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Health Economics Program

Issue Brief
June, 2009

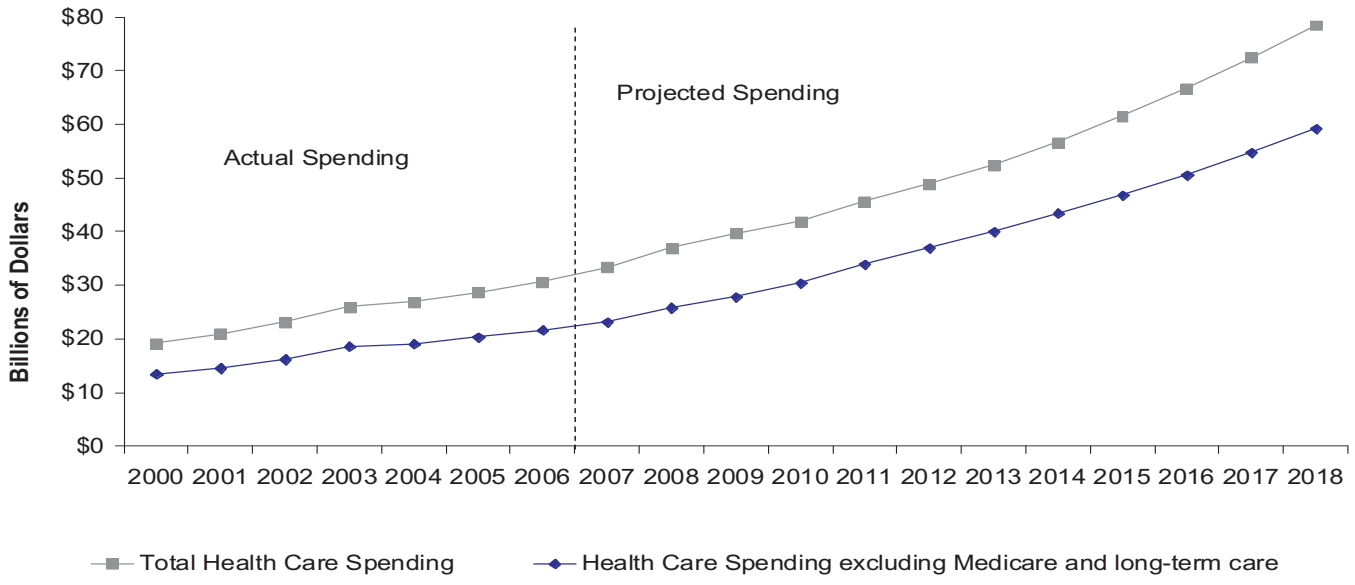
Baseline Health Care Spending Projections to 2018

As part of the health care reforms enacted in 2008, the Minnesota Department of Health is required to establish baseline health care spending projections for the next ten years, beginning with 2008.[1] This issue brief presents baseline health care spending projections for Minnesota through 2018, both in total and excluding Medicare and long-term care spending.

These baseline projections do not include the impact of the health care reforms enacted in 2008. The projections will be updated periodically to reflect changes in the factors used to project spending, such as changes in the forecast for economic growth. Beginning in June 2010, MDH will publish an annual report comparing actual spending to these baseline projections. Differences between actual spending and the baseline projections (excluding Medicare and long-term care) will be used to estimate savings attributable to the reforms.

Baseline Projections

Figure 1
Health Care Spending in Minnesota, 2000 to 2018



Source: MDH historical spending estimates and projections from Mathematica Policy Research, Inc.

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Total Health Care Spending: By 2018, total health care spending in Minnesota is projected to be $78.5 billion (see Figure 1). The projected average annual growth rate from 2008 to 2018 is 7.8 percent. From 1996 to 2006 (the most recent ten years of historical estimates), the average annual growth rate of total health care spending in the state was also 7.8 percent.

Table 1 shows the distribution of health care spending paid by private and public sources. By 2018, the share of total health care expenditures paid by public sources is projected to increase to 42.5 percent (compared to 41.2 percent in 2006), with a corresponding decrease in the share paid by private sources.

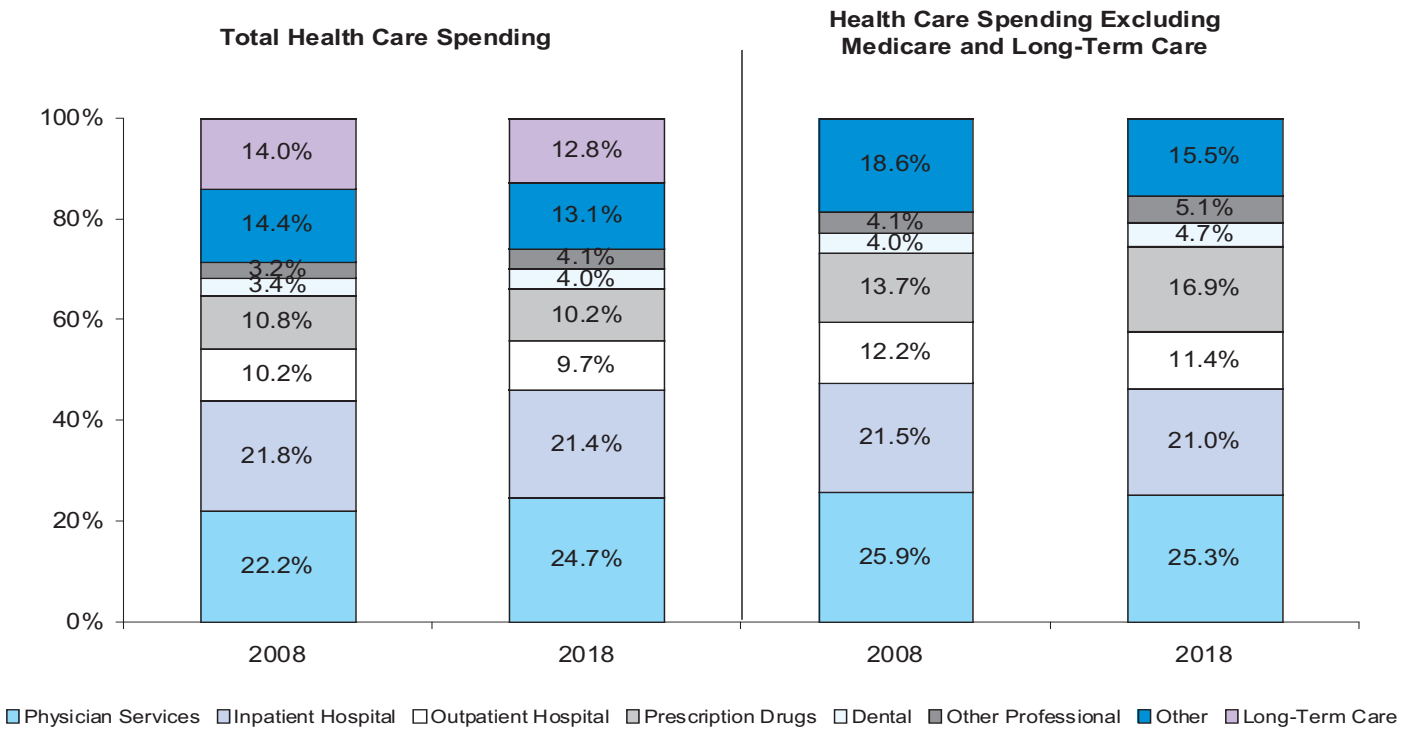
Table 1
Public and Private Health Care Spending, 2000 to 2018
(billions of dollars)

	Total Health Care Spending			Spending Excluding Medicare and Long-term Care		
	Private	Public	Total	Private	Public	Total
Actual						
2000	$11.7	$7.5	$19.2	$10.8	$2.8	$13.5
2001	$12.4	$8.5	$21.0	$11.4	$3.2	$14.6
2002	$13.6	$9.5	$23.1	$12.5	$3.7	$16.2
2003	$15.5	$10.4	$26.0	$14.4	$4.2	$18.6
2004	$16.0	$11.0	$27.0	$14.8	$4.3	$19.2
2005	$17.0	$11.8	$28.7	$15.8	$4.6	$20.4
2006	$18.0	$12.6	$30.7	$16.8	$4.8	$21.7
Projected						
2007	$19.8	$13.5	$33.3	$18.0	$5.2	$23.2
2008	$22.1	$14.8	$36.9	$19.9	$5.9	$25.8
2009	$23.2	$16.4	$39.7	$21.1	$6.7	$27.8
2010	$24.3	$17.6	$41.9	$23.0	$7.5	$30.5
2011	$26.6	$19.1	$45.6	$25.7	$8.2	$33.9
2012	$28.5	$20.5	$48.9	$28.0	$8.9	$37.0
2013	$30.4	$22.1	$52.5	$30.3	$9.7	$40.0
2014	$32.8	$23.9	$56.7	$32.9	$10.5	$43.4
2015	$35.6	$26.0	$61.5	$35.4	$11.4	$46.8
2016	$38.5	$28.2	$66.7	$38.2	$12.4	$50.6
2017	$41.8	$30.7	$72.4	$41.4	$13.4	$54.8
2018	$45.2	$33.4	$78.5	$44.7	$14.6	$59.3

Source: MDH historical spending estimates and projections from Mathematica Policy Research, Inc.

The distribution of spending by type of service is expected to be relatively stable over the next 10 years. As shown in Figure 2, the percentage of total spending that goes to physician services is projected to rise from 22.2 percent to 24.7 percent between 2008 and 2018, offset by slight declines in the share of spending that goes to prescription drugs, dental, outpatient hospital, and inpatient hospital services.

Figure 2
Projected Distribution of Health Care Spending by Type of Service



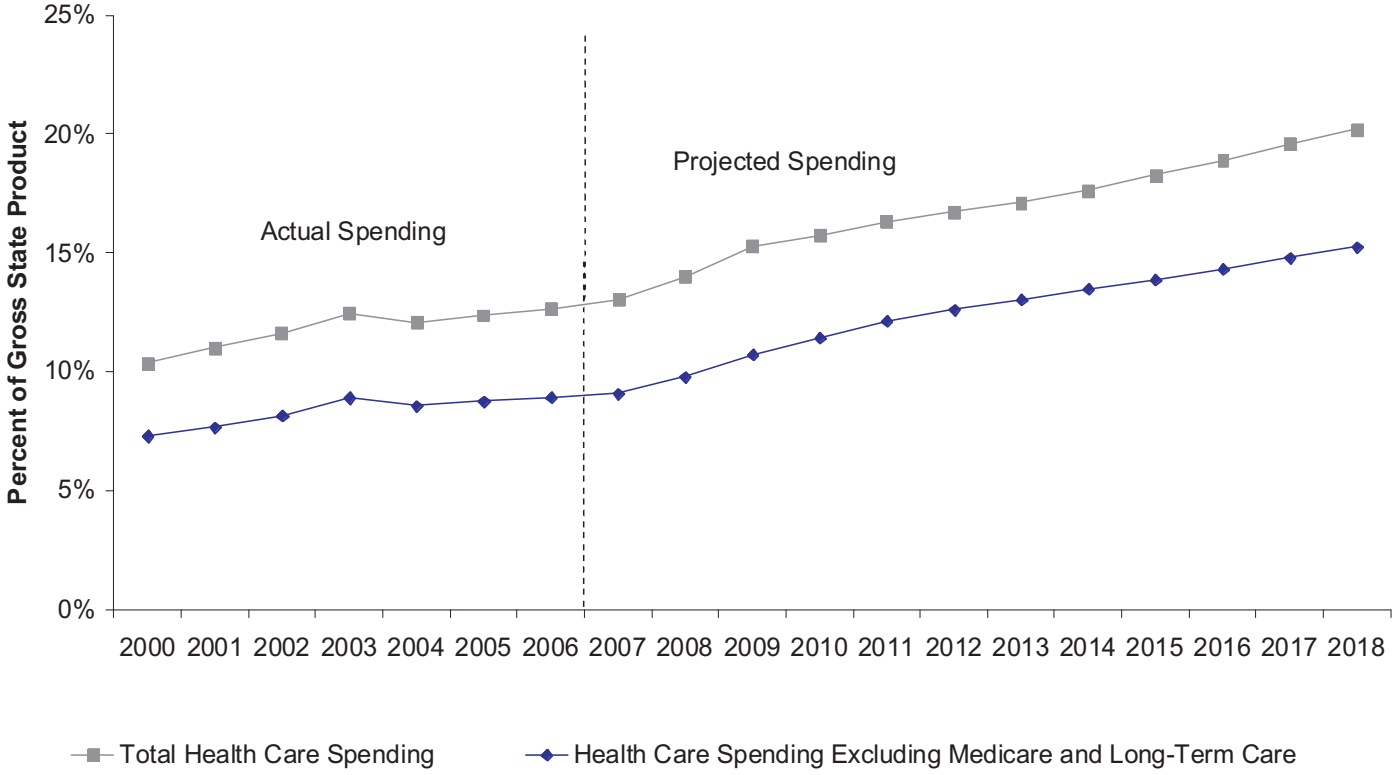
Source: Projections from Mathematica Policy Research, Inc.

Consistent with historical trends, the percentage of Minnesota's gross state product that is spent on health care is projected to increase. As shown in Figure 3, total health care expenditures accounted for 12.7 percent of the state's economy in 2006. By 2018, an estimated 20.2 percent of Minnesota's gross state product is projected to be consumed by health care.

Health Care Spending Excluding Medicare and Long-Term Care: Excluding Medicare and long-term care, health care spending is projected to be $59.3 billion in 2018 (Figure 1). The projected average annual growth rate from 2008 to 2018 is 8.7 percent.

Similar to the projections for total spending, the proportion of non-Medicare, non-long-term care spending paid by private sources is expected to decrease in future years (Table 1). By 2018, approximately 75 percent of these expenditures are projected to be paid by private sources, compared to 78 percent in 2006.

Figure 3
Baseline Projections for Health Care Spending as a Share of the Economy



Sources: Spending estimates - MDH historical spending estimates; projections from Mathematica Policy Research. Gross state product - historical data from the U.S. Department of Commerce, Bureau of Economic Analysis; projections used in the February 2009 state budget forecast

As shown in Figure 2, the share of non-Medicare, non-long term care spending that goes to prescription drugs is projected to increase from 13.7 percent of spending in 2008 to 16.9 percent in 2018.

Health care expenditures excluding Medicare and long-term care represented 8.9 percent of the gross state product in 2006 (Figure 3). By 2018, this figure is projected to increase to 15.3 percent.

Methodology

MDH contracted with Mathematica Policy Research, Inc. to develop the baseline projection model. The methods used are similar to those used by the Centers for Medicare and Medicaid Services to project national health care expenditures. The projections of health care spending for Minnesota residents are derived from two sources: (1) an econometric model of private health care spending and (2) public health care spending projections determined outside the model based on the November 2008 forecast from the Minnesota Department of Human Services. Both private and public projections are based on historical spending estimates constructed by MDH using a variety of data sources.

The econometric model for private spending incorporates state-specific data whenever possible. The variables used to project spending include Minnesota real per capita personal income, Minnesota real per capita public health care spending, a national health care price index, and national real per capita GDP.[2]

Endnotes

[1] Minnesota Statutes, Section 62U.10

[2] The detailed technical report from Mathematica Policy Research is available upon request.

The Health Economics Program conducts research and applied policy analysis to monitor changes in the health care marketplace; to understand factors influencing health care cost, quality and access; and to provide technical assistance in the development of state health care policy.

For more information, contact the Health Economics Program at (651) 201-3550. This issue brief, as well as other Health Economics Program publications, can be found on our website at: http://www.health.state.mn.us/healtheconomics.

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