

# **Long-Term Projections of Health Care Spending and the Implications for the Federal Budget**

April 13, 2023

Presentation at the 15th Annual Meeting of the OECD's Working Party of  
Parliamentary Budget Officials and Independent Fiscal Institutions

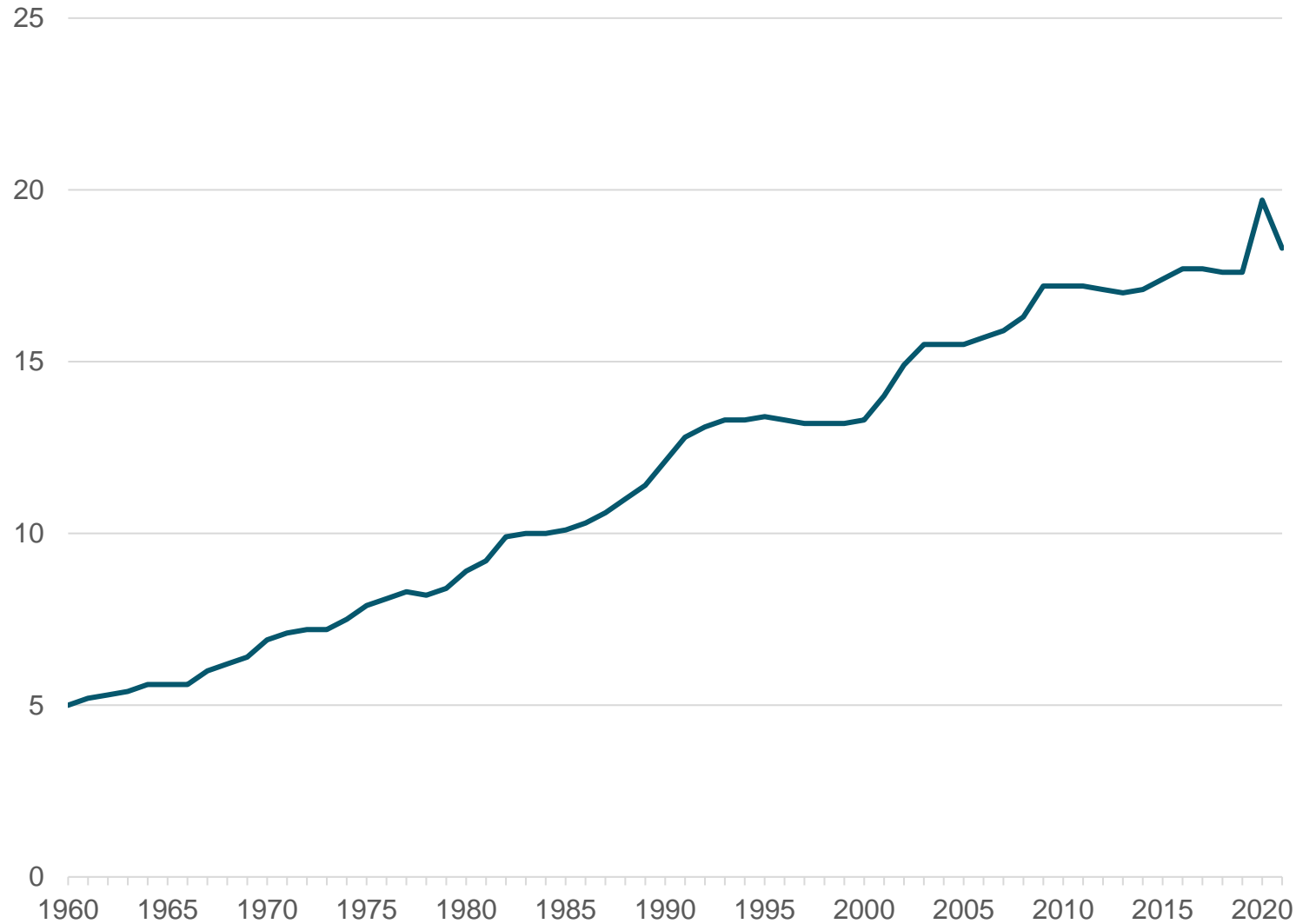
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# National Health Expenditures

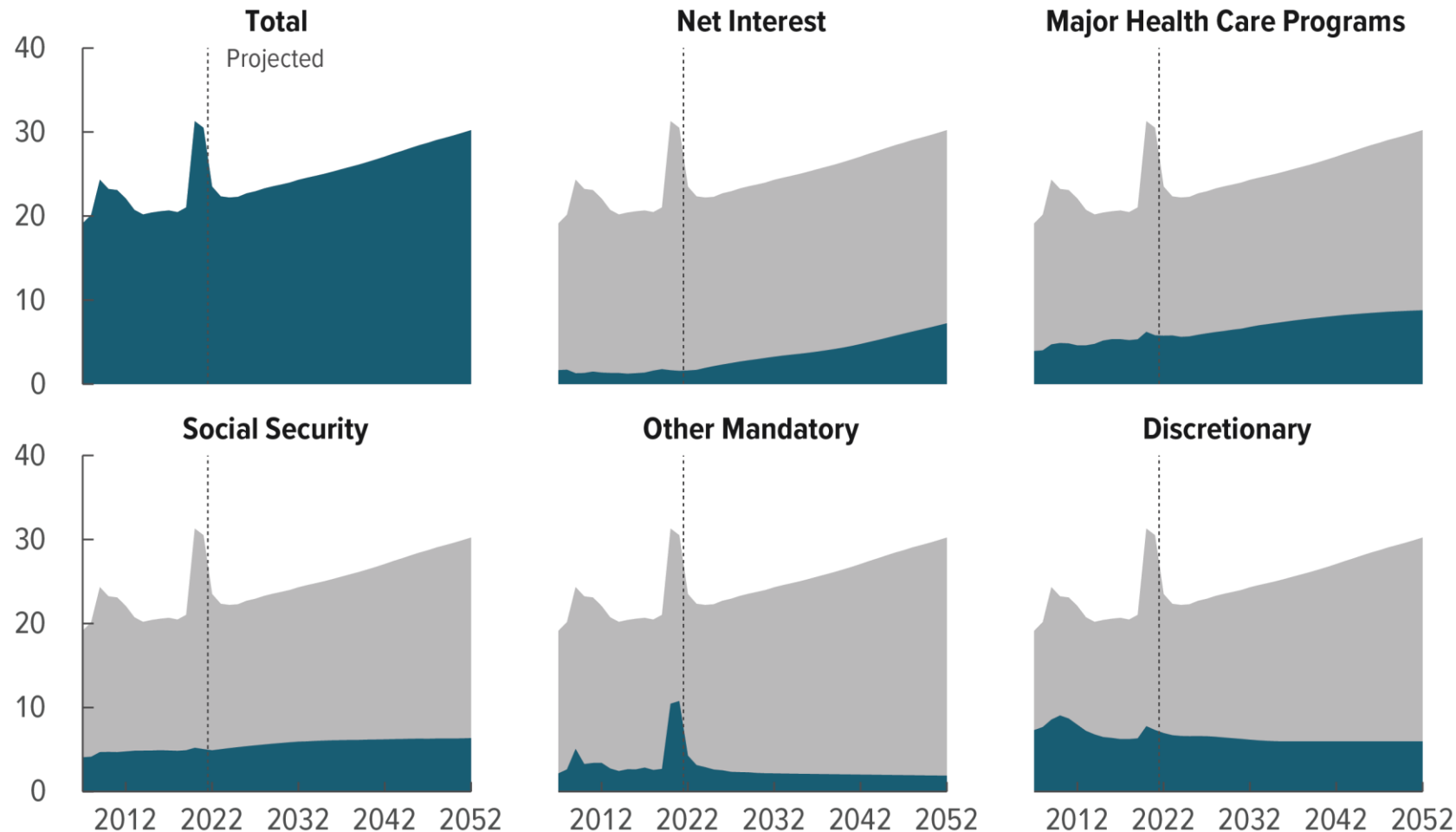
Percentage of Gross Domestic Product



Health care spending in the United States has grown over time. Since 1960, it has more than tripled as a percentage of gross domestic product (GDP).

# Federal Spending, by Category

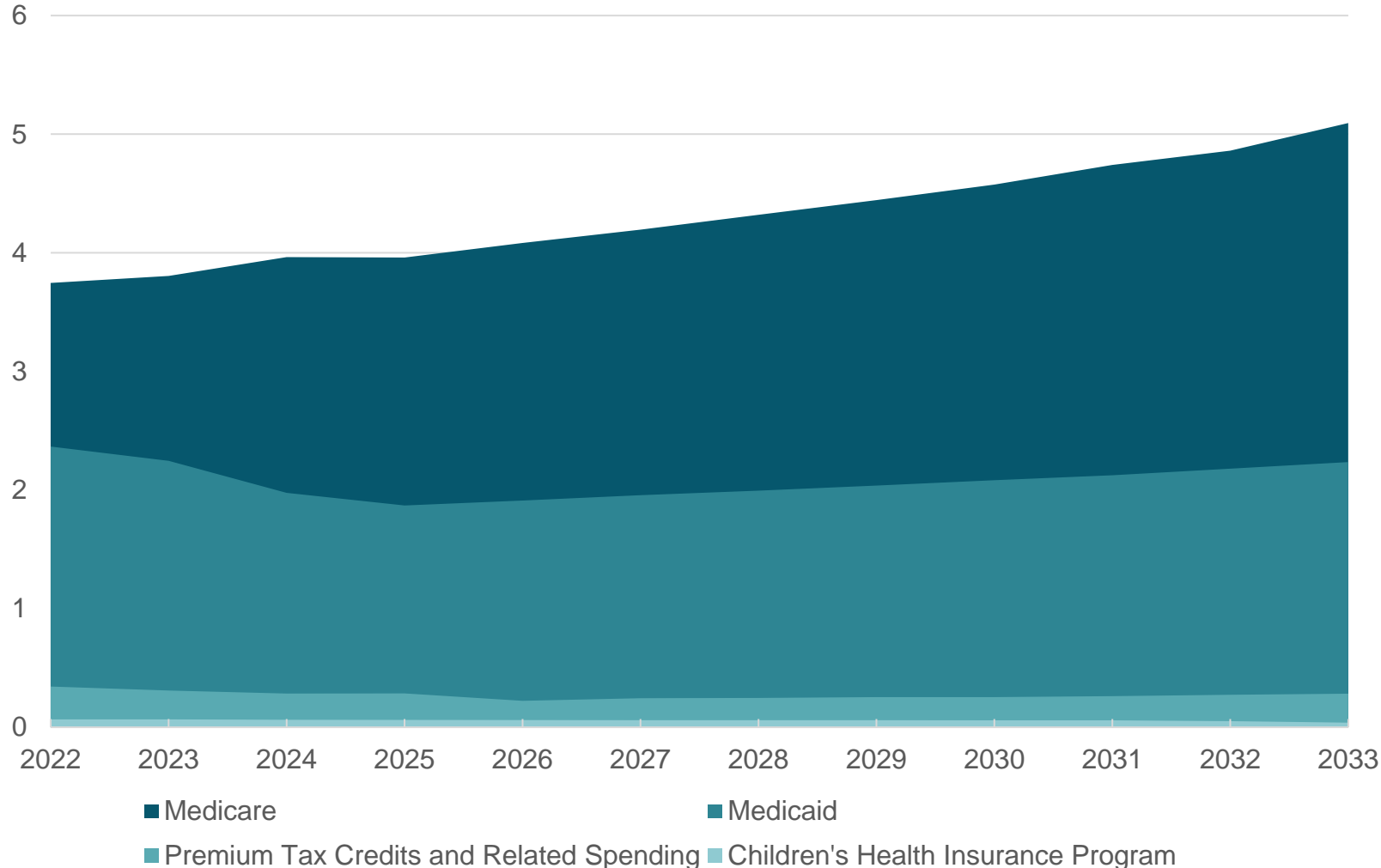
Percentage of Gross Domestic Product



Over the long term, net spending for interest and outlays for the major health care programs and Social Security are projected to rise in relation to GDP; other spending, in total, is projected to decline.

# Spending on the Major Federal Health Care Programs

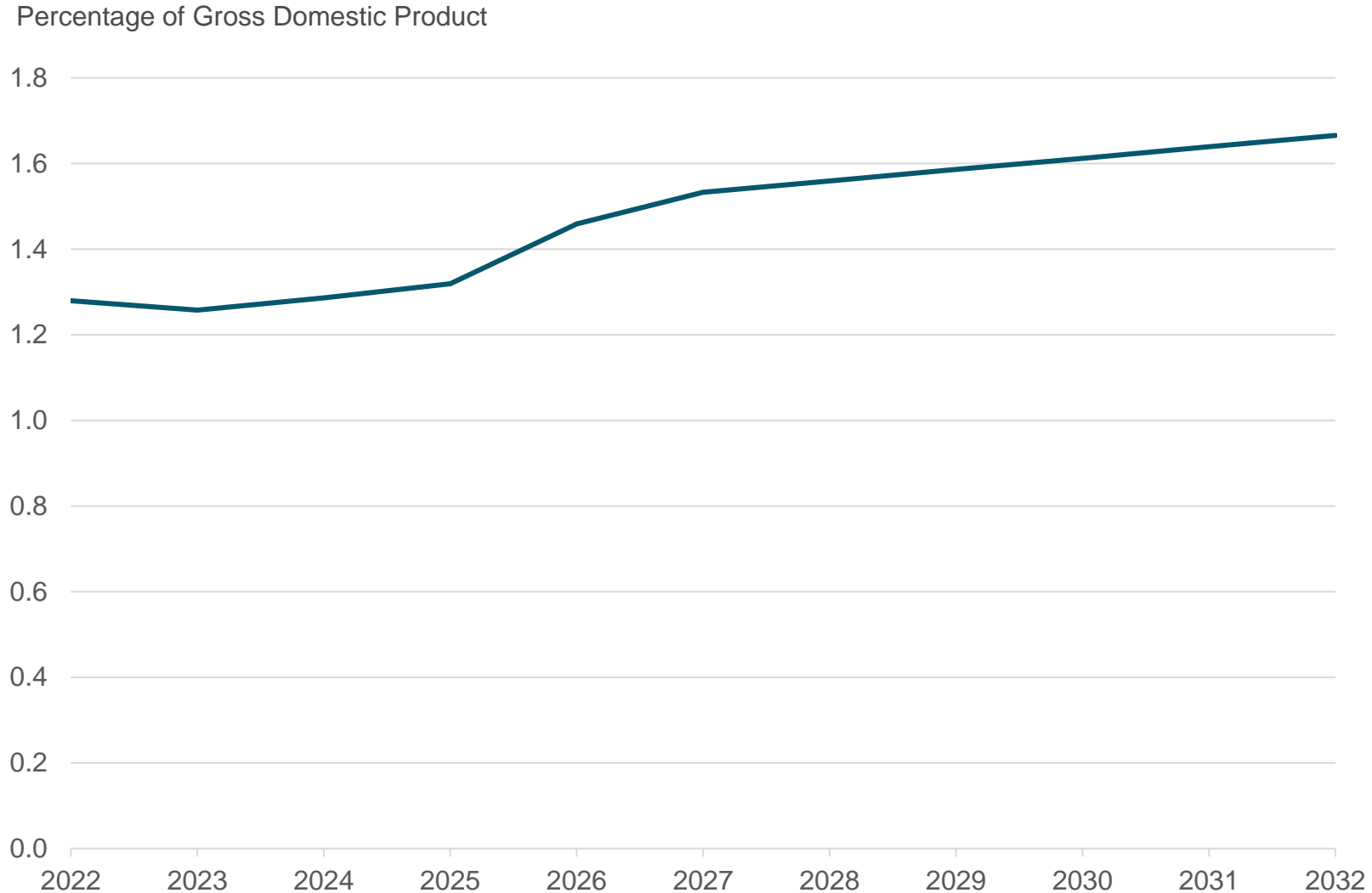
Percentage of Gross Domestic Product



Over the next decade, federal spending on the major health care programs grows by more than one percent of GDP in CBO's projections. The increase is driven primarily by growth in Medicare spending.



# Subsidies for Employment-Based Health Insurance Coverage



As a percentage of GDP, federal subsidies for employment-based coverage are projected to grow over the coming decade.

# How CBO Projects Spending on Health Care

CBO's 10-year baseline budget projections provide a benchmark for estimates of the costs of legislative proposals. Those projections are based, in part, on detailed modeling of the health care system.

The agency uses a more aggregate and mechanical approach to project spending for the two decades that follow that initial 10-year projection period.

# 10-Year Projections for Medicare

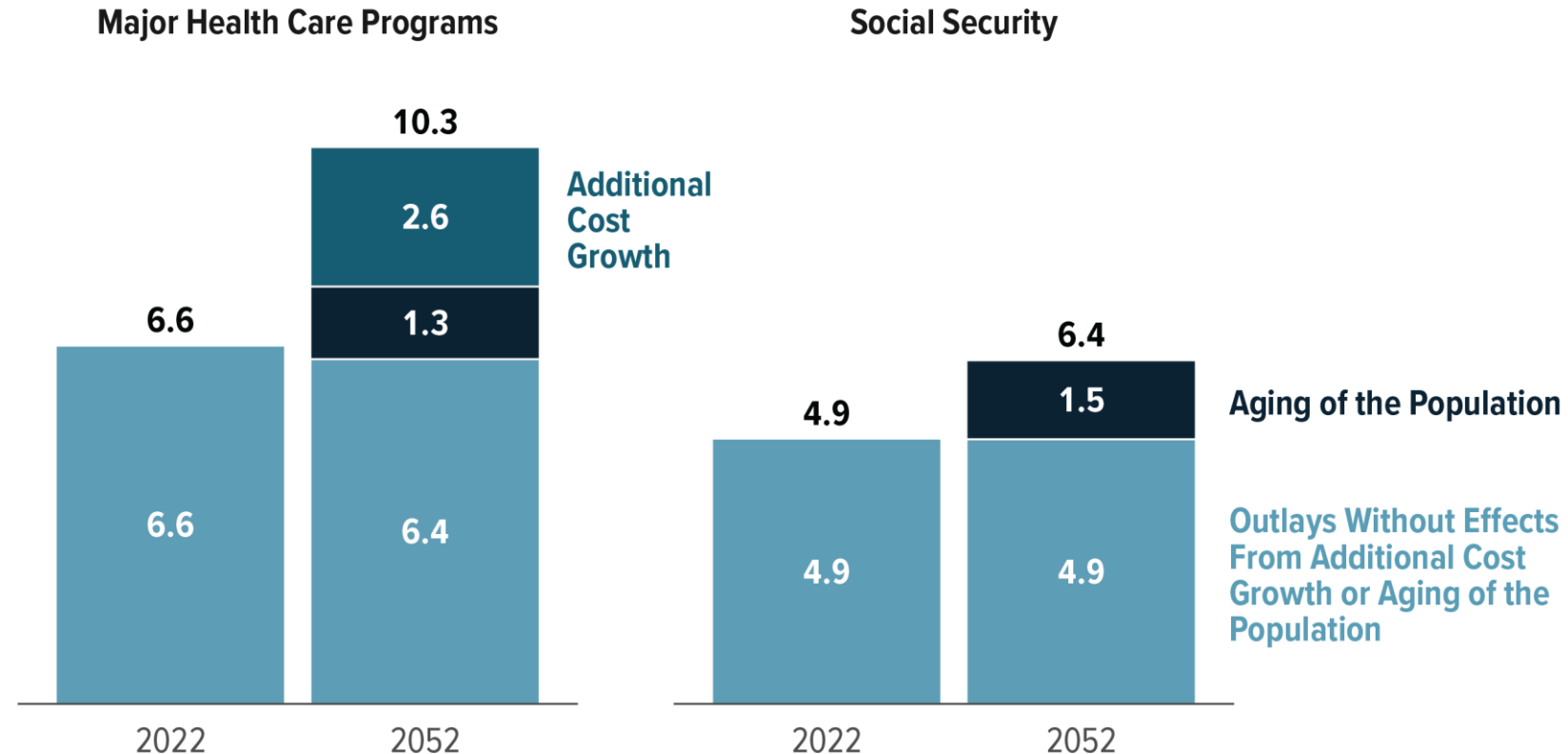
CBO's analysts start with the most recent data on Medicare spending available.

They then use the following pieces to build the projections:

- Medicare population (based on CBO's projections of the total population by age and sex and on data on Medicare participation),
- Price (Medicare's payment rates),
- Changes in the age-and-sex mix of the Medicare population,
- Anticipated policy changes, and
- Growth in Medicare spending that cannot be explained by those four factors.

# Composition of Growth in Outlays for the Major Health Care Programs and Social Security, 2022 to 2052

Percentage of Gross Domestic Product



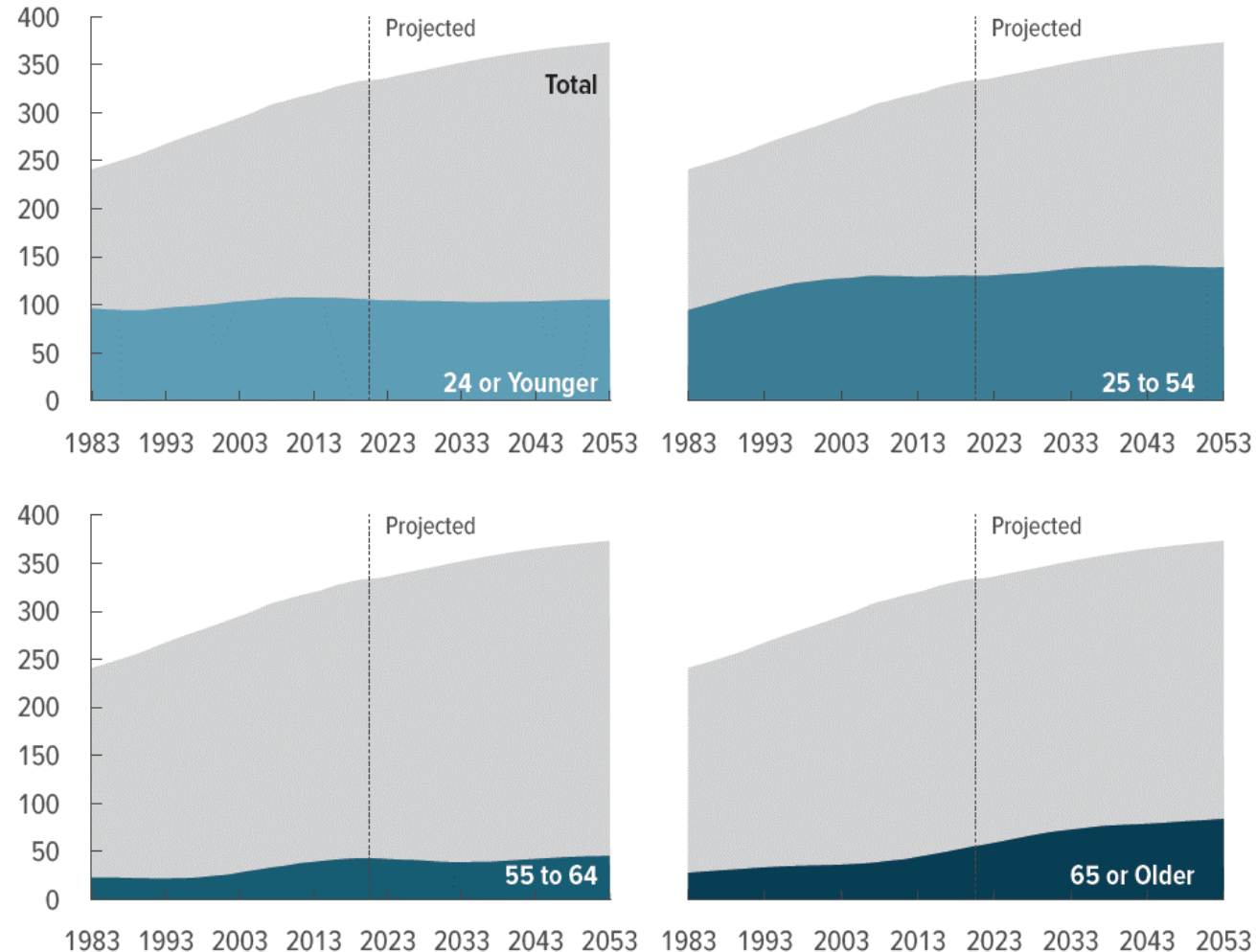
Much of the growth in spending on the major health care programs and on Social Security results from the aging of the population. Growth in spending on the major health care programs is also driven by cost growth above and beyond that accounted for by demographic changes or the growth of potential GDP per person.



# Aging of the Population

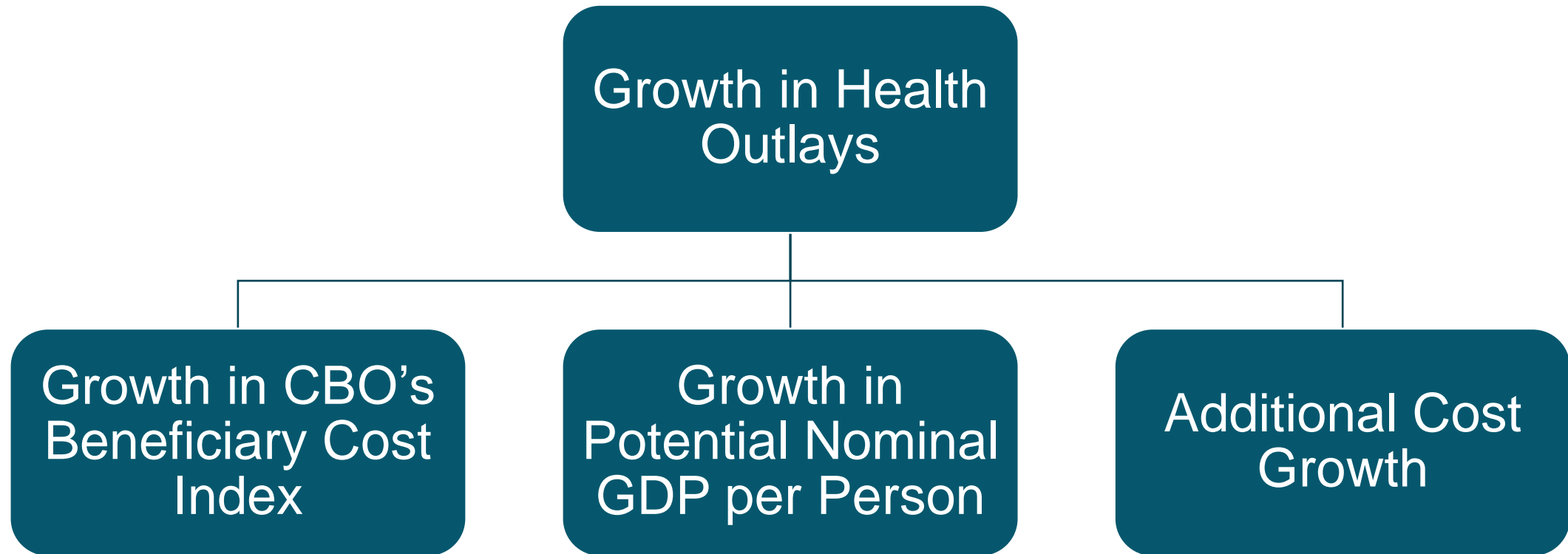
## Population, by Age Group

Millions of People



In CBO's projections, the number of people ages 25 to 54, which partially determines the number of people employed, grows more slowly than the number of people age 65 or older, who are less likely to work and who are generally eligible for Social Security and Medicare.

# How CBO Defines Additional Cost Growth



CBO uses its beneficiary cost index to calculate the effects of demographic changes on health care spending. For spending on Medicare, that index accounts for information on age, sex, time until death, and the original reason for beneficiaries' Medicare entitlement. For Medicaid, the index incorporates information about average spending by type of beneficiary: child, adult, aged, or disabled.

# CBO's Estimate of Additional Cost Growth

The estimates of additional cost growth in CBO's projections move linearly from the rates at the end of the 10-year budget period to the estimated rates at the end of the 30-year projection period.

CBO's estimate of additional cost growth in health care overall in 2052 is 0.6 percent.

To estimate additional cost growth in the health care sector, CBO used essentially the same method that the Centers for Medicare & Medicaid Services' Office of the Actuary uses to produce the 75-year projections of Medicare spending for its annual report to the Congress. Within that framework, CBO uses its own estimates of key parameters: an income-technology elasticity of 1.27, an insurance elasticity of  $-0.20$ , and a price elasticity of  $-0.55$ . For a discussion of the methods underlying projections by the Office of the Actuary, see Stephen K. Heffler and others, Centers for Medicare & Medicaid Services, Office of the Actuary, memorandum about the long-term projection assumptions for Medicare and aggregate national health expenditures (April 22, 2020), <https://tinyurl.com/msfjx6te> (PDF).

## Three Key Factors Contributing to Additional Cost Growth in the Health Care Sector

**Growth in real national income per person** has been—and, in CBO's estimation, will continue to be—the most significant factor in the growth of spending on health care. The agency projects that in 2052, that factor would account for **just over half of the additional cost growth**.

**Increasing medical prices** have been—and, in CBO's estimation, will continue to be—another significant factor in the growth of spending on health care. The agency projects that in 2052, such increases would account for **slightly less than half of the additional cost growth**.

**Changes in out-of-pocket spending for health care** have historically been an important factor in the growth of spending on health care. However, CBO projects that, under current law, the out-of-pocket share of national health expenditures would not change over the 30-year projection period. That is, the agency does not expect changes in out-of-pocket spending to contribute to additional cost growth in 2052.

# What Types of Products About Health Care Does CBO Create?

## Ongoing Analysis

- Budget baseline projections
  - Impact of the coronavirus pandemic
  - Demographics (fertility, mortality)
- Insurance coverage projections
- Projections of health care spending

## Recent Reports

- A description of who was uninsured in 2019 and why
- Review of health care prices by payer
- Single-payer series: budgetary effects, financing, macroeconomic effects
- Drug prices and innovation

## Recent Analysis of Legislation, Including Cost Estimates

- Surprise billing
- Legislation in response to the coronavirus pandemic
  - Medicaid continuous coverage
  - Timing of the public health emergency
- Expansion of Affordable Care Act subsidies in the American Rescue Plan Act and in the proposed reconciliation legislation
- Medicare expansions: dental, vision, hearing
- Drug price negotiation
- Medicare Part D benefit design
- Immunosuppressant drugs

## Relevant CBO Publications

*The Budget and Economic Outlook: 2023 to 2033* (February 2023),  
[www.cbo.gov/publication/58848](https://www.cbo.gov/publication/58848).

*The Demographic Outlook: 2023 to 2053* (January 2023),  
[www.cbo.gov/publication/58612](https://www.cbo.gov/publication/58612).

*The 2022 Long-Term Budget Outlook* (July 2022),  
[www.cbo.gov/publication/57971](https://www.cbo.gov/publication/57971).

*Federal Subsidies for Health Insurance Coverage for People Under 65: 2022 to 2032* (June 2022), [www.cbo.gov/publication/57962](https://www.cbo.gov/publication/57962).

More of CBO's work on health care can be found at  
[www.cbo.gov/topics/health-care](https://www.cbo.gov/topics/health-care).