Health Spending Projections Through 2017

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NHE Projections Overview

• Health Spending Growth Projection:
  – *Generally steady over projection period; 6.7 percent per year*
What’s Going On Under Surface?

• Health’s share of GDP:
  – Expectation of steady health spending growth combined with slower economic growth results in health share of nearly 20 percent by 2017

• Divergent payer and sector trends
  – General acceleration in public spending growth, deceleration in private spending growth expected through 2017
  – The really depressing news…
  – Hospital, prescription drug growth rates show opposite growth trends

• New feature
  – Simulation: the effect of a 0.0 percent Medicare physician payment rate update scenario on projected spending vis-à-vis current law (pre-MMSEA)

• Other findings and Projection Accuracy
Growth in National Health Expenditures (NHE) vs. Growth in Gross Domestic Product (GDP), 1980-2017

NHE Share of Gross Domestic Product (GDP), 1965-2017

Growth in Health Spending by Public and Private Payers, 1990-2017

<table>
<thead>
<tr>
<th>Category</th>
<th>To Date</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Batting Average</td>
<td>.191</td>
<td>.191</td>
</tr>
<tr>
<td>Home Runs</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Runs Batted In</td>
<td>2</td>
<td>16</td>
</tr>
</tbody>
</table>
LAST!!!!
Growth in Prescription Drug Spending, 1980-2017

Growth in Medicare Spending and Share of NHE, 1980-2017

## Projected National Health Expenditures ($ billions) under Current Law and 0.0 Percent Medicare Physician Payment Update Scenario, Selected Years 2007-2017

<table>
<thead>
<tr>
<th>Spending Category and Scenario</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Medicare 0% Update Scenario</td>
<td>$427.3</td>
<td>$465.3</td>
<td>$502.7</td>
<td>$586.4</td>
<td>$685.6</td>
<td>$800.6</td>
<td>$940.2</td>
</tr>
<tr>
<td>Total Medicare Current Law</td>
<td>427.3</td>
<td>460.7</td>
<td>495.0</td>
<td>568.5</td>
<td>656.4</td>
<td>758.8</td>
<td>884.0</td>
</tr>
<tr>
<td>Percent Difference</td>
<td>0.0%</td>
<td>1.0%</td>
<td>1.6%</td>
<td>3.2%</td>
<td>4.5%</td>
<td>5.5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Medicare Physician 0% Update Scenario</td>
<td>$98.0</td>
<td>$106.8</td>
<td>$114.9</td>
<td>$133.1</td>
<td>$154.6</td>
<td>$178.9</td>
<td>$207.8</td>
</tr>
<tr>
<td>Medicare Physician Current Law</td>
<td>98.0</td>
<td>102.5</td>
<td>108.2</td>
<td>118.9</td>
<td>132.2</td>
<td>147.4</td>
<td>165.8</td>
</tr>
<tr>
<td>Percent Difference</td>
<td>0.0%</td>
<td>4.2%</td>
<td>6.2%</td>
<td>11.9%</td>
<td>17.0%</td>
<td>21.4%</td>
<td>25.3%</td>
</tr>
</tbody>
</table>

Note: The Medicare Current Law expenditure projections reflect the direct impact of the substantial reductions in physician payment rates that would be required under the current-law sustainable growth rate (SGR) provisions. Secondary SGR impacts on Parts A, B, and D are not reflected; accordingly, these projections do not represent our best estimate of the actual Medicare expenditures that would result under current law. Such secondary impacts could include (i) substantially reduced beneficiary access to physician services, (ii) a significant shift in enrollment to Medicare Advantage plans, (iii) an increase in emergency room services, (iv) an increase in mortality rates, and/or (v) an increase in hospital services. We have excluded secondary impacts because of their speculative nature, the minimal likelihood that the physician payment reductions will occur in practice, and to retain the usefulness of the current-law baseline for hospital and other non-physician expenditure categories.

### Projected National Health Expenditures ($ billions) under Current Law and 0.0 Percent Medicare Physician Payment Update Scenario, Selected Years 2007-2017

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<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total NHE 0% Update Scenario</td>
<td>$2,245.6</td>
<td>$2,397.4</td>
<td>$2,560.0</td>
<td>$2,915.9</td>
<td>$3,321.7</td>
<td>$3,780.5</td>
<td>$4,308.7</td>
</tr>
<tr>
<td>Total NHE Current Law</td>
<td>2,245.6</td>
<td>2,394.3</td>
<td>2,555.1</td>
<td>2,905.1</td>
<td>3,305.0</td>
<td>3,757.0</td>
<td>4,277.1</td>
</tr>
<tr>
<td>Percent Difference</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.5%</td>
<td>0.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Total Physician 0% Update Scenario</td>
<td>$473.0</td>
<td>$504.4</td>
<td>$536.9</td>
<td>$609.7</td>
<td>$688.8</td>
<td>$773.0</td>
<td>$866.2</td>
</tr>
<tr>
<td>Total Physician Current Law</td>
<td>473.0</td>
<td>501.7</td>
<td>532.8</td>
<td>601.0</td>
<td>675.1</td>
<td>753.6</td>
<td>840.0</td>
</tr>
<tr>
<td>Percent Difference</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.8%</td>
<td>1.4%</td>
<td>2.0%</td>
<td>2.6%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Note: The Medicare Current Law expenditure projections reflect the direct impact of the substantial reductions in physician payment rates that would be required under the current-law sustainable growth rate (SGR) provisions. Secondary SGR impacts on Parts A, B, and D are not reflected; accordingly, these projections do not represent our best estimate of the actual Medicare expenditures that would result under current law. Such secondary impacts could include (i) substantially reduced beneficiary access to physician services, (ii) a significant shift in enrollment to Medicare Advantage plans, (iii) an increase in emergency room services, (iv) an increase in mortality rates, and/or (v) an increase in hospital services. We have excluded secondary impacts because of their speculative nature, the minimal likelihood that the physician payment reductions will occur in practice, and to retain the usefulness of the current-law baseline for hospital and other non-physician expenditure categories.

Growth in Medicaid Spending, 1980-2017

Growth in Private Health Insurance (PHI) Premiums and Benefits Per Enrollee, 1980-2017

Growth in Out-of-Pocket (OOP) Spending, 1980-2017

Payer trends, 2006 and 2017

2006

- PHI: 34%
- Medicare: 19%
- Medicaid: 15%
- Other Private: 7%
- Other Public: 12%
- OOP: 12%

2017

- PHI: 33%
- Medicare: 21%
- Medicaid: 17%
- Other Private: 7%
- Other Public: 11%
- OOP: 11%

Note: Totals may not sum to 100 due to rounding.
Other Findings
Physician Spending Growth, 1980-2017

Nursing Home Spending Growth, 1980-2017

Home Health Spending Growth, 1980-2017

Projection Accuracy

• Comparison of projection vintages to most recent historical NHE (1997-2007)
• Aggregate projections more accurate than sector or payer specific projections
• Reasons for differences:
  – Current-law framework
  – Revisions to source data (historical and projected)
  – Changes to individual models
  – Unanticipated change or magnitude of change

Source: Centers for Medicare & Medicaid Services, Office of the Actuary.
Our Most Recent Projection…

Early male-pattern baldness!

1970  April 24, 2008  Not too distant future
NHE Projections materials on the CMS website:
http://www.cms.hhs.gov/NationalHealthExpendData/03_NationalHealthAccountsProjected.asp

Thank you for your kind attention!