DEPARTMENT OF HEALTH

Minnesota Health Care Spending Projections, 2022 to 2031: Key Trends

OCTOBER 2024

Key Findings:

1. Minnesota health care spending is projected to grow 5.6% per year between 2022 and 2031, modestly faster than the previous 10 years (5.2%).
2. Over the next 10 years, spending for public payers is expected to grow faster per year (5.9%) than spending by private payers (5.3%).
3. Spending for hospital services will continue to be a major driver of health care spending, accounting for more than one-third of health care spending growth between 2022 and 2031.

The Minnesota Department of Health (MDH) issues projected estimates of health care spending for Minnesota residents.[1] These estimates—for the years 2022 to 2031—are intended to inform discussions between policymakers and stakeholders about the sustainability of health care spending, drivers of anticipated growth, and options to transform health care toward greater affordability.

In this latest brief, MDH summarizes key expected trends in health care spending based on its latest projections. Historical health care spending, which informed these projections, are available online on the Health Economics Program website.[2]

1. Health care spending will grow faster in the next 10 years

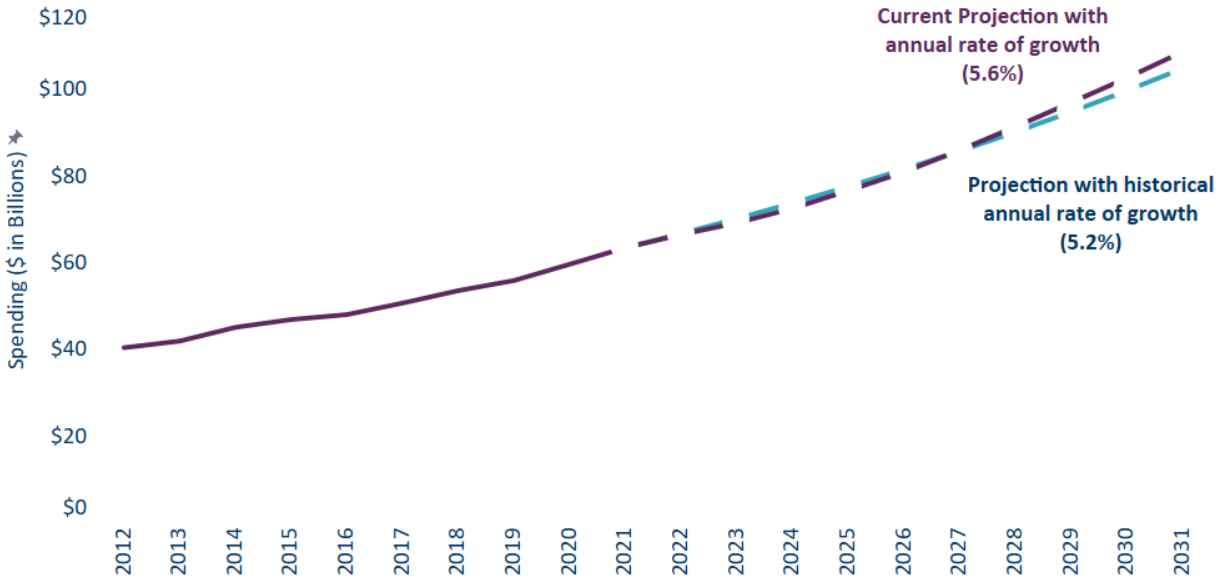
Over the course of the next ten years (2022 through 2031), MDH projects health care spending to grow 5.6% per year – modestly faster than the prior decade (5.2% per year). This rate of growth is projected to outpace the average annual change of the economy (the Gross Domestic Product or GDP), resulting in Minnesota health care spending consuming a substantially greater share of the economy in 2031 than currently (16.7% and 15.4%, respectively).

By 2031, Minnesota's health care spending is projected to reach nearly $108.7 billion, a $45.2 billion increase from 2021, when spending reached $63.4 billion. Given this higher growth rate, MDH anticipates 2021 spending to double just three years later, by 2034.

To assess the impact of faster-than-historical growth, MDH analyzed what projected spending would be if the average annual rate of growth was consistent with the prior decade. This is important as slower growth in health care spending allows governments, businesses, and individuals to have more resources available to meet other needs – such as transportation, education, higher worker wages, and other household items (e.g., clothing, food, and discretionary items). MDH found that if spending growth remained at 5.2% per year (the average annual growth from 2012 through 2021) instead of the projected growth of 5.6% per

year, spending through 2031 would be about $6.4 billion lower, or lower by approximately $1,100 per Minnesota resident.

Figure 1: Historical and Projected Spending, 2012-2031



Source: Historical spending estimates from Minnesota Department of Health (MDH), Health Economics Program. Projections from Oliver Wyman. Health care spending includes medical and prescription drug spending.

2. Public payers' spending growth will outpace spending growth by private payers

The projected ten-year spending growth in Minnesota will be driven by increased spending for both private and public payers. However, spending by public payers (Medicare, Medical Assistance, MinnesotaCare, and other public spending) is expected to grow at a slightly faster pace than for private payers (5.9% compared to 5.3% per year, respectively; Appendix). Public payer spending growth is projected to be driven by the Medicare program, and to a lesser extent, Medical Assistance – Minnesota's Medicaid program (7.4% and 5.1% per year, respectively; Appendix).

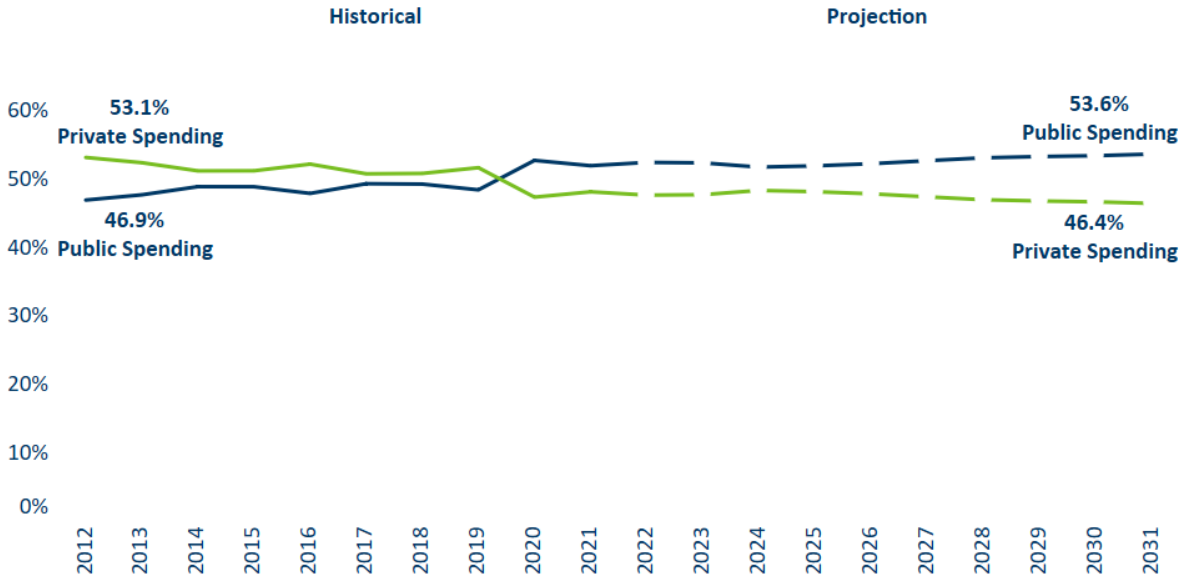
Projections suggest increased per-person spending will drive public program spending growth rather than enrollment increases. Demographic evidence suggests Medicare enrollment growth will slow as Generation X – the cohort of people born between 1965 and 1980 – begins to become eligible for the program. In addition, Medical Assistance enrollment will decline from 2024 through 2026, resulting from renewed eligibility redeterminations;[3] although program enrollment is expected to increase again beginning in 2027, it will be lower than its peak enrollment in 2023.

Medicare spending will also be affected by provisions in the Inflation Reduction Act (IRA) of 2022, including provisions that cap consumer drug out-of-pocket maximum spending in 2025

and establish a process for negotiating prices for specific high-cost drugs beginning in 2026. [4] While price negotiations for high-cost drugs are expected to reduce spending by the federal government and individuals, the limits on out-of-pocket spending will lead to increased spending by the federal government[5], while simultaneously reducing spending for Medicare beneficiaries. Spending by Medicare beneficiaries is included in private payer spending (i.e., out-of-pocket spending), so the impact of reduced cost sharing is not seen in projections of public payer spending.

MDH's spending projections indicate that public payer spending will continue to account for the majority of Minnesota spending: by 2031, public payer spending is anticipated to represent 53.6% of all health care spending in the state (Figure 2).

Figure 2*:* Minnesota Health Care Spending by Payers (Share of Spending)



Source: Historical spending estimates from Minnesota Department of Health (MDH), Health Economics Program. Projections from Oliver Wyman. Health care spending includes medical and prescription drug spending.

Although the share of private payer spending is expected to decrease over the next decade, private health insurance – which provides coverage to most Minnesotans (57.2% in 2021) – will continue to represent the largest single payer category of health care spending in Minnesota. By 2031, private health insurance is anticipated to represent 35.6% of all health care spending – compared to 35.1% in 2021.[6]

Out-of-pocket spending, or payments made directly by individuals for health care, is expected to increase 3.9% per year. This relatively modest growth, measured across all Minnesota residents—including public program enrollees with very little or no cost-sharing—accounts for a decline in the share of total spending (from 11.0% in 2021 to 9.3% in 2031; Appendix). Member cost sharing (i.e., deductibles and maximum out-of-pocket spending) is expected to grow more slowly than overall health care spending and be impacted by lower Medicare Part D beneficiary drug spending due to the aforementioned federal provisions.

3. Hospital spending remains a major driver of spending growth through 2031

From 2022 to 2031, all categories of health care service delivery are expected to grow annually. Similar to past projections, MDH projects hospital spending—most notably outpatient hospital spending—will be one of the main drivers of spending growth over the next decade, rising at an average annual rate of growth (6.0%). The projected level of growth for hospital services is higher than during the previous 10 years, increasing hospitals' share of spending from 31.5% in 2021 to 32.7% in 2031. With projected trends in hospital use, MDH anticipates that outpatient hospital spending will represent more than half (54.4%) of all hospital spending by 2031 (not shown). This continues a trend of the increasing prominence of outpatient spending (and services) in hospitals.

Similarly, long-term care spending is expected to grow at an average annual rate of 6.0% from 2022 through 2031 and, along with physician services, will account for another one-third of the growth in spending. By 2031, hospital and long-term care spending are expected to represent nearly 50% of spending (Table 1). Retail drug spending, not including spending on so-called specialty drugs administered by providers, are projected to increase on average annually as one of the fastest growing services by 2031 (5.8%). Nevertheless, its share of overall spending is projected to stay below 11% by 2031 (not shown).

Table 1: Health Care Spending Projections, Average Annual Growth, Total Change in Projected Spending (Millions of Dollars)

Category of Service	2021 Historical Spending	2022 Projected Spending	2031 Projected Spending	Average Annual Projected Growth (2022 – 2031)	Total Projected $ Change (2022-2031)
Hospital	$19,985	$21,128	$35,589	6.0%	$14,461
Physician	$11,343	$12,011	$19,231	5.4%	$7,220
Long-Term Care	$10,245	$10,902	$18,423	6.0%	$7,521
Retail Prescription Drugs	$6,528	$6,898	$11,501	5.8%	$4,603
Dental	$2,132	$2,132	$3,070	4.1%	$938
Other Professional	$1,781	$1,855	$2,848	4.9%	$993
Other Spending	$11,421	$11,564	$18,022	5.1%	$6,458
Total	**$63,435**	**$66,490**	**$108,684**	**5.6%**	**$42,194**

Source: Historical spending estimates from Minnesota Department of Health (MDH), Health Economics Program. Projections from Oliver Wyman. Health care spending includes medical and prescription drug spending.

Conclusion

Over the next 10 years, projected health care spending in Minnesota is anticipated to grow at a higher average annual rate of growth – 5.6% per year – than the prior decade (5.2%) resulting in $108.7 billion in health care spending by 2031. As mentioned in past reports, MDH is concerned that these high levels of spending do not correspond to any improved health outcomes or increased affordability for consumers. As such, the additional $45.2 billion in spending over just ten years that are extracted from communities removes these resources from other productive uses.

Reflecting an impatience with unsustainable growth and policy initiatives, that so far have failed to meaningfully "bend" the spending growth curve downwards, the 2023 Minnesota Legislature passed a bill[7] to establish the Center for Health Care Affordability[8] (Center) at MDH. The Center will serve as a catalyst to strengthening health care affordability for all Minnesotans through examining health care spending and providing recommendations on making health care affordable for all Minnesotans. A measure of success for the Center and policymakers will be to what extent Minnesota spending growth can be held to reasonable levels, all the while strengthening access to and the quality of health care in Minnesota.

Methodological Notes

To develop projections and spending estimates, MDH considers health care spending as the dollar amount spent for Minnesota residents on medical care and prescription drug costs, and administrative functions by public health, government agencies, and individuals themselves, as well as the costs and profits associated with administering health insurance functions (i.e., net cost of insurance), and long-term care services.[9] This framework includes capturing COVID-19 pandemic support.

Minnesota's spending projections are developed based on historical patterns of Minnesota health care spending and statistical modeling. The projections rely on an assumed stability in the structural relationship between variables representing the economic and policy dimension of health care use and pricing. As such, health care spending projections are subject to considerable uncertainty. External "shocks" such as pandemics, recessions, or significant policy changes affecting access to health care and the cost of it cannot be anticipated or be reflected in these projections.

Appendix

The following tables document Minnesota health care spending by source of fund and distribution over the projection period.

Table A1: Minnesota Projected Health Spending by Source of Funds (Millions of Dollars)

Payer	Program	2021 Historical Spending	2022 Projected Spending	2031 Projected Spending	Average Annual Projected Growth (2022 – 2031)	Total Projected $ Change (2022-2031)
Public	**Public Total**	**$32,925**	**$34,830**	**$58,249**	**5.9%**	**$23,419**
	Medicare	$12,546	$13,206	$25,069	7.4%	$11,863
	Medical Assistance	$15,132	$17,505	$27,274	5.1%	$9,769
	MinnesotaCare	$582	$611	$755	2.4%	$144
	Other Public Spending	$4,664	$3,509	$5,151	4.4%	$1,642
Private	**Private Total**	**$30,509**	**$31,659**	**$50,434**	**5.3%**	**$18,775**
	Private Health Insurance	$22,267	$23,228	$38,684	5.8%	$15,456
	Out-of-Pocket	$6,974	$7,131	$10,070	3.9%	$2,939
	Other Private	$1,268	$1,299	$1,679	2.9%	$380
Overall	**Total**	**$63,434**	**$66,490**	**$108,683**	**5.6%**	**$42,193**

Source: Historical spending estimates from Minnesota Department of Health (MDH), Health Economics Program. Projections from Oliver Wyman.[10]

Table A2: Distribution of Minnesota Projected Health Spending, by Source of Funds

Payer	Program	2021 Historical Spending	2022 Projected Spending	2031 Projected Spending
Public	**Public Total**	**51.9%**	**52.4%**	**53.6%**
	Medicare	19.8%	19.9%	23.1%
	Medical Assistance	23.9%	26.3%	25.1%
	MinnesotaCare	0.9%	0.9%	0.7%
	Other Public Spending	7.4%	5.3%	4.7%
Private	**Private Total**	**48.1%**	**47.6%**	**46.4%**
	Private Health Insurance	35.1%	34.9%	35.6%
	Out-of-Pocket	11.0%	10.7%	9.3%
	Other Private	2.0%	2.0%	1.5%
Overall	**Total**	**100.0%**	**100.0%**	**100.0%**

Source: Historical spending estimates from Minnesota Department of Health (MDH), Health Economics Program. Projections from Oliver Wyman.[10]

Endnotes

[1] The Minnesota Department of Health's actuarial consultants from Oliver Wyman assisted with developing this year's projections and its methodology.

[2] Health Economics Program (www.health.state.mn.us/healtheconomics)

[3] Centers for Medicare & Medicaid Services. Unwinding and Returning to Regular Operations after COVID-19. www.medicaid.gov/resources-for-states/coronavirus-disease-2019-covid-19/unwinding-and-returning-regular-operations-after-covid-19/index.html

[4] Cubanski J, Neuman T, Freed M. "Explaining the Prescription Drug Provisions in the Inflation Reduction Act." Kaiser Family Foundation. January 24, 2023. In 2024, once out-of-pocket spending reaches $8,000, Medicare beneficiaries will reach "catastrophic coverage" and no longer pay any copayment or coinsurance. In 2025, this amount reduces to $2,000.

[5] Congressional Budget Office, Cost Estimate. Table 1: Estimated Budgetary Effects of Title I, Committee on Finance, of Public Law 117-169, to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14. September 7, 2022. [PDF] www.cbo.gov/system/files/2022-09/PL117-169_9-7-22.pdf.

[6] The seven main payer categories of total health care spending in Minnesota are: private health insurance (private payer), out-of-pocket (private payer), other private (private payer), Medicare (public payer), Medical Assistance (public payer), MinnesotaCare (public payer), other public (public payer).

[7] Minnesota Statutes 2023, section 62J.312: www.revisor.mn.gov/statutes/cite/62J.312.

[8] To learn more about the Center for Health Care Affordability, visit the website: www.health.state.mn.us/data/affordability/index.html.

[9] Minnesota health care spending estimates rely on highly aggregated data from payers of health care; they do use patient-level information on volume, utilization, or location of health care services. For more information, visit the MDH Health Economics Supplemental Information: Historical Health Care Spending Estimate Methodology(PDF) (https://www.health.state.mn/data/economics/docs/spendingestimate21.pdf).

[10] "Other public spending" includes government workers' compensation, Veterans Affairs, Department of Defense (TRICARE), state and federal correctional systems, public health spending, and non-claims based health care spending related to the COVID-19 pandemic. "Other private payers" include private workers' compensation and auto medical insurance.

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