



CBO Warns Continued Rise in Federal Health Spending Threatens Sustainability of Budget, Economic Growth

This document summarizes elements of the Congressional Budget Office's [2013 Long-Term Budget Outlook](#) and CBO's blog post, "[Federal Spending on the Government's Major Health Care Programs Is Projected to Rise Substantially Relative To GDP.](#)" Content other than headers are quotes.

Health Care Spending Will Continue to Increase the Deficit

- Budget deficits would gradually rise again under current law, CBO projects, mainly because increasing internet costs and growing spending for Social Security and the government's major health care programs (Medicare, Medicaid, the Children's Health Insurance Program, and subsidies to be provided through health insurance exchanges).
- The pressures of an aging population, rising health care costs, and an expansion of federal subsidies for health insurance would cause spending for some of the largest federal programs to increase relative to GDP. The aging of the baby-boom generation, together with growth in health care spending per person and an expansion of federal subsidies for health insurance, is expected to steadily boost the government's spending for Social Security and major health care programs. Barring changes to current law, that additional spending would contribute to rising budget deficits starting in a few years, causing federal debt to swell from a level that is already very high relative to the size of the economy.

The Current Spending Path Is Unsustainable, Even "Impossible" to Maintain

- By 2023, federal debt held by the public would equal 71 percent of GDP and would be on an upward trajectory. Under a wide range of possible assumptions about some key factors that influence federal spending and revenues, the budget is on an unsustainable path.
- Deficits are sustainable in the long run only if federal debt grows no more rapidly than the economy. But under the extended baseline, interest rates would exceed the growth rate of the economy.
- The growth of health care spending cannot exceed economic growth indefinitely, because if it did, total spending on health care would eventually account for all of the country's economic output—an impossible outcome.

Spending on Federal Health Care Programs Will Outpace Economic Growth

- Most of the projected growth in noninterest spending as a share of GDP over the long term is expected to come from the government's major health care programs: Medicare, Medicaid, the Children's Health Insurance Program, and subsidies to help people purchase health insurance through the exchanges created under the Affordable Care Act. Under current law, total outlays for those health care programs, net of offsetting receipts, would grow much faster than the economy, increasing from almost 5 percent of GDP now to 8 percent in 2038.
- Although the growth of health care spending has slowed recently, CBO projects that spending per enrollee in federal health care programs will continue to increase at a faster pace than per capita GDP.

Increased Spending Driven By Aging Seniors, Rising Costs, and Obamacare

- Those projected increases in spending stem from three factors: the aging of the population; rising health care spending per beneficiary; and changes related to the ACA, specifically the introduction of exchange subsidies and the expansion of Medicaid in many states.
- Three factors underlie the projected increase in federal spending for the major health care programs and Social Security as a percentage of GDP: the aging of the U.S. population, "excess cost growth," and the upcoming expansion of Medicaid eligibility and provision of health insurance subsidies authorized by the ACA.

Federal Entitlement Programs – Including Obamacare – Are Driving Our Spending Problem

- The growth of federal noninterest spending as a share of gross domestic product (GDP) results entirely from projected increases in spending for a few large programs: Social Security, Medicare, Medicaid, and (to a lesser extent) insurance subsidies that will be provided through the health insurance exchanges established under the Affordable Care Act (ACA). The health care programs, which currently account for just over half of total spending for those large programs, are *responsible for almost three-quarters of the rise in spending projected for those programs* over the next 25 years under the extended baseline.

Federal Spending A “Challenge” For “State and Local Governments, Businesses, and Households”

- Although spending for health care in the United States has grown more slowly in recent years than it had previously, high and rising levels of such spending continue to pose a challenge not only for the federal government’s two major health insurance programs, Medicare and Medicaid, but also for state and local governments, businesses, and households.

Annual Increase in Health Spending Outpaces Economic Output Per Person Since 1985

- Total national spending on health care services and supplies increased from 4.6 percent of GDP in calendar year 1960 to 9.5 percent in 1985 and to 16.4 percent in 2011, the most recent year for which such data are available. Underlying those trends, health care spending per person has grown faster, on average, than the nation’s economic output per person since 1985, even after the recent slowdown is factored in.
- CBO estimates that growth in health care spending per person (after adjusting for demographic changes) has outpaced growth in GDP per capita by an average of 1.5 percent per year since 1985.

Obamacare Part of “Sharp Increase” In Number of People Pushing Federal Health Spending Higher

- ...Federal spending for health care will be pushed up in the future by a sharp increase in the number of people receiving benefits from government programs.....[including] the expansion of federal support for health insurance under the Affordable Care Act (ACA), which will significantly increase the number of people receiving benefits from Medicaid and make other people eligible for subsidies for health insurance purchased through exchanges.
- Over the next 25 years, aging accounts for 35 percent of the programs’ spending growth relative to GDP in CBO’s extended baseline, excess cost growth accounts for 40 percent, and the expansion of federal subsidies accounts for 26 percent.

Medicare Spending On Track to Nearly Double Over Next 25 Years

- Net federal spending for those programs (that is, spending net of offsetting receipts for Medicare) would grow from an estimated 4.6 percent of GDP in 2013 to 8.0 percent in 2038.

Future Federal Health Care Spending Could Be Even Worse Than Predicted

- Beyond the coming decade, projecting federal health care spending becomes increasingly difficult because of the considerable uncertainties involved. A wide range of changes could occur—in people’s health, in the sources and extent of their insurance coverage, and in the delivery of medical care—that are almost impossible to predict but that could have a significant effect on federal health care spending. Therefore, CBO followed a fairly formulaic approach for the projections beyond 2023.
- Several [sic] demonstrations are currently under way; which of them—if any—will prove to be successful in slowing spending growth and can be scaled up is uncertain.

Taxpayers Are Increasingly Paying More for Medicare through General Federal Tax Revenue

- The amount of Medicare payroll taxes collected has declined from 63 percent of gross federal spending for Medicare in 2000 to an estimated 35 percent in 2013. During that same period, the share of those benefits financed by beneficiaries' premiums and other offsetting receipts has grown from 10 percent to an estimated 13 percent, and the share financed by general funds of the government, income taxes on benefits, and the remaining sources of funding for the program has increased from 27 percent to 51 percent.

Making Medicare Solvent Requires Hard Choices

- Eliminating [Medicare's solvency gap] would require an immediate and permanent increase in HI payroll taxes from 2.9 percent to 3.9 percent of taxable payroll as currently projected, an immediate and permanent cut in spending on Part A equal to almost one-quarter of current spending, or some combination of tax increases and spending cuts with an overall present value equal to 1.0 percent of projected taxable payroll..

Medicare's Insolvency Means Seniors Access to Health Care "Would Almost Certainly Be Reduced"

- Once the HI trust fund was exhausted, it appears that total payments to health plans and providers for services covered under Part A of Medicare would be limited to the amount of revenues subsequently credited to the trust fund. If that occurred, beneficiaries' access to health care services would almost certainly be reduced.

Seniors on Medicare Have Increasingly Benefits Greater Relative To Their Contributions

- Over their lifetime, beneficiaries born in the 1940's would, on average, receive about \$160,000 in benefits (net of premiums paid) and pay about \$45,000 in payroll taxes (both figures are expressed in 2013 dollars). Those born in the 1950's would receive, on average, about \$205,000 in benefits and pay about \$60,000 in payroll taxes, CBO estimates. And those born in the 1960's would receive, on average, about \$270,000 in benefits and pay about \$65,000 in payroll taxes.