



# Key Trends for Minnesota Health Care Spending in 2021

OCTOBER 2024

## Key Findings:

1. Growth in Minnesota health care spending remained over 6% in 2021, outpacing several economic indicators.
2. Increased public program enrollment and higher health care use contributed to high spending growth.
3. Hospital spending drove nearly one-third of the increase in Minnesota health care spending.

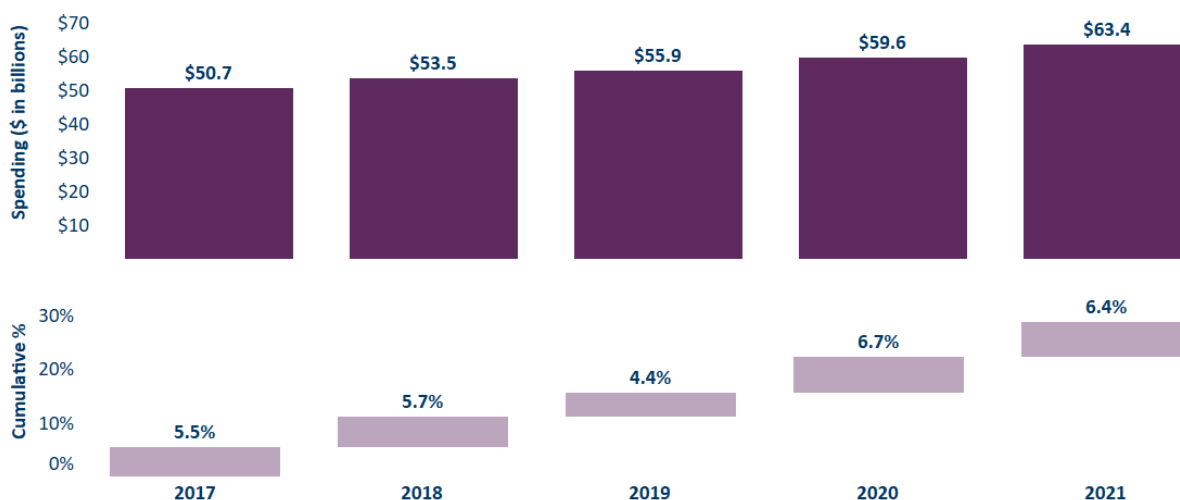
The Minnesota Department of (MDH) has estimated total health care spending for Minnesota residents since 1993. These estimates inform discussions between policymakers and others about the sustainability of spending on health care, drivers of growth, and how to transform health care to ensure greater affordability.

In the latest brief, MDH summarizes key trends for health care spending in 2021; ten-year health care spending projections are produced separately. Historical data on health care spending is available online in a variety of data formats on the [Health Economics Program](#) website.<sup>1</sup>

## 1. Health care spending growth remained higher than growth in several economic indicators

Minnesota's 2021 health care spending grew 6.4% (an increase of \$3.8 billion), reaching over \$63.4 billion; health care spending is the amount spent for Minnesota residents on medical care and prescription drug costs, public health and government administrative costs for those activities, administrative costs and profits (i.e., net cost of insurance) for health plan companies, and long-term care services.<sup>2</sup> Health care spending related to COVID-19 pandemic support were included in these estimates.

Although this rate of growth was slightly lower than 2020 (6.7%), the 2021 increase in spending is a continuation of elevated growth in all but one of the past five years (Figure 1). It also outpaced growth in several standard economic variables, including wages and inflation. Despite increases in health care spending, significant improvements in health outcomes for Minnesotans remain elusive.<sup>3</sup>

**Figure 1: Historical Spending and Annual Growth, 2017-2021**

Source: Minnesota Department of Health (MDH), Health Economics Program.

The effects from the COVID-19 pandemic on health care spending, which were substantial in 2020, looked different in 2021:

- While \$1.6 billion dollars from federal, state, and local sources flowed into Minnesota in 2021 to assist the health care and public health systems (COVID-19 support spending), it was about half the amount Minnesota received in 2020.<sup>4</sup>
- In 2021, more funds were focused on vaccination and shoring up capacity in disease epidemiology and laboratory, compared to a focus on provider and health care system relief and small business loans the year before.
- Increased spending by public and private health insurance, and out-of-pocket spending in 2021 more than offset the decrease in COVID-19 support spending.<sup>5</sup>
- Finally, Minnesotans used more health care services in 2021, perhaps in part due to pent up demand after much lower use in 2020, and in part due to care related directly to COVID-19 (testing, vaccination, etc.). In 2021, providers also faced fewer operational constraints than during the height of the pandemic, a year earlier, when vaccines were not yet available.<sup>6</sup>

## 2. Increased enrollment drove public spending

After a decrease in private spending in 2020, health care spending by private payers (private health insurance spending, consumer out-of-pocket expenses, and other private spending<sup>7</sup>) grew again in 2021. Public payers' health care spending (Medical Assistance, Minnesota's Medicaid program, Medicare, and other public spending<sup>8</sup>) grew as well in 2021.

As shown in Table 1, while 2021 spending growth was higher for private payers (8.1%) than for public payers (4.8%), the highest rate of growth was seen in Medicare (9.4%) and in Medical Assistance and MinnesotaCare (14.9% and 21.0%, respectively). For Medical Assistance and MinnesotaCare, increased enrollment was the primary driver of increased spending, as the

continuous enrollment provisions under the Public Health Emergency resulted in continuous coverage for more Minnesotans. As noted above, increased use of services was a contributing factor to spending growth.

**Table 1: Minnesota Health Spending by Source of Funds (Millions of Dollars)**

Payer	Program	2017	2018	2019	2020	2021	2020 to 2021 Change
Public	<b>Public Total</b>	<b>\$24,965</b>	<b>\$26,351</b>	<b>\$27,031</b>	<b>\$31,412</b>	<b>\$32,925</b>	<b>4.8%</b>
	Medicare	\$10,383	\$10,982	\$11,570	\$11,470	\$12,546	9.4%
	Medical Assistance	\$11,624	\$12,277	\$12,255	\$13,167	\$15,132	14.9%
	MinnesotaCare	\$396	\$438	\$422	\$481	\$582	21.0%
	Other Public Spending	\$2,562	\$2,654	\$2,785	\$6,293	\$4,664	-25.9%
Private	<b>Private Total</b>	<b>\$25,697</b>	<b>\$27,182</b>	<b>\$28,837</b>	<b>\$28,218</b>	<b>\$30,509</b>	<b>8.1%</b>
	Private Health Insurance	\$18,710	\$19,811	\$21,093	\$20,852	\$22,267	6.8%
	Out-of-Pocket	\$5,771	\$6,107	\$6,446	\$6,226	\$6,974	12.0%
	Other Private	\$1,215	\$1,264	\$1,298	\$1,141	\$1,268	11.2%
<b>Overall</b>	<b>Total</b>	<b>\$50,662</b>	<b>\$53,533</b>	<b>\$55,869</b>	<b>\$59,630</b>	<b>\$63,434</b>	<b>6.4%</b>

Source: Minnesota Department of Health (MDH), Health Economics Program.

With large increases in both private and public payer spending, private spending—for the second year in a row—accounted for less than half of all Minnesota health care spending in 2021 (48.1%, Table 2). In addition to enrollment increases in public insurance programs through increased Medicare eligibility, the continuous enrollment provision for Medical Assistance/MinnesotaCare, and the pandemic supports, the enrollment decline in private health insurance (3.4%) contributed to this trend. The number of Minnesotans without health insurance was unchanged in 2021.<sup>9</sup>

As the COVID-19 pandemic support spending declines further and the end of the continuous enrollment provisions approaches, with the potential to reduce enrollment in Medical Assistance and MinnesotaCare, this balance may once again shift back to private spending. A potential offsetting trend could be the ongoing aging of Minnesotans into Medicare eligibility, driving increased spending in traditional Medicare and Medicare Advantage programs.

**Table 2: Distribution of Minnesota Health Spending by Source of Funds**

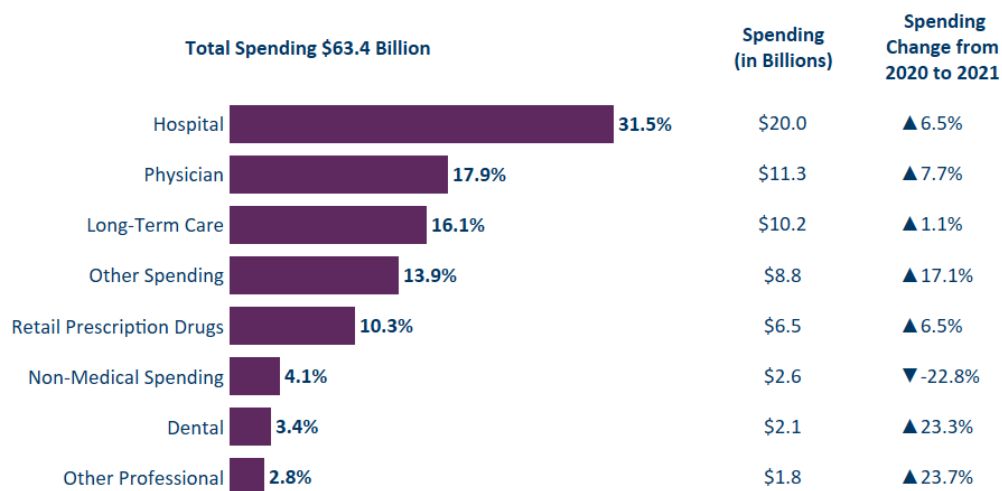
Payer	Program	2017	2018	2019	2020	2021
Public	<b>Public Total</b>	<b>49.3%</b>	<b>49.2%</b>	<b>48.4%</b>	<b>52.7%</b>	<b>51.9%</b>
	Medicare	20.5%	20.5%	20.7%	19.2%	19.8%
	Medical Assistance	22.9%	22.9%	21.9%	22.1%	23.9%
	MinnesotaCare	0.8%	0.8%	0.8%	0.8%	0.9%
	Other Public Spending	5.1%	5.0%	5.0%	10.6%	7.4%
Private	<b>Private Total</b>	<b>50.7%</b>	<b>50.8%</b>	<b>51.6%</b>	<b>47.3%</b>	<b>48.1%</b>
	Private Health Insurance	36.9%	37.0%	37.8%	35.0%	35.1%
	Out-of-Pocket	11.4%	11.4%	11.5%	10.4%	11.0%
	Other Private	2.4%	2.4%	2.3%	1.9%	2.0%
<b>Overall</b>	<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Minnesota Department of Health (MDH), Health Economics Program.

### 3. Hospital spending drove nearly one-third of the 2021 health care spending increase

Hospital spending continued to represent about \$30 of every \$100 spent on health care for Minnesota residents (31.5%, Figure 2). The rebound in utilization, especially in private insurance and Medicare, pushed hospital spending to account for nearly one-third (32.2%; not shown) of the increase in total health care spending. This was double the contribution to spending growth in 2020. Hospital spending—encompassing both inpatient and outpatient care delivered by hospitals—grew 6.5% to reach \$20.0 billion.

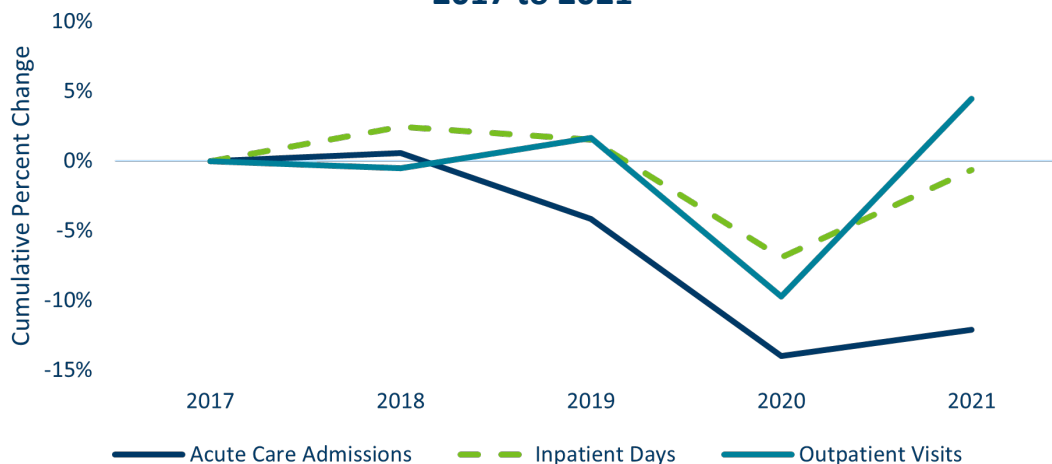
COVID-19 pandemic support spending contributed only moderately to hospital spending growth in 2021. While overall pandemic support funds in 2021 declined by about 50%, hospitals experienced an 80% reduction in these funds, for a total 2021 contribution to spending of \$256.3 million.

**Figure 2: Minnesota Health Care Spending by Categories of Service, 2021**

Source: Minnesota Department of Health (MDH), Health Economics Program. May not total to 100% due to rounding.<sup>10</sup>

Hospital spending growth is affected by changes in prices, use, and the mix of services delivered to patients. MDH has not analyzed changes in service mix, but it found prices in the commercial market—the market space where hospitals have pricing power—to have increased from 2020 to 2021.<sup>11</sup> Utilization, on the other hand, has changed surprisingly little in aggregate since 2017, though there have been year-over-year fluctuations driven primarily by the COVID-19 pandemic. Cumulatively, the number of outpatient visits rose very modestly between 2017 and 2021 (4.5%), while the number of hospital admissions and inpatient days actually fell below 2017 levels (a cumulative decrease of -12.1% and -0.7% from 2017, respectively, Figure 3). While all metrics increased from 2020—a unique year with reduced utilization—only outpatient visits rebounded to exceed levels prior to the pandemic.

**Figure 3: Change in Hospital Utilization at Minnesota Community Hospitals, 2017 to 2021**



Source: Minnesota Department of Health (MDH), Health Economics Program analysis of hospital annual reports. Accessed December 14, 2022.

## Conclusion

Health care spending for Minnesota residents increased again by over 5% in 2021 – reaching over \$63.4 billion; this level of growth is higher than the change in numerous economic indicators, including wages and inflation. The reasons for the increase are due to increased use of health care services, increased public program enrollment, and some continued spending related to the COVID-19 pandemic (although less than in 2020). Similar to past reporting, MDH did not observe evidence that increased spending improved affordability for consumers or health outcomes.

Instead, increasing health care spending results in further extraction of financial resources from communities with little measurable benefit to residents, a challenge that is not unique to Minnesota. Nationally, there are concerns about the sustainability of health care spending growth and stakeholders representing patient advocates, employers, and state budgets are alarmed about the increasing bite health care takes out of available resources. Particularly over the past ten years, state and federal policy makers have experimented with initiatives and policy designs to manage health care spending growth, actively engage health systems and insurers on transformation ideas, understand spending drivers, and implement payment policies to reform the incentives in health care markets. Among these are:

- Adopting health spending targets and establishing global budgets.
- Providing oversight over health care provider mergers and acquisitions.
- Creating greater transparency over health care prices and price setting.
- Incentivizing the adoption of alternative payment systems.
- Making investments in public health and primary care to shift the focus toward whole person care.

## KEY TRENDS FOR MINNESOTA HEALTH CARE SPENDING IN 2021

Minnesota recently joined states that aim to take control over health care spending trends by recently passing significant data initiatives, adopting nation-leading prescription drug price initiatives, authorizing new research, and shoring up oversight over health care entity transactions.<sup>12</sup> The required establishment of a Center for Health Care Affordability at the Minnesota Department of Health represents a particularly promising step toward developing reasonable policy initiatives on spending growth that will bring together public engagement, research and analysis, and advocacy for affordable health care in Minnesota. This work began in early 2024, focusing initially on conducting key informant interviews, developing a roadmap and a research agenda, and establishing an advisory group to help guide this work. Updates on this work will be available throughout the year.

## Endnotes

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<sup>1</sup> [Health Economics Program \(http://www.health.state.mn.us/healthconomics\)](http://www.health.state.mn.us/healthconomics)

<sup>2</sup> 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 Program Supplemental Information: [Historical Health Care Spending Estimate Methodology \(PDF\) \(https://www.health.state.mn.us/data/economics/docs/spendingestimate21.pdf\)](https://www.health.state.mn.us/data/economics/docs/spendingestimate21.pdf).

<sup>3</sup> MDH review of Centers for Disease Control and Prevention BRFSS Prevalence and Trends Data – Minnesota Overall Health Status (age-adjusted prevalence) from 2011 to 2021. Radley D, et al. Commonwealth Fund. The Commonwealth Fund 2023 Scorecard on State Health System Performance: Americans' Health Declines and Access to Reproductive Care Shrinks, But States Have Options. June 2023.

<sup>4</sup> MDH analysis of COVID-19 support spending that was not otherwise included in claims data (and therefore not already counted) was approximately \$3.3 billion in 2020 and \$1.6 billion in 2021. Additional information on the methodology is available at [Historical Health Care Spending Estimate Methodology](https://www.health.state.mn.us/data/economics/docs/spendingestimate21.pdf).

<sup>5</sup> Additional tables and figures are available at [Minnesota Health Care Spending Trends, 2017 – 2021: A Data Short Take \(PDF\) \(https://www.health.state.mn.us/data/economics/docs/shorttakespending.pdf\)](https://www.health.state.mn.us/data/economics/docs/shorttakespending.pdf).

<sup>6</sup> MDH analysis of communication with health insurers during data collection for the 2021 and 2022 Health Plan Financial and Statistical Report. In 2020, providers temporarily closed offices and health systems enacted elective surgery delays during periods of high COVID-19 cases, for example: State of Minnesota Emergency Executive Order 20-09.

<sup>7</sup> “Other private spending” includes workers’ compensation and medical care covered by auto insurance.

<sup>8</sup> “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.

<sup>9</sup> See MDH, Health Economics Program. [2021 Minnesota Health Access Survey Key Findings, April 2022 \(PDF\) \(https://www.health.state.mn.us/data/economics/hasurvey/docs/mnha2021infographic.pdf\)](https://www.health.state.mn.us/data/economics/hasurvey/docs/mnha2021infographic.pdf) and MDH, Health Economics Program. [Minnesota Saw Continued Improvement in Health Insurance Coverage Almost a Year into the Pandemic, May 2021 \(PDF\) \(https://www.health.state.mn.us/data/economics/docs/inscoverage2021.pdf\)](https://www.health.state.mn.us/data/economics/docs/inscoverage2021.pdf).

<sup>10</sup> “Other Spending” includes chemical dependency/mental health, durable medical, public health spending, correctional facility health spending, Indian Health Services, not itemized spending, and uncategorized spending. “Non-medical spending” includes health plan administrative expenses and revenues in excess of expenses. “Long-term care” spending includes home health care services. “Other professional services” spending includes services provided by health practitioners who are not physicians or dentists.

<sup>11</sup> See MDH Health Economics Program. [Supplement: Health Care Spending, Prices, and Utilization in Minnesota: 2017 to 2021, December 2023 \(PDF\) \(https://www.health.state.mn.us/data/economics/docs/spendingrptsupp2017to2021.pdf\)](https://www.health.state.mn.us/data/economics/docs/spendingrptsupp2017to2021.pdf).

<sup>12</sup> See MDH, Health Economics Program. [2023 Legislative Session: New Duties for the Health Economics Program, June 2023 \(PDF\) \(https://www.health.state.mn.us/data/economics/docs/2023legsummary.pdf\)](https://www.health.state.mn.us/data/economics/docs/2023legsummary.pdf).



## KEY TRENDS FOR MINNESOTA HEALTH CARE SPENDING IN 2021

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