Health Care and the Federal Budget

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University of California, Irvine

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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.

- **Insurer A**
  - Plan A-1
  - Plan A-2

- **Insurer B**
  - Plan B-1
  - Plan B-2

- **Insurer Z**
  - Plan Z-1
  - Plan Z-2

- **Medicare**
  - FFS

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.

Bids are sorted from highest to lowest:

- Plan Z-2
- Plan B-1
- FFS
- Plan A-2
- Plan B-2
- Plan Z-1
- Plan A-1

The second-lowest bid is the benchmark.
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**
- Enrolled in Medicare before 2018 (51 million)
- Newly enrolled in Medicare in 2018 (4 million)

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

<table>
<thead>
<tr>
<th>Plan</th>
<th>Premium</th>
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<tbody>
<tr>
<td>Plan Z-2</td>
<td>Standard + $$$</td>
</tr>
<tr>
<td>Plan B-1</td>
<td>Standard + $$</td>
</tr>
<tr>
<td>FFS</td>
<td>Standard + $$</td>
</tr>
<tr>
<td>Plan A-2</td>
<td>Standard + $</td>
</tr>
<tr>
<td>Plan B-2</td>
<td>Standard + $</td>
</tr>
<tr>
<td>Plan Z-1</td>
<td>Standard − $</td>
</tr>
</tbody>
</table>

The second-lowest bid is the benchmark.

**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.

**Share of Contribution to Total Cost of Insurance**

For all plans:
total payments received for a beneficiary in average health = bid
Effects of Options on Spending for Medicare Benefits

Second-Lowest-Bid Option

-11%  
+11%  
-5%

Net Federal Spending on Parts A and B for Affected Beneficiaries

Average-Bid Option

-4%

Total Payments by Affected Beneficiaries

-6%

Combined Federal Spending for, and Total Payments by, Affected Beneficiaries

-4%
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

**Second-Lowest-Bid Option**

<table>
<thead>
<tr>
<th>Fee-for-Service Program</th>
<th>4,600</th>
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<tbody>
<tr>
<td>Median-Bidding Private Plan</td>
<td>2,600</td>
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<tr>
<td>Second-Lowest-Bidding Private Plan</td>
<td>1,600</td>
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**Average-Bid Option**

<table>
<thead>
<tr>
<th></th>
<th>3,600</th>
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<tbody>
<tr>
<td>Median-Bidding Private Plan</td>
<td>2,500</td>
</tr>
<tr>
<td>Second-Lowest-Bidding Private Plan</td>
<td>2,000</td>
</tr>
</tbody>
</table>

| Quartiles of Beneficiaries Grouped by Fee-for-Service Spending in Their Region |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Highest Quartile | Second-Highest Quartile | Third-Highest Quartile | Lowest Quartile |
| Highest Quartile | 600 | 900 | 1,000 | 1,400 |
| Second-Highest Quartile | 1,100 | 1,500 | 1,600 | 2,000 |
| Third-Highest Quartile | 1,800 | 1,800 | 2,500 | 3,600 |
| Lowest Quartile | 2,600 | 3,400 | 4,600 | 5,000 |
The Ten-Year Budget Outlook
# CBO’s Baseline Budget Projections, in Billions of Dollars

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</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>3,021</td>
<td>3,189</td>
<td>3,460</td>
<td>3,588</td>
<td>3,715</td>
<td>3,865</td>
<td>4,025</td>
<td>4,204</td>
<td>4,389</td>
<td>4,591</td>
<td>4,804</td>
<td>5,029</td>
<td>18,652</td>
<td>41,670</td>
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<tr>
<td>Outlays</td>
<td>3,504</td>
<td>3,656</td>
<td>3,926</td>
<td>4,076</td>
<td>4,255</td>
<td>4,517</td>
<td>4,765</td>
<td>5,018</td>
<td>5,337</td>
<td>5,544</td>
<td>5,754</td>
<td>6,117</td>
<td>21,540</td>
<td>49,310</td>
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Debt Held by the Public at the End of the Year

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<td></td>
<td>12,779</td>
<td>13,359</td>
<td>13,905</td>
<td>14,466</td>
<td>15,068</td>
<td>15,782</td>
<td>16,580</td>
<td>17,451</td>
<td>18,453</td>
<td>19,458</td>
<td>20,463</td>
<td>21,605</td>
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Note: n.a. = not applicable.
CBO’s Baseline Budget Projections, as a Percentage of Gross Domestic Product

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<td></td>
<td></td>
<td></td>
<td>2020</td>
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<tr>
<td>Revenues</td>
<td>17.5</td>
<td>17.7</td>
<td>18.4</td>
<td>18.2</td>
<td>18.1</td>
<td>18.1</td>
<td>18.0</td>
<td>18.1</td>
<td>18.1</td>
<td>18.2</td>
<td>18.2</td>
<td>18.3</td>
<td>18.1</td>
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<tr>
<td>Outlays</td>
<td>20.3</td>
<td>20.3</td>
<td>20.8</td>
<td>20.7</td>
<td>20.7</td>
<td>21.1</td>
<td>21.4</td>
<td>21.6</td>
<td>22.0</td>
<td>21.9</td>
<td>21.8</td>
<td>22.3</td>
<td>21.0</td>
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<tr>
<td>Deficit</td>
<td>-2.8</td>
<td>-2.6</td>
<td>-2.5</td>
<td>-2.5</td>
<td>-2.6</td>
<td>-3.0</td>
<td>-3.3</td>
<td>-3.5</td>
<td>-3.9</td>
<td>-3.8</td>
<td>-3.6</td>
<td>-4.0</td>
<td>-2.8</td>
</tr>
</tbody>
</table>

Debt Held by the Public at the End of the Year

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<tbody>
<tr>
<td></td>
<td>74.1</td>
<td>74.2</td>
<td>73.8</td>
<td>73.4</td>
<td>73.3</td>
<td>73.7</td>
<td>74.3</td>
<td>75.0</td>
<td>76.1</td>
<td>76.9</td>
<td>77.7</td>
<td>78.7</td>
<td>n.a.</td>
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</tbody>
</table>

Note: n.a. = not applicable.
Components of the Total Increase in Outlays in CBO’s Baseline Between 2015 and 2025

Total Increase in Outlays: $2.5 Trillion

- Major Health Care Programs (32%)
- Social Security (28%)
- Net Interest (24%)
- All Other Programs (16%)
Deficit Under Selected Alternatives

Billions of Dollars

Baseline
Deficit Under Selected Alternatives (Continued)

Billions of Dollars


Increase Discretionary Appropriations at Inflation
Baseline
Deficit Under Selected Alternatives (Continued)

Billions of Dollars

- Maintain Medicare Physician Payment at Current Rates
- Baseline
Deficit Under Selected Alternatives (Continued)

Billions of Dollars


Prevent Automatic Spending Reductions of the Budget Control Act

Baseline
Deficit Under Selected Alternatives (Continued)
Interest Rates on Treasury Securities

Percent

Actual | Projected


10-Year Treasury Notes

3-Month Treasury Bills
Effects of the Affordable Care Act on Health Insurance Coverage, 2025

Millions of Nonelderly People

Insured

Without the ACA

Current Law

Exchanges

Medicaid and CHIP

Employment-Based

Nongroup and Other

Uninsured

-27
The Long-Term Budget Outlook
Federal Debt Held by the Public

Percentage of Gross Domestic Product

- Civil War
- World War I
- Great Depression
- World War II

Actual
Extended Baseline Projection

Federal Spending on the Major Health Care Programs, by Category

Percentage of Gross Domestic Product

Actual : Extended Baseline Projection

Medicaid, CHIP, and Exchange Subsidies

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

Percentage of Gross Domestic Product

Actual | Extended Baseline Projection

Federal Debt Held by the Public


Spending

Revenues
Components of Total Spending

Percentage of Gross Domestic Product

Actual | Extended Baseline Projection

Federal Spending on the Major Health Care Programs
Other Noninterest Spending
Social Security
Net Interest


CONGRESSIONAL BUDGET OFFICE
Components of Total Revenues

Percentage of Gross Domestic Product

Actual | Extended Baseline Projection

- Individual Income Taxes
- Payroll (Social Insurance) Taxes
- Corporate Income Taxes
- Other Revenue Sources
Federal Debt Given Different Rates of Growth of Federal Health Care Spending

Percentage of Gross Domestic Product


Actual Projected

132 Higher Growth Rate
Extended Baseline With Economic Feedback
111
93 Lower Growth Rate
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 . . .

- Its current percentage of GDP (74 percent)
- Its average percentage of GDP during the past 40 years (39 percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Reduction</th>
<th>Increase</th>
<th>Total Reduction</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.2%</td>
<td></td>
<td>2.6%</td>
</tr>
<tr>
<td>2020</td>
<td>1.5%</td>
<td></td>
<td>3.2%</td>
</tr>
<tr>
<td>2025</td>
<td>2.1%</td>
<td></td>
<td>4.3%</td>
</tr>
</tbody>
</table>
Notes

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.


Slides 15 through 23: For more information, see The 2014 Long-Term Budget Outlook (July 2014), 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.