

# CBO's Medicaid Baseline Forecast

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Robert Stewart, Principal Analyst  
Budget Analysis Division

# The Congressional Budget Office's Role and Work

- Established in 1974, CBO provides the Congress with analyses of budgetary and economic issues that are objective and impartial. It is strictly nonpartisan and does not make policy recommendations.
- The agency is required to estimate the effects of legislative proposals for nearly every bill approved by a full committee, but it also fulfills thousands of requests for technical assistance as lawmakers draft legislation.
- CBO provides the Congress with a regularly updated 10-year baseline of budget and economic projections based on an assumption that current laws governing spending and revenues generally remain unchanged.
- All projections aim to be in the middle of the distribution of likely outcomes.

# Key Components of the Medicaid Baseline

The Medicaid baseline forecast starts with the most recently available data on spending and enrollment, usually from the prior fiscal year (“actuals”). The data are organized into six service categories and five enrollment categories.

## Service Categories

- Inpatient
- Physician
- Rx drugs
- Other acute
- Institutional long-term services and supports
- Noninstitutional LTSS

## Enrollment Categories

- Aged
- Blind and disabled
- Children
- Adults, traditional
- Adults, Affordable Care Act

CBO extends the historical data forward using output from macroeconomic, microeconomic, demographic, and health sector models.

## Main Factors That Drive Medicaid’s Spending Growth

- Enrollment growth
- Price growth
- Other growth factors
- Future policy developments

# Medicaid Enrollment Growth

- Population growth
  - Aging of the population contributes to increasing use of LTSS (particularly, home and community-based services).
  - A declining fertility rate contributes to slowing growth in children’s enrollment and eventually adults’ enrollment.
  - Stabilizing net immigration levels will account for an increasing share of population growth.
  
- Disability trends
  - Slow growth in disability awards has caused slow growth in the enrollment of blind and disabled beneficiaries, who account for the largest share of Medicaid spending.
  
- Employment rate
  - Higher employment leads to lower Medicaid enrollment for adults, children, and the disabled, and the reverse occurs for lower employment.

# Medicaid Price Growth

- General price inflation (CPI-U) and medical price inflation (CPI-M) principally drive prices for acute care services.
- Labor cost inflation principally drives LTSS prices because LTSS is so labor intensive.
- Market forces and government policy drive prescription drug prices—in particular, greater market exclusivity held by manufacturers coupled with lower bargaining power among payers leads to increasing drug prices.
- CBO has no historical model of Medicaid price growth during periods of higher inflation, which creates additional uncertainty around price growth forecasts should inflation remain persistent.

## Other Factors Contributing to Growth

Other factors that contribute to Medicaid's spending growth are challenging to estimate individually and more so collectively. They include:

- Trends in the use of health care services,
- Trends in the advancement of medical technology, and
- Trends in the epidemiological health of the population.

CBO accounts for the contribution of these other factors by applying an additional growth factor to Medicaid spending. The additional growth is calibrated to be consistent with recent trends in total growth.

If CBO relied on only enrollment growth and price growth, the baseline forecast would generally underestimate Medicaid spending.

# Future Policy Developments

CBO must account for passed laws, promulgated regulations, and anticipated state decisions that are not reflected in the most recently available data.

To apply the trend factors for enrollment and price growth to historical data without accounting for known or anticipated future developments could lead to significant forecasting errors.

CBO does not attempt to forecast future Congressional action.

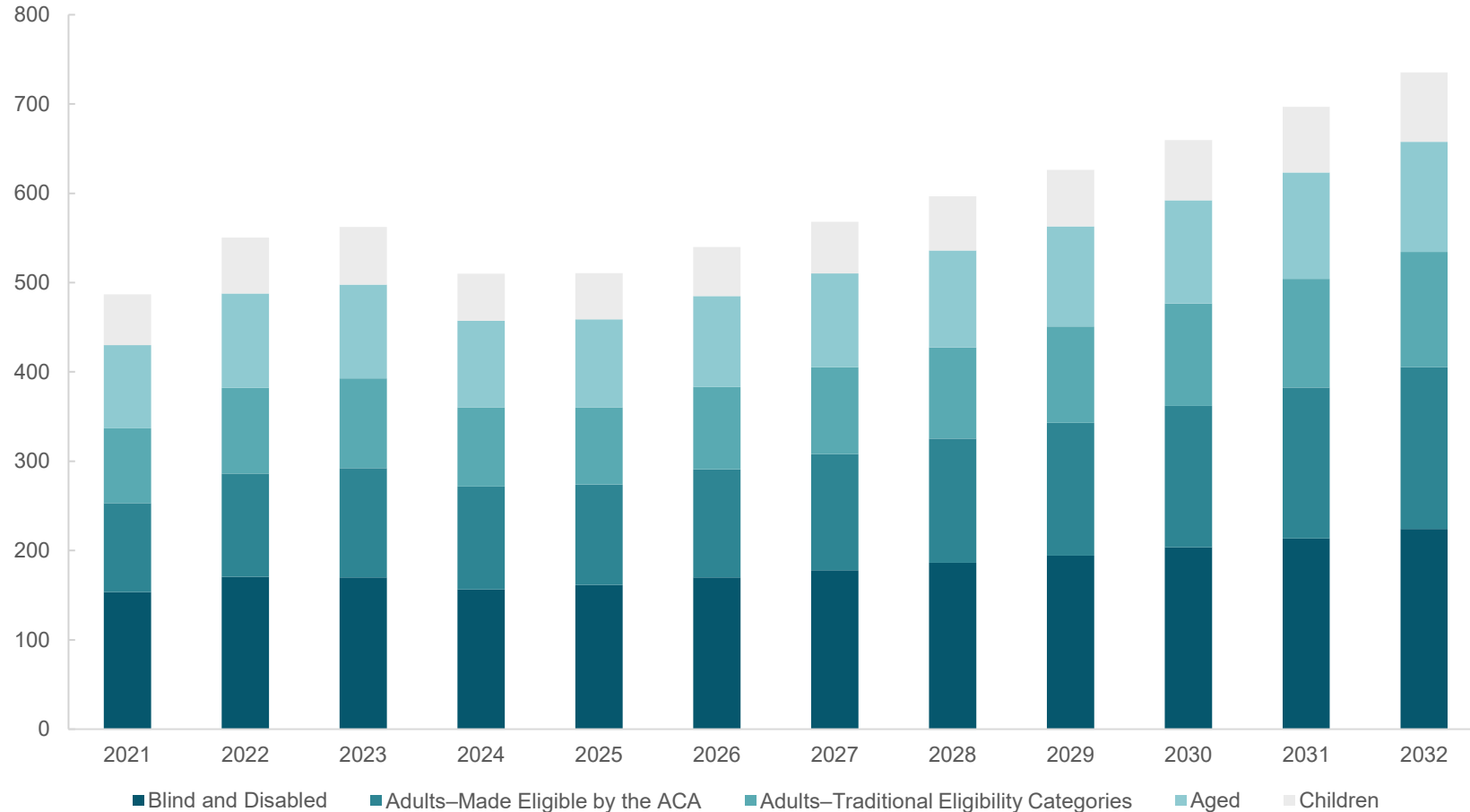
Examples of such future developments include:

- Further enrollment growth under the policy making Medicaid coverage continuous during the coronavirus public health emergency (PHE) and that policy's subsequent unwinding,
- Future expansions of coverage under an optional Affordable Care Act eligibility category,
- Future expansions of postpartum coverage that last 12 months, and
- Reductions in the allotments provided to hospitals that treat a disproportionate share of low-income patients.



# Spending for Medicaid Services in CBO's May 2022 Baseline, by Eligibility Category

Billions of Dollars



The near-term forecast is dominated by the growing enrollment and additional federal matching funds associated with policies to address the coronavirus pandemic. Spending continues to rise through 2023, as CBO projects the PHE to last until mid-July. Spending falls in 2024 as enhanced matching funds are discontinued and the continuous enrollment policy unwinds. Then, beginning in 2025, growth resumes a normal upward trajectory.





# Selected Details in CBO's May 2022 Medicaid Baseline

	FY 2021	FY 2027	FY 2032	Average Annual Rate of Growth, FY 2027 to FY 2032	Average Annual Rate of Growth, FY 2021 to FY 2032,
Enrollment (Millions)	85	75	77	0.5%	-1.0%
Per Capita Spending (Dollars)	\$6,100	\$8,100	\$10,200	4.8%	4.8%
Total Spending (Billions of dollars)	\$521	\$608	\$789	5.4%	3.8%