

# Health Care and the Federal Budget

October 18, 2023

Presentation to the  
MITRE Health Advisory Council

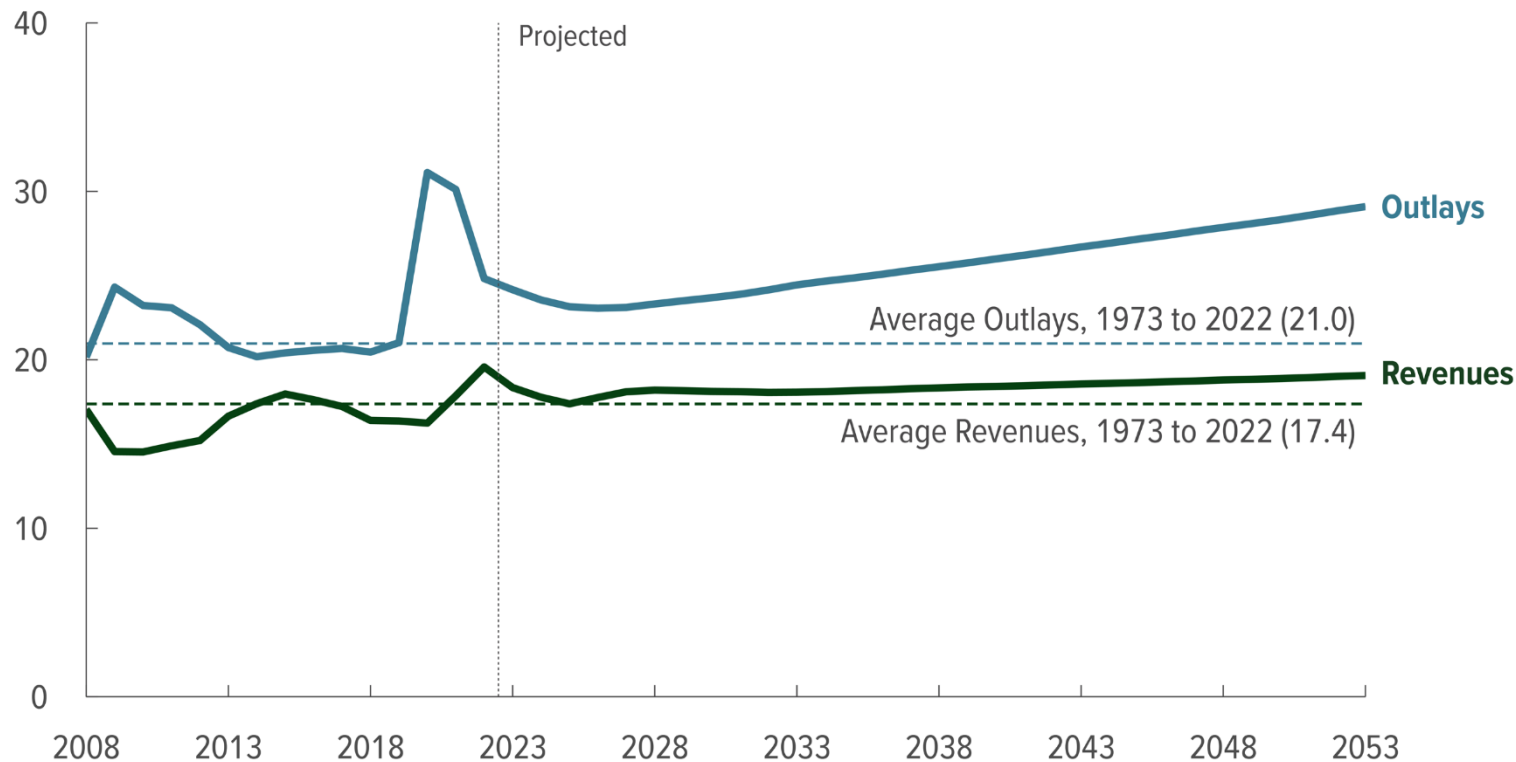
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# **The Long-Term Outlook for Federal Spending on Health Care**

# The Challenging Fiscal Outlook Facing the United States

## Total Outlays and Revenues

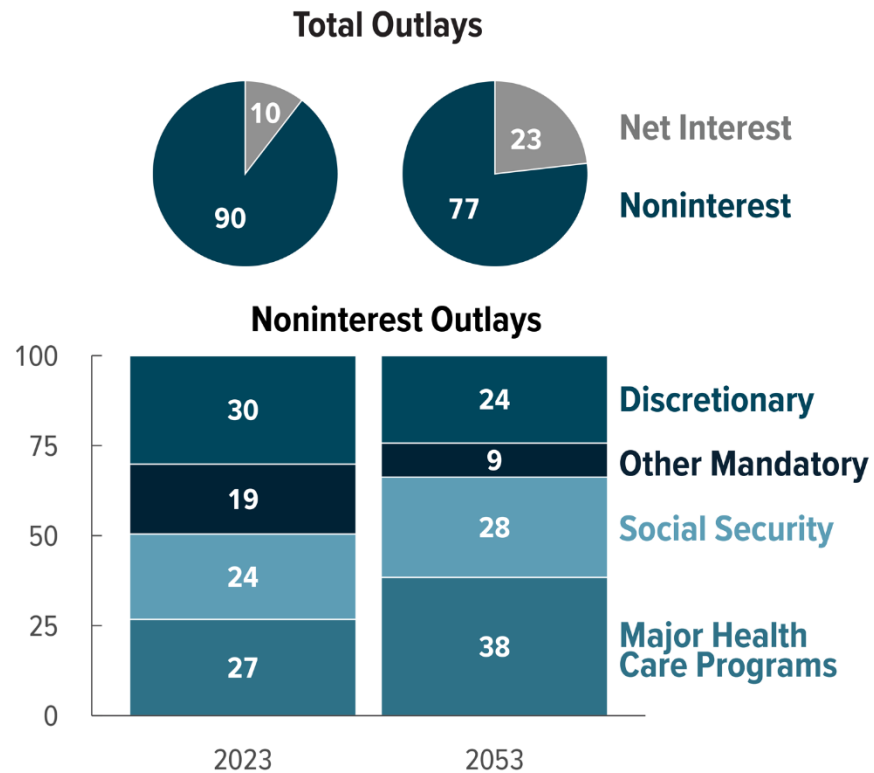
Percentage of Gross Domestic Product



In CBO's most recent long-term projections of the federal budget, outlays increase faster than revenues—mainly because of rising interest costs and growth in spending on the major health care programs and Social Security. The result is ever-larger budget deficits over the long term.

# Composition of Outlays, 2023 and 2053

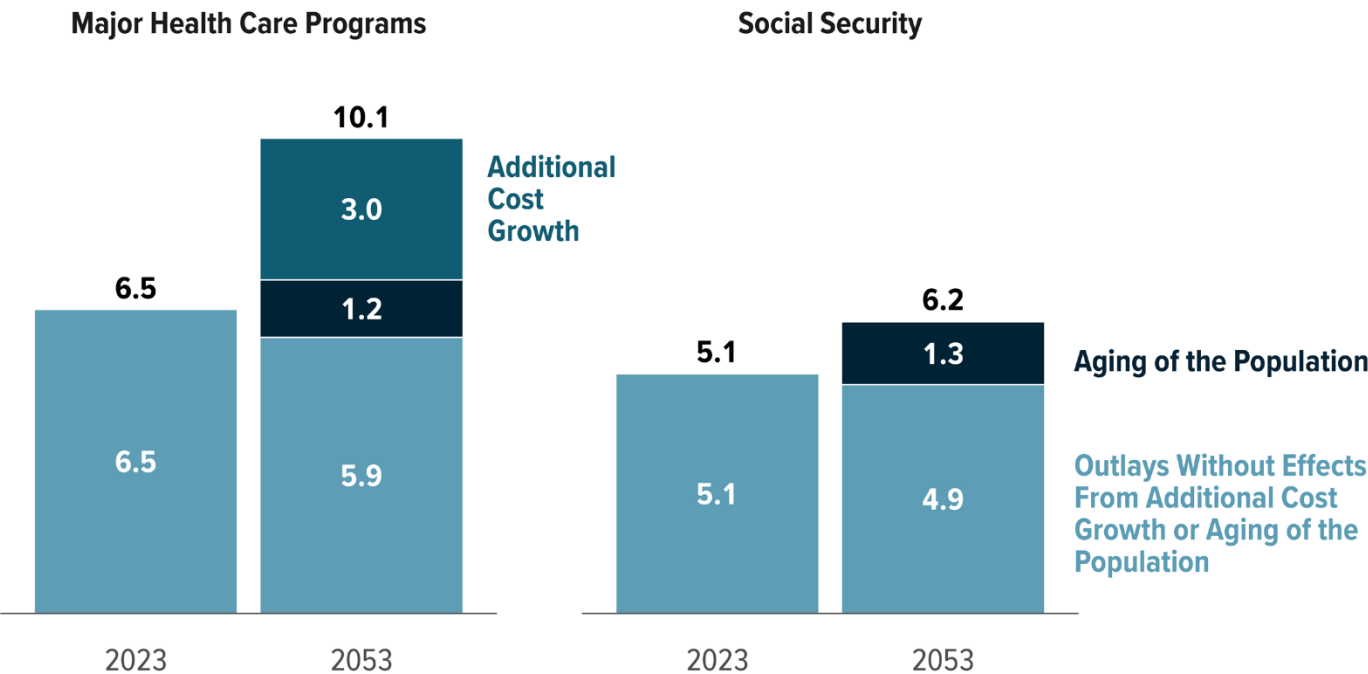
Percent



Earlier this year, CBO projected that under current law, net outlays for interest would account for a greater portion of total federal outlays in 2053 than they will in 2023, and spending on the major health care programs would account for a much larger share of all federal noninterest spending.

# Composition of Growth in Outlays for the Major Health Care Programs and Social Security, 2023 to 2053

Percentage of GDP



In CBO’s projections, growth in spending on the major health care programs is largely driven by cost growth above and beyond that accounted for by demographic changes or the growth of potential GDP per person. Spending on those programs, as well as spending on Social Security benefits, is also boosted by the aging of the population.

Source: Congressional Budget Office, *The 2023 Long-Term Budget Outlook* (June 2023), p. 19, [www.cbo.gov/publication/59014](https://www.cbo.gov/publication/59014). For a version of this figure in HTML format, along with related notes, see <https://tinyurl.com/22vjuzp8>.

GDP = gross domestic product.

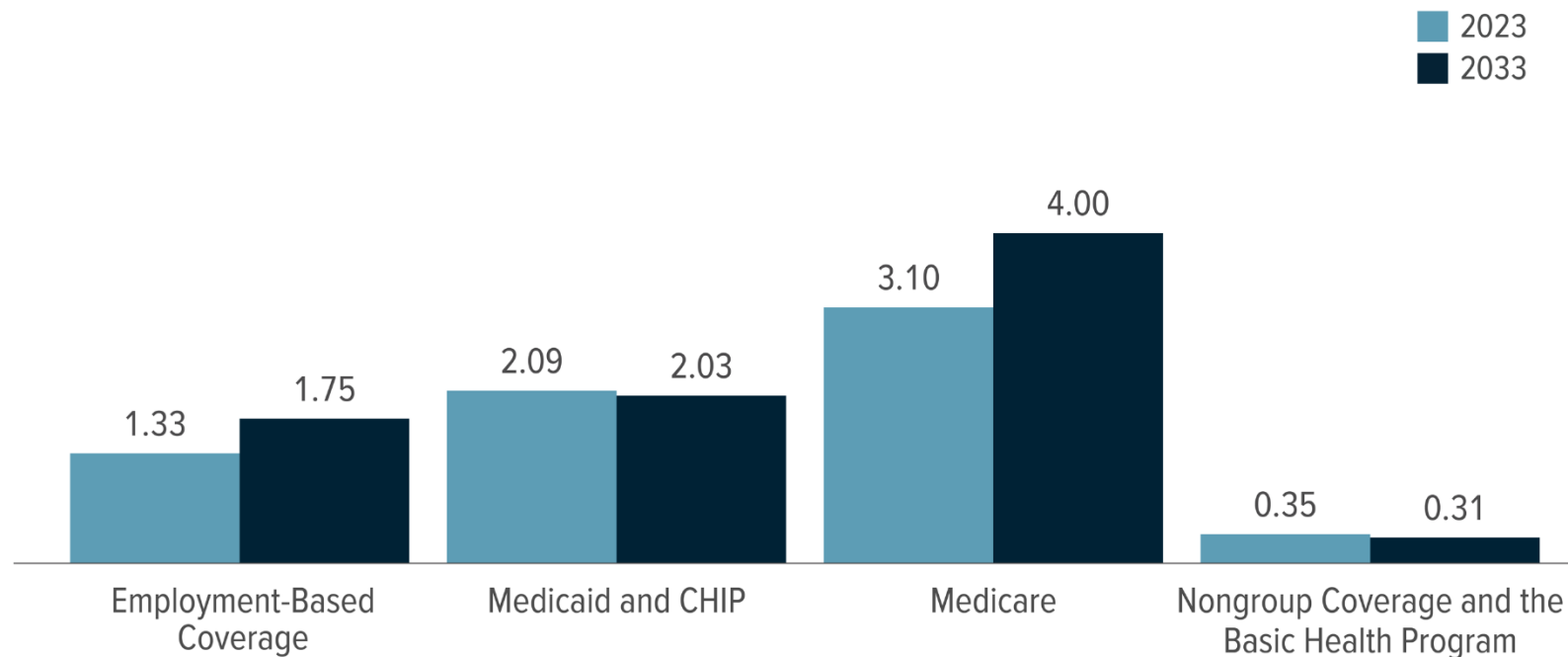
“The growth in deficits over the next three decades occurs as increases in spending—especially spending on interest, the major health care programs, and Social Security—outpace increases in revenues.”

—Congressional Budget Office, June 2023

# **CBO's 10-Year Projections of Federal Spending on Health Care**

# Total Federal Subsidies for Health Insurance, 2023 and 2033

Percentage of Gross Domestic Product



Total federal subsidies for employment-based coverage and for Medicare nearly double from 2023 to 2033 in CBO and JCT's projections. Measured as a percentage of GDP, federal subsidies for employment-based coverage and for Medicare are projected to rise over the next decade, while those for Medicaid and CHIP and for nongroup coverage and the Basic Health Program are projected to decrease.

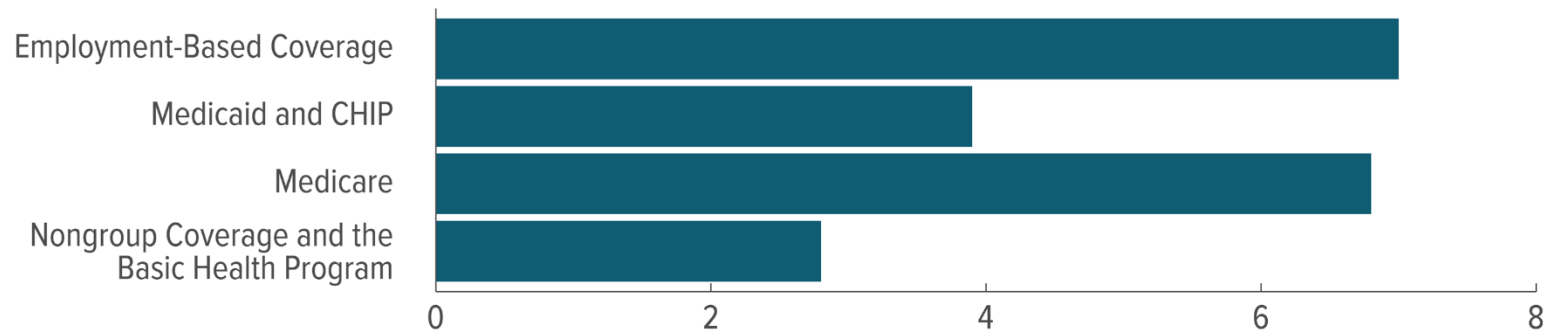
Source: Congressional Budget Office, *Federal Subsidies for Health Insurance: 2023 to 2033* (September 2023), p. 2, [www.cbo.gov/publication/59273](https://www.cbo.gov/publication/59273).

CHIP = Children's Health Insurance Program; GDP = gross domestic product; JCT = staff of the Joint Committee on Taxation.

# Average Annual Change in Health Insurance Subsidies, 2023 to 2033

Percent

Total Subsidies



Average Subsidy



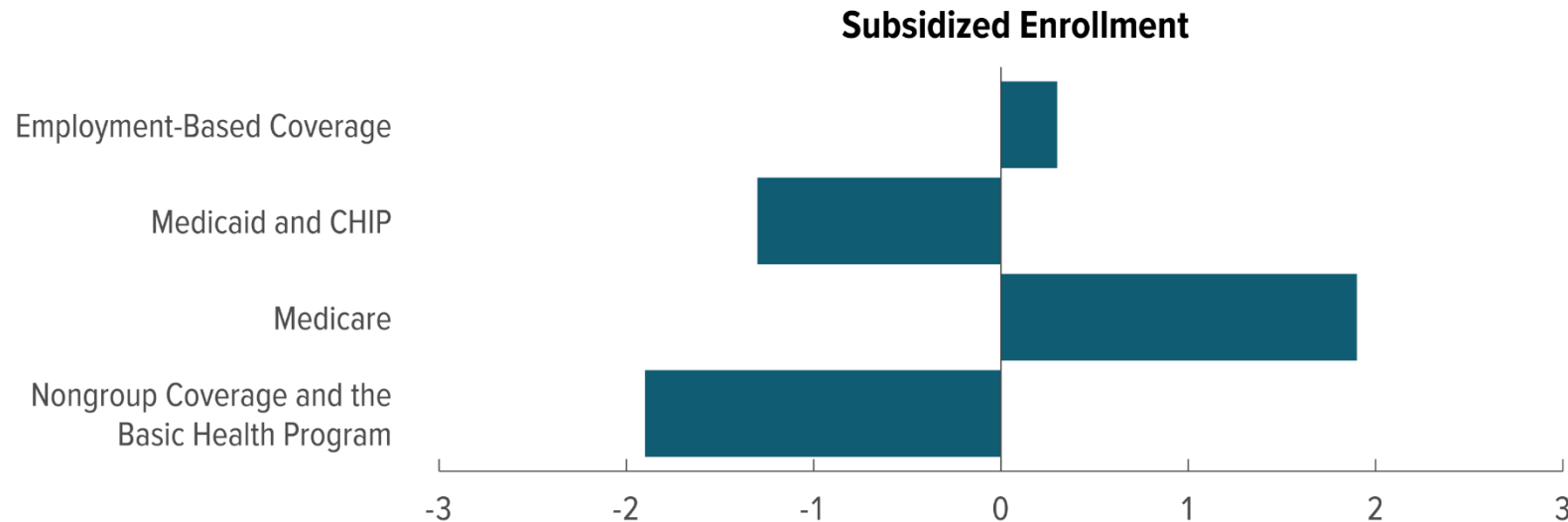
In CBO and JCT's projections, total subsidies for employment-based coverage and for Medicare grow by an average of 7 percent per year over the 2023–2033 period. Growth in total subsidies for employment-based coverage is driven primarily by increases in the average subsidy per person that result from premium growth and scheduled increases in tax rates. Growth in total Medicare subsidies reflects average annual growth of 5 percent in the average subsidy and of 2 percent in enrollment.

Source: Congressional Budget Office, *Federal Subsidies for Health Insurance: 2023 to 2033* (September 2023), p. 10, [www.cbo.gov/publication/59273](https://www.cbo.gov/publication/59273).

CHIP = Children's Health Insurance Program; JCT = staff of the Joint Committee on Taxation.

# Average Annual Change in Enrollment in Subsidized Health Insurance Coverage, 2023 to 2033

Percent



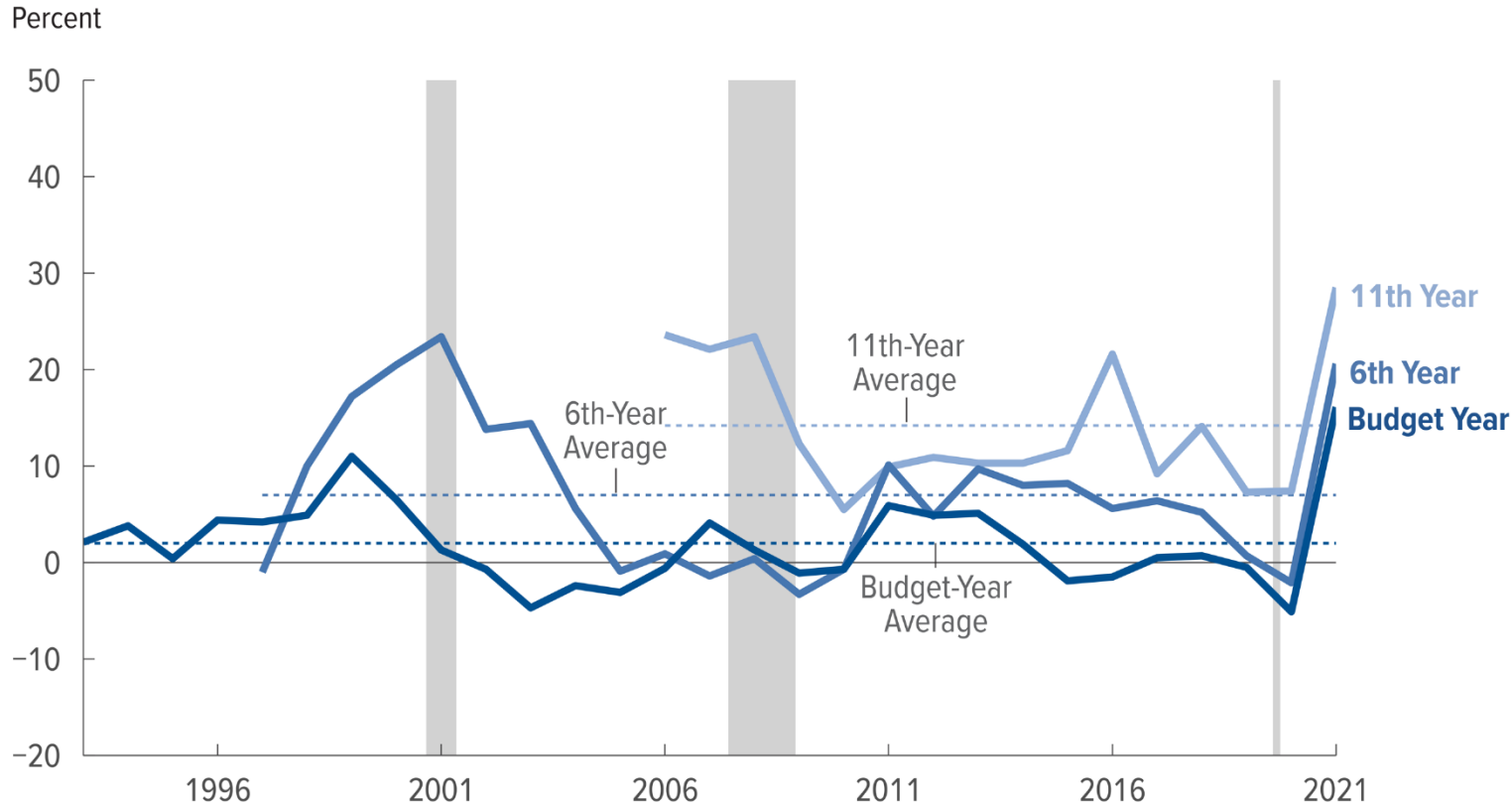
In CBO and JCT's projections, total subsidies for Medicaid and CHIP and for nongroup coverage and the Basic Health Program grow much more slowly than those for other types of coverage because enrollment in those sources declines following the expiration, in 2023, of provisions requiring continuous eligibility in Medicaid and the scheduled expiration of enhanced marketplace subsidies at the end of 2025.

Source: Congressional Budget Office, *Federal Subsidies for Health Insurance: 2023 to 2033* (September 2023), p. 10, [www.cbo.gov/publication/59273](https://www.cbo.gov/publication/59273).

CHIP = Children's Health Insurance Program; JCT = staff of the Joint Committee on Taxation.

# **The Recent Slowdown in the Growth of Federal Spending on Health Care**

# Errors in CBO's Projections of Medicare Outlays

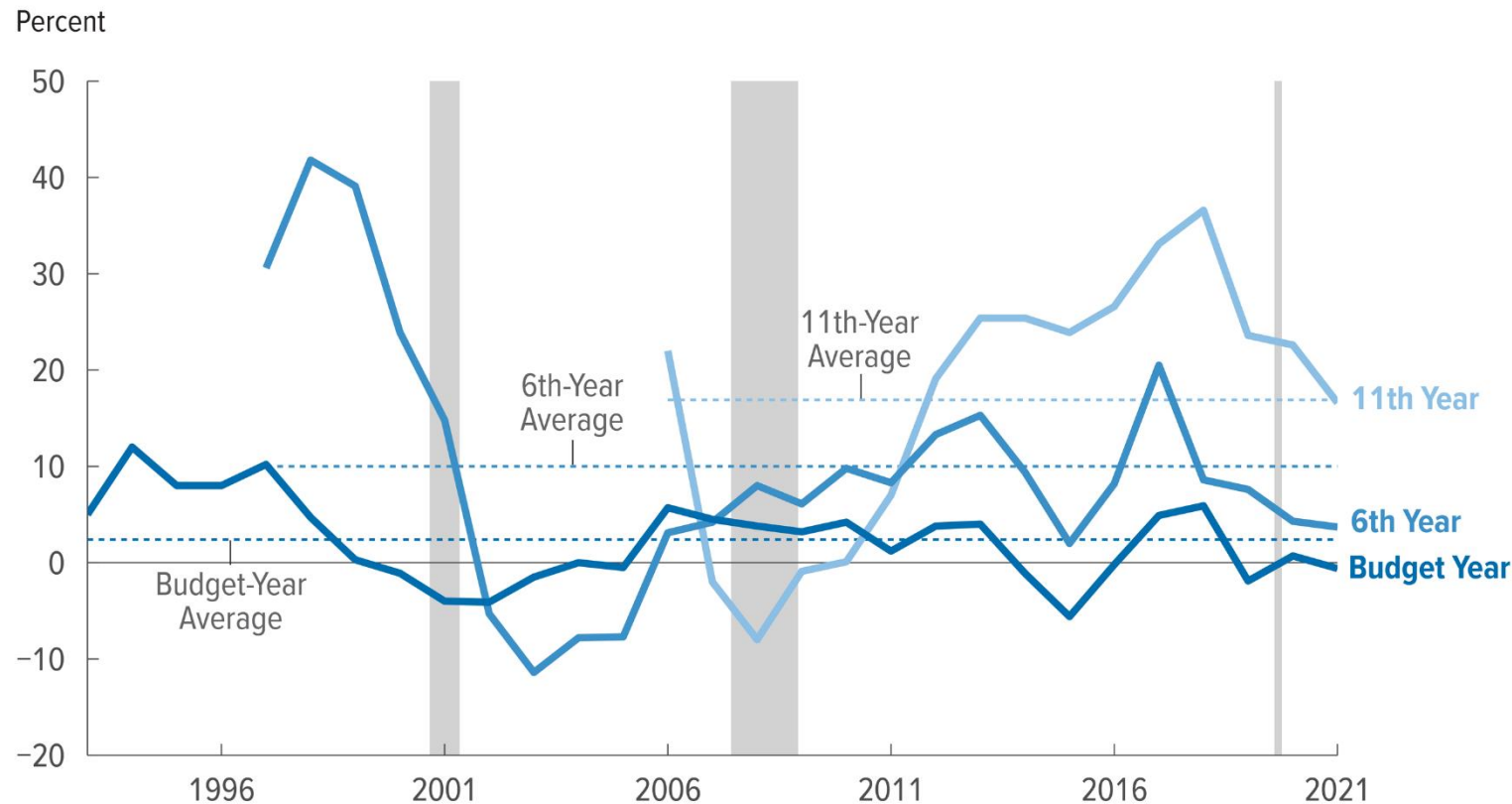


One of the largest overestimates of Medicare outlays for most projection years occurred in 2021. That error was partly because payments that had been made to providers in 2020 in advance of expected health care claims were recouped more quickly than CBO expected. Also, as a result of the Coronavirus pandemic, Medicare experienced lower-than-expected usage of medical services in that year, so outlays were relatively low.

Source: Congressional Budget Office, *An Evaluation of CBO's Projections of Outlays From 1984 to 2021* (April 2023), p. 10, [www.cbo.gov/publication/58613](https://www.cbo.gov/publication/58613).

The shaded vertical bars indicate periods of recession. (A recession extends from the peak of a business cycle to its trough.)

# Errors in CBO's Projections of Medicaid Outlays



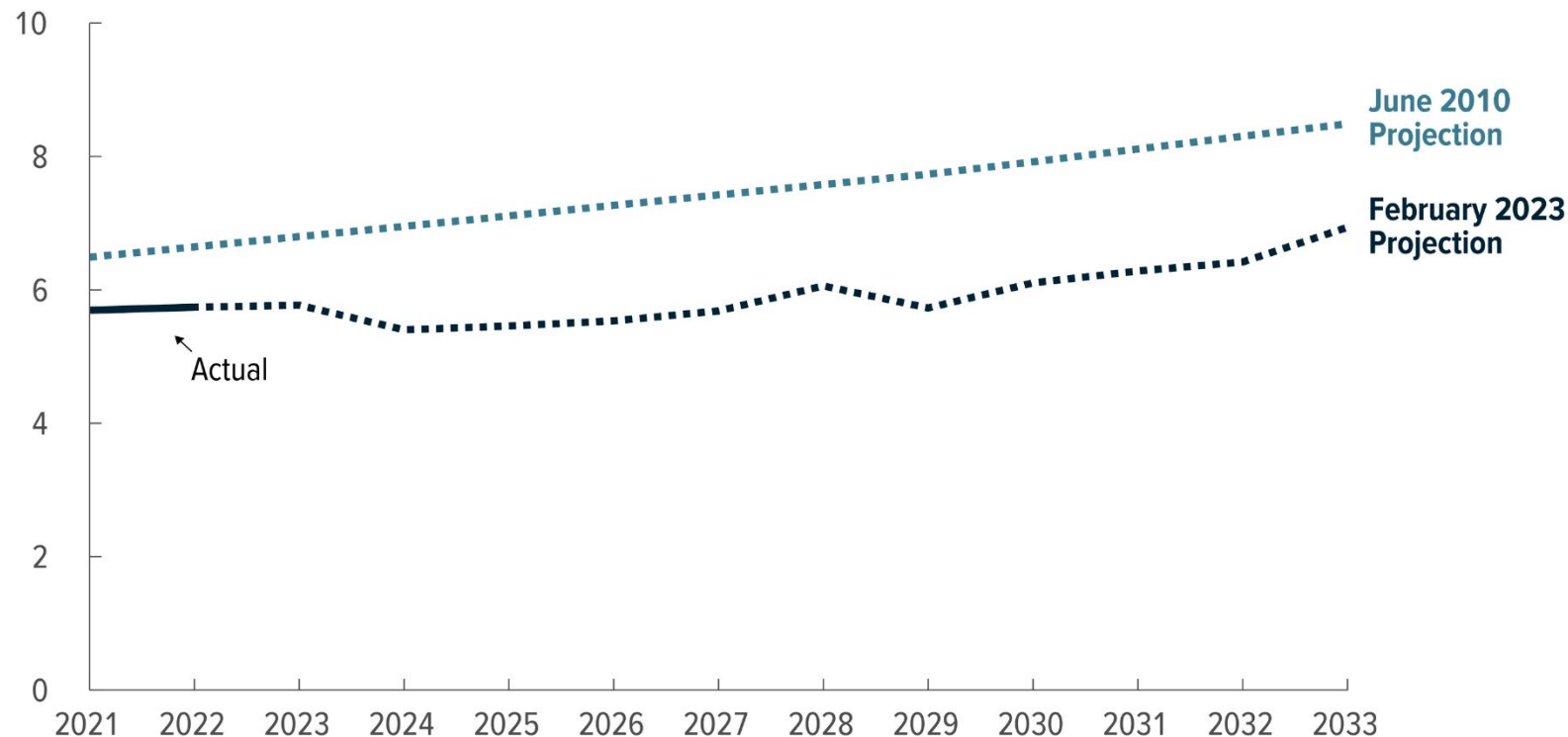
For the budget-year, 6th-year, and 11th-year projections of Medicaid spending, the share of overestimates has been 66 percent, 84 percent, and 81 percent, respectively. The overestimates for the 11th year have been larger because the errors from the overestimated growth rate compounded over time.

Source: Congressional Budget Office, *An Evaluation of CBO's Projections of Outlays From 1984 to 2021* (April 2023), p. 12, [www.cbo.gov/publication/58613](https://www.cbo.gov/publication/58613).

The shaded vertical bars indicate periods of recession. (A recession extends from the peak of a business cycle to its trough.)

# CBO's Projections of Federal Outlays for the Major Health Care Programs

Percentage of Gross Domestic Product



In its long-term projections made in 2010, CBO estimated that federal outlays for the major health care programs would increase from 6.8 percent of GDP in 2023 to 8.5 percent of GDP in 2033. The agency now expects federal spending on those programs, measured as a percentage of GDP, to grow more slowly over that 10-year period, increasing from 5.8 percent of GDP in 2023 to 6.9 percent of GDP in 2033.

Source: Congressional Budget Office, letter to the Honorable Sheldon Whitehouse about CBO's projections of federal health care spending (March 17, 2023), p. 12, [www.cbo.gov/publication/58997](https://www.cbo.gov/publication/58997). For a version of this figure, and relevant notes, in PDF, see <https://tinyurl.com/5ew9rbu4>.

GDP = gross domestic product.

“The rate of growth in federal mandatory spending on health care per beneficiary has slowed sharply since 2005...Several developments may have contributed to that slowdown in spending growth, and the findings of several research papers do not fully account for that trend, in CBO’s assessment.”

—Congressional Budget Office, March 2023

# **CBO's Analyses Related to MITRE's Areas of Interest**

## Area of Interest to MITRE

## Related Publications by CBO

Prior authorization in Medicare Advantage	<a href="#"><u>CBO's Estimate of the Statutory Pay-As-You-Go Effects of H.R. 3173, Improving Seniors' Timely Access to Care Act of 2021</u></a> (September 14, 2022)
Data collection for quality reporting	<a href="#"><u>How CBO Analyzes the Costs of Proposals for Single-Payer Health Care Systems That Are Based on Medicare's Fee-for-Service Program: Working Paper 2020-08</u></a> (December 2020)
Fraud, waste, and abuse	<a href="#"><u>How Initiatives to Reduce Fraud in Federal Health Care Programs Affect the Budget</u></a> (October 2014)
Risk adjustment in Medicare Advantage/alternative payment models	<a href="#"><u>"Modify Payments to Medicare Advantage Plans for Health Risk," in Options for Reducing the Deficit: 2019 To 2028</u></a> (December 2018); and <a href="#"><u>"Reduce Medicare Advantage Benchmarks," in Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions</u></a> (December 2022)
Site neutrality in Medicare	<a href="#"><u>Estimated direct spending and revenue effects of H.R. 3561, the PATIENT Act of 2023</u></a> (July 11, 2023); and <a href="#"><u>Policy Approaches to Reduce What Commercial Insurers Pay for Hospitals' and Physicians' Services</u></a> (September 2022)
Telehealth	<a href="#"><u>Cost estimate for health care and other legislation, as ordered reported by the House Committee on Ways and Means on June 7, 2023</u></a> (June 26, 2023)
Clearinghouse for claims	<a href="#"><u>Policy Approaches to Reduce What Commercial Insurers Pay for Hospitals' and Physicians' Services</u></a> (September 2022)
Mergers and acquisitions	<a href="#"><u>Policy Approaches to Reduce What Commercial Insurers Pay for Hospitals' and Physicians' Services</u></a> (September 2022)