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# Appendix C: Assumptions and Methods Underlying CBO’s Long-Term Budget Projections

The long-term budget projections presented in this report are consistent with the 2021–2031 baseline budget projections and economic forecast that the Congressional Budget Office published in February 2021.<sup>1</sup> (For a summary of the assumptions about spending and revenues that underlie CBO’s extended baseline, see Table C-1.) For years beyond 2031, CBO used a model with the following four components to integrate demographic and economic changes into its long-term budget projections.<sup>2</sup>

- A *demographic model* was used to project the size of the population by age and sex.
- A *microsimulation model* was used to project annual changes in demographic characteristics and economic outcomes for a representative sample of the population.

- A *long-term budget model* was used to project federal outlays, revenues, deficits, and debt beyond CBO’s standard 10-year budget period.
- A *model of economic growth* was used to simulate how demographic changes, economic factors, and fiscal policy would affect the U.S. economy and, in turn, the federal budget.

Those four components interact in various ways. For example, the economic projections reflect how increases in spending and revenues in the extended baseline projections would affect the economy.<sup>3</sup> In turn, the budgetary outcomes in the extended baseline projections reflect those economic effects.

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1. See Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031* (February 2021), [www.cbo.gov/publication/56970](http://www.cbo.gov/publication/56970).

2. See Congressional Budget Office, *An Overview of CBOLT: The Congressional Budget Office Long-Term Model* (April 2018), [www.cbo.gov/publication/53667](http://www.cbo.gov/publication/53667).

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3. The extended baseline projections, which generally reflect current law, follow CBO’s 10-year baseline budget projections and then extend most of the concepts underlying those projections for the rest of the long-term projection period.



Table C-1.

**Assumptions About Outlays and Revenues Underlying CBO's Extended Baseline Projections**

<b>Assumptions About Outlays</b>	
Social Security	As scheduled under current law <sup>a</sup>
Medicare	As scheduled under current law through 2031; thereafter, projected spending depends on the estimated growth rates of the number of beneficiaries, health care costs per beneficiary, potential GDP per person, and excess cost growth for Medicare (which is projected to move smoothly to a rate of 1 percent by 2051) <sup>a</sup>
Medicaid	As scheduled under current law through 2031; thereafter, projected spending depends on the estimated growth rates of the number of beneficiaries, health care costs per beneficiary, potential GDP per person, and excess cost growth for Medicaid (which is projected to move smoothly to a rate of 1 percent by 2051)
Children's Health Insurance Program	As projected in CBO's baseline through 2031; projected spending remains constant as a percentage of GDP thereafter
Subsidies for Health Insurance Purchased Through the Marketplaces	As scheduled under current law through 2031; thereafter, projected spending depends on the estimated number of beneficiaries, an additional indexing factor for subsidies, the growth of potential GDP per person, and excess cost growth for private health insurance premiums (which is projected to move smoothly to a rate of 1 percent by 2051)
Other Mandatory Spending	As scheduled under current law through 2031; thereafter, refundable tax credits are estimated as part of revenue projections, and the rest of other mandatory spending is assumed to decline as a percentage of GDP at roughly the same annual rate at which it is projected to decline between 2026 and 2030 in the agency's baseline published in March 2020
Discretionary Spending	As projected in CBO's baseline through 2031; beyond that year, CBO assumes that, after a five-year transition period, discretionary spending would grow at the rate of nominal GDP
<b>Assumptions About Revenues</b>	
Individual Income Taxes	As scheduled under current law
Payroll Taxes	As scheduled under current law
Corporate Income Taxes	As scheduled under current law
Excise Taxes	As scheduled under current law <sup>b</sup>
Estate and Gift Taxes	As scheduled under current law
Other Sources of Revenues	As scheduled under current law through 2031; remain constant as a percentage of GDP thereafter

Data source: Congressional Budget Office.

The extended baseline projections, which generally reflect current law, follow CBO's 10-year baseline budget projections and then extend most of the concepts underlying those projections for the rest of the long-term projection period.

For CBO's most recent 10-year baseline projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031* (February 2021), [www.cbo.gov/publication/56970](http://www.cbo.gov/publication/56970).

Excess cost growth is the extent to which the growth rate of nominal health care spending per person (adjusted to remove the effects of demographic changes) exceeds the growth rate of potential GDP per person. (Potential GDP is the maximum sustainable output of the economy.)

GDP = gross domestic product.

a. Assumes the payment of full benefits as scheduled under current law, regardless of the amounts in the program's trust funds.

b. The exception to the current-law assumption applies to expiring excise taxes dedicated to trust funds. The Balanced Budget and Emergency Deficit Control Act of 1985 requires CBO's baseline to reflect the assumption that those taxes would be extended at their current rates. That law does not stipulate that the baseline include the extension of other expiring tax provisions, even if they have been routinely extended in the past.

