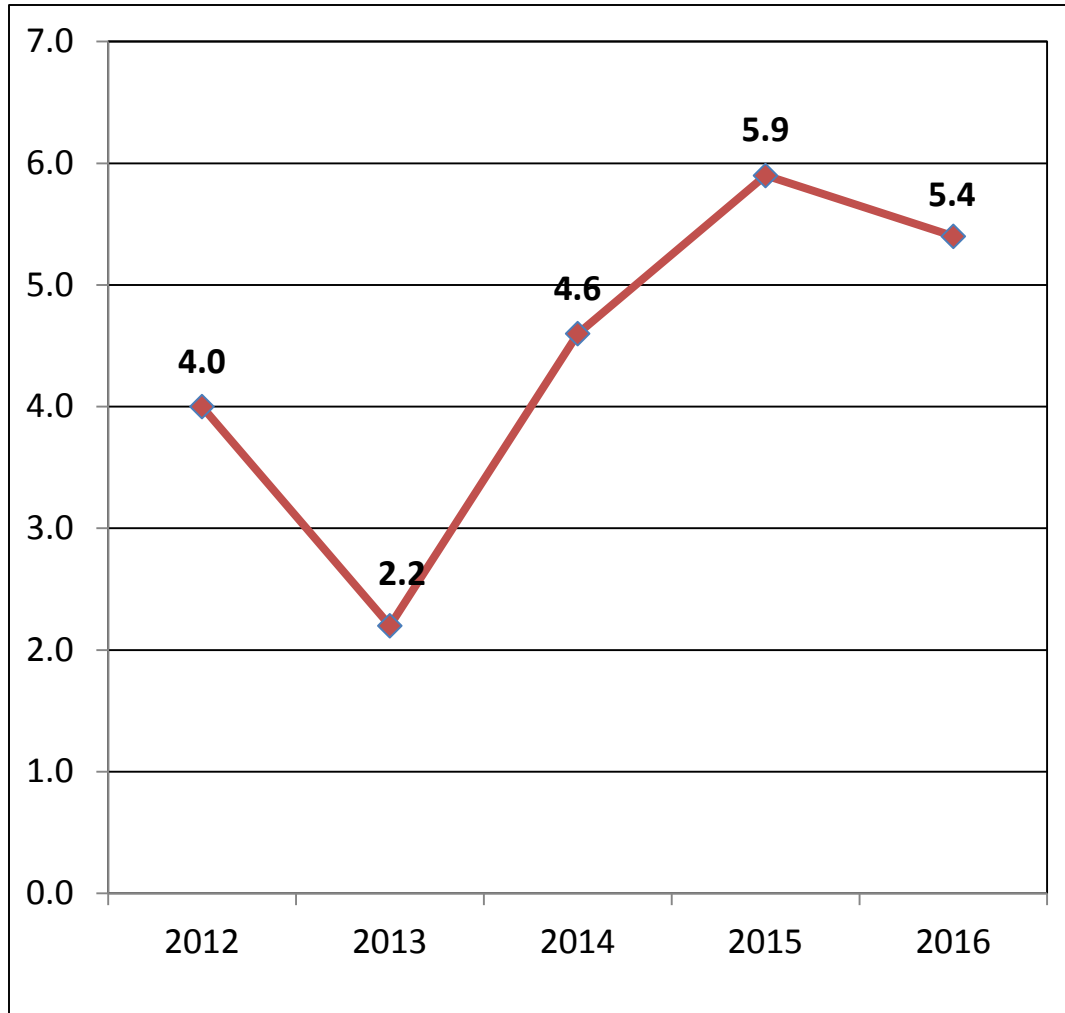


2016 highlights:

- Total spending = \$1.1 trillion
- Spending increased 4.7%
- Slower growth in 2016:
 - Medicaid
 - Private Health Insurance
 - Residual use and intensity



Annual Growth in Physician and Clinical Services Spending, 2012-2016

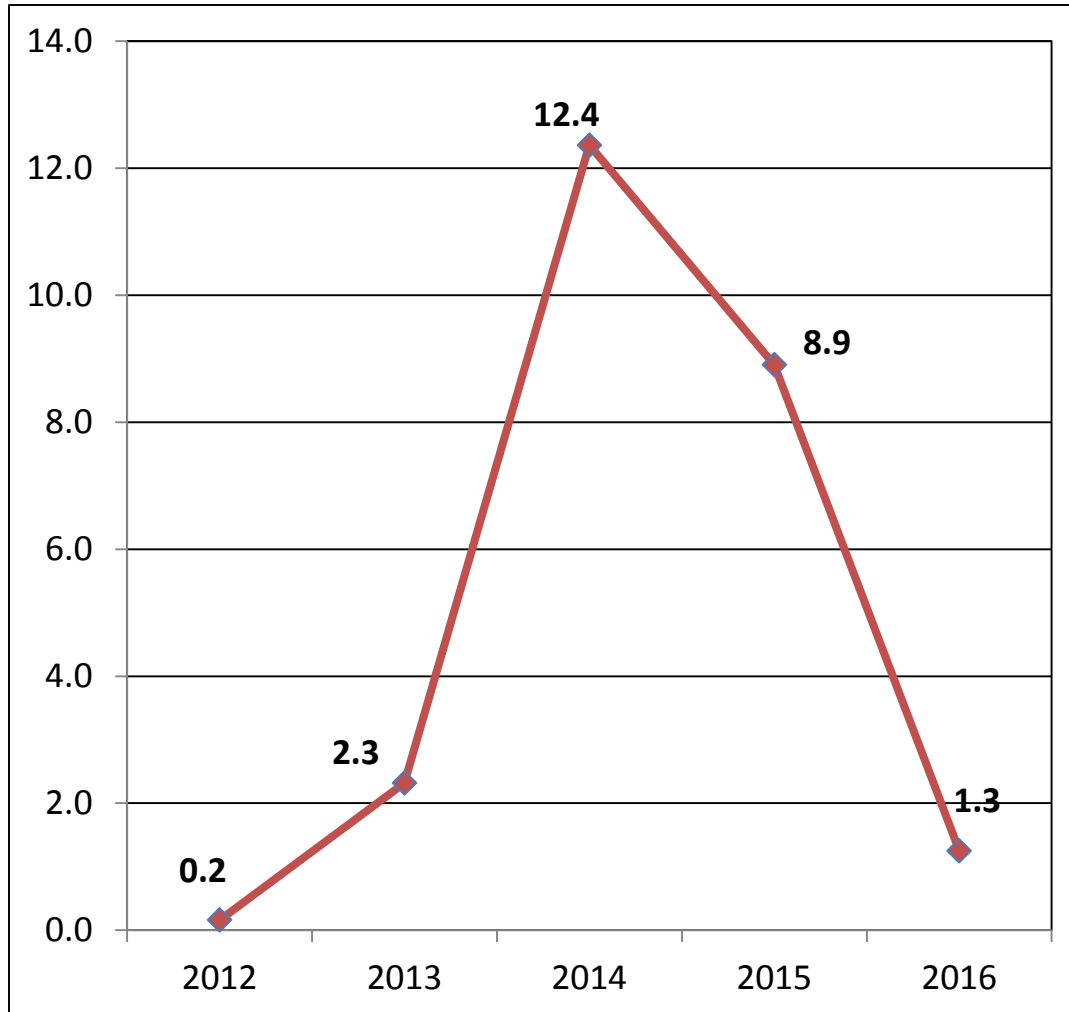


2016 highlights:

- Total spending = \$664.9 billion
- Spending increased 5.4%
- Slower growth in 2016:
 - Medicaid
 - Medicare
 - Residual use and intensity



Annual Growth in Retail Prescription Drug Spending, 2012-2016

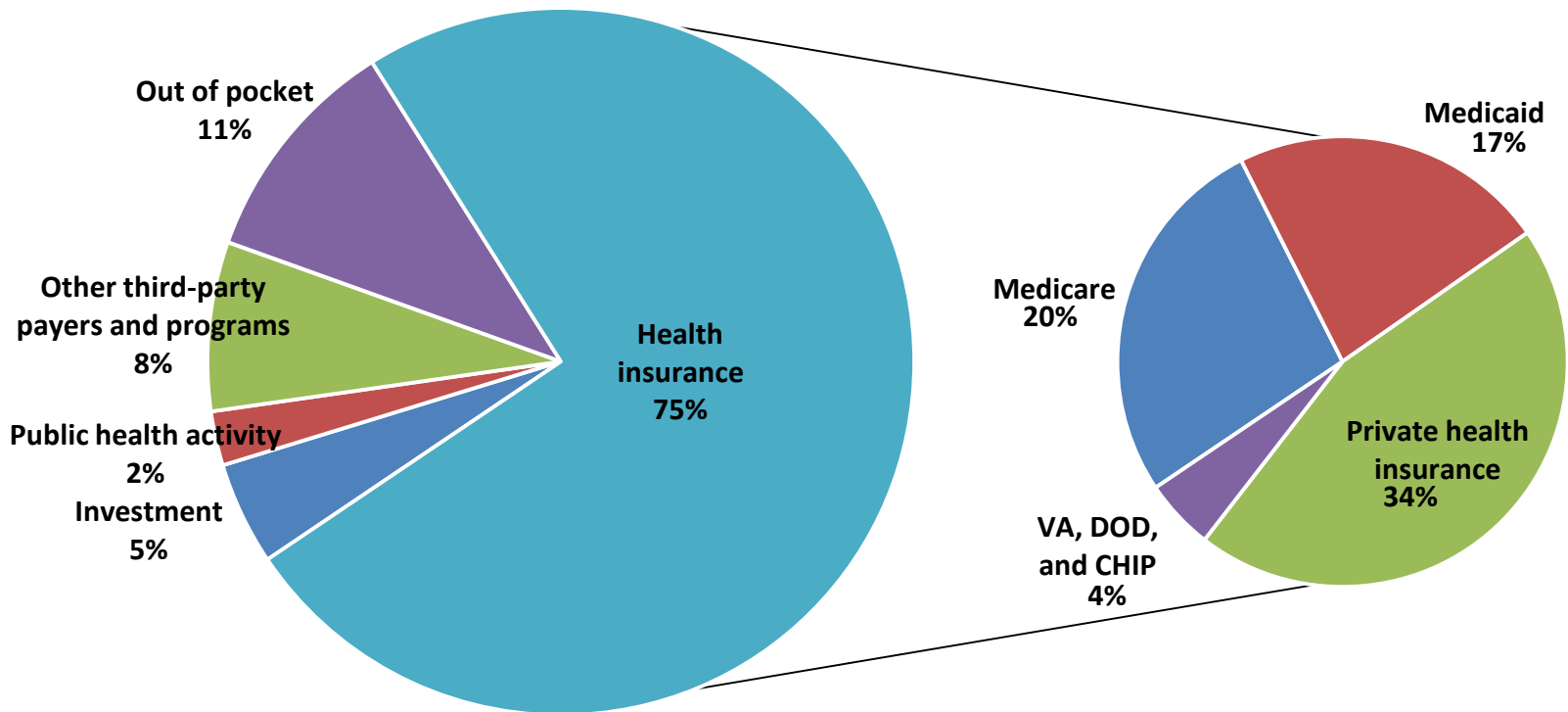


2016 highlights:

- Total spending = \$328.6 billion
- Spending increased 1.3%
- Slower growth in 2016:
 - Fewer new drugs approved
 - Slower growth in brand name drugs
 - Decline in spending for hepatitis C drugs



The Nation's Health Dollar, Calendar Year 2016: Where It Came From



NOTES: "Other third-party payers and programs" includes Worksite health care, Other private revenues, Indian Health Service, Workers' compensation, General assistance, Maternal and child health, Vocational rehabilitation, Substance Abuse and Mental Health Services Administration, School health, and Other federal and state local programs.

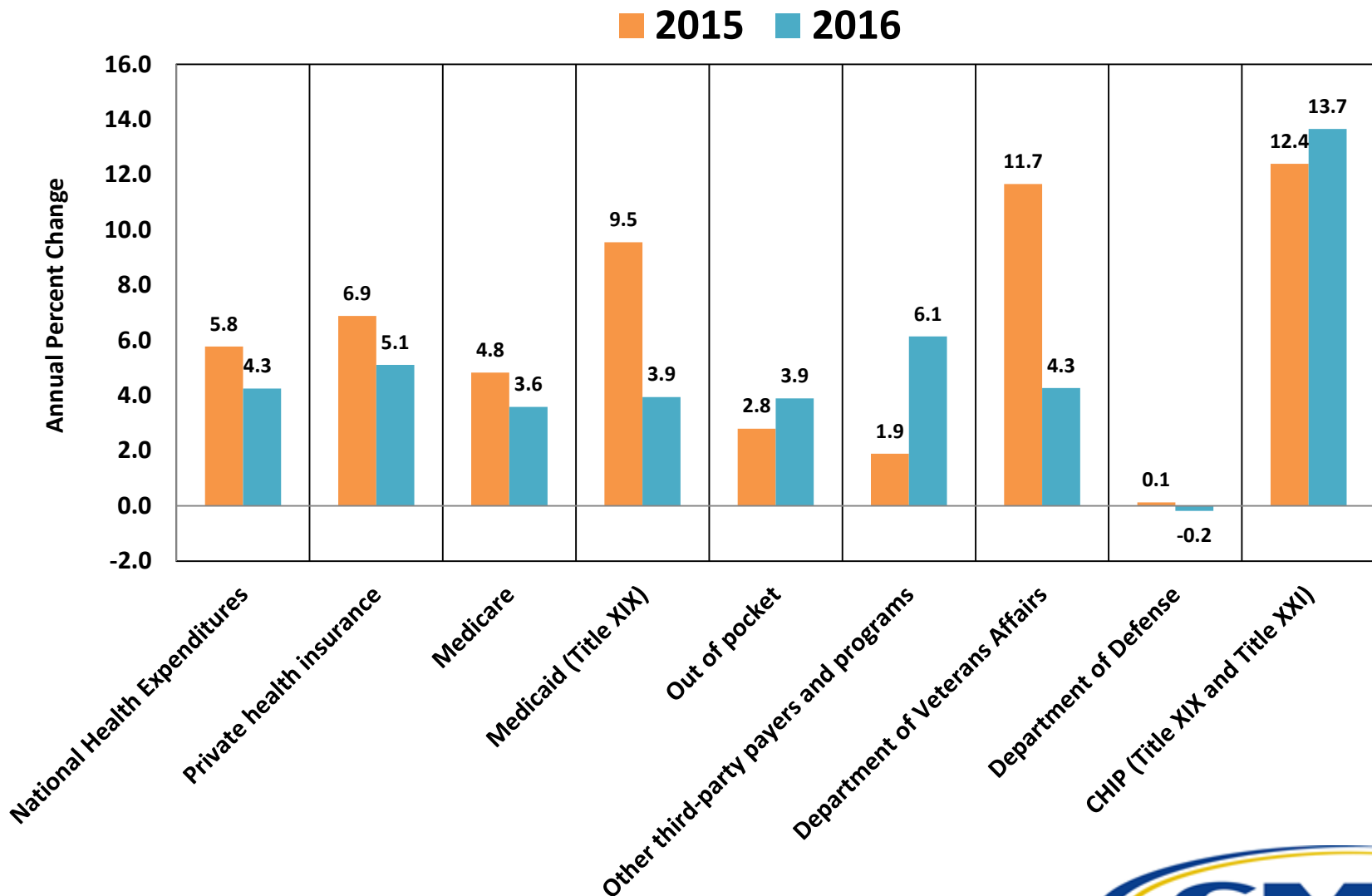
"Out of pocket" includes co-payments, deductibles, and any amounts not covered by health insurance.

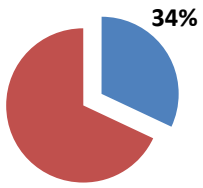
Note: Sum of pieces may not equal 100% due to rounding.



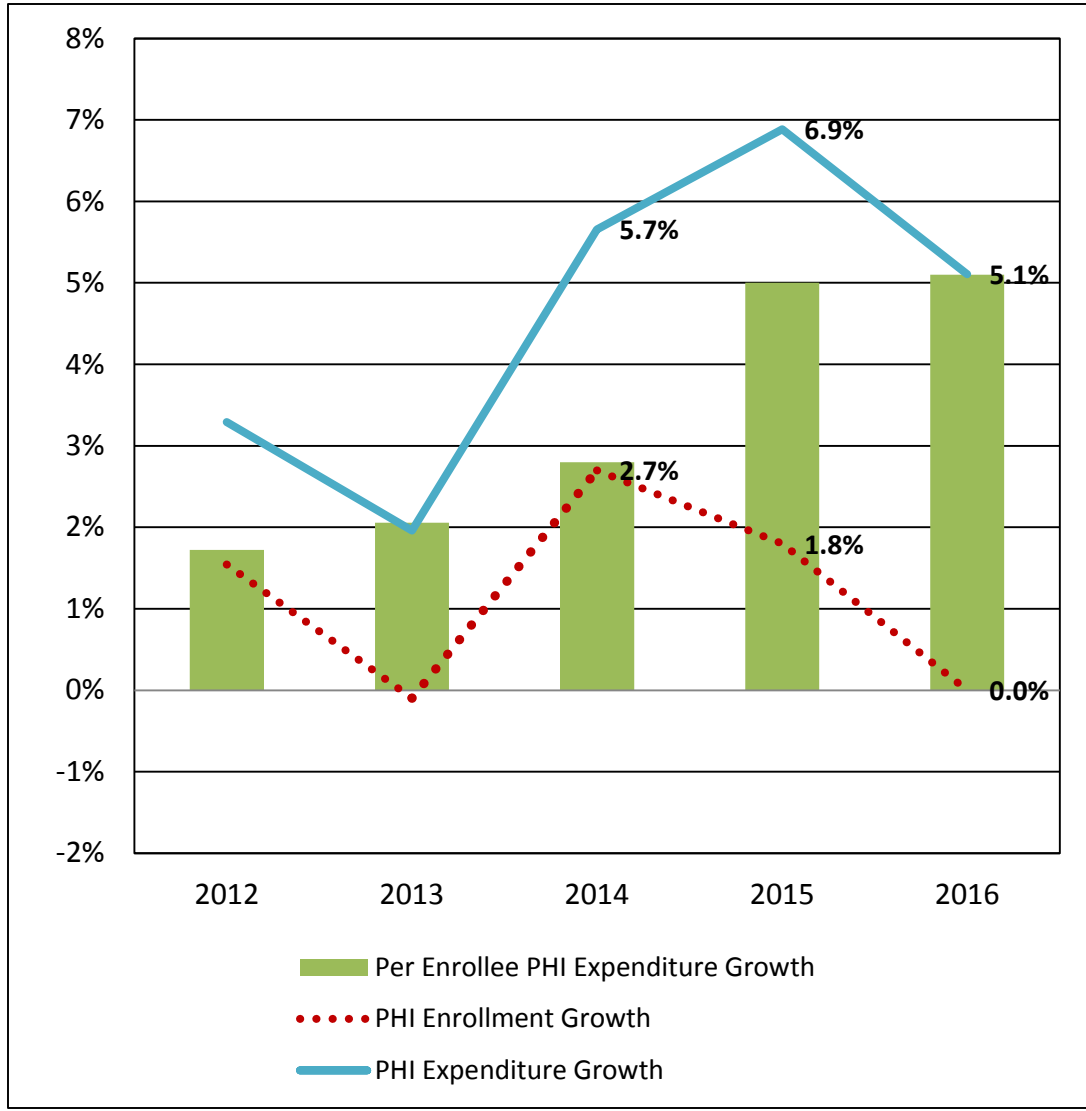
SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

Annual Growth in Spending by Source of Funds, 2015-2016





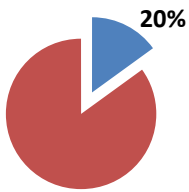
Private Health Insurance: Growth in Enrollment, Total, and Per Enrollee Expenditures, 2012–2016



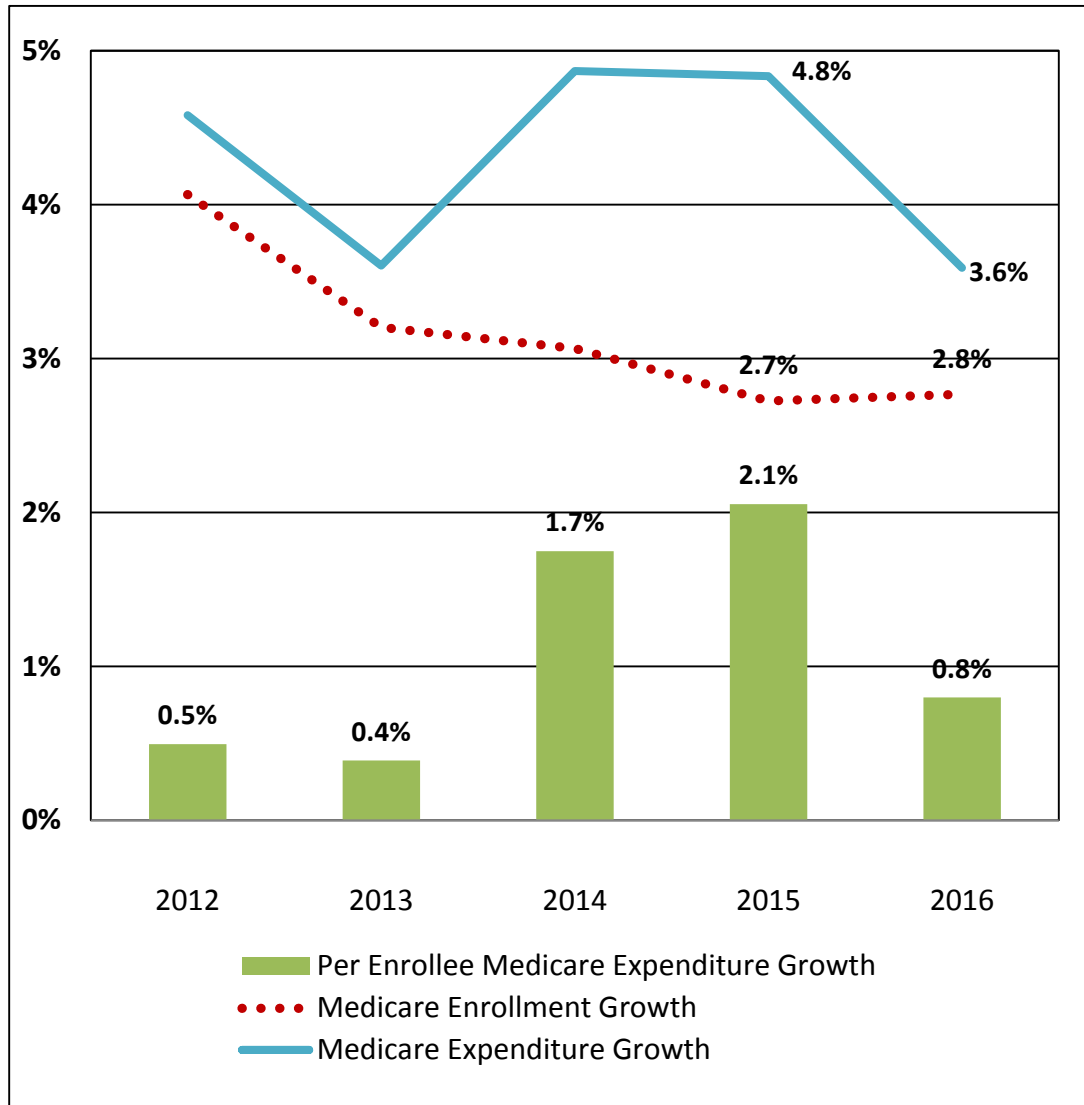
2016 highlights:

- Total Spending = \$1.1 trillion
- Spending increased 5.1%
- Enrollment growth slowed
- Per enrollee increased 5.1%
 - Slower growth in retail prescription drug spending
 - Slower growth in hospital spending
 - Faster growth in net cost





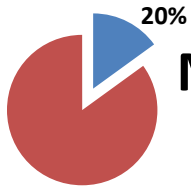
Medicare: Growth in Enrollment, Total, and Per Enrollee Expenditures, 2012–2016



2016 highlights:

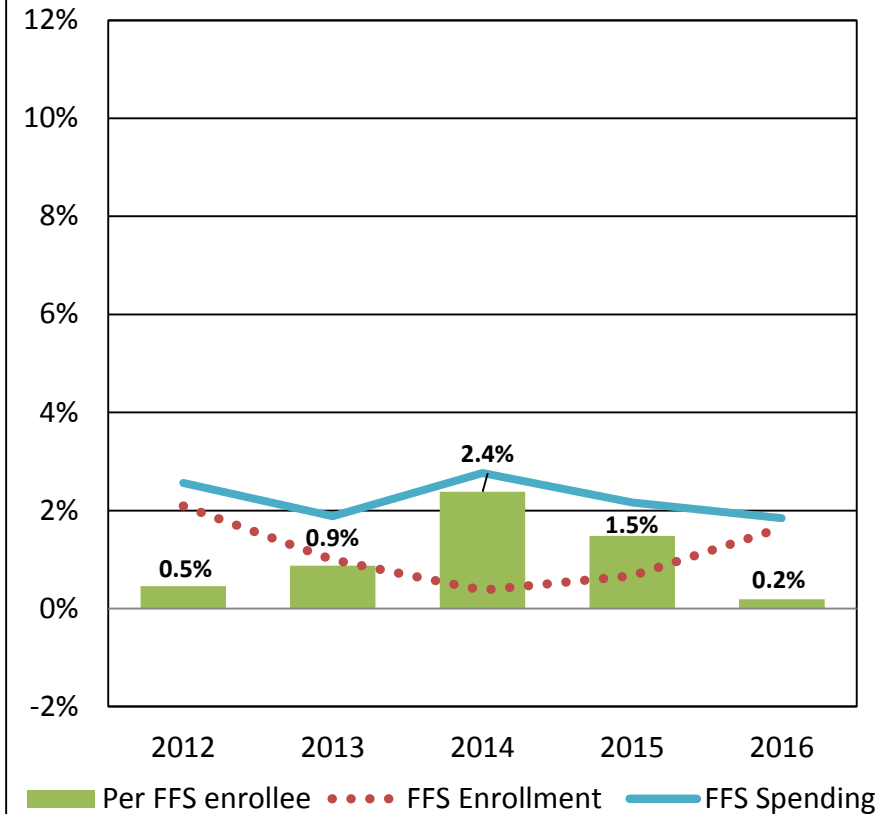
- Total Spending = \$672.1 billion
- Spending increased 3.6%
- Enrollment growth fairly stable
- Per enrollee increased 0.8%
 - Slower growth in Prescription drug spending
 - Slower growth in Physician and clinical services spending
 - Slower growth in Nursing home spending



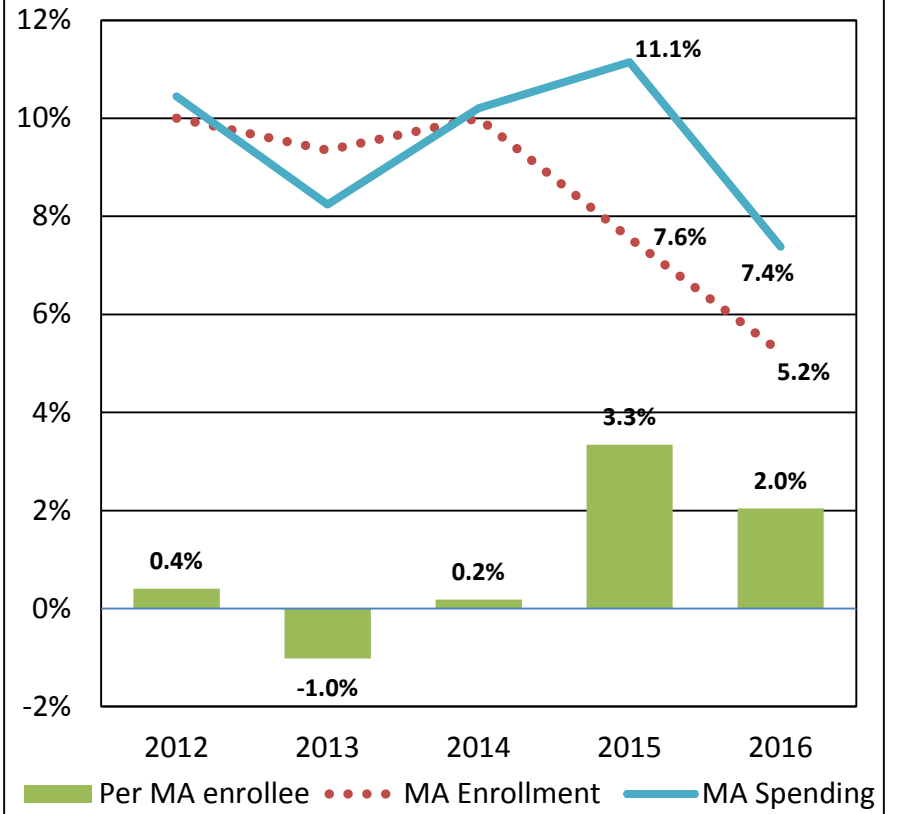


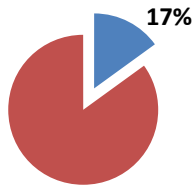
Medicare: Growth in FFS and Medicare Advantage Enrollment, Total Spending, and Per Enrollee Spending, 2012 – 2016

Fee-for-Service (67%)

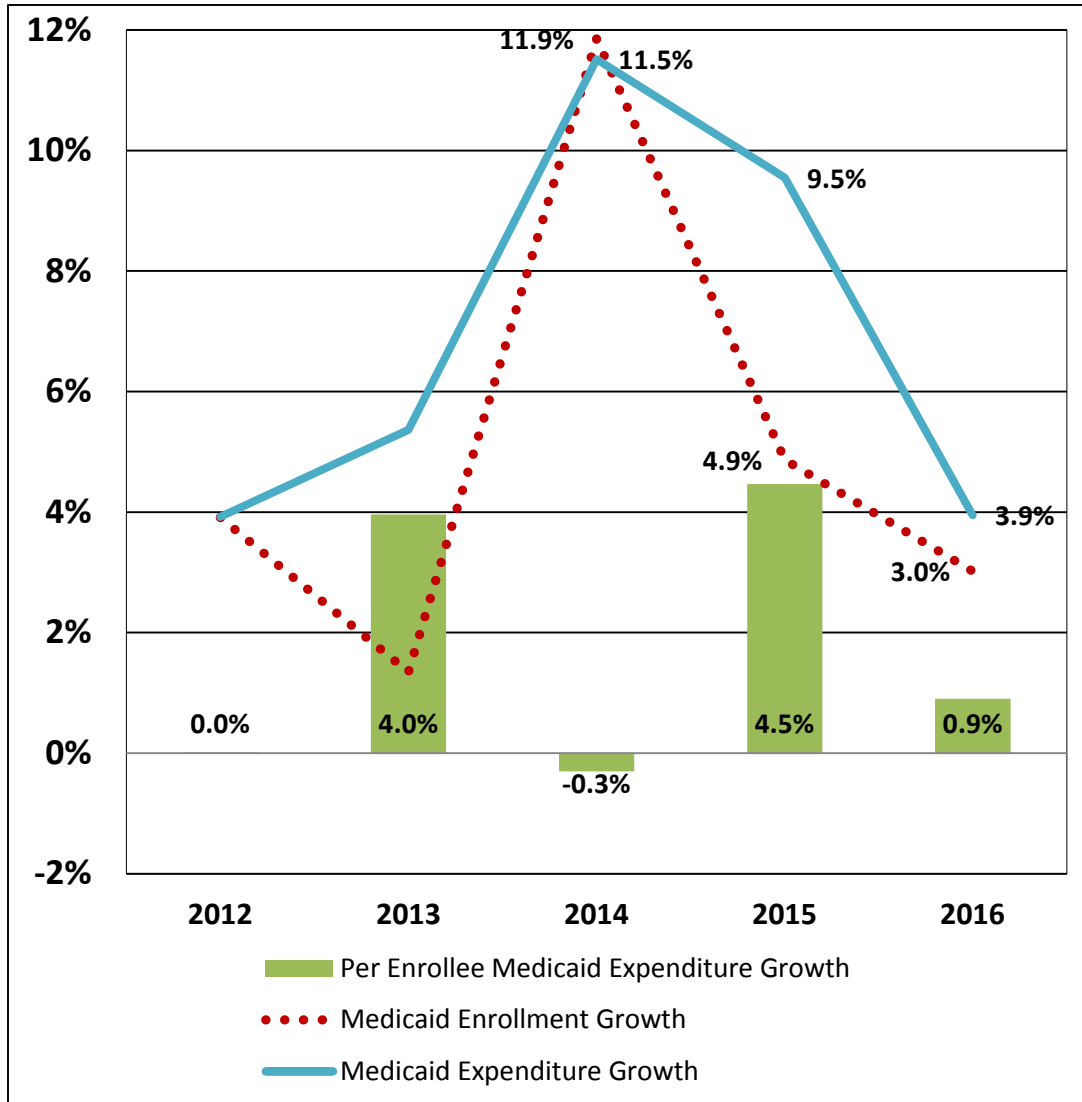


Medicare Advantage (33%)





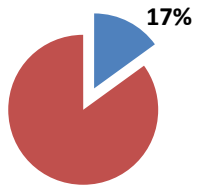
Medicaid: Growth in Enrollment, Total, and Per Enrollee Expenditures, 2012–2016



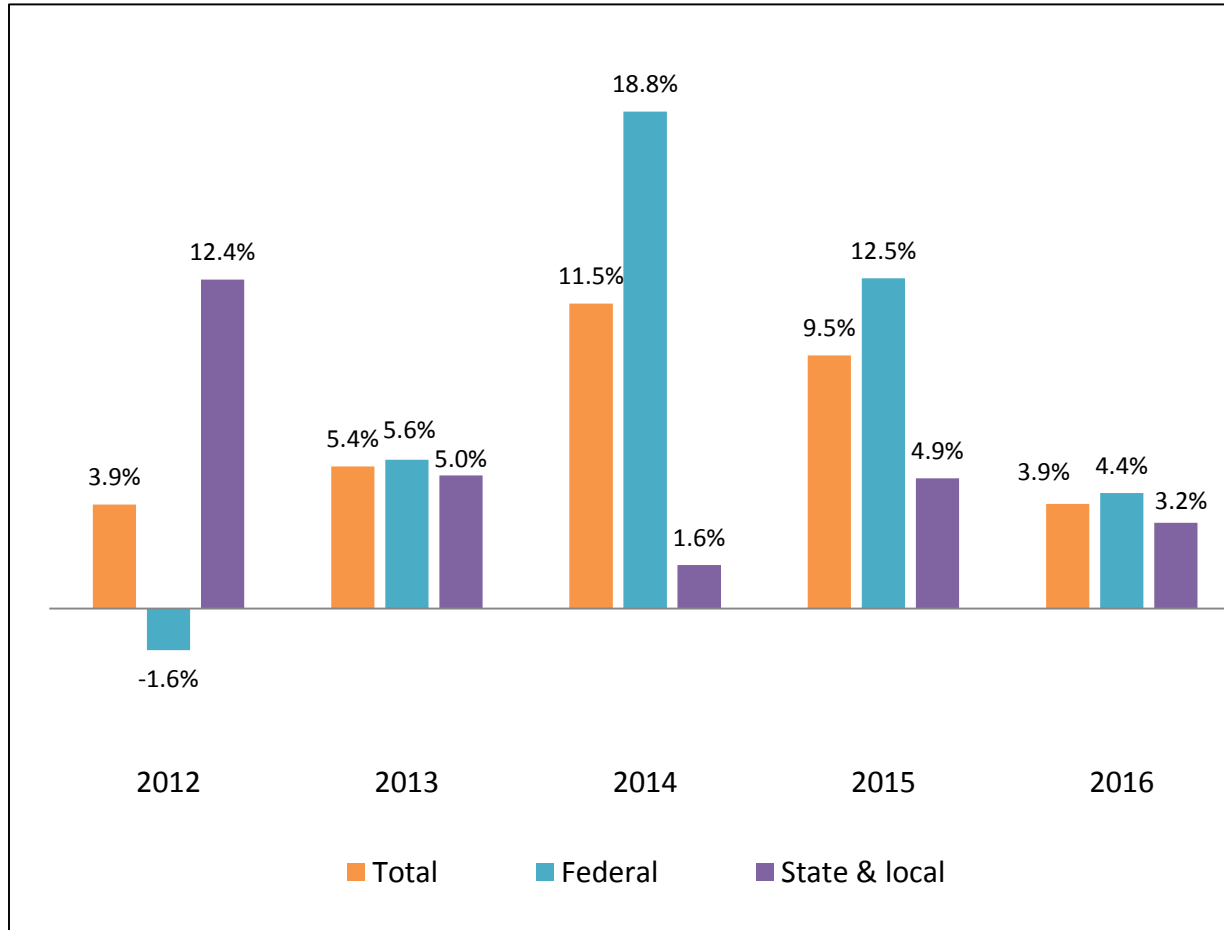
2016 highlights:

- Total Spending = \$565.5 billion
- Spending increased 3.9%
- Enrollment growth slowed
- Per enrollee increased 0.9%
 - Slower growth in Hospital spending
 - Slower growth in Other health, residential, and personal care spending
 - Slower growth in Physician and clinical services spending





Medicaid: Growth in Total, Federal, and State & Local Expenditures, 2012 – 2016



2016 National Health Expenditure Accounts: Summary

- National health spending increased 4.3 percent in 2016 following 5.8 percent growth in 2015.
- Slower growth in 2016 followed faster growth in 2014 and 2015 that was associated with ACA coverage expansions and strong retail prescription drug spending growth.
- The slowdown was broadly based as all major payers and goods and services slowed in 2016.
- National Health Expenditures represented a 17.9 percent share of Gross Domestic Product (GDP) in 2016.

National Health Expenditure Projections 2017–26

Gigi Cuckler, Andrea Sisko, Sean Keehan,
Andrew Madison, Sheila Smith, Christian Wolfe,
James Hardesty, and John Poisal



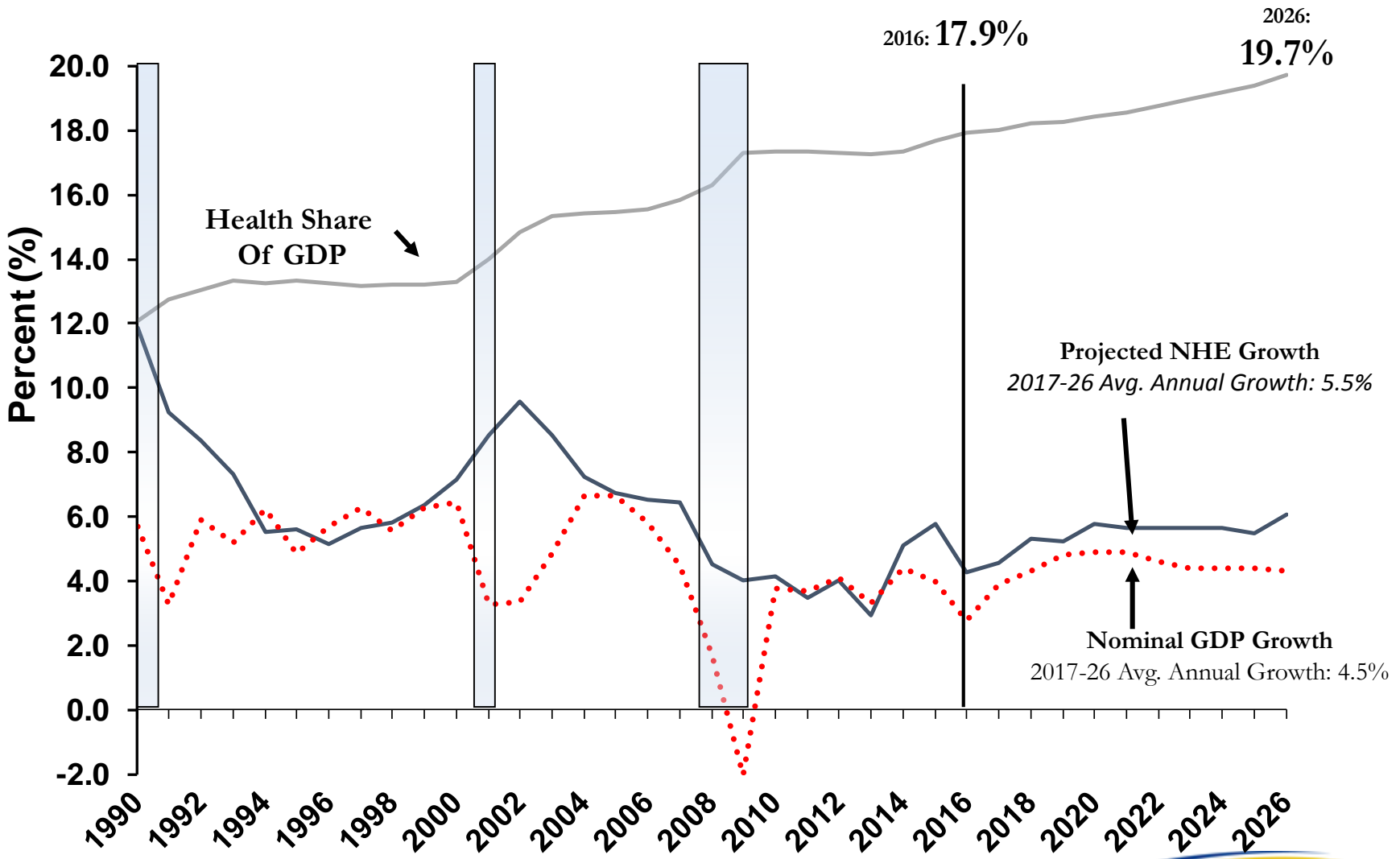
Major Findings

- National health spending is projected to grow 5.5 percent per year on average for 2017-26 and to reach \$5.7 trillion by 2026
- Health spending is projected to grow 1.0 percentage point faster than Gross Domestic Product (GDP) per year over 2017-26 period
 - Health share of GDP expected to rise: 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
- Federal, state and local governments are projected to sponsor 47 percent of national health spending by 2026 (from 45 percent in 2016)

NHE Projections Methods

- History based on the NHE Accounts for 2016 and prior
- Projections for 2017-26 developed using actuarial and econometric modeling techniques to project spending by type of service/good, payer, and sponsor
- Assumptions are consistent with current-law as of February 2018
 - Medicare projections and economic assumptions consistent with the *2017 Medicare Trustees Report*
 - Tax Cuts and Jobs Act repeal of individual mandate reflected in projections
 - Health tax provisions from CR passed January 22, 2018 reflected in projections
- These projections do not assume potential legislative changes over the projection period

Growth in National Health Expenditures (NHE), Gross Domestic Product (GDP), and the Health Share of GDP, 1990-2026



SOURCES Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. Shaded boxes indicate 1990-91, 2001, and 2007-09 recession periods from the National Bureau of Economic Research.



Major Payers

Average Annual Growth 2017-26

- Medicare – 7.4 percent average
 - Overall growth largely driven by enrollment
 - To a lesser extent, modest growth in utilization rising from near historic lows contributes to overall growth
- Medicaid – 5.8 percent average
 - Slower than expansion period growth in 2014-16 (8.3 percent)
 - Faster spending per enrollee by second half of projection due to increasing share of aged, disabled enrollees
- Private health insurance – 4.7 percent average
 - Faster than recession/recovery growth 2008-13 (3.4 percent)
 - Slower than longer term historical growth 1990-2007 (7.7 percent)
 - Use and intensity influenced by lagged growth in income, high-deductible plans and to a lesser extent repeal of individual mandate
 - Spending slightly impacted by excise tax on high cost insurance plans

Major Findings (cont.)

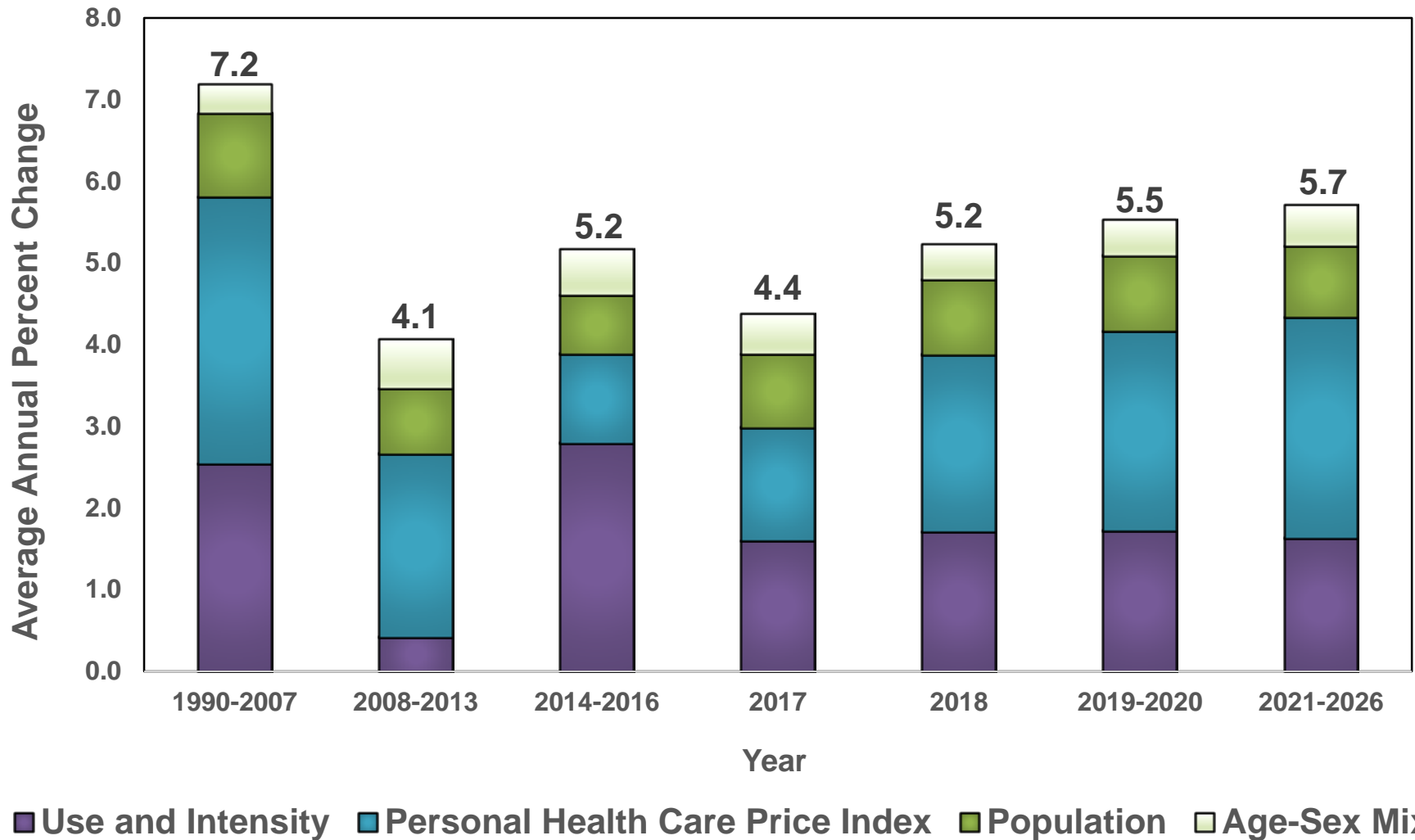
- Insured share of the population projected to decline slightly: 91.1 percent in 2016 to 89.3 percent in 2026
 - Elimination of the individual mandate is expected to lead to a reduction in the insured rate
 - Decline also influenced by factors influencing employer sponsored insurance
- Demographics expected to significantly influence enrollment trends
 - Shifts from private health insurance into Medicare resulting from the continued aging of the baby-boom generation into eligibility

Health Insurance Enrollment

Enrollment (millions)	2013	2016	2017	2026
Private Health Insurance	187.6	196.4	196.8	201.5
Medicare	51.3	55.8	57.6	73.7
Medicaid	58.9	71.2	72.7	81.3
Uninsured	44.2	28.6	29.4	37.7
Insured Share of Total Population	86.0%	91.1%	91.0%	89.3%

SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group.

Factors Accounting for Growth in Personal Health Care Expenditures, Selected Calendar Years 1990-2026



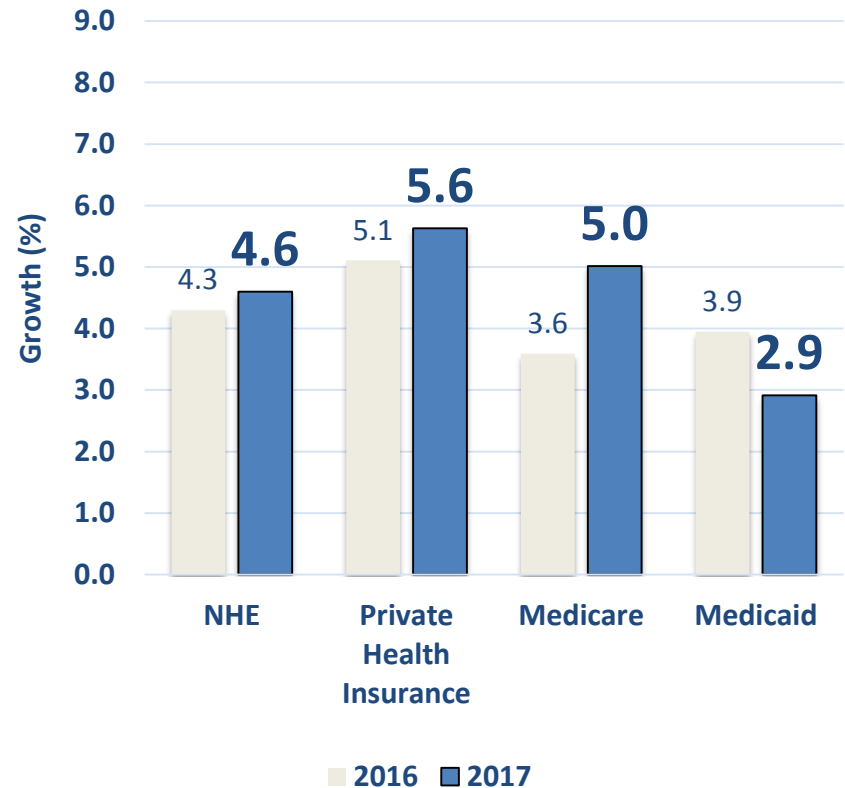
SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group.

NOTES: Use and Intensity include quantity and mix of services. As a residual, this factor also includes any errors in measuring prices or total spending. Medical prices reflect a chain-weighted index of the price for all personal health care deflators.

Projected Spending Growth by Time Period 2017

*Slight acceleration in NHE growth
from 2016*

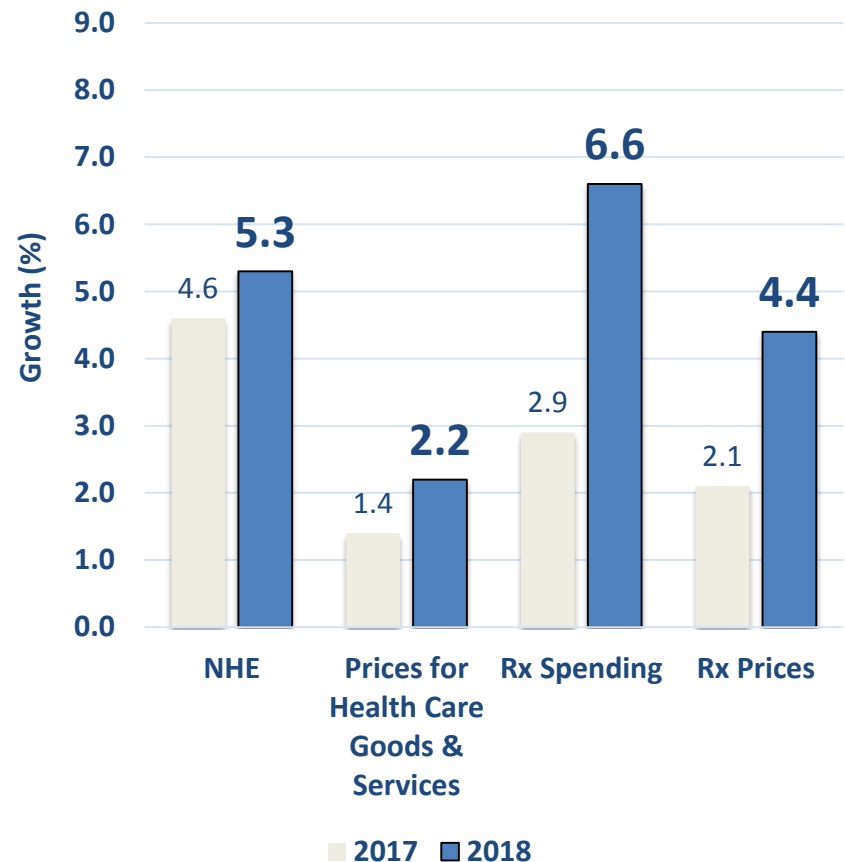
- **Medicare:** acceleration in growth primarily due to growth in use, payment updates
- **Private health insurance:** acceleration in growth related to growth in net cost of insurance for Marketplace plans
- **Medicaid:** slower projected growth due to recoveries of risk mitigation payments



Projected Spending Growth by Time Period 2018

0.7 percentage point increase in projected NHE growth from 2017

- **Prices for goods and services:** Faster growth driven by Rx price growth reflecting lower dollar-value of drugs losing patents in 2018

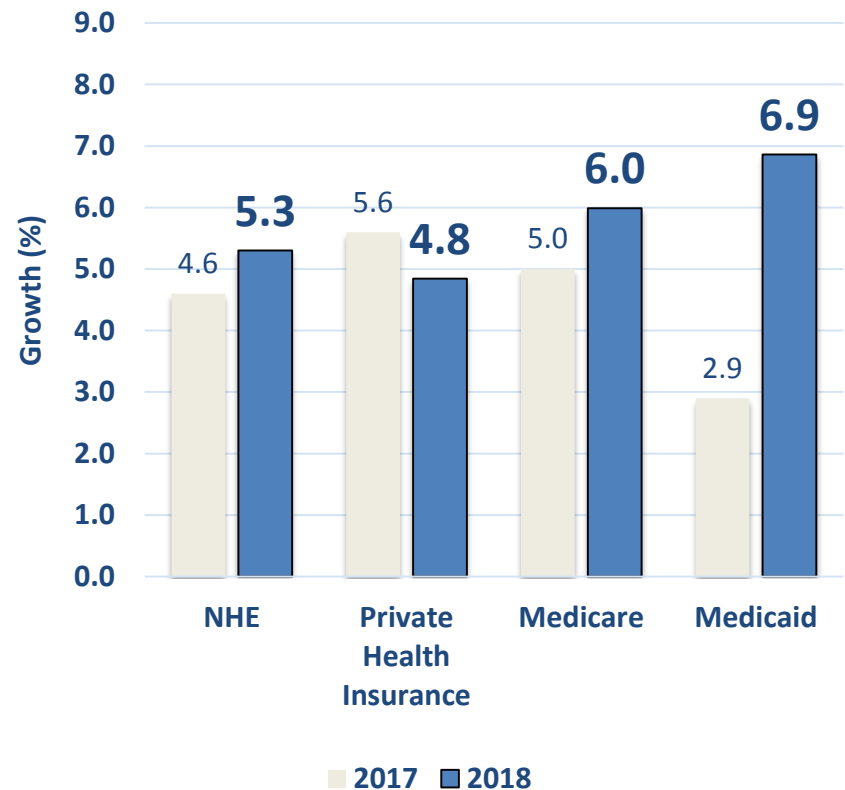


Projected Spending Growth by Time Period 2018

0.7 percentage point increase in projected NHE growth from 2017

Key Payer Trends:

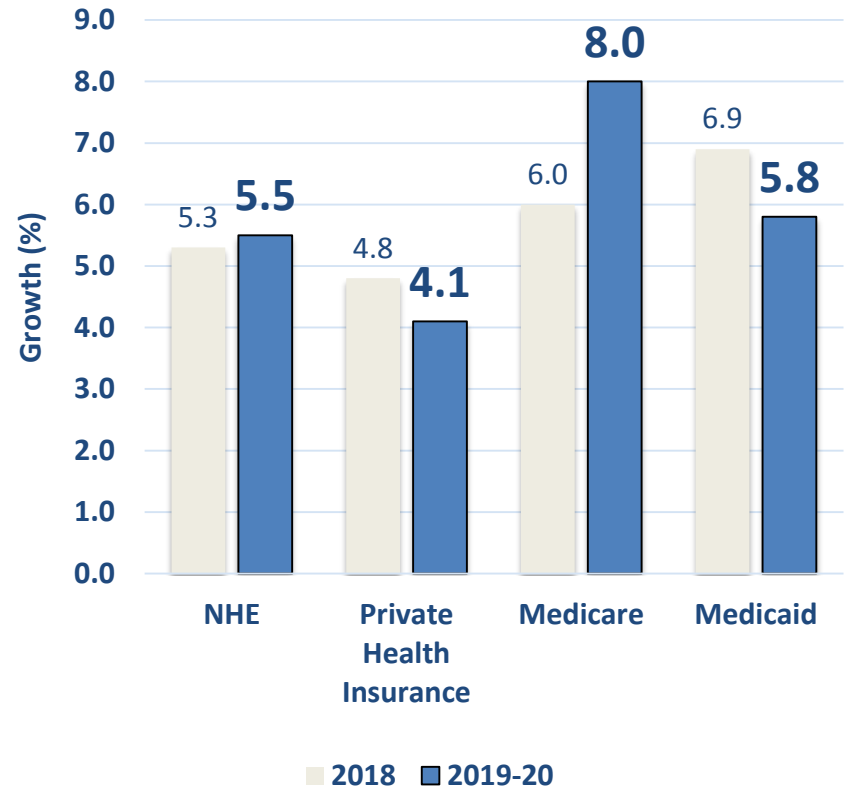
- **Medicaid:** acceleration in growth due to smaller recoveries of risk mitigation payments
- **Private health insurance:** slower growth due to net cost trend reflecting slower projected Marketplace premium growth



Projected Spending Growth by Time Period 2019-20

Average NHE Growth 0.2 percentage point faster than 2018

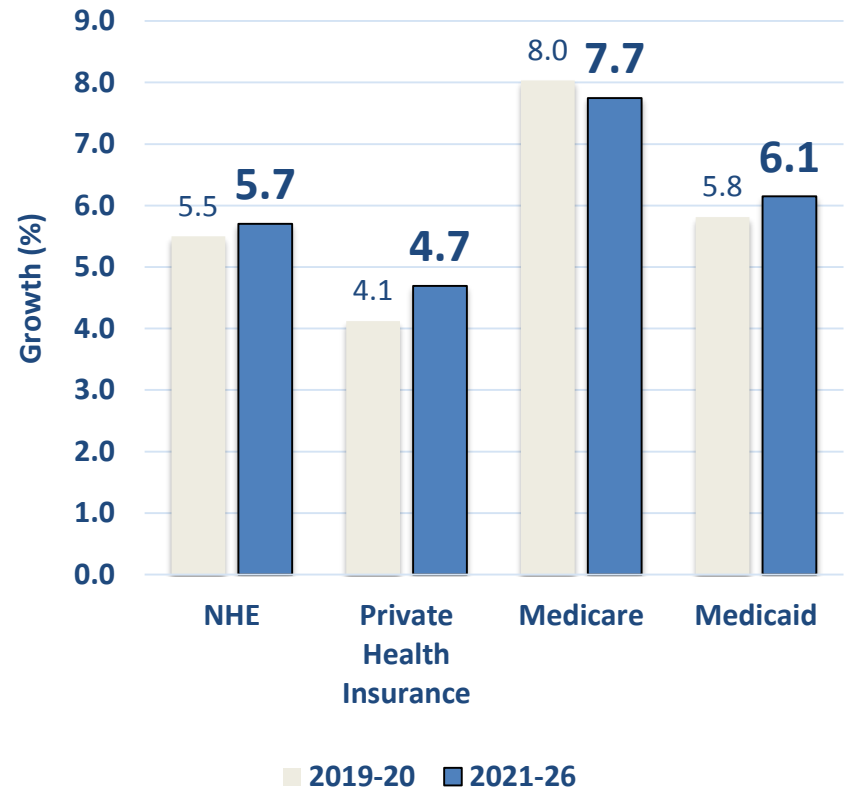
- **Medicare:** spending growth projected to accelerate
 - Partly due to incentive payments under MACRA
 - Partly due to modest increase in growth in use and intensity
- **Private health insurance:** spending growth projected to slow in part due to repeal of individual mandate



Projected Spending Growth by Time Period 2021-26

0.2 percentage point increase in average NHE growth

- **Medicare:** fastest projected spending growth among major payers; reflects sustained growth in both enrollment and per enrollee spending
- **Medicaid:** acceleration in growth mostly due to increasing share of relatively more expensive aged and disabled enrollees
- **Private health insurance:** projected growth slower than other payers primarily reflecting modest enrollment growth



Special Topics

- Prescription Drug Rebates
 - Effect on spending expected to level off in second half of projection
 - Slower increase in rebate share of prescription drug spending assumed in 2018 and beyond
 - Contributes to expectation of faster prescription drug spending growth than might have been expected otherwise
 - Faster price growth reflecting greater influence of relatively more costly specialty drugs
- Prescription drug spending growth for 2017-26: **6.3 percent**
 - Fastest among largest health care goods and services

Major Findings

- National health spending is projected to grow 5.5 percent per year on average for 2017-26 and to reach \$5.7 trillion by 2026
- Health spending is projected to grow 1.0 percentage point faster than Gross Domestic Product (GDP) per year over 2017-26 period
 - Health share of GDP expected to rise: 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
- Federal, state and local governments are projected to sponsor 47 percent of national health spending by 2026 (from 45 percent in 2016)

<https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html>