



# Congressional Budget Office

February 19, 2015

## Health Care and the Federal Budget

2015 Health Care Forecast Conference  
University of California, Irvine

James Baumgardner  
Deputy Assistant Director

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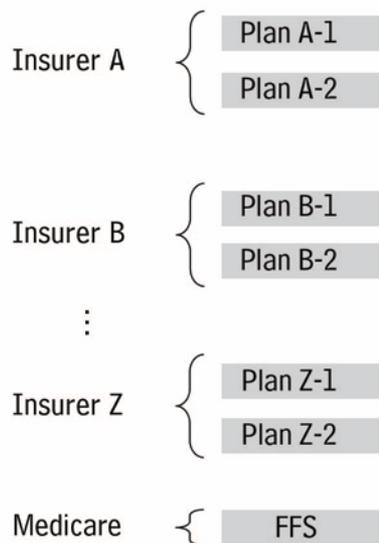
# Analysis of Premium Support Options

# Key Operations Under the Illustrative Second-Lowest-Bid Option for Premium Support

**Operation in each region:** The federal government divides the country into regions that reflect health care markets within states. Any insurer that submits a bid for a region would be required to serve the entire region.

## Bidding

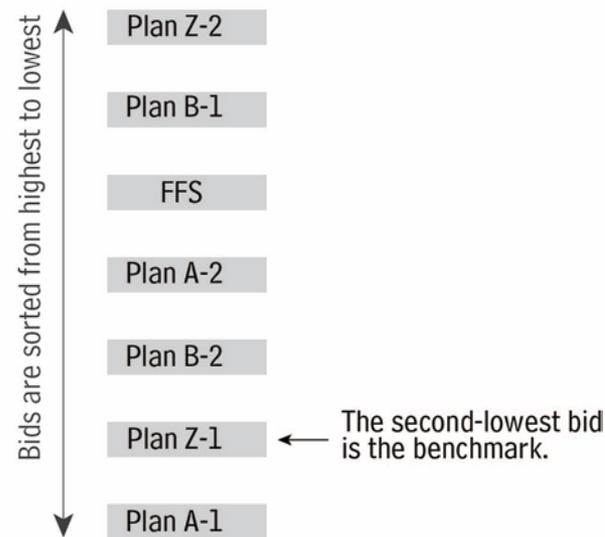
Insurers submit bids for up to two basic plans per region indicating the amount they are willing to accept to provide a package of benefits to a beneficiary in average health. All plans cover the same percentage of total expenses that Medicare's FFS program provides under current law.



The FFS program is a competing plan with a bid equal to the projected cost of care for a beneficiary of average health within the region.

## Benchmark

In this option, the benchmark is the lower of the region's second-lowest bid from a private plan and the bid from the FFS program. The other option has the benchmark set as the average bid, weighted by enrollment in the previous year.



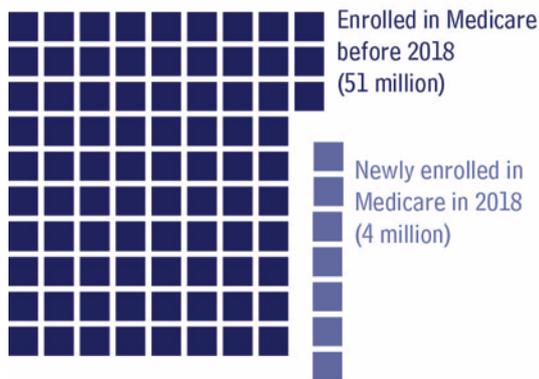
# Key Operations Under the Illustrative Second-Lowest-Bid Option for Premium Support (Continued)

## Participation

Dual-eligible beneficiaries (who enroll in Medicare and Medicaid simultaneously) are excluded.

Anyone else enrolled in Medicare when the program takes effect enters the new system.

### Number of Eligible Beneficiaries



People who become eligible after 2018 (except dual-eligible beneficiaries) enter the new system when they become eligible.

## Plan Selection and Premiums

Beneficiaries either select a plan or are assigned to a plan with a bid at or below the benchmark.

### For all beneficiaries:

beneficiary's premium =  
standard premium + plan's bid – benchmark

Plan	Premium
Plan Z-2	Standard + \$\$\$
Plan B-1	Standard + \$\$
FFS	Standard + \$\$
Plan A-2	Standard + \$
Plan B-2	Standard + \$
Plan Z-1	Standard ← The second-lowest bid is the benchmark.
Plan A-1	Standard – \$

The standard premium is calculated as 25 percent of the national average of the cost per beneficiary for services and supplies covered by Part B.

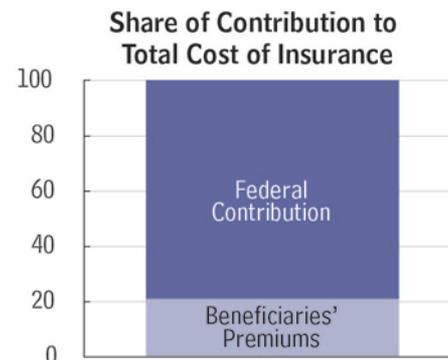
## Federal Contribution

The government pays most of the cost of insurance for covered Part A and Part B benefits.

### For a beneficiary in average health:

federal contribution =  
benchmark – standard premium

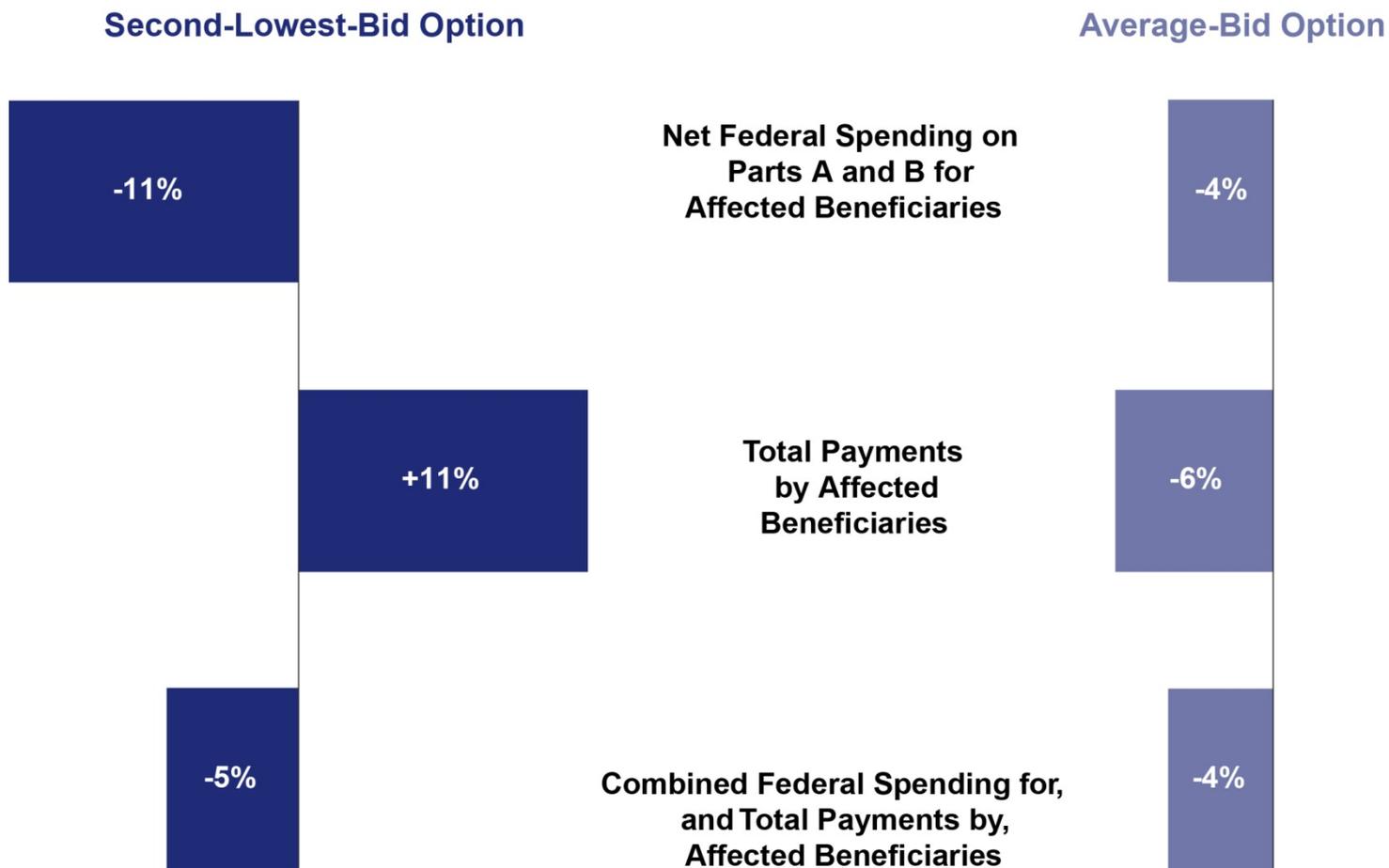
The payment to each plan is adjusted up or down for beneficiaries in worse or better health than average.



### For all plans:

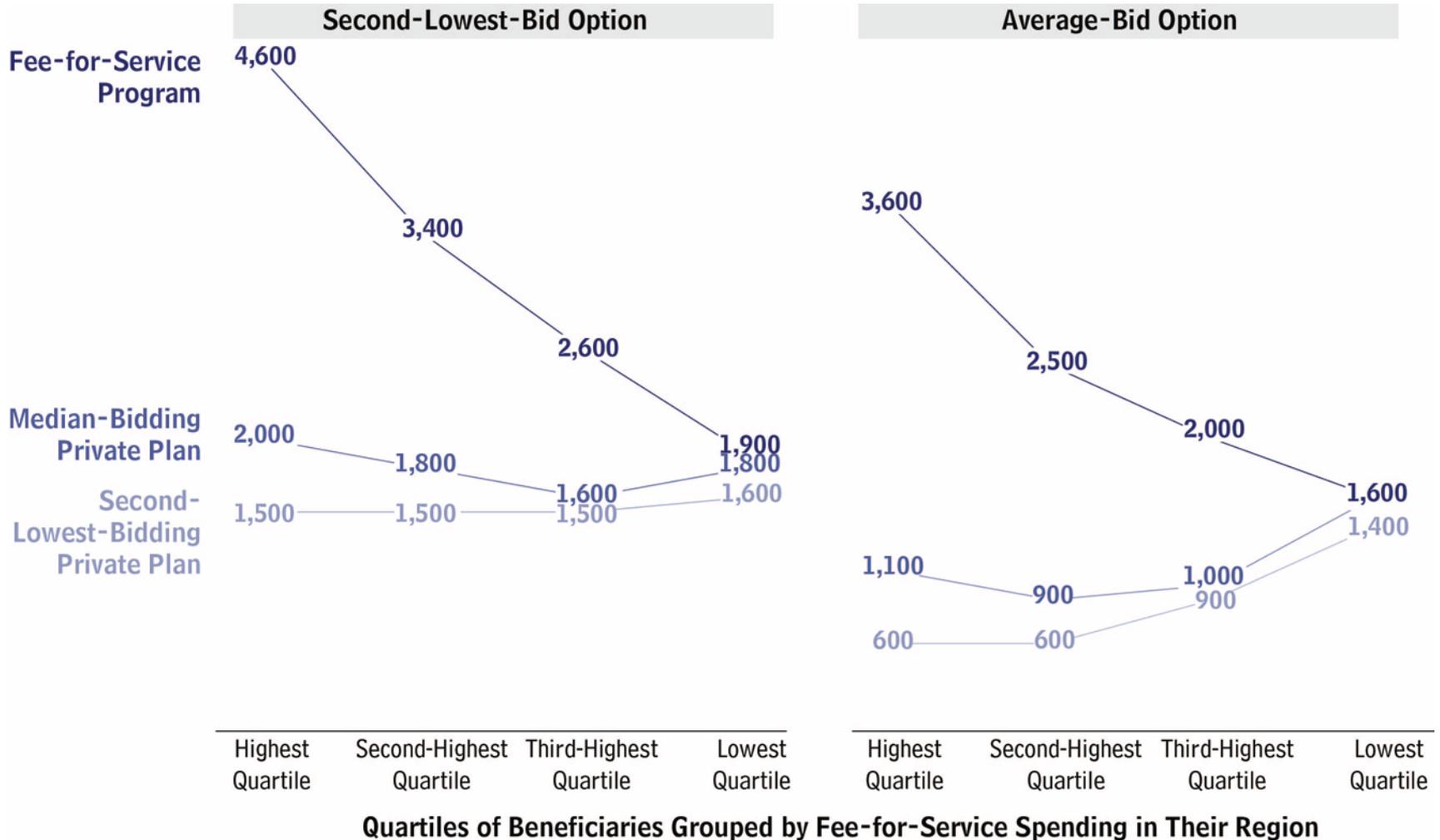
total payments received for a beneficiary in average health = bid

# Effects of Options on Spending for Medicare Benefits



# Average Annual Premiums Charged by Plans for Medicare Part A and B Benefits Under Illustrative Premium Support Options, by Fee-for-Service Spending in a Region, Weighted by Population, 2020

Dollars



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# The Ten-Year Budget Outlook

# CBO's Baseline Budget Projections, in Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016- 2020	2016- 2025
Revenues	3,021	3,189	3,460	3,588	3,715	3,865	4,025	4,204	4,389	4,591	4,804	5,029	18,652	41,670
Outlays	3,504	3,656	3,926	4,076	4,255	4,517	4,765	5,018	5,337	5,544	5,754	6,117	21,540	49,310
<b>Deficit</b>	<b>-483</b>	<b>-468</b>	<b>-467</b>	<b>-489</b>	<b>-540</b>	<b>-652</b>	<b>-739</b>	<b>-814</b>	<b>-948</b>	<b>-953</b>	<b>-951</b>	<b>-1,088</b>	<b>-2,887</b>	<b>-7,641</b>
Debt Held by the Public at the End of the Year	12,779	13,359	13,905	14,466	15,068	15,782	16,580	17,451	18,453	19,458	20,463	21,605	n.a.	n.a.

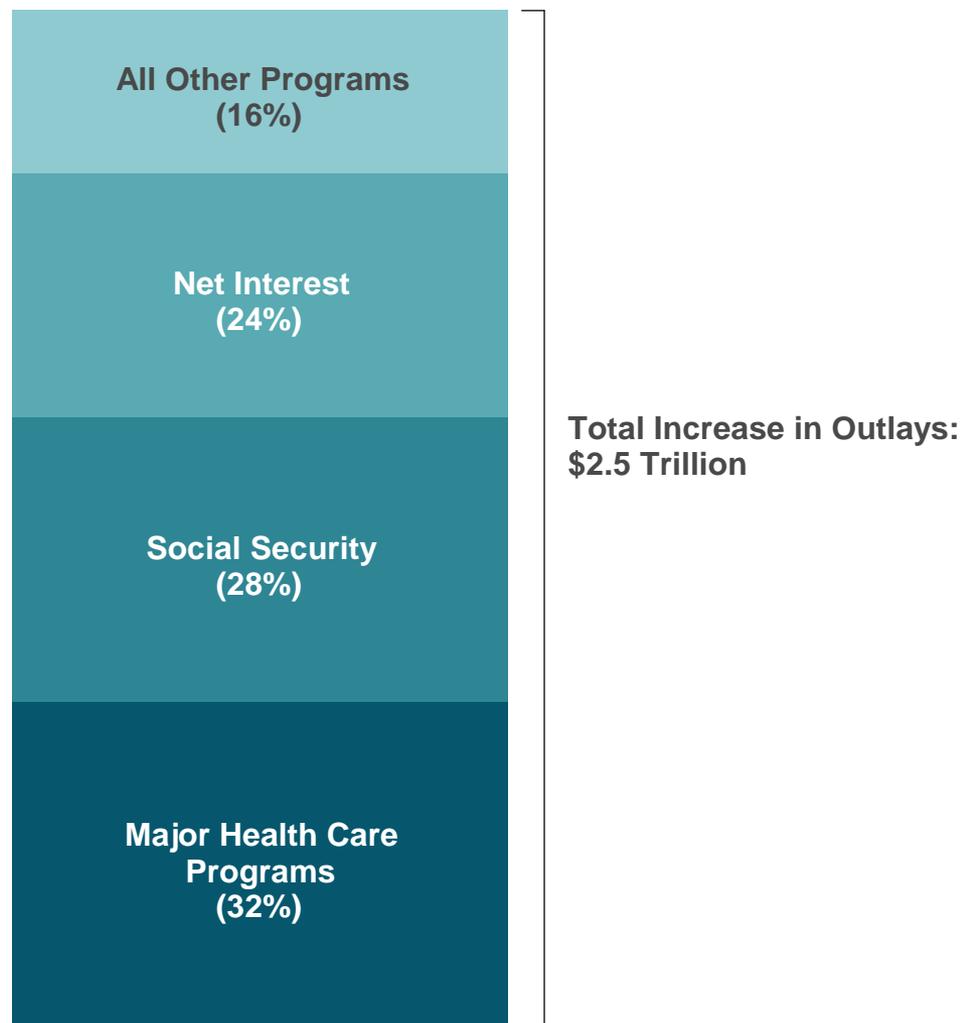
Note: n.a. = not applicable.

# CBO's Baseline Budget Projections, as a Percentage of Gross Domestic Product

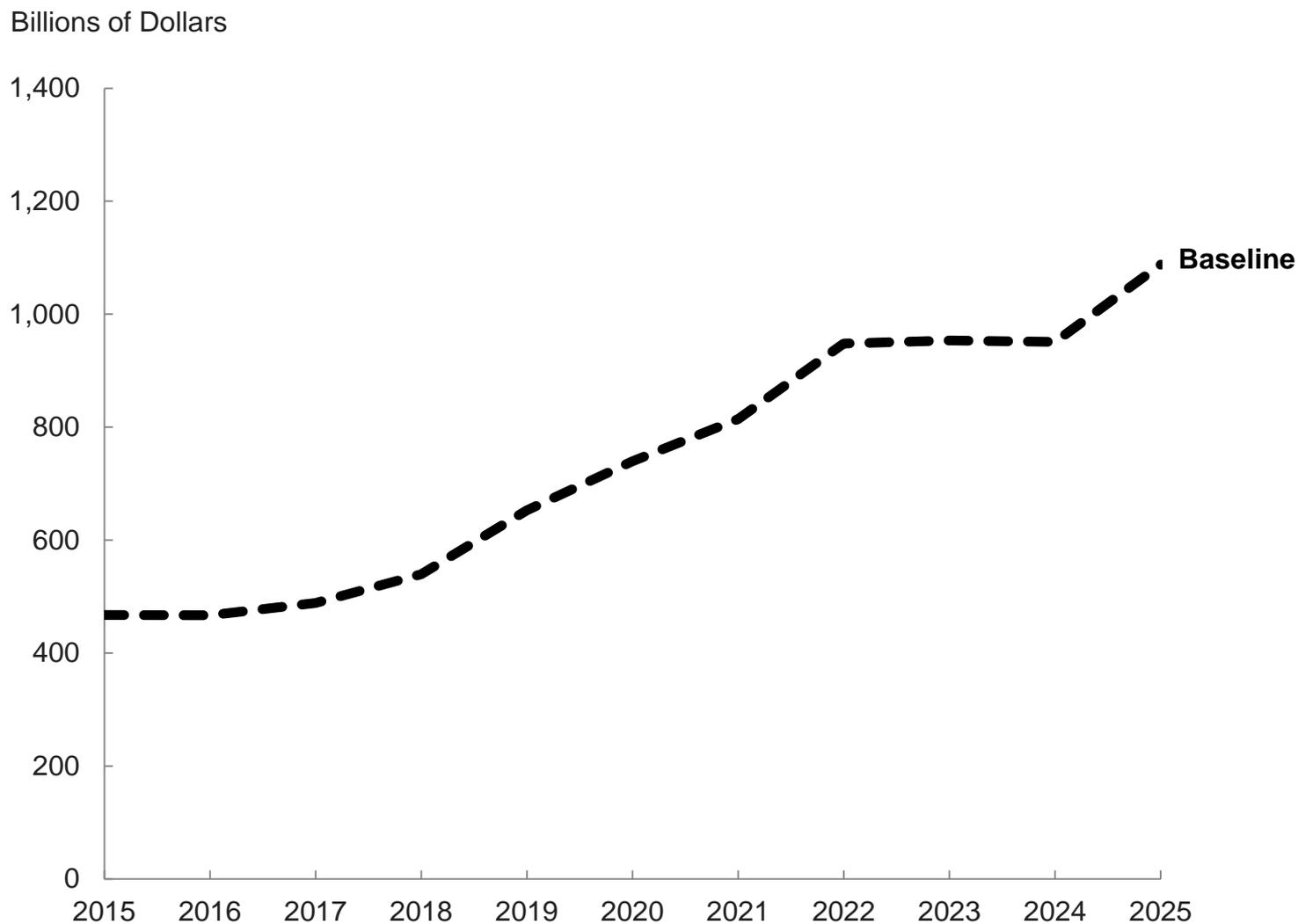
	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
													2016- 2020	2016- 2025
Revenues	17.5	17.7	18.4	18.2	18.1	18.1	18.0	18.1	18.1	18.2	18.2	18.3	18.1	18.2
Outlays	20.3	20.3	20.8	20.7	20.7	21.1	21.4	21.6	22.0	21.9	21.8	22.3	21.0	21.5
<b>Deficit</b>	<b>-2.8</b>	<b>-2.6</b>	<b>-2.5</b>	<b>-2.5</b>	<b>-2.6</b>	<b>-3.0</b>	<b>-3.3</b>	<b>-3.5</b>	<b>-3.9</b>	<b>-3.8</b>	<b>-3.6</b>	<b>-4.0</b>	<b>-2.8</b>	<b>-3.3</b>
Debt Held by the Public at the End of the Year	74.1	74.2	73.8	73.4	73.3	73.7	74.3	75.0	76.1	76.9	77.7	78.7	n.a.	n.a.

Note: n.a. = not applicable.

# Components of the Total Increase in Outlays in CBO's Baseline Between 2015 and 2025

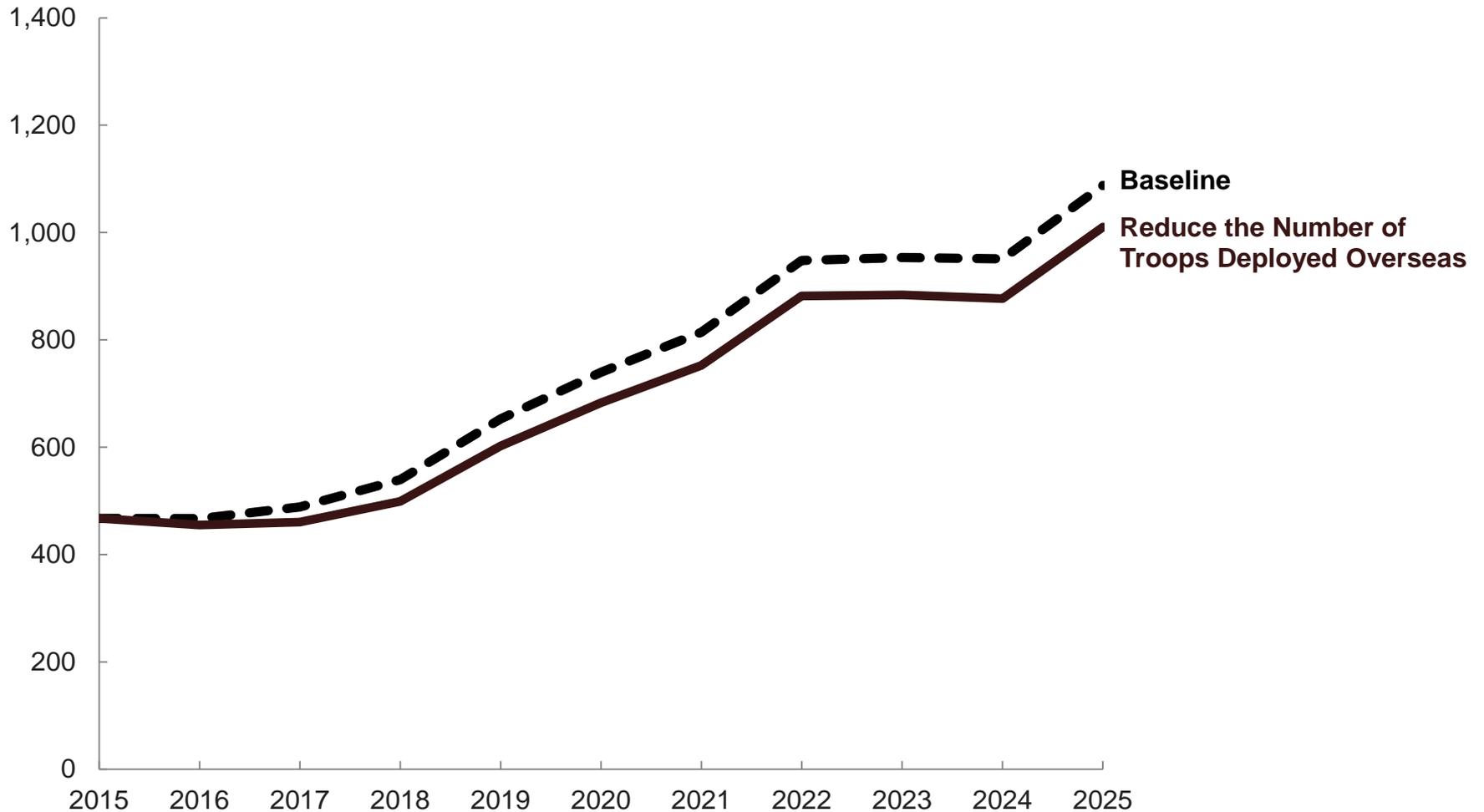


# Deficit Under Selected Alternatives

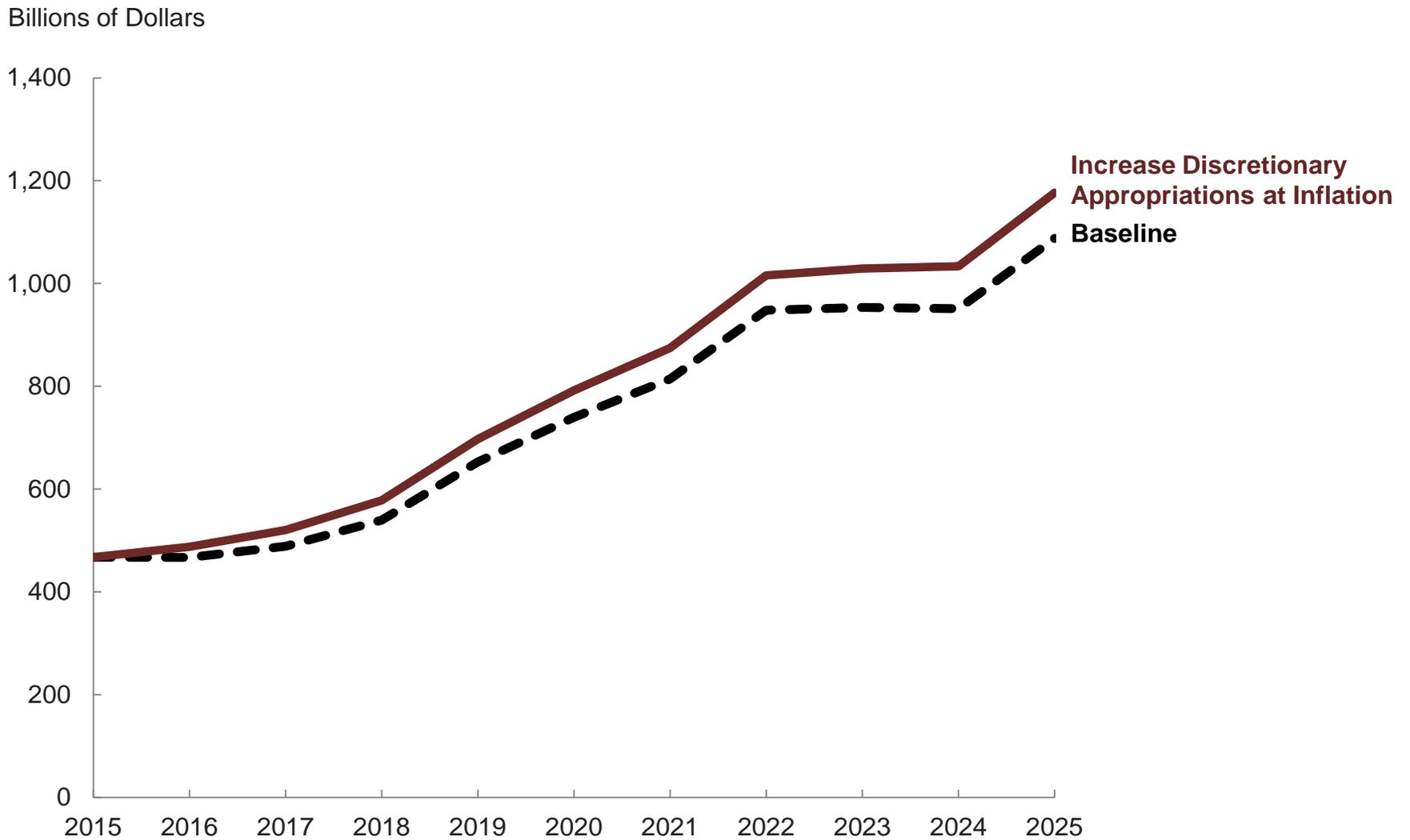


# Deficit Under Selected Alternatives (Continued)

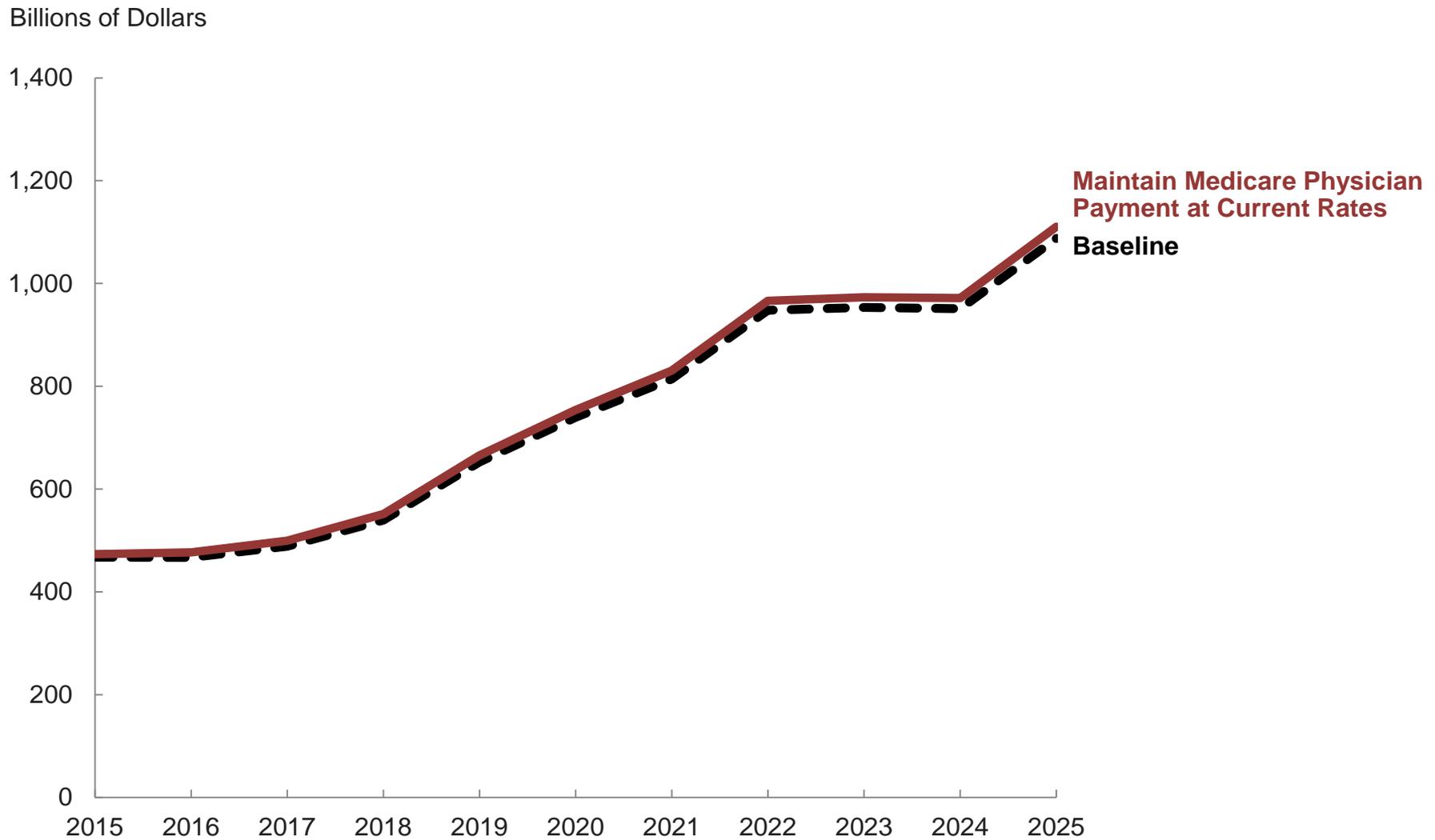
Billions of Dollars



# Deficit Under Selected Alternatives (Continued)

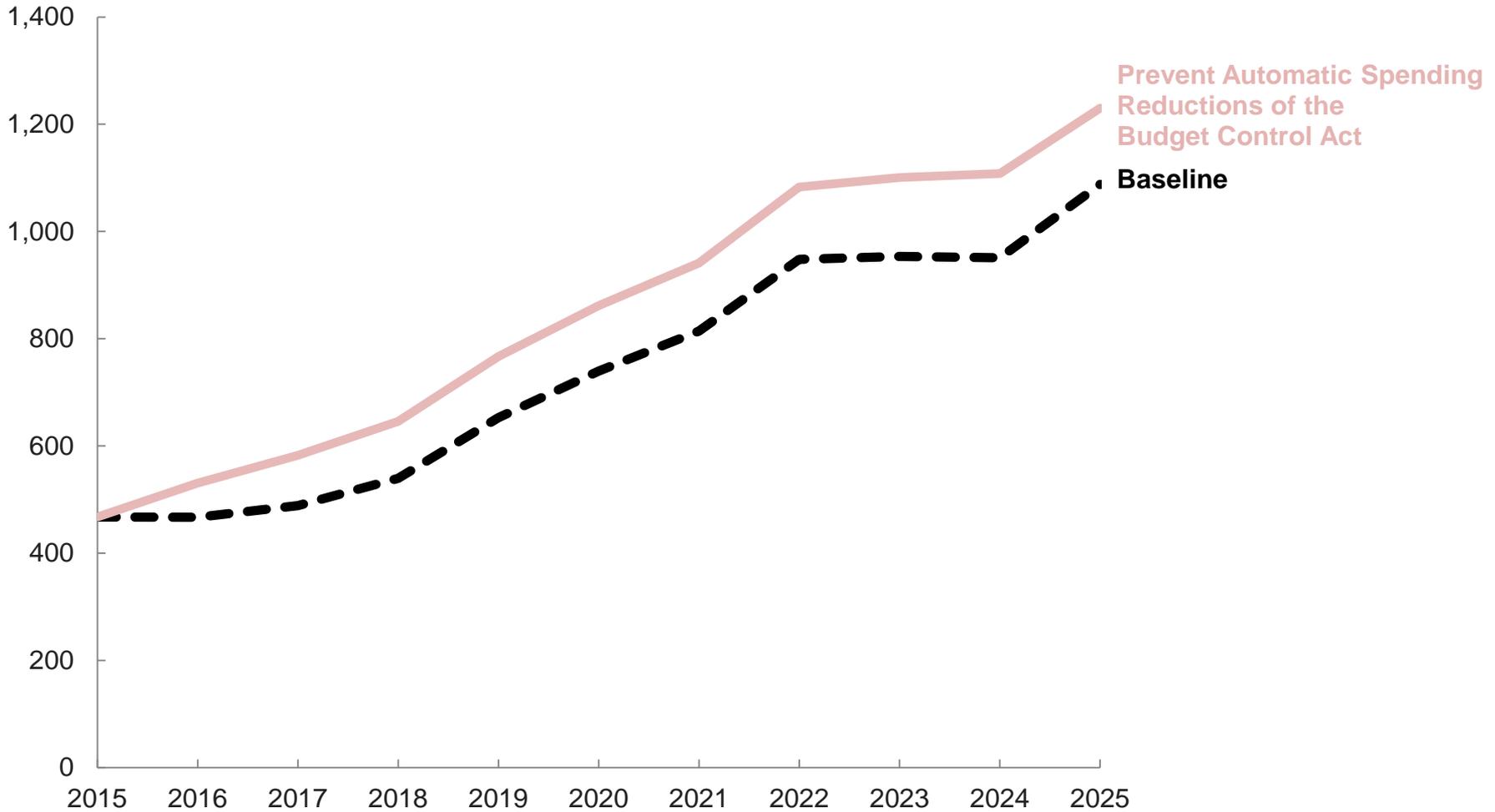


# Deficit Under Selected Alternatives (Continued)

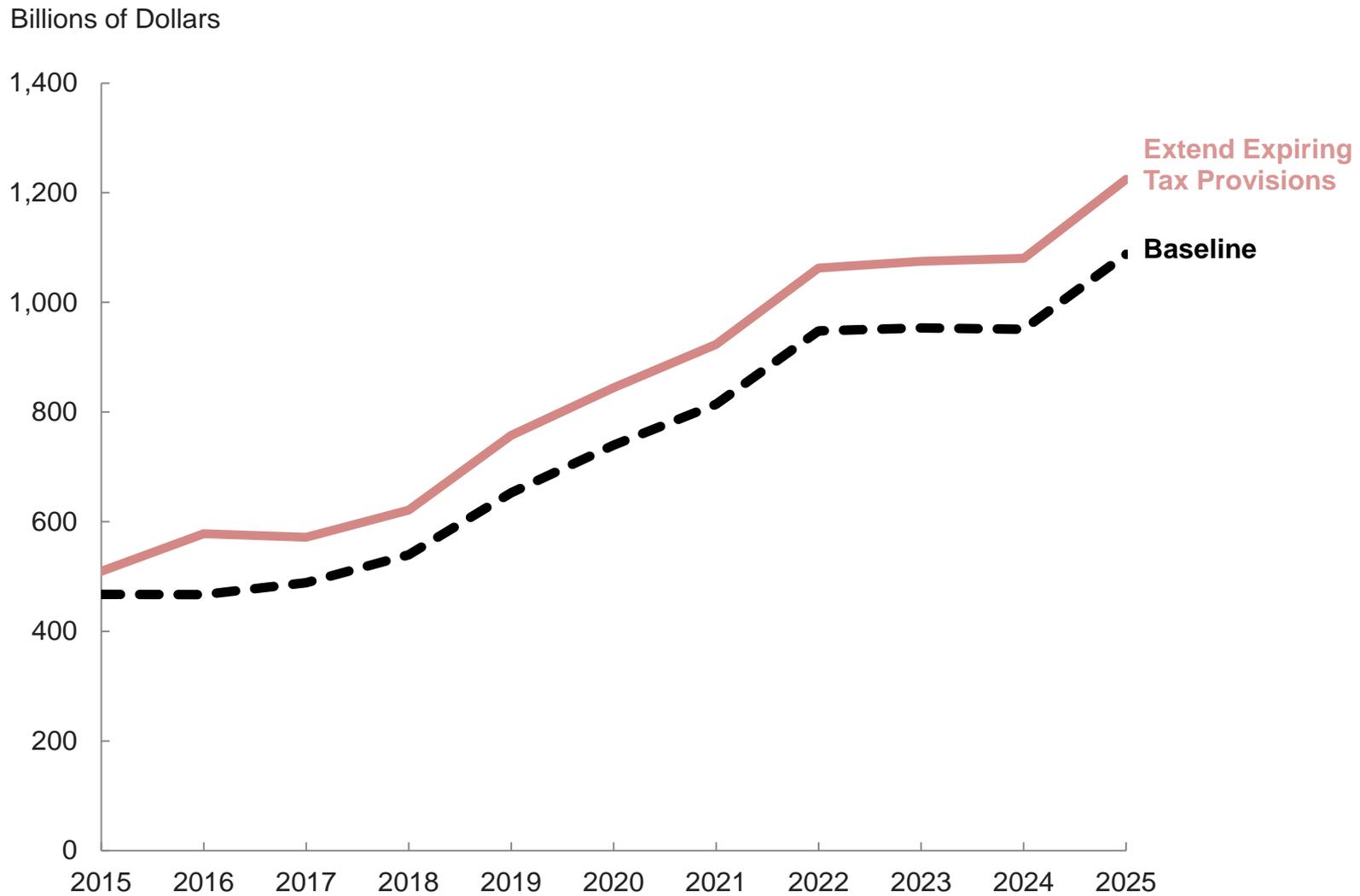


# Deficit Under Selected Alternatives (Continued)

Billions of Dollars

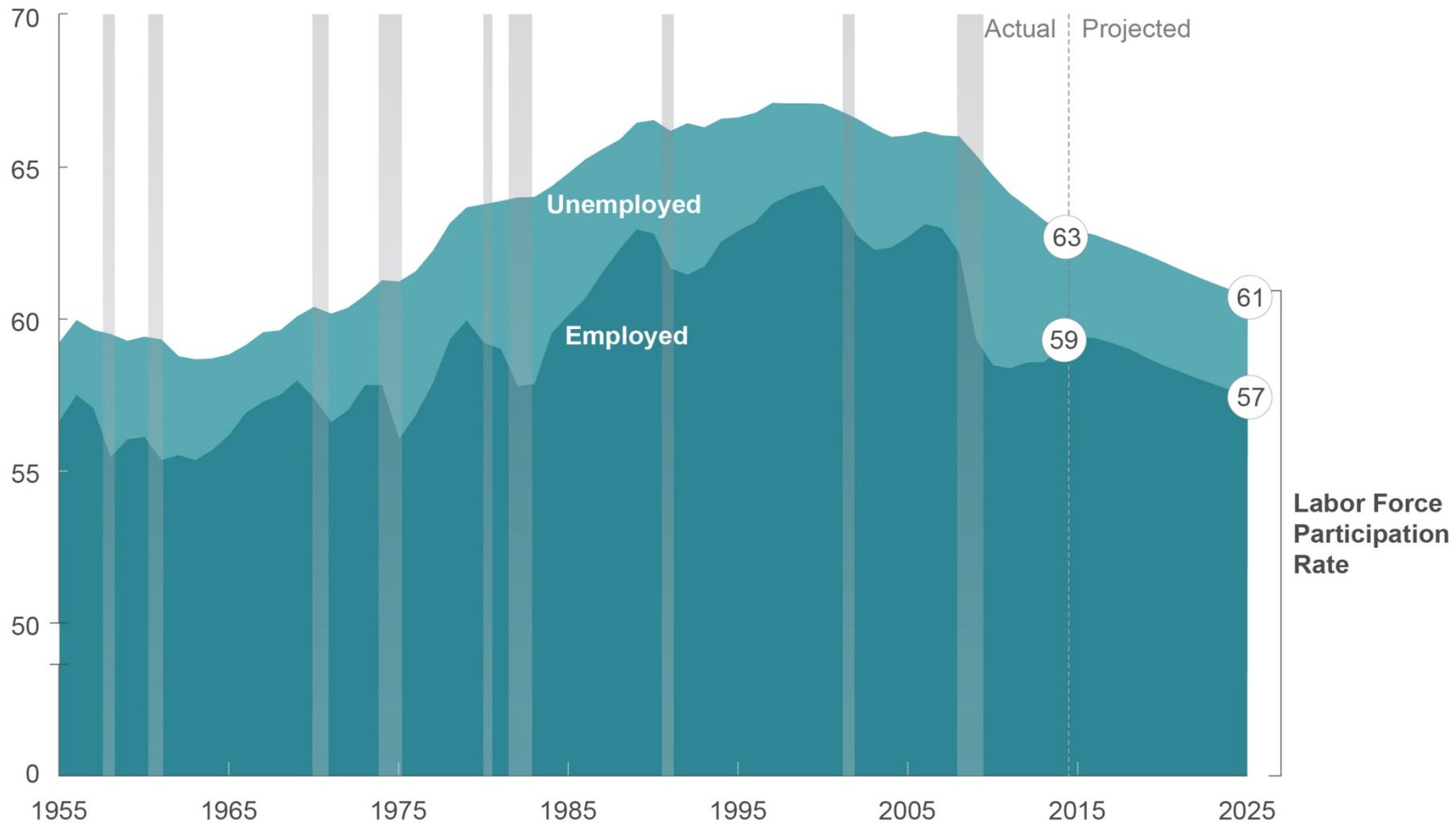


# Deficit Under Selected Alternatives (Continued)

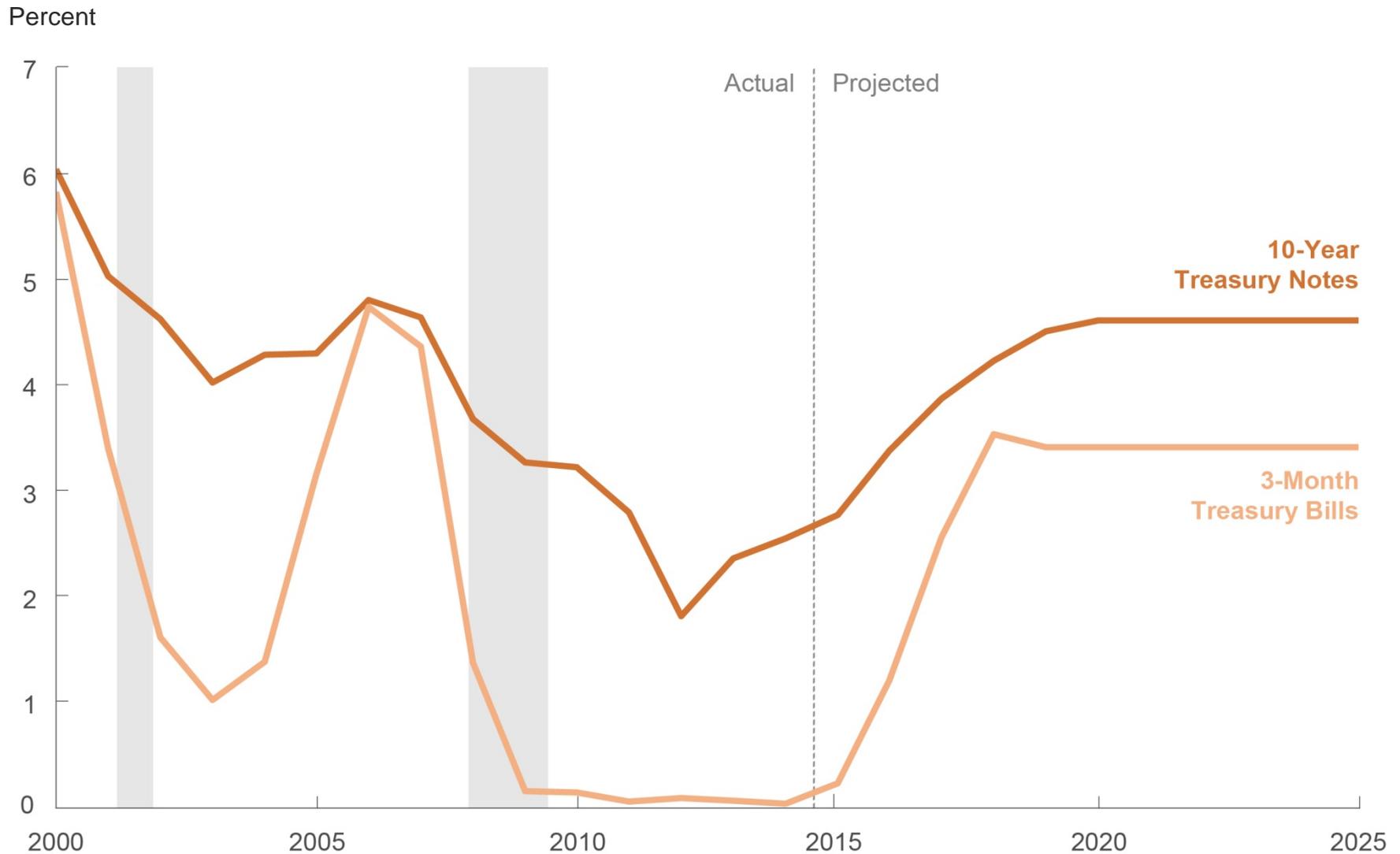


# The Labor Force, Employment, and Unemployment

Percentage of the Population

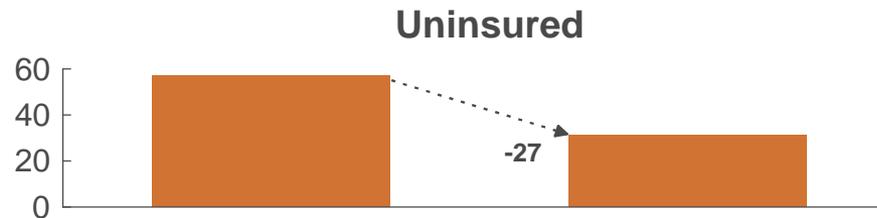
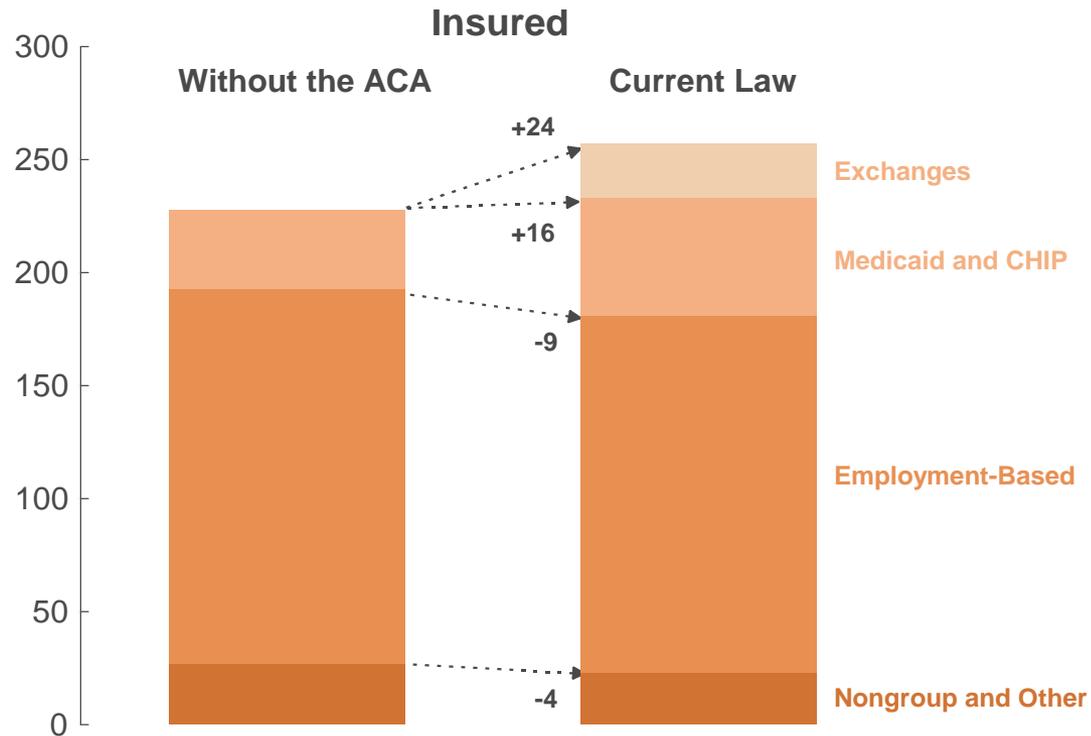


# Interest Rates on Treasury Securities



# Effects of the Affordable Care Act on Health Insurance Coverage, 2025

Millions of Nonelderly People



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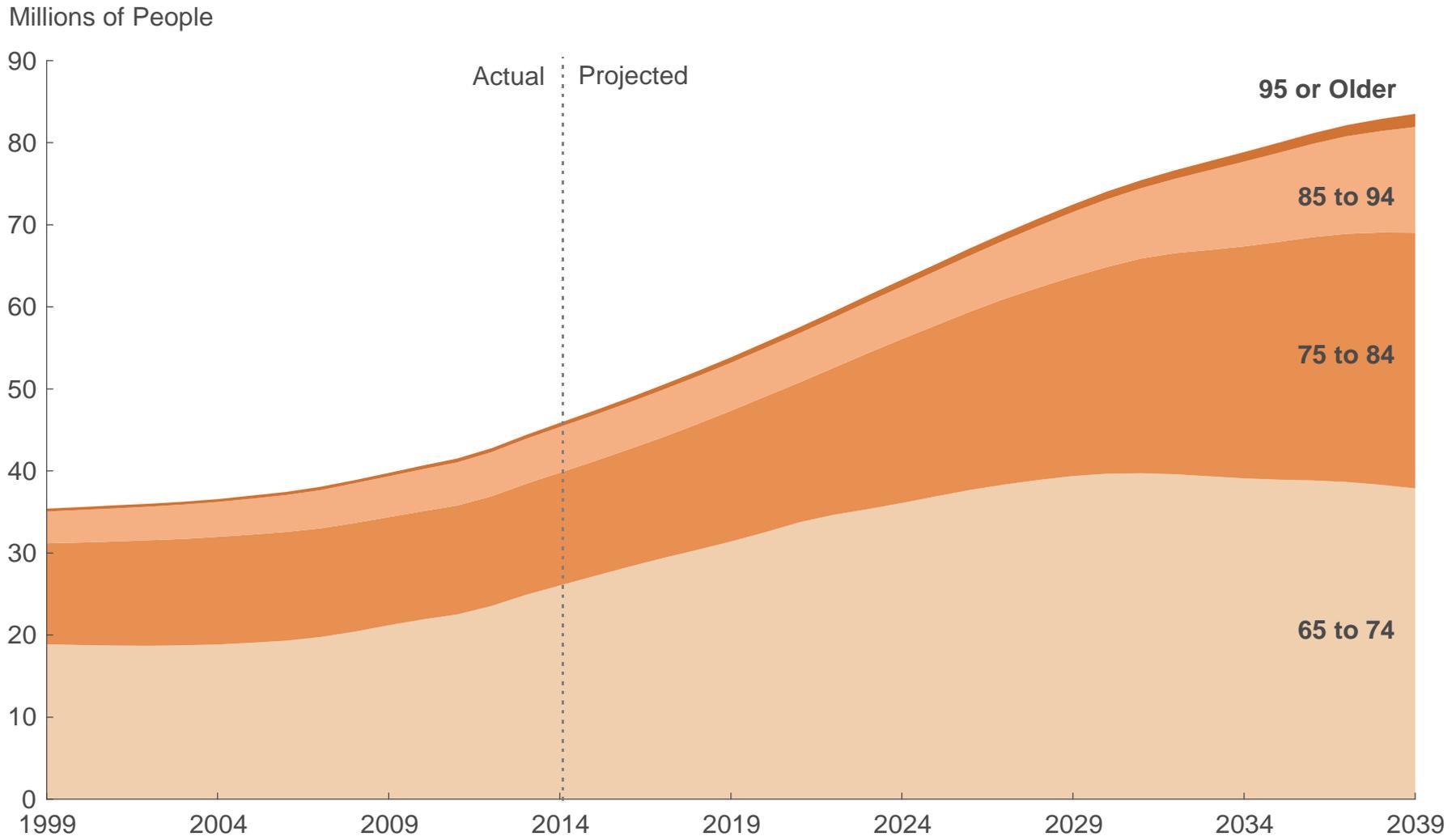
# The Long-Term Budget Outlook

# Federal Debt Held by the Public

Percentage of Gross Domestic Product

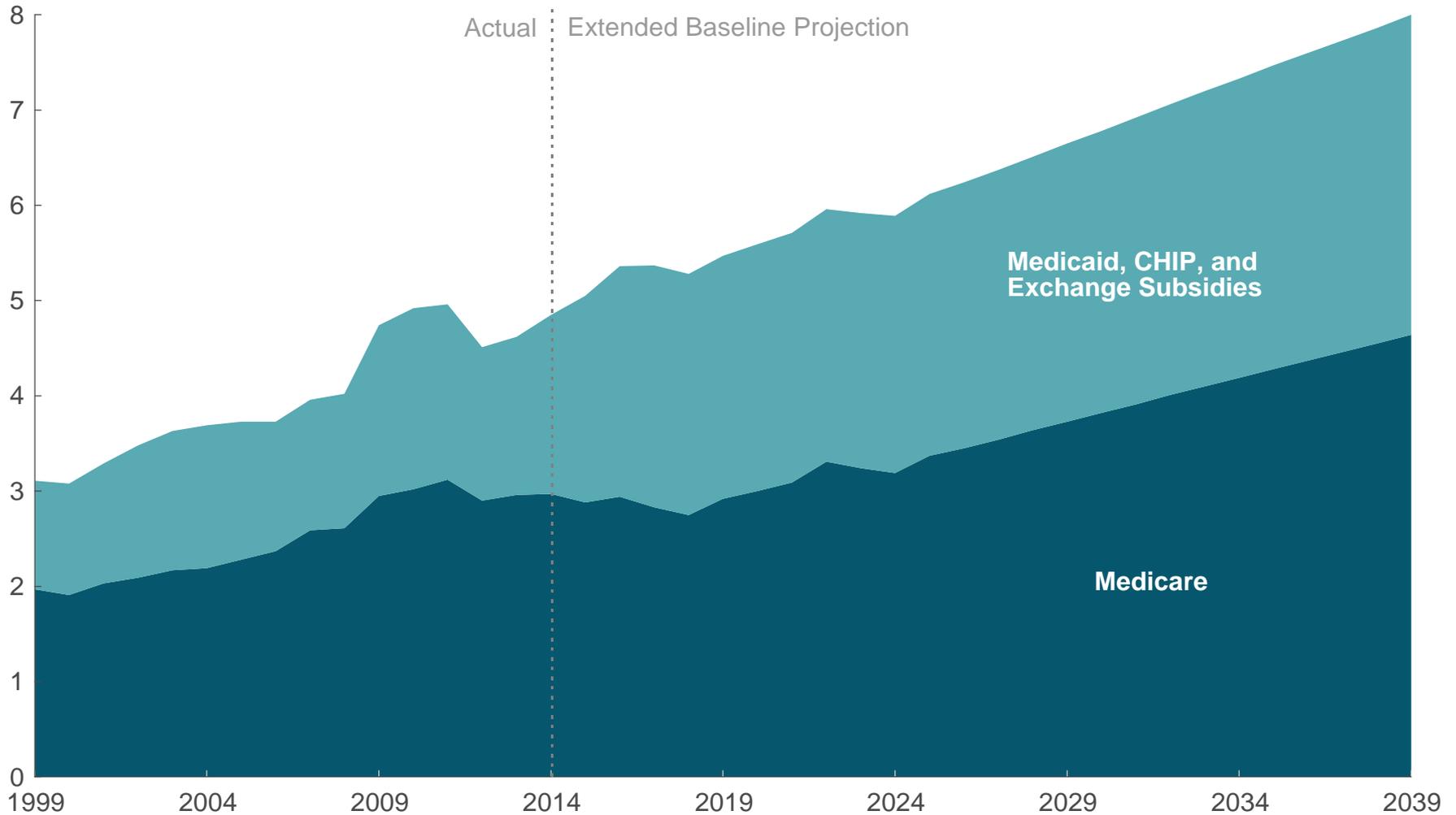


# Number of People Age 65 or Older, by Age Group



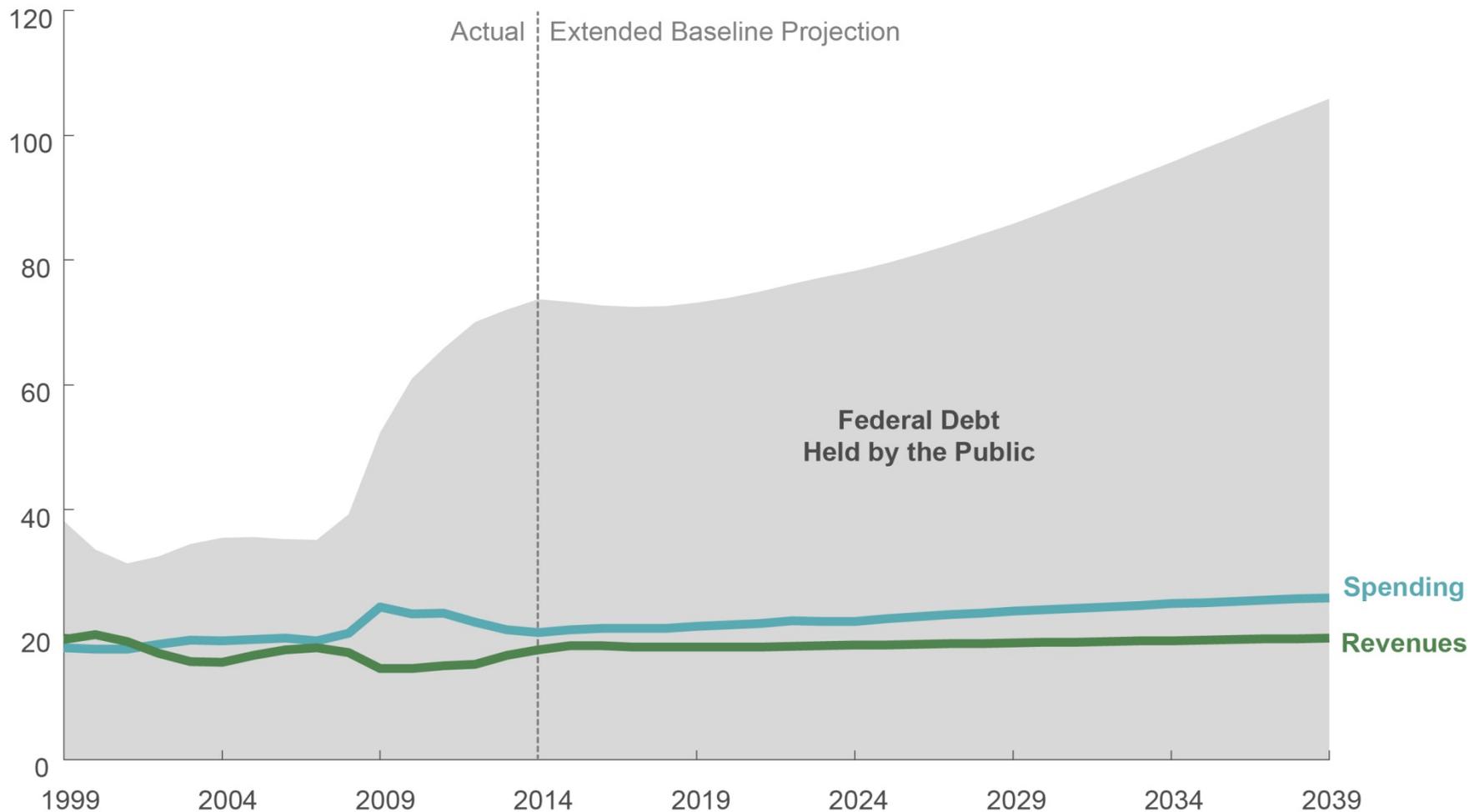
# Federal Spending on the Major Health Care Programs, by Category

Percentage of Gross Domestic Product



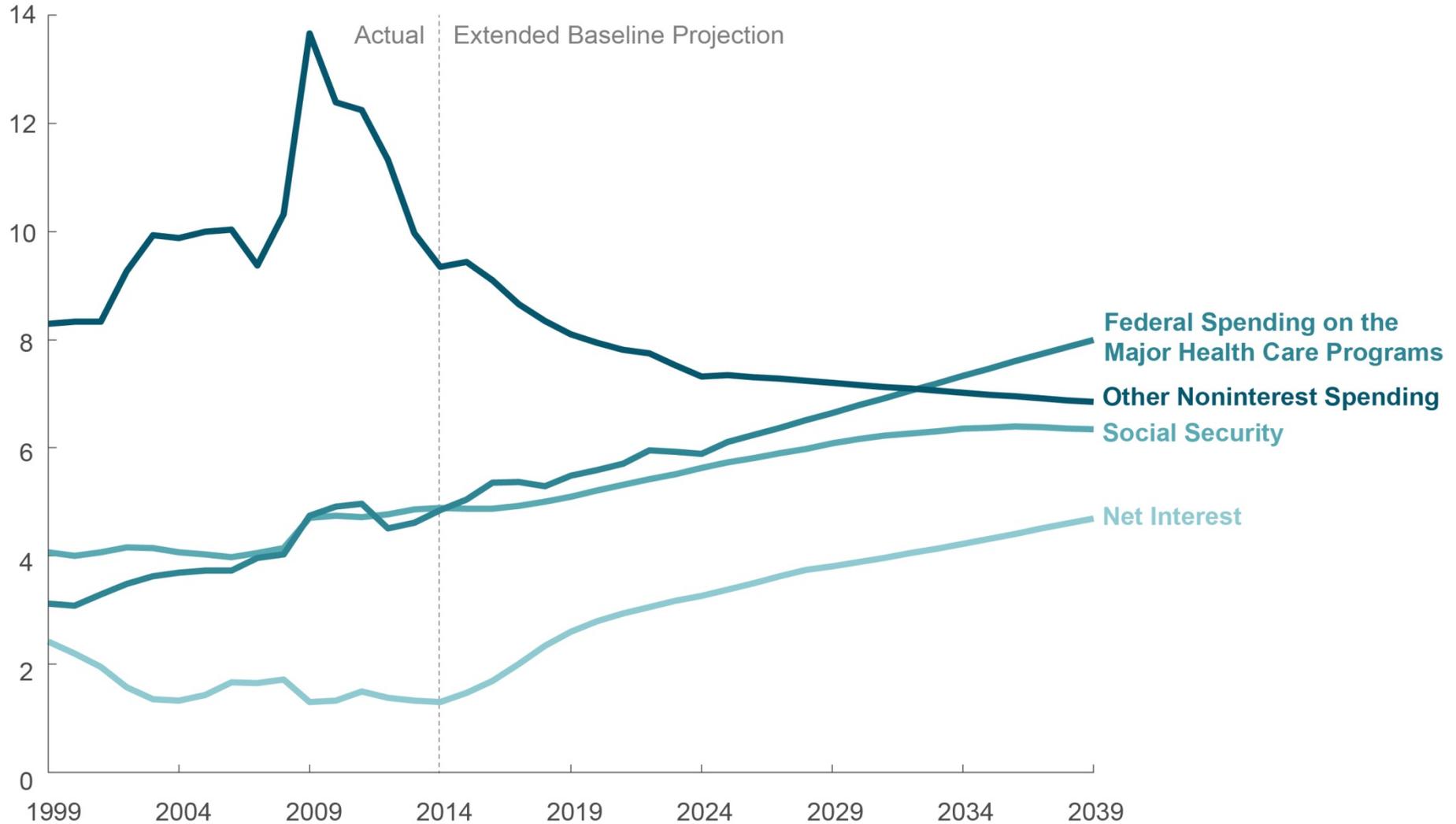
# Debt Held by the Public, Total Spending, and Total Revenues

Percentage of Gross Domestic Product



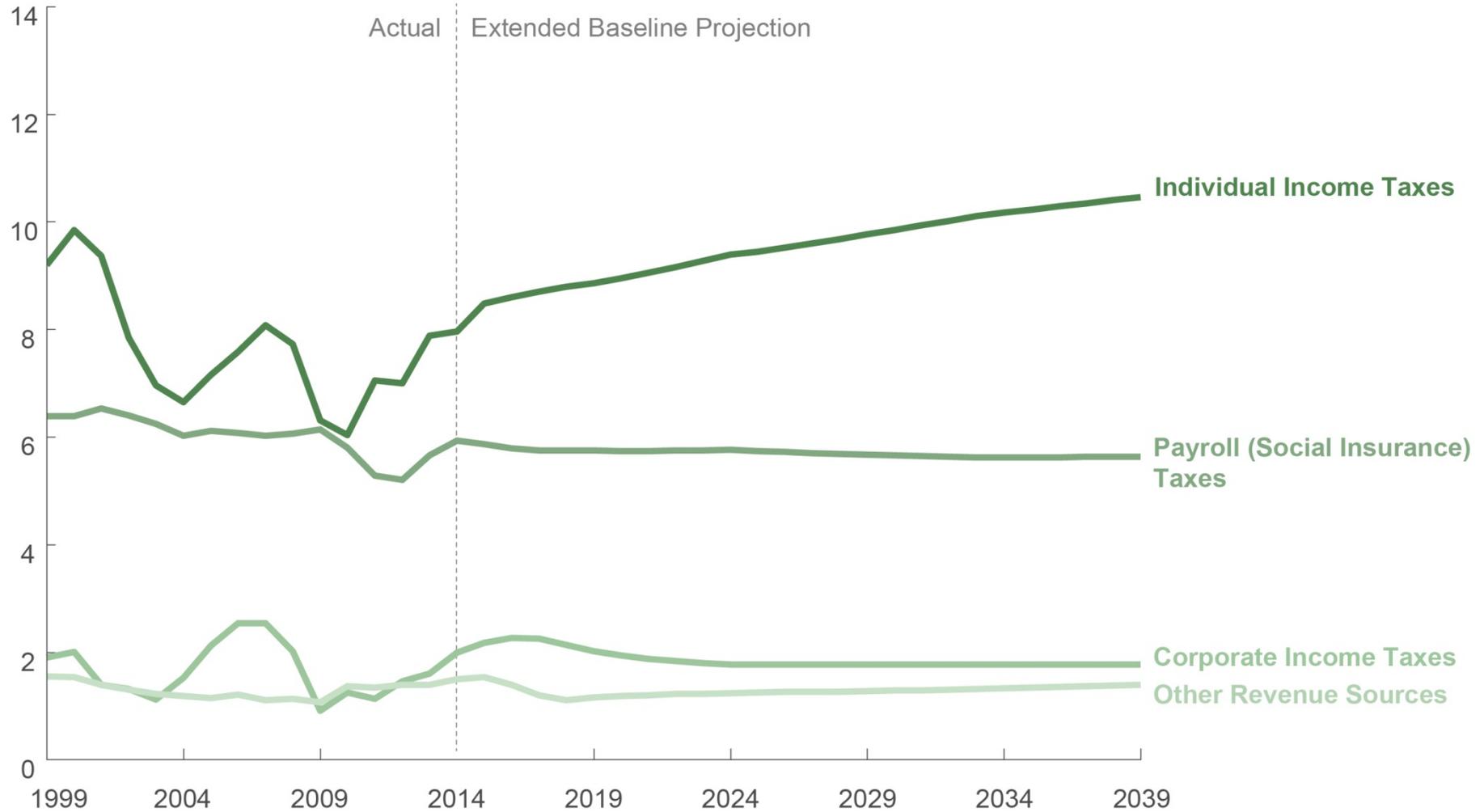
# Components of Total Spending

Percentage of Gross Domestic Product



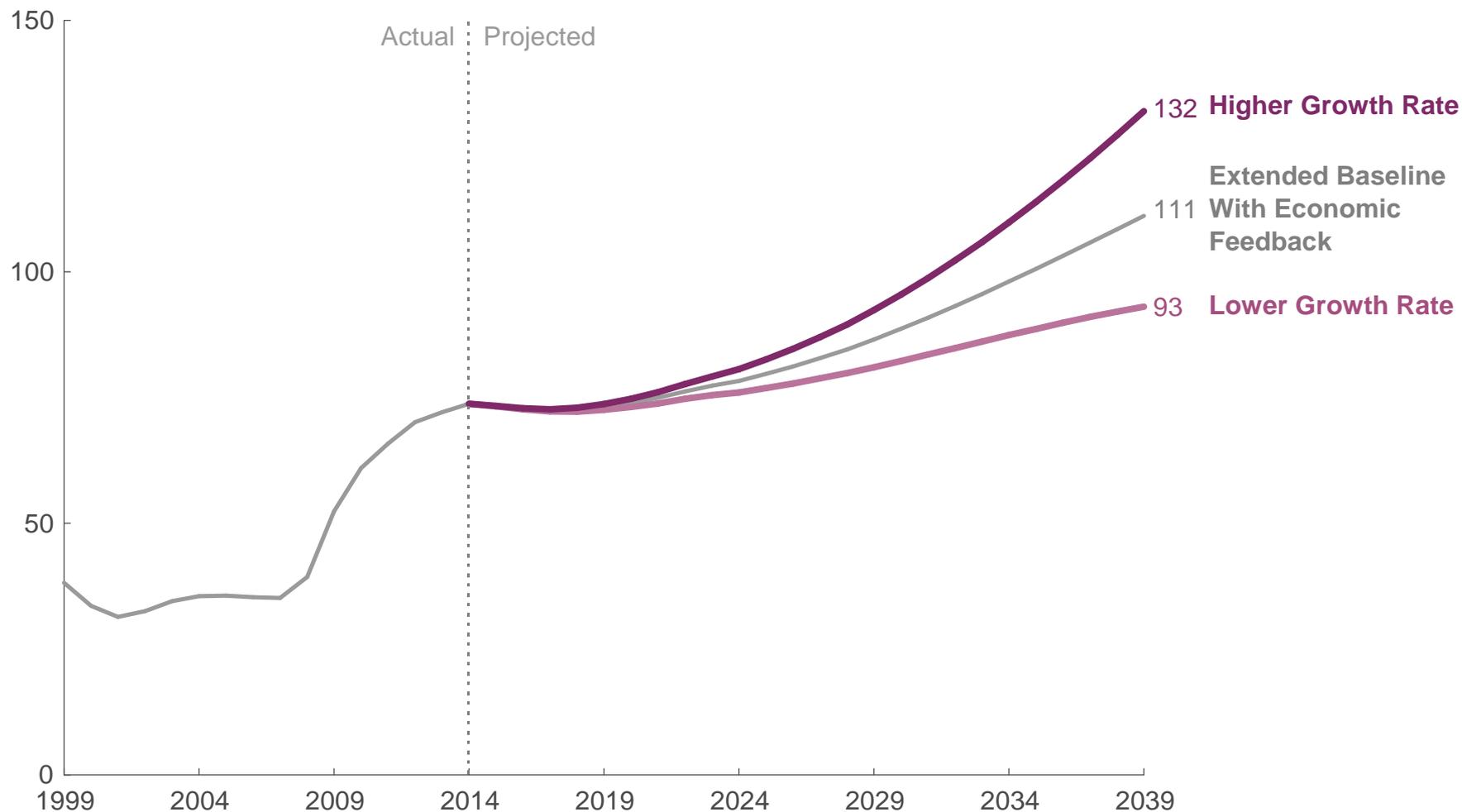
# Components of Total Revenues

Percentage of Gross Domestic Product

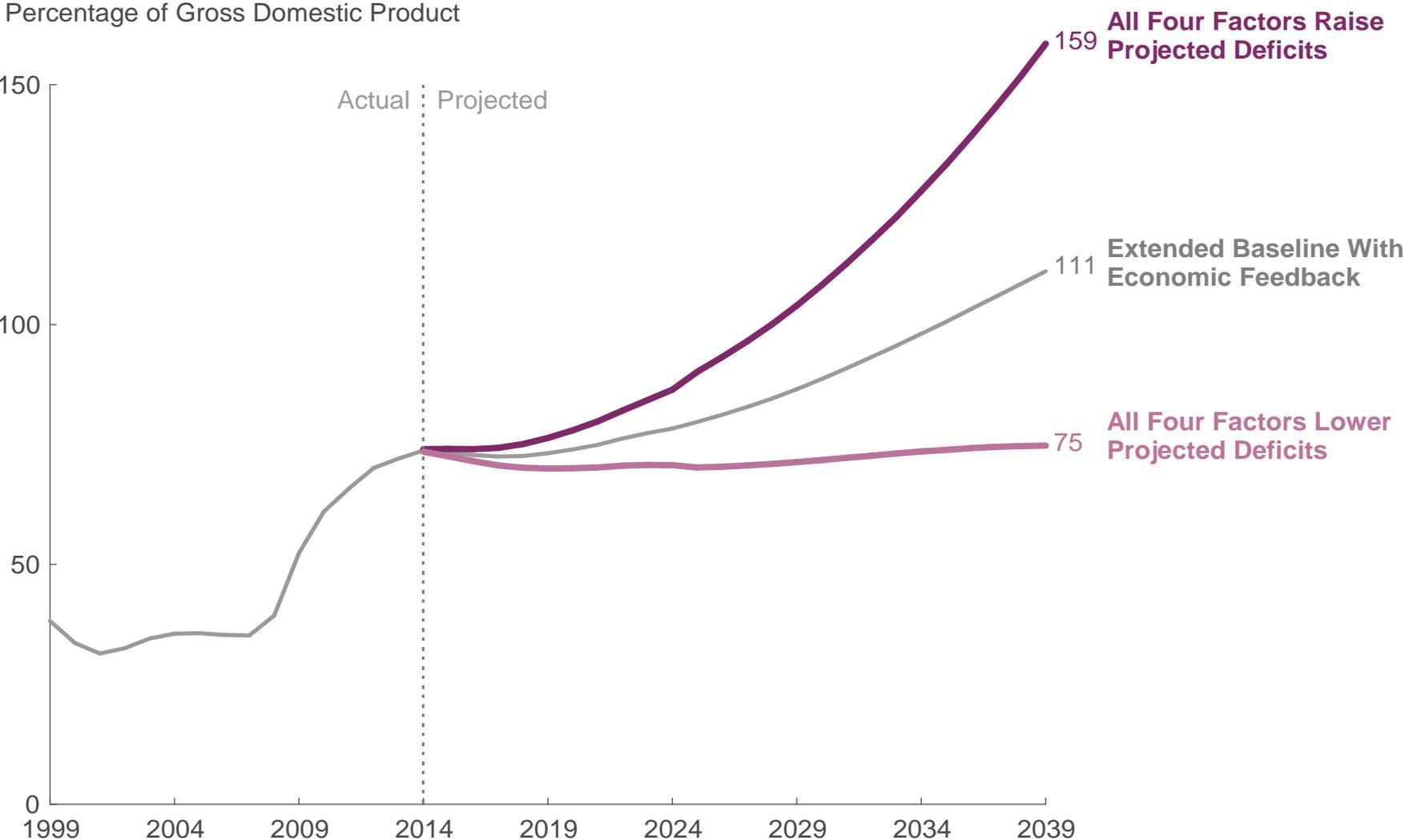


# Federal Debt Given Different Rates of Growth of Federal Health Care Spending

Percentage of Gross Domestic Product



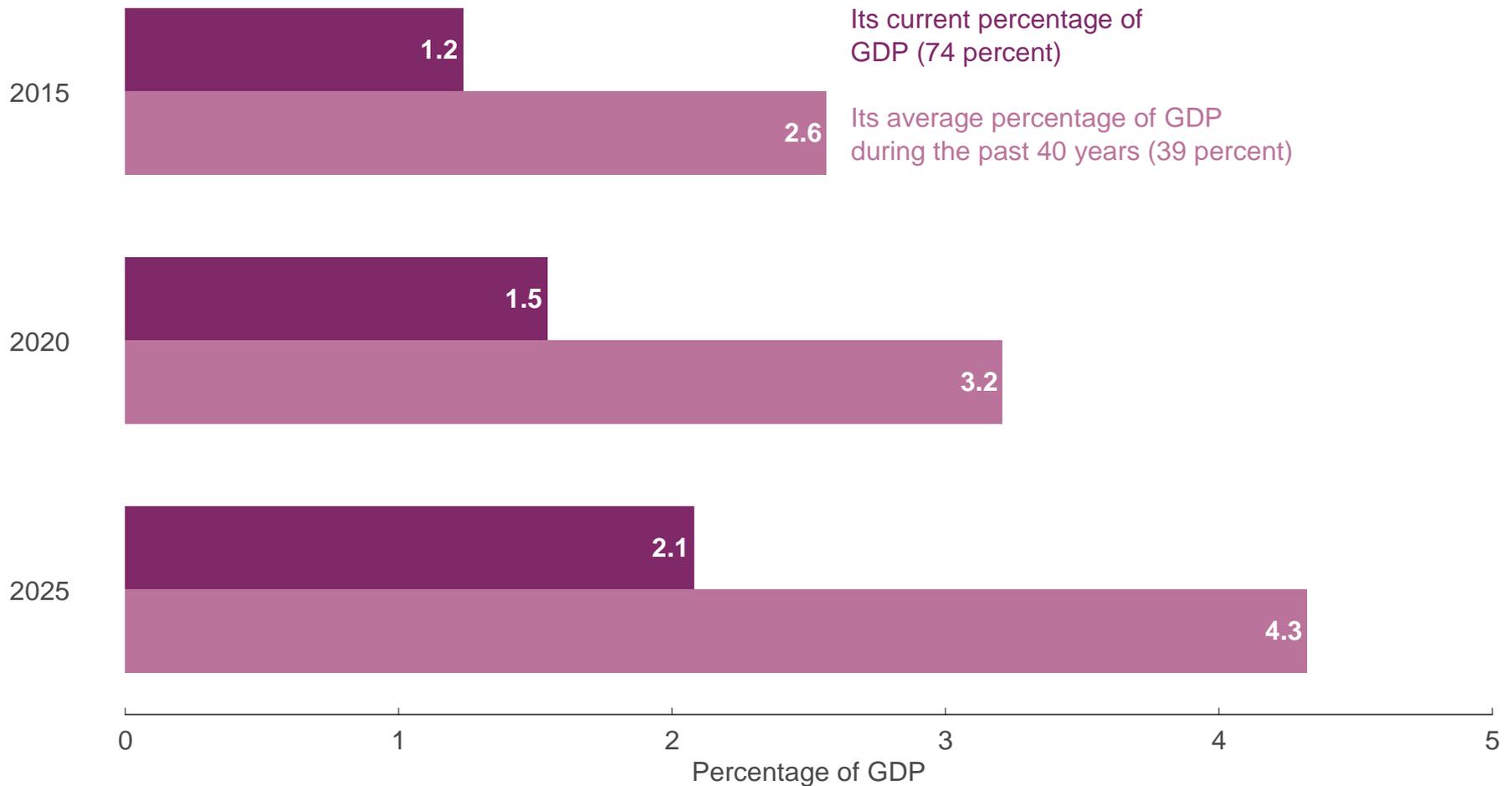
# Federal Debt Given Different Rates of Mortality Decline, Productivity Growth, Interest, and Growth of Federal Health Care Spending



# The Timing and Size of Policy Changes Needed to Make Federal Debt Meet Two Goals

If action begins in . . . The annual reduction in noninterest spending or increase in revenues would need to be this percentage of GDP. . .

To make federal debt held by the public in 2039 equal . . .



# Notes

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**Slides 2 through 5:** For more information, see *A Premium Support System for Medicare: Analysis of Illustrative Options* (September 2013), [www.cbo.gov/publication/44581](http://www.cbo.gov/publication/44581).

**Slides 7 through 13:** For more information, see *The Budget and Economic Outlook: 2015 to 2025* (January 2015), [www.cbo.gov/publication/49892](http://www.cbo.gov/publication/49892).

**Slides 15 through 23:** For more information, see *The 2014 Long-Term Budget Outlook* (July 2014), [www.cbo.gov/publication/45471](http://www.cbo.gov/publication/45471). CBO's long-term projections were most recently published in July 2014; they generally reflect current law, following the agency's April 2014 baseline budget projections through 2024 and then extending the baseline concept into later years.