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National Health Expenditure Projections, 2013–23: Faster Growth Expected With Expanded Coverage And Improving Economy

ABSTRACT In 2013 health spending growth is expected to have remained slow, at 3.6 percent, as a result of the sluggish economic recovery, the effects of sequestration, and continued increases in private health insurance cost-sharing requirements. The combined effects of the Affordable Care Act's coverage expansions, faster economic growth, and population aging are expected to fuel health spending growth this year and thereafter (5.6 percent in 2014 and 6.0 percent per year for 2015–23). However, the average rate of increase through 2023 is projected to be slower than the 7.2 percent average growth experienced during 1990–2008. Because health spending is projected to grow 1.1 percentage points faster than the average economic growth during 2013–23, the health share of the gross domestic product is expected to rise from 17.2 percent in 2012 to 19.3 percent in 2023.

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There has been a strong historical relationship between spending on health care and economic growth,[1] and it is anticipated that economics will continue to play a major role in the outlook for national health expenditures through 2023. The recent period is marked by a four-year historically low rate of health spending growth, which was primarily attributable to the sluggish economic recovery and constrained state and local government budgets following the 2007–09 recession. In addition, increases in cost sharing for people with private health insurance and a few notable one-time factors, such as the effect of having several top-selling brand-name drugs lose patent protection, contributed to the slow overall spending growth.[2]

For 2013, national health spending growth is expected to remain low, at 3.6 percent. This is mainly because of continued modest economic growth; the impacts of sequestration and continued slow growth in the use of Medicare services; and additional increases in cost-sharing requirements, including continuing increases in the adoption of high-deductible health plans.[3,4]

In addition to the short-term increase in spending growth associated with the coverage expansions in the Affordable Care Act (ACA) in 2014 and beyond, economic growth during the next decade is projected to be faster than it has been since 2007. These more favorable economic conditions are expected to result in greater demand for health care goods and services; increases in health coverage; and faster rates of health spending growth, particularly for private health insurance. However, these rates of increase are expected to be dampened somewhat by the slower growth in Medicare payment rates mandated by the ACA and the ongoing trend toward higher cost-sharing requirements for the privately insured.

During the full projection period (2013–23) national health expenditures are projected to increase at an average rate of 5.7 percent per year, or 1.1 percentage points more rapidly than the average annual growth rate in nominal (that is, not adjusted for inflation) gross domestic product (GDP). As a result, the share of GDP

devoted to health care is projected to rise from 17.2 percent in 2012 to 19.3 percent by 2023.[5]

This projected average health spending growth trend is faster relative to growth in recent history. However, it is comparatively slower than the 7.2 percent average annual growth experienced in 1990–2008, which was 2.0 percentage points faster than growth in GDP. The 5.7 percent annual growth in overall health spending through 2023 is occurring as additional baby boomers continue to age into Medicare and as the number of uninsured people is projected to fall from roughly forty-five million in 2012[2] to about twenty-three million by 2023.

This article provides a summary of the most recent health expenditure projections prepared by the Centers for Medicare and Medicaid Services (CMS) Office of the Actuary, for the period 2013–23.

Year-By-Year Overview Of The Projection Period

2013 In 2013 national health spending is anticipated to have increased by 3.6 percent, which would mark the fifth consecutive year of spending growth under 4.0 percent (Exhibit 1).[2] For 2013 this is attributable to slow growth both in the economy and in Medicare spending.

The pace of the economic recovery continues to be modest. Growth in GDP was 3.4 percent in 2013 (Exhibit 2). In response to this moderate economic growth, as well as moderate employment growth, private health insurance enrollment is expected to have remained nearly unchanged, and consumers are expected to have continued to limit their use of health care services.[3]

Additionally, Medicare spending growth also slowed in 2013. It decelerated from 4.8 percent to 3.3 percent because of budget sequestration requirements;[6] other payment adjustments, such as multiple procedure payment reductions for physician services; and slower growth in utilization across all services.

Medicaid expenditure growth is expected to have accelerated in 2013 (from 3.3 percent in 2012 to 6.7 percent), nearly offsetting the deceleration in spending from other payers. The rebound of Medicaid spending growth includes the effect of a temporary payment increase for primary care physicians mandated by the ACA, as well as states' increasing provider reimbursement rates and expanding benefits.[7]

2014 Growth in national health spending is projected to increase to 5.6 percent in 2014 as nine million uninsured Americans gain health insurance, largely through Medicaid and private health insurance plans—including those available through the health insurance Marketplaces. In addition, expected changes to insurance markets in 2014, such as the availability of more generous coverage options for people who were previously insured, will likely contribute significantly to projected accelerations in spending growth for Medicaid (12.8 percent) and private health insurance (6.8 percent) and to a slight decline in projected out-of-pocket spending (−0.2 percent in 2014, down from 3.2 percent in 2013).

While these enrollment shifts play a significant role in the overall and underlying per enrollee spending trends in 2014, changing demographics also factor in, because of the effect of the ongoing shift of the baby-boomer generation from private health insurance to Medicare. This occurs because people with private insurance who age into Medicare go from being among the highest spenders in the private health insurance enrollment population (where average spending was $4,876 in 2012) to among the lowest spenders in the Medicare beneficiary population (where average spending was $11,522 in 2012).

As a result, demographic shifts alone are projected to contribute just 0.1 percentage point to the 6.0 percent growth in per enrollee private health insurance spending in 2014, down from a 0.6-percentage-point contribution to growth in 2004. Conversely, demographics are projected to reduce the 0.8 percent growth in Medicare per beneficiary spending by 0.3 percentage point; in 2004 they added 0.1 percentage point to per beneficiary growth.

2015 In 2015 national health spending growth is projected to slow to 4.9 percent, despite an additional eight million uninsured Americans' gaining coverage through Medicaid or private plans and faster projected economic growth. This slowdown is projected to occur because of significant decelerations in Medicare and Medicaid spending.

Medicare expenditure growth is projected to slow by 1.5 percentage points, to 2.7 percent, mainly as a result of reduced payments to Medicare Advantage plans.[8,9] In addition, growth in Medicaid spending is projected to revert to a more historically consistent rate of 6.7 percent because the temporary increase in payments to primary care providers is scheduled to expire, and the surge in enrollment in 2014—the first year of coverage expansion—is projected to subside somewhat.

2016–23 During the remainder of the projection period, health care spending is expected to grow 6.1 percent per year, which is faster than the 4.7 percent average growth projected for 2013–15. One major factor is faster in-

EXHIBIT 1

National Health Expenditures (NHE), Amounts And Annual Growth From Previous Year Shown, By Spending Category, Selected Calendar Years 2008–23

Spending category	2008[a]	2012	2013	2014	2015	2019	2023
EXPENDITURE, BILLIONS							
NHE	$2,411.7	$2,793.4	$2,894.7	$3,056.6	$3,207.3	$4,042.5	$5,158.8
Health consumption expenditures	2,257.3	2,633.4	2,735.1	2,893.3	3,040.8	3,834.0	4,891.3
Personal health care	2,017.1	2,360.4	2,448.3	2,579.3	2,706.0	3,413.1	4,359.7
Hospital care	729.0	882.3	918.8	959.9	1,008.5	1,276.1	1,637.7
Professional services	652.8	752.3	776.7	822.7	856.8	1,077.4	1,369.1
Physician and clinical services	486.5	565.0	583.9	618.5	641.9	805.2	1,023.8
Other professional services	64.0	76.4	79.8	87.6	92.3	119.3	153.4
Dental services	102.4	110.9	113.0	116.6	122.7	153.0	191.8
Other health, residential, and personal care	113.5	138.2	145.6	153.1	161.5	206.9	267.1
Home health care	62.3	77.8	81.5	86.2	91.7	121.5	162.3
Nursing care facilities and continuing care retirement communities	132.6	151.5	156.4	162.3	170.2	215.6	271.4
Retail outlet sales of medical products	326.9	358.3	369.2	395.2	417.3	515.6	652.3
Prescription drugs	242.6	263.3	272.1	290.7	309.3	381.8	482.8
Durable medical equipment	34.9	41.3	42.3	44.0	45.8	56.0	71.3
Other nondurable medical products	49.5	53.7	54.8	60.5	62.2	77.8	98.2
Government administration	29.4	33.6	35.1	36.3	37.8	50.1	66.7
Net cost of health insurance	139.2	164.3	174.5	196.7	212.5	268.7	341.0
Government public health activities	71.5	75.0	77.2	81.1	84.5	102.1	123.9
Investment	154.4	160.0	159.7	163.3	166.5	208.5	267.4
Noncommercial research	44.0	48.1	47.1	47.2	46.4	55.8	69.5
Structures and equipment	110.4	111.9	112.6	116.2	120.1	152.7	197.9
ANNUAL GROWTH							
NHE	7.1%	3.7%	3.6%	5.6%	4.9%	6.0%	6.3%
Health consumption expenditures	7.0	3.9	3.9	5.8	5.1	6.0	6.3
Personal health care	6.9	4.0	3.7	5.3	4.9	6.0	6.3
Hospital care	7.2	4.9	4.1	4.5	5.1	6.1	6.4
Professional services	6.4	3.6	3.2	5.9	4.2	5.9	6.2
Physician and clinical services	6.4	3.8	3.3	5.9	3.8	5.8	6.2
Other professional services	6.7	4.5	4.5	9.8	5.3	6.6	6.5
Dental services	6.1	2.0	1.9	3.1	5.3	5.7	5.8
Other health, residential, and personal care	7.0	5.0	5.3	5.1	5.5	6.4	6.6
Home health care	8.8	5.7	4.8	5.7	6.4	7.3	7.5
Nursing care facilities and continuing care retirement communities	5.6	3.4	3.2	3.7	4.9	6.1	5.9
Retail outlet sales of medical products	7.6	2.3	3.1	7.0	5.6	5.4	6.1
Prescription drugs	8.3	2.1	3.3	6.8	6.4	5.4	6.0
Durable medical equipment	4.8	4.3	2.5	4.0	4.1	5.2	6.2
Other nondurable medical products	6.3	2.1	2.1	10.4	2.7	5.8	6.0
Government administration	6.4	3.4	4.3	3.4	4.3	7.3	7.4
Net cost of health insurance	10.1	4.2	6.2	12.7	8.1	6.0	6.1
Government public health activities	6.2	1.2	2.9	5.1	4.2	4.8	5.0
Investment	7.8	0.9	–0.2	2.3	1.9	5.8	6.4
Noncommercial research	6.4	2.2	–2.1	0.1	–1.7	4.7	5.7
Structures and equipment	8.4	0.3	0.6	3.2	3.4	6.2	6.7

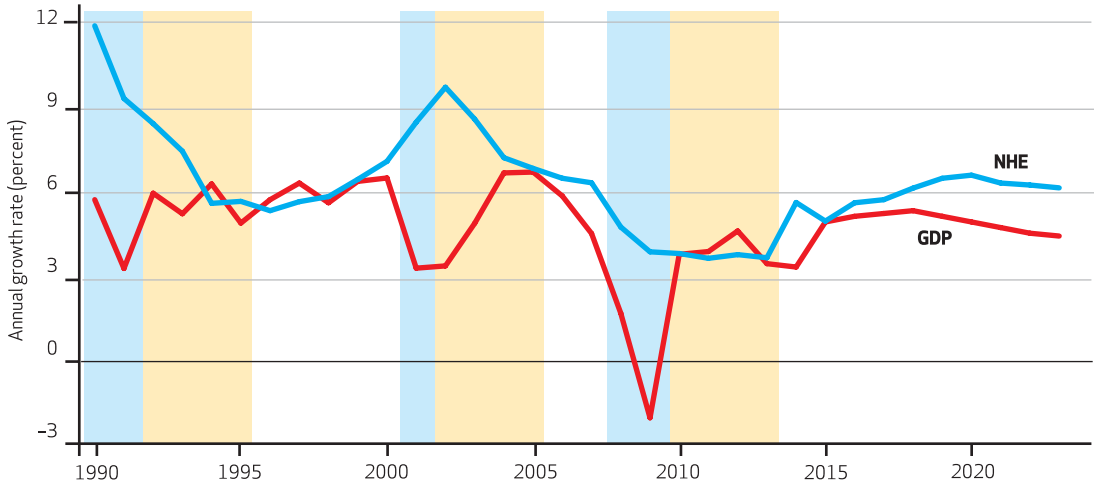
SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. **NOTES** Definitions, sources, and methods for NHE categories can be found at CMS.gov. National Health Expenditures Accounts: methodology paper, 2012: definitions, sources, and methods [Internet]. Baltimore (MD): Centers for Medicare and Medicaid Services; 2014 [cited 2014 Jan 6]. Available from: http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/dsm-12.pdf. Numbers may not sum to totals because of rounding. Percent changes are calculated from unrounded data. [a]Annual growth, 2002–08.

creases in both disposable personal income and private health insurance enrollment, which are projected to occur because of improved economic conditions: GDP growth is projected to be 5.3 percent in 2018. Consistent with the historical relationship between health spending and economic cycles, these projected changes in the economy are expected to influence health expenditure growth with a lag, which will contribute to a projected peak in the health spending growth rate of 6.6 percent in 2020.

Additionally, Medicare expenditure growth is

EXHIBIT 2

Annual Growth Rates, Gross Domestic Product (GDP) And National Health Expenditures (NHE), Calendar Years 1990–2023



SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group; and Department of Commerce, Bureau of Economic Analysis and National Bureau of Economic Research. **NOTES** Numbers for 2013–23 are projections. Blue areas represent US business cycle contractions (recessions in July 1990–March 1991, March 2001–November 2001, and December 2007–June 2009). Tan areas represent the four-year period after each contraction: 1992–95, when GDP was 5.6 percent and NHE 6.7 percent; 2002–05, when GDP was 5.4 percent and NHE 8.0 percent; and 2010–13, when GDP was 3.9 percent and NHE 3.7 percent.

projected to accelerate to a projection-period high of 7.9 percent in 2020. This is a result of continued enrollment in Medicare by the baby-boom generation and faster per beneficiary spending growth as this population ages.

Model And Assumptions

The national health expenditure projections employ actuarial and econometric modeling techniques, as well as judgments about future events and trends that influence health spending.[1] The projections use the economic and demographic assumptions from the 2014 *Medicare Trustees Report*, which were updated to reflect the latest macroeconomic data.[1,10] In addition, the CMS Office of the Actuary used its health reform model to determine the major impacts of the ACA's expansion-related provisions on national health spending and health insurance enrollment.[1]

The health expenditure projections presented here are consistent with the projected baseline scenario in the 2014 *Medicare Trustees Report*, which assumes that Medicare physician fee schedule rates will grow zero percent in 2015 and 0.6 percent per year for 2016–23,[10] as opposed to the scheduled growth under the Sustainable Growth Rate formula in current law, which includes a reduction of approximately 21 percent on April 1, 2015.

These projections remain subject to substantial uncertainty and reflect the variable nature of future economic trends, as exemplified by the prolonged and comparatively sluggish nature of the recovery from the 2007–09 recession.[11] In addition, the United States has experienced only the initial effects of the ACA's coverage expansions. The impacts of reform on the behavior of consumers, insurers, employers, and providers will continue to unfold throughout the projection period and beyond. In particular, the supply-side effects of the ACA remain highly speculative and are not included in these estimates.[12] However, methods by which to estimate such impacts are being investigated.[13]

Outlook For Medical Services And Goods

HOSPITAL SERVICES Total hospital spending growth is expected to have slowed from 4.9 percent in 2012 to 4.1 percent in 2013 and to have reached $918.8 billion (Exhibit 1). Because of the effects of sequestration and slower growth in utilization, Medicare hospital spending growth is expected to have slowed from 4.5 percent in 2012 to 2.5 percent in 2013. However, increased use of hospital services attributable to the ACA's coverage expansions are projected to result in accelerating growth in hospital spending of 4.5 percent in 2014 and 5.1 percent in 2015.

The projected rate of hospital spending growth generally increases after that point, reaching a peak of 6.7 percent in 2020 and then averaging

6.4 percent per year through 2023. Continued rapid enrollment in Medicare by baby boomers and faster increases in per beneficiary spending because of the aging of the population are expected to result in robust Medicare hospital spending growth of 6.9 percent per year for 2016–23, despite the impact of slower Medicare hospital payment rate updates that have been in effect since 2012. Reflecting the impact of faster economic growth on health spending and insurance enrollment, private health insurance spending for hospital services is projected to increase by an average of 5.9 percent per year for 2016–23.

PHYSICIAN AND CLINICAL SERVICES Spending growth on physician and clinical services is projected to have been $583.9 billion in 2013 (Exhibit 1). This reflects a decrease in growth from 4.6 percent in 2012 to 3.3 percent in 2013.

Underlying the slowdown in spending growth is the lowest rate of price growth since 2002 (nearly zero percent). This is partly because of reductions in payments to Medicare providers resulting from the sequester and procedural payment changes.[14,15] Correspondingly, growth in Medicare expenditures for physician and clinical services is expected to have decelerated from 5.4 percent in 2012 to 2.6 percent in 2013. Medicaid spending for these services, in contrast, is anticipated to have grown 12.6 percent in 2013 (compared to 2.6 percent in 2012) as a result of temporary increases in payments to primary care physicians that continue through 2014.[16]

Expenditure growth for physician and clinical services is projected to accelerate to 5.9 percent in 2014 (Exhibit 1). This acceleration is influenced by expectations that the people who are newly insured—in particular, those newly covered by Medicaid—will be younger than the currently insured and thus will devote a higher share of their health care spending to these services relative to more acute hospital care.[17–19]

The effects of expanded coverage through Medicaid and private health insurance are expected to continue in 2015. However, expirations of temporary payment increases to Medicaid providers, combined with lower payments to Medicare Advantage plans,[8] are projected to result in slower overall growth in spending on physician and clinical services in that year (3.8 percent).

Growth in spending on these services is projected to climb steadily and to reach 6.5 percent by 2020, before slowing to 5.9 percent by 2023. With the continued aging of the baby-boom generation into Medicare, average annual growth in Medicare spending for physician and clinical services (7.1 percent) for 2016–23 is projected to outpace spending growth for these services paid for by private health insurance (5.4 percent). This occurs despite continuing coverage expansions under health reform and generally more favorable economic conditions, including higher levels of disposable personal income and higher enrollment in private health insurance.

PRESCRIPTION DRUGS In 2013 prescription drug spending is expected to have increased by 3.3 percent, up from 0.4 percent in 2012, and to have accounted for $272.1 billion in health expenditures (Exhibit 1). The projected acceleration is driven by a smaller effect of brand-name prescription drugs losing patent protection, compared to the previous year.[20] Use of prescription drugs (measured by dispensed prescriptions) was estimated to have increased by 1.6 percent in 2013, compared to 1.2 percent in 2012.[20]

In 2014 prescription drug spending growth is projected to accelerate to 6.8 percent. This is primarily a result of increases in the use of prescription drugs by the newly insured and by those who have switched to more generous insurance plans under the ACA's coverage expansions. Early analysis indicates that compared to other forms of private health insurance, Marketplace plans are experiencing greater use of drugs in several therapy classes, including higher use of specialty drugs.[21] In addition, expensive new hepatitis C treatments are expected to contribute to an acceleration of drug spending growth in 2014.[22]

For 2015, continued gains in insurance coverage through Medicaid and Marketplace plans are anticipated to lead to continued strong increases in the use of prescription drugs. As a result, the growth rate for drug expenditures is expected to be 6.4 percent.

For the periods 2016–19 and 2020–23, prescription drug spending growth is projected to average 5.4 percent and 6.0 percent, respectively. Growth in the first period is significantly faster than the 2.4 percent estimated for 2008–13. However, it is slower than the 6.6 percent projected for 2014–15. This is attributable to slower expected enrollment growth rates for Medicaid and Marketplace plans after the major coverage transitions occurring in 2014 and 2015.

In 2020–23 drug utilization is expected to increase slightly as a result of higher disposable personal income and changing guidelines that encourage physicians to introduce drug therapies at earlier stages of treatment. Also, the share of spending on expensive specialty drugs purchased through retail channels is expected to continue to increase steadily.[23]

Payer Outlook

MEDICARE In 2013 Medicare expenditures are expected to have reached $591.2 billion (Exhibit 3). However, spending growth is expected to have slowed to 3.3 percent from 4.8 percent in 2012, largely driven by sequestration and lower utilization across Medicare services, including hospital services.

Medicare spending growth is projected to remain low in 2014 and 2015, as well. In 2014 an increase is expected in the use and intensity of most Medicare services. Nonetheless, Medicare spending growth is expected to reach only 4.2 percent as a result of continued slow payment rate increases and a decline in per beneficiary use of inpatient hospital services. In 2015 the growth rate is projected to be just 2.7 percent,[24] driven mainly by lower payments to Medicare Advan-

EXHIBIT 3

National Health Expenditures (NHE), Amounts, Share Of Gross Domestic Product (GDP), And Average Annual Growth From Previous Year Shown, By Source Of Funds, Selected Calendar Years 2008–23

Source of funds	2008[a]	2012	2013	2014	2015	2019	2023
EXPENDITURE, BILLIONS							
NHE	$2,411.7	$2,793.4	$2,894.7	$3,056.6	$3,207.3	$4,042.5	$5,158.8
Health consumption expenditures	2,257.3	2,633.4	2,735.1	2,893.3	3,040.8	3,834.0	4,891.3
Out of pocket	300.7	328.2	338.6	338.1	345.7	413.5	512.2
Health insurance	1,703.2	2,014.4	2,094.1	2,246.1	2,372.5	3,015.2	3,875.9
Private health insurance	807.8	917.0	947.5	1,012.2	1,082.4	1,330.4	1,653.2
Medicare	467.9	572.5	591.2	615.9	632.7	825.3	1,111.3
Medicaid	344.9	421.2	449.5	507.2	541.1	711.3	918.8
Federal	203.5	237.9	254.1	302.4	323.0	423.2	542.6
State and local	141.4	183.3	195.4	204.8	218.1	288.2	376.2
Other health insurance programs[b]	82.6	103.8	105.9	110.8	116.2	148.2	192.6
Other third-party payers and programs and public health activity	253.4	290.8	302.3	309.2	322.7	405.3	503.2
Investment	154.4	160.0	159.7	163.3	166.5	208.5	267.4
Population (millions)	303.9	313.3	315.9	318.5	321.3	333.2	345.2
GDP, billions	$14,720.3	$16,244.6	$16,799.7	$17,354.1	$18,204.4	$22,275.5	$26,691.1
NHE per capita	7,935.7	8,914.8	9,164.3	9,595.7	9,982.5	12,131.1	14,943.8
GDP per capita	48,437.1	51,842.7	53,185.6	54,479.7	56,660.1	66,847.0	77,318.0
NHE as percent of GDP	16.4%	17.2%	17.2%	17.6%	17.6%	18.1%	19.3%
ANNUAL GROWTH							
NHE	7.1%	3.7%	3.6%	5.6%	4.9%	6.0%	6.3%
Health consumption expenditures	7.0	3.9	3.9	5.8	5.1	6.0	6.3
Out of pocket	5.3	2.2	3.2	–0.2	2.3	4.6	5.5
Health insurance	7.7	4.3	4.0	7.3	5.6	6.2	6.5
Private health insurance	7.0	3.2	3.3	6.8	6.9	5.3	5.6
Medicare	9.5	5.2	3.3	4.2	2.7	6.9	7.7
Medicaid	6.3	5.1	6.7	12.8	6.7	7.1	6.6
Federal	6.3	4.0	6.8	19.0	6.8	7.0	6.4
State and local	6.3	6.7	6.6	4.8	6.5	7.2	6.9
Other health insurance programs[b]	10.6	5.9	2.1	4.7	4.9	6.3	6.8
Other third-party payers and programs and public health activity	5.2	3.5	4.0	2.3	4.4	5.9	5.6
Investment	7.8	0.9	–0.2	2.3	1.9	5.8	6.4
Population[c]	0.9	0.8	0.8	0.8	0.9	0.9	0.9
GDP	4.8	2.5	3.4	3.3	4.9	5.2	4.6
NHE per capita	6.1	3.0	2.8	4.7	4.0	5.0	5.4
GDP per capita	3.8	1.7	2.6	2.4	4.0	4.2	3.7

SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group; and Department of Commerce, Bureau of Economic Analysis and Bureau of the Census. **NOTES** For definitions, sources, and methods for NHE categories, see CMS.gov. National Health Expenditures Accounts: methodology paper, 2012: definitions, sources, and methods (see Exhibit 1 Notes). Numbers may not sum to totals because of rounding. Percent changes are calculated from unrounded data. [a]Annual growth, 2002–08. [b]Includes health-related spending for Children's Health Insurance Program, Titles XIX and XXI; Department of Defense; and Department of Veterans Affairs. [c]Estimates reflect the Bureau of the Census's definition for *resident-based population*, which includes all people who usually reside in one of the fifty states or the District of Columbia but excludes residents living in Puerto Rico and areas under US sovereignty, and US Armed Forces overseas and US citizens whose usual place of residence is outside of the United States. Estimates also include a small (typically less than 0.2 percent of the population) adjustment to reflect census undercounts. Projected estimates reflect the area population growth assumptions found in the 2014 *Medicare Trustees Report* (see Note 9 in text).

The share of GDP devoted to health care is projected to rise from 17.2 percent in 2012 to 19.3 percent by 2023.

tage plans.[8] On a per beneficiary basis, Medicare spending growth is projected to be just 0.8 percent in 2014 and −0.3 percent in 2015.

For 2016–23, growth in Medicare expenditures is projected to rebound, averaging 7.3 percent per year (and 4.3 percent per beneficiary). There are three primary factors underlying this faster projected growth. First, large numbers of baby boomers will continue to age into the program. Second, per beneficiary spending growth is expected to be faster, driven by increased utilization that comes closer to historical rates. Finally, improved economic conditions are expected to result in accelerated price increases for the goods and services required to treat Medicare patients—and those increases in input prices translate into higher Medicare payment rates. Provisions of the ACA that slow growth in payment updates to Medicare providers, as well as sequestration, serve to moderate this growth.

MEDICAID Following the slow growth experienced in 2011 and 2012, combined federal, state, and local Medicaid expenditures are expected to have increased by 6.7 percent in 2013 and to have totaled $449.5 billion (Exhibit 3). Several factors contributed to this return to average historical rates of growth, including temporary increases to primary care physician payment rates, which were mandated by the ACA. In addition, states increased provider reimbursement rates and expanded benefits.[7]

In 2014 Medicaid spending is projected to grow by 12.8 percent as a result of the expansion of Medicaid coverage in states that choose to cover childless adults with incomes of up to 138 percent of the federal poverty level. Medicaid enrollment is expected to increase by nearly eight million, and because these new enrollees are expected to be nondisabled adults and their children, who tend to use less health care than elderly and disabled beneficiaries, per enrollee spending is projected to decline by 0.6 percent in 2014.

Medicaid spending is projected to increase by 6.7 percent in 2015 and 8.6 percent in 2016, with the lower growth in 2015 partially influenced by the expiration of increased payments to primary care providers. An additional 8.5 million people are projected to enroll in the program during this two-year period, mainly because of the expansion. Additionally, some large employers of low-wage employees will elect to no longer offer health insurance to their employees by 2016. As a result, a portion of these affected employees will qualify for, and enroll in, Medicaid.

Medicaid enrollment growth is expected to decelerate and stabilize at roughly 1 percent per year after 2016. Medicaid spending growth is expected to slow less rapidly, to an average of about 6.6 percent in 2017–23. This is a result of the use of expensive long-term care services by elderly and disabled Medicaid beneficiaries.

PRIVATE HEALTH INSURANCE Enrollment in private health insurance is expected to have reached 188.5 million people in 2013. The projected increase is small (0.3 percent) because of the recent slow increase in the number of full-time jobs with health benefits.[4] Expenditures for total private health insurance premiums are anticipated to have grown 3.3 percent in 2013, compared to 3.2 percent in 2012, and to have accounted for $947.5 billion (Exhibit 3). The slightly faster increase in premiums in 2013 relative to the increase in benefits in 2013 (3.0 percent) reflects the impact of faster growth in the net cost of private health insurance, which is expected to have increased 6.0 percent in 2013 compared to 0.1 percent in 2012.[25]

In 2014 growth in private health insurance premiums is projected to accelerate to 6.8 percent (Exhibit 3). This is largely a result of higher per enrollee spending and increased insurance coverage through Marketplace plans or individually purchased insurance. On a per enrollee basis, growth in private health insurance premiums is expected to accelerate to 6.0 percent in 2014, up from 3.1 percent in 2013. The acceleration is attributable to increased utilization and spending among people with new or potentially more generous coverage through the coverage expansion.[26] Private health insurance premium growth is projected to remain elevated in 2015, at 6.9 percent, as new enrollment continues.

For 2016–23, average premium growth for private health insurance is projected to be 5.4 percent per year. This would be significantly faster than the 3.2 percent annual growth for 2009–13 and reflects faster projected economic growth that leads to increases in both private health insurance enrollment and the use of health care goods and services, relative to recent history.

The projected growth would have been higher,

but it is dampened slightly by other factors. As mentioned above, some large employers of low-wage workers are expected to stop offering health insurance, resulting in employees' moving to Marketplace plans or Medicaid or becoming uninsured. Also, the excise tax on high-cost employer-based insurance plans starting in 2018 is expected to slightly constrain premium growth.

OUT-OF-POCKET SPENDING In 2013 out-of-pocket spending is expected to have increased by 3.2 percent—slightly slower than the rates of growth in 2011 and 2012—and to have reached $338.6 billion (Exhibit 3). This continued low growth has been primarily a result of low utilization growth, which was partially influenced by movement into high-deductible plans and generally higher cost-sharing requirements for the insured.[4] Higher deductibles by themselves would tend to increase out-of-pocket spending. However, the resulting reductions in the use of services have largely offset that effect.

In 2014 out-of-pocket expenditures are projected to decline by 0.2 percent, largely because of expanded insurance coverage through Medicaid and the Marketplaces. In addition, cost-sharing provisions will be subsidized for Marketplace plan enrollees whose family incomes are at or below 250 percent of poverty. The transitory impact of expanding insurance coverage is expected to result in relatively low out-of-pocket spending growth in 2015 also, at 2.3 percent.

Growth in out-of-pocket spending is projected to accelerate to a peak of 5.8 percent in 2020 and to remain above 5 percent through 2023. This acceleration is primarily due to projected faster growth in disposable personal income, which is subsequently associated with increased use of health care goods and services. Despite this faster growth, the expected share of total health expenditures paid out of pocket declines during the projection period to 9.9 percent, down from

EXHIBIT 4

National Health Expenditures (NHE) Amounts, Average Annual Growth From Previous Year Shown, And Percent Distribution, By Type Of Sponsor, Selected Calendar Years 2008–23

Type of sponsor	2008[a]	2012	2013	2014	2015	2019	2023
EXPENDITURE, BILLIONS							
NHE	$2,411.7	$2,793.4	$2,894.7	$3,056.6	$3,207.3	$4,042.5	$5,158.8
Businesses, households, and other private sources	1,414.4	1,564.6	1,626.1	1,653.5	1,729.1	2,142.9	2,664.9
Private businesses	528.1	578.5	600.1	623.8	657.3	790.2	975.6
Households	712.6	792.4	824.7	821.5	856.1	1,076.8	1,336.3
Other private revenues	173.7	193.7	201.4	208.2	215.8	276.0	352.9
Government	997.3	1,228.8	1,268.6	1,403.2	1,478.2	1,899.5	2,493.9
Federal government	584.9	731.6	749.3	859.1	903.9	1,173.8	1,574.8
State and local governments	412.4	497.2	519.3	544.1	574.3	725.7	919.1
ANNUAL GROWTH							
NHE	7.1%	3.7%	3.6%	5.6%	4.9%	6.0%	6.3%
Businesses, households, and other private revenues	6.1	2.6	3.9	1.7	4.6	5.5	5.6
Private businesses	5.1	2.3	3.7	4.0	5.4	4.7	5.4
Households	6.6	2.7	4.1	–0.4	4.2	5.9	5.5
Other private revenues	7.1	2.8	4.0	3.4	3.6	6.3	6.3
Government	8.7	5.4	3.2	10.6	5.3	6.5	7.0
Federal government	9.7	5.8	2.4	14.7	5.2	6.8	7.6
State and local governments	7.4	4.8	4.5	4.8	5.5	6.0	6.1
DISTRIBUTION							
NHE	100%	100%	100%	100%	100%	100%	100%
Businesses, households, and other private sources	59	56	56	54	54	53	52
Private businesses	22	21	21	20	20	20	19
Households	30	28	28	27	27	27	26
Other private sources	7	7	7	7	7	7	7
Government	41	44	44	46	46	47	48
Federal government	24	26	26	28	28	29	31
State and local governments	17	18	18	18	18	18	18

SOURCE Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. **NOTES** For definitions, sources, and methods for NHE categories, see CMS.gov. National Health Expenditures Accounts: methodology paper, 2012: definitions, sources, and methods (see Exhibit 1 Notes). Numbers may not sum to totals because of rounding. Percent changes are calculated from unrounded data. [a]Annual growth, 2002–08.

11.7 percent in 2013, in part as a result of expanded coverage under the ACA.

Overview By Sponsor

For 2013, health care expenditures sponsored (or financed) by federal, state, and local governments are expected to have grown 3.2 percent and to have reached $1.3 trillion (Exhibit 4). In comparison, expenditures by businesses, households, and other private sources are projected to have risen by 3.9 percent and to have reached $1.6 trillion. This leaves the privately sponsored share of spending at 56 percent.

In 2014 certain features of the ACA coverage expansions are projected to shift health care financing from households toward the federal government. Because of a 100 percent initial federal matching rate for Medicaid spending incurred by newly eligible enrollees[16] and the availability of premium and cost-sharing subsidies for Marketplace coverage, health care spending sponsored by the federal government is projected to increase 14.7 percent in 2014. Its share of spending is expected to increase from 26 percent in 2013 to 28 percent (Exhibit 4). In comparison, expenditures by households are projected to decline slightly, largely stemming from net out-of-pocket and premium costs that are expected to be lower, on average, for people who gain coverage.

By 2023 federal, state, and local government financing is projected to account for 48 percent of national health expenditures, up from 44 percent in 2012, and to reach a total of $2.5 trillion (Exhibit 4). Increases in the federal government's share are mostly the result of expanded Medicaid eligibility, Marketplace premium and cost-sharing subsidies, and a growing gap between dedicated Medicare financing and program outlays.[27]

Conclusion

Since the end of the Great Recession in 2009, economic growth in the United States, as measured by GDP, has remained slow: just 3.9 percent per year, on average, which is well below the average rate experienced in the four years following the three previous recessions.[11] The fact that recent health spending increases have not returned to their prerecession rates is consistent with the long-standing relationship between overall economic growth and health spending growth.[1]

Growth rates for both the economy and health spending have been slow. However, the health share of GDP has remained relatively constant since 2009 and is expected to be 17.2 percent in 2013. Contributing to the stable share in 2013 are continued low use of medical care and provisions of both sequestration and health reform that constrain payments to Medicare providers.

The period in which health care has accounted for a stable share of economic output is projected to end in 2014, primarily because of the coverage expansions of the ACA. It is anticipated that by 2017, once the mostly one-time transition effects of expanded coverage have fully transpired, the health share of GDP will increase, albeit at a slower rate than its historical average, as an improving economy and the aging of the baby-boom generation lead to faster health spending growth. ■

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