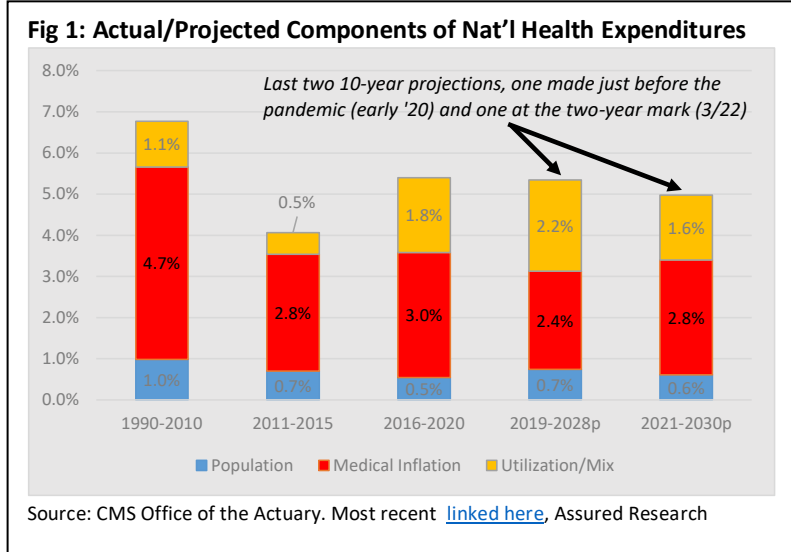


# Assured Comment: Medical Inflation Forecasted to Stabilize After Brief Rise

*But as we look ahead there seems a real risk that demand for healthcare will exceed the supply; recipe for inflation*

The actuaries at the Centers for Medicare & Medicaid Services (CMS) took 2021 off...we understand why. Well, they didn't really take the year off, but they did delay their annual 10-year forecast of national health expenditures (NHE)



in light of the disrupted diagonals caused by COVID and the federal response to the healthcare crisis. **NHE's share of nominal GDP jumped to 19.7% in 2020; that's the highest level recorded since 1960.**

**The good news: CMS' actuaries think NHE and nominal GDP will grow at about the same rate over their latest 10-year forecast period (2021-2030) which means NHE%GDP will remain largely unchanged.** (See Figure 2, bottom.)

That's both interesting and somewhat encouraging if it materializes, but **it's the components of NHE that interest us.** Figure 1 shows the actual historical components of NHE and the CMS' projections made

in early 2020 alongside their just released, 'post' pandemic projections. We'll remind that **growth in aggregate health expenditures are a function of changes in 1) the population; 2) medical inflation; and 3) utilization and mix changes** as the intensity of medical services evolves with the changes in population (e.g., retiring Baby Boomers using more medical care), new technologies, longer lives, etc.

**Broad stability in the forecasted growth of NHE is good for P/C insurers, but a look under the hood reveals some interesting dynamics worth considering.** CMS actuaries expect the disruption from the pandemic (e.g., the boost in supplemental federal spending and medical utilization patterns) to normalize by 2024. But in '22 the CMS forecasts

**Fig 2: History of 10-Year Projections in Components of National Health Expenditures**

From To	2016	2017	2018	2019	2021	Comments
Health Spending	5.8%	5.6%	5.7%	5.4%	5.1%	<i>Slight deceleration</i>
Nominal GDP	4.7%	4.6%	4.6%	4.3%	5.2%	<i>Influenced by pandemic</i>
Health Inflation	2.5%	2.6%	2.6%	2.4%	2.8%	<i>Modest acceleration</i>
U.S. Population	0.9%	0.9%	0.8%	0.7%	0.6%	<i>Decleration</i>
Per Capita Health Spending	4.8%	4.7%	4.8%	4.7%	4.4%	<i>Surprising with Baby...</i>
Per Capita GDP	3.7%	3.7%	3.8%	3.6%	4.5%	<i>...Boom generation?</i>
	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2030</b>	
Health Spending % GDP	19.9%	19.7%	19.4%	19.7%	19.6%	<i>Stable after jump to 19.7% '20</i>

Source: CMS Office of the Actuary. Most recent [linked here](#), Assured Research

**an acceleration in medical inflation – to 3.6% with deceleration thereafter.** We're inclined to attribute the spike to rising wage/labor and materials costs (although the CMS' report did not explain their thinking). But here is where our outlook strays from the CMS: **Over the next decade the population growth in people aged >65 years is forecasted at some 4x the overall population growth.** NHE growth is understandably forecasted to exceed GDP growth from 2025-2030 (older people use more medical

services), but **we have to wonder if that increased utilization could drive inflation higher than the CMS forecasts?** Quite simply (to us) **it seems a real risk that demand for healthcare will grow faster than the supply** (a recipe for accelerating inflation). We're admittedly outside of our area of practice, but if a WC insurer, for instance, said they were going to hold their inflation assumption at 3.5-4.0% and wait to be proven conservative...we wouldn't argue.