Health Care Spending Today and in the Future: Impacts on Federal Deficits and Debt

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For more details, see CBO, The 2017 Long-Term Budget Outlook (March 2017), www.cbo.gov/publication/52480
An Overview of the Long-Term Budget Outlook
If current laws governing taxes and spending did not change, the condition of the federal budget would worsen considerably over the next three decades.
Growth in federal spending would continue to outpace growth in federal revenues, leading to ever larger budget deficits.
Federal Spending and Revenues

Percentage of Gross Domestic Product

Actual | Projected
--- | ---
Spending | Revenues

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As a result, debt would grow larger in relation to the economy than ever recorded in U.S. history.
Federal spending is projected to rise notably in relation to the economy because of growth in spending on Social Security, the major health care programs, and interest on the government’s debt.
Components of Federal Spending

Percentage of Gross Domestic Product

- Major Health Care Programs
- Other Noninterest Spending
- Social Security
- Net Interest

Actual vs. Projected

Health Care Spending Today
National Spending for Health Care, 2015

Total Health Care Spending: $3.1 Trillion

<table>
<thead>
<tr>
<th>Component</th>
<th>Spending</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>$646 Billion</td>
<td>21%</td>
</tr>
<tr>
<td>Medicaid and CHIP</td>
<td>$560 Billion</td>
<td>18%</td>
</tr>
<tr>
<td>Other Government Spending</td>
<td>$250 Billion</td>
<td>8%</td>
</tr>
<tr>
<td>Payments by Private Health Insurers</td>
<td>$1,072 Billion</td>
<td>35%</td>
</tr>
<tr>
<td>Consumers’ Out-of-Pocket Spending</td>
<td>$338 Billion</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>$184 Billion</td>
<td>6%</td>
</tr>
</tbody>
</table>

Public Spending: $1.5 Trillion, or 48 Percent

Private Spending: $1.6 Trillion, or 52 Percent
CBO defines outlays for the major health care programs as spending for:

• Medicare,
• Medicaid,
• Children’s Health Insurance Program (CHIP), and
• Subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.
### Net Outlays for Major Health Care Programs in 2017

<table>
<thead>
<tr>
<th>Program</th>
<th>Billions of Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>590</td>
</tr>
<tr>
<td>Medicaid</td>
<td>385</td>
</tr>
<tr>
<td>Health Insurance Subsidies and Related Spending</td>
<td>51</td>
</tr>
<tr>
<td>Children's Health Insurance Program</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,041</strong></td>
</tr>
</tbody>
</table>
Health Care Spending in the Long-Term Budget Outlook
If current laws generally remain unchanged, CBO projects that federal spending on the major health care programs would grow larger than any other category of spending.
# Spending in the Past and Under CBO’s Extended Baseline

## Percentage of Gross Domestic Product

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Security</th>
<th>Major Health Care Programs</th>
<th>Other Noninterest Spending</th>
<th>Net Interest</th>
<th>Total Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>4.9</td>
<td>5.5</td>
<td>8.9</td>
<td>1.4</td>
<td>20.7</td>
</tr>
<tr>
<td>2047</td>
<td>6.3</td>
<td>9.2</td>
<td>7.6</td>
<td>6.2</td>
<td>29.4</td>
</tr>
</tbody>
</table>
Spending on the major health care programs would account for 40 percent of federal noninterest spending in 2047, compared with 28 percent today.
Composition of Federal Noninterest Spending Under CBO’s Extended Baseline

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2017</strong></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>25</td>
</tr>
<tr>
<td>Major Health Care Programs</td>
<td>28</td>
</tr>
<tr>
<td>Other Noninterest Spending</td>
<td>46</td>
</tr>
<tr>
<td><strong>2047</strong></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>27</td>
</tr>
<tr>
<td>Major Health Care Programs</td>
<td>40</td>
</tr>
<tr>
<td>Other Noninterest Spending</td>
<td>33</td>
</tr>
</tbody>
</table>
Spending on Medicare is projected to drive much of the growth in spending on major health care programs.
Two factors explain the projected growth in spending on major health care programs: aging and rising health care costs per person, or excess cost growth.
Projected Spending Growth in the Major Health Care Programs

Percentage of Gross Domestic Product

- 6.0
- 2.8
- 1.9
- 6.0

2017

2047

Because of Excess Cost Growth
Because of Aging
Without Aging and Excess Cost Growth
Population, by Age Group

Millions of People

- Age 65 or Older
- Ages 20 to 64
- Ages 0 to 19

Actual vs. Projected

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Uncertainty in the Long-Term Projection
Even if future tax and spending policies matched the policies specified under current law, budgetary outcomes would undoubtedly differ from CBO’s projections because of changes in the economy, demographics, and other factors, such as excess cost growth.
Federal Debt Given Different Rates of Excess Cost Growth for Federal Spending on Medicare and Medicaid

Percentage of Gross Domestic Product

Actual | Projected

- Given Rates 1 Percentage Point Higher
  - Extended Baseline, With Excess Cost Growth of 1 Percent in 2047
  - 206

- Given Rates 1 Percentage Point Lower
  - 150
  - 109
This presentation will be available on CBO’s website, www.cbo.gov.