



US Forecasters Predict Health Spending Will Reach \$4 Trillion in 10 Years

One in every five dollars will be devoted to healthcare by 2015 in the U.S., with spending reaching more than \$4 trillion, federal forecasters predict in a February 22, 2006, Health Affairs Web Exclusive.

In their annual projection on healthcare trends, economists and actuaries from the National Health Statistics Group at the Centers for Medicare and Medicaid Services (CMS) predict that health spending will consistently outpace the growth in the gross domestic product (GDP) over the next 10 years, with health spending expected to consume 20% of GDP - up from 16% today.

The forecasters predict that national health spending growth will average 7.2% over the coming decade - 2.1 percentage points faster than GDP growth, but slower than in recent years.

The CMS group also predicts that the growth in hospital spending will exceed projections made in 2005, while they expect prescription drug spending to grow more slowly than projected in 2005. Greater-than-expected discounts associated with the new Medicare Part D drug benefit play a role in the lower drug spending estimates for 2006, but the major effect of the new benefit is still anticipated to be a shift in drug spending from private payers and Medicaid to Medicare.

An aging baby-boom population that is nearing eligibility for Medicare, declining rates of health insurance coverage, and the changing nature of health insurance (such as the rise of health savings accounts, or HSAs) are some of the factors influencing health spending growth. Although it's too early to assess HSAs' effect on the healthcare market, federal analysts are unsure whether they will dramatically decrease spending rates the way managed care did in the 1990s.

Total hospital spending growth is projected to be 7.9% in 2005. By 2015, spending on hospital care is expected to reach \$1.2 trillion, double the 2005 level. This year's projection for hospital spending is higher, in part because of the effects of a hospital construction boom that is picking up steam in urban areas. Hospital spending growth is expected to exceed growth in personal healthcare spending in 2005 and to keep pace with it over the next decade.

Spending on prescription drugs is anticipated to reach \$446 billion in 2015, up from \$188 billion in 2004. The average annual spending growth for prescription drugs over the decade would be 8.2%, two percentage points below that projected in 2005. For 2006, the forecasters are projecting that total prescription drug spending will grow 7.7%.

"The prescription drug plans were able to negotiate discounts and rebates that came in larger than we thought, and this has helped mitigate what drug spending would have been," says



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John Poisal, deputy director of the National Health Statistics Group at CMS. "It doesn't mean drug spending won't continue to grow, but it has helped to temper that growth."

Medicare spending is projected to grow from \$309 billion in 2004 to \$792 billion by 2015. Medicare growth is expected to spike to 25.2% in 2006, primarily due to the implementation of the new drug benefit and the added burdens of paying costs that had been absorbed by other sectors. Total Medicare spending growth is expected to slow to 5.4% in 2007 but is predicted to average 7.5% between 2008 and 2015.

Total Medicaid spending is expected to grow from \$293 billion in 2004 to \$320 billion in 2006. With the implementation of the Medicare Part D benefit, Medicaid drug spending will likely decrease, dramatically slowing spending growth for the program. But the respite is expected to be temporary. In 2007, Medicaid spending growth is projected to rebound to 8.5% and average 8.6% a year until 2015, when spending is expected to reach \$670 billion.

State, local, and federal government spending on public health is projected to grow 10.5% in 2005, more than double the 2004 rate - mostly because of Hurricanes Katrina and Rita. CMS analysts project that federal public health spending will increase 24.3% in 2005 - a more than fourfold increase over growth in 2004 - reaching \$11.3 billion. Driving this acceleration is the increased funding for federal health disaster prevention and relief.

Other highlights from the report:

- Private health insurance premiums are expected to grow 6.8% in 2005, down from 8.4% in 2004, the third consecutive year in which premium growth will have slowed. The slowdown is due to the underwriting cycle and slower growth in projected medical benefits per enrollee.
- Growth in out-of-pocket spending is predicted to remain stable at 5.6% in 2005, and out-of-pocket payments are expected to actually decrease 1.0% in 2006. Consumers are expected to spend \$421 billion out of pocket on healthcare by 2015, up from \$248.8 billion in 2005. The out-of-pocket share of personal healthcare spending is projected to decline from 15.1% in 2004 to 12.6% by 2015.
- Growth in total physician spending is expected to decelerate from 9.0% in 2004 to 7.5% in 2005 reaching \$430 billion. The CMS researchers predict that by 2015, physician spending will likely near \$850 billion. However, they acknowledge that this is probably an underestimate, since it incorporates Medicare payment cuts for physicians from 2006 through 2013. In fact, Congress has already eliminated the cut planned for 2006.



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- Nursing home spending is projected to grow 5.6% in 2005, from 4.3% in 2004. Public spending is expected to drive this acceleration. Medicaid spending on nursing home care is predicted to grow faster than Medicare over the decade. By the end of 2015, the authors predict that Medicaid will cover nearly half of all nursing home spending, compared with less than 45% in 2004. The effects of an aging population will be most evident on nursing home spending, which is projected to grow from \$121.7 billion in 2005 to \$216.8 billion by 2015.
- Driven by increases in public spending, home health spending is expected to grow 13.2% in 2005, reaching nearly \$49 billion. Public spending now accounts for 75% of all home health spending; it is projected to top 80% in 2015, when spending on home health is projected to reach \$103.7 billion. Although home health is a relatively small percentage of the total national healthcare bill, it represents the fastest-growing healthcare sector.