Health care spending growth has consistently exceeded the growth rate of the US economy. While health spending has increased, the budget sequestration combined with slowed Medicare spending has resulted in 2013 being the fifth year of growth under 4%.

Expanded coverage and an aging population are among the key drivers of future health spending growth. Recent past/present slowed growth:
- Economic recession
- Sequestration cuts
- High cost drugs losing patent protection
- Physician service procedure payment reductions
- Slow utilization growth across all healthcare services

Future accelerated growth:
- Economic recovery
- Influx of baby boomers into Medicare
- Coverage expansion
- Payment increases for primary care physicians
- Increased Medicaid provider reimbursement rates

Insurance landscape expected to evolve with ACA coverage expansion and aging population. Rapid enrollment growth in Medicare, Medicaid, and exchanges will drive government spending.

In 2014, government spending will account for 41% of health expenditures. A pie chart shows:
- Private Health Insurance: $1,012.2B
- Medicare: $615.9B
- Medicaid: $507.2B
- Other Government Programs: $110.8B
- Consumer Out-of-Pocket: $338.1B
- Other Third Party Entities: $309.2B
- Investment: $163.3B

Health spending will continue to outpace the growth rate of the U.S. economy, but at a slower pace than the early 90’s to 2000’s. Although spending is set to increase on average 5.7% per year from 2013 to 2023 (a rate 1.1% higher than the GDP), between 1990 and 2007 the growth rate was a nearly 2% faster than GDP.
BY 2023, GOVERNMENT SPENDING WILL ACCOUNT FOR 48% OF HEALTH EXPENDITURES

In 2014, government spending is projected to account for 41% of healthcare expenditures. In the short term, Medicaid will be a substantial driver of growth due to state program expansions. From the Medicare perspective, the baby boomer shift from commercial plans to Medicare will also account for a large amount of growth. While Medicare growth will be slow initially, it is expected to accelerate beginning in 2016 due to increases in per beneficiary spending given increased utilization and improved economic conditions.

BY 2023, GROWTH RATES OF HOSPITAL AND HOME HEALTH CARE SPENDING ARE PROJECTED TO OUTPACE TOTAL HEALTH CARE SPENDING

Out-of-Pocket Payments
Private Health Insurance
Other Third Party
Medicare, Medicaid, & Government

KEY TAKEAWAY

The growing newly insured and aging populations coupled with improved economic conditions will create increased demand for physician and hospital services, particularly primary care services. While this increased spending is positive for providers, it will exacerbate physician shortages and also motivate federal and state governments to continue to identify ways to contain unnecessary spending. Medicare spending on hospital and post-acute care (PAC) will be a primary target since they are expected to outpace total healthcare spending. Mandatory bundled payment for PAC, site-neutral reimbursement for similar services delivered in different settings, and continued expansion of payment and delivery reform models will be among the solutions on the table. The Medicare Payment Advisory Commission (MedPAC) intends to present draft recommendations for site-neutral payments in the PAC setting at its December 2014 public meeting.

Legislation is required to enact both a PAC bundle and site-neutral payments. Since both are estimated to yield significant savings, they are likely to be considered as cost offsets for replacing Medicare’s flawed Sustainable Growth Rate (SGR) formula. The current SGR patch is scheduled to expire on March 31, 2015, so Congress will begin putting forward proposals to repeal the SGR formula in the next few months. That said, it is unclear how likely true SGR reform is given the new Congress and the fact that short-term patches have been enacted annually for more than a decade.