

Issue Brief

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KEY POINTS

- The CBO estimates that the federal budget deficit will be \$544 billion in 2016.
- The deficit would raise the debt to 76 percent of gross domestic product.
- Medicare, Medicaid and Children's Health Insurance Program spending is expected to be 11 percent higher than in 2015, amounting to \$104 billion.

CBO Releases Its Budget and Economic Outlook: 2016 to 2026

The Congressional Budget Office has released its budget and economic outlook for the period 2016 to 2026. A copy of the document is available at <https://www.cbo.gov/publication/51129>.

CBO estimates that the federal budget deficit in 2016 will be \$544 billion, raising debt held by the public to 76 percent of GDP. Solid short-term growth in the economy is projected to be followed by slower growth in subsequent years.

The material that follows pertains to the Federal Health Care Programs.

Outlays for Medicare (net of premiums and other offsetting receipts), Medicaid and the Children's Health Insurance Program, plus subsidies for health insurance purchased through exchanges and related spending, are expected to be \$104 billion (or 11 percent) higher this year than they were in 2015.

Almost half of the projected \$2.5 trillion increase in total outlays from 2016 to 2026 is for Social Security and Medicare.

Medicare spending in 2015 (net of premiums and other offsetting receipts) rose by \$34 billion, or nearly 7 percent — the fastest rate of growth recorded for the program since 2009 (after adjusting for shifts in the timing of certain payments). Part of that increase reflected the fact that certain statutory changes that

reduced the rate of growth in Medicare spending had already been implemented. Those provisions will continue to constrain Medicare spending, but to roughly the same extent each year, so they no longer reduce its rate of growth. The increase in 2015 also reflected an expansion of about 3 percent in the number of Medicare beneficiaries and an escalation in the number or cost of services furnished to those beneficiaries, particularly under Part D (which covers outpatient prescription drugs).

MEDICARE, MEDICAID AND OTHER MAJOR HEALTH CARE PROGRAMS

Totaling \$1.0 trillion in 2015, gross federal outlays for Medicare, Medicaid and other major programs related to health care accounted for 40 percent of gross mandatory spending and equaled 5.8 percent of GDP. Under current law, CBO estimates gross federal outlays for those programs will jump to \$1.1 trillion, or 6.2 percent of GDP, in 2016. In CBO's baseline projections, that spending grows robustly — at an average rate of nearly 6 percent per year — and thus nearly doubles in dollar terms between 2016 and 2026, reaching \$2.0 trillion, or 7.4 percent of GDP, by the end of that period. About three-fifths of total spending on the major health care programs would finance care for people age 65 or older, CBO projects.

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continued

MEDICARE

Gross spending for Medicare will total \$692 billion in 2016, CBO estimates, or 3.7 percent of GDP. By 2026, spending for the program would reach nearly \$1.3 trillion, or 4.7 percent of GDP, if current laws remained in place.

Medicare also collects substantial offsetting receipts — mostly in the form of premiums paid by beneficiaries — which, in CBO's baseline projections, rise from \$101 billion in 2016 to \$210 billion in 2026. Under current law, spending for Medicare net of those offsetting receipts is projected to be 3.2 percent of GDP in 2016 and 3.9 percent in 2026.

Spending for Medicare (not including offsetting receipts) is projected to grow by an average of about 6 percent per year during the next 10 years under current law. Some of that growth stems from the increasing number of beneficiaries; CBO projects that, under current law, Medicare caseloads would expand at an average rate of 3 percent per year as growing numbers of baby boomers turned 65 and became eligible for benefits. In 2015, Medicare had about 55 million beneficiaries; that number is projected to climb to 75 million in 2026 — 36 percent more recipients than in 2015 and 60 percent more than in 2010, the last year before the first baby boomers became eligible for benefits through the program.

About 60 percent of the growth during the next 10 years results from rising costs per beneficiary, although those costs are rising much more slowly than they have in the past. CBO projects that, under current law, nominal spending per beneficiary would grow at an average rate of 4 percent per year throughout the coming decade. In real terms (adjusted for inflation using the price index for personal consumption expenditures), Medicare spending per beneficiary

is projected to increase at an average annual rate of 1.6 percent between 2016 and 2026, whereas it averaged real annual growth of 4 percent between 1985 and 2007 (excluding the jump in spending that occurred in 2006 when Part D was implemented).

The comparatively slow growth in per-beneficiary spending that CBO projects for the next decade results from a combination of factors. One of those factors is the anticipated influx of new beneficiaries, which will bring down the average age of Medicare beneficiaries and therefore, all else equal, reduce average health care costs per beneficiary because younger beneficiaries tend to use fewer health care services.

Another factor is the slowdown in the growth of Medicare spending across all types of services, beneficiaries, and major geographic regions in recent years. Although the reasons for that slower growth are not yet entirely clear, CBO projects that the slowdown will persist for some years to come.

A third factor that contributes to the slow projected growth in Medicare spending per beneficiary during the next decade is the constraints on service payment rates that are built into current law. The Medicare Access and CHIP Reauthorization Act of 2015 (P.L. 114-10) specifies that annual increases in payment rates for physicians' services will range between zero and 0.75 percent during the 2016–2026 period. (Before that law was enacted, payment rates had been scheduled to drop by 21 percent in April 2015 and to be raised or lowered by small amounts thereafter.) In addition, program rules constrain annual increases in payment rates for Medicare services apart from those provided by physicians by adjusting for changes in productivity in the economy

overall. With CBO's economic projections, those payment rates are expected to increase by about 2 percent per year on average — roughly 1 percentage point lower than the rate at which prices of inputs to Medicare services are projected to increase.

MEDICAID

Federal outlays for Medicaid totaled \$350 billion in 2015, 16 percent more than spending for the program in 2014. CBO estimates that about two-thirds of that increase resulted from enrollment of people who were newly eligible because of the ACA and from the greater share of costs paid by the federal government for those new enrollees. Through current law, CBO projects, federal spending for Medicaid will jump by almost 9 percent this year as more people in those states that have expanded Medicaid eligibility enroll in the program.

The average number of people enrolled in Medicaid on a monthly basis is expected to rise from 76 million in 2015 to 77 million in 2016. By 2026, 80 percent of the people who meet the new eligibility criteria will live in states that have extended Medicaid coverage, CBO anticipates; Medicaid enrollment in that year is projected to be 85 million.

Overall, federal spending for Medicaid from 2017 to 2026 is projected to increase more slowly than it has throughout the last two years, largely because the rapid growth in enrollment that occurred during the initial stage of the expansion of coverage authorized by the ACA will have slowed. During that period, CBO projects, spending per beneficiary would grow at an average annual rate of 5 percent. In real terms (adjusted for inflation using the price index for personal consumption expenditures), Medicaid spending per enrollee is expected to increase at an average annual rate of 3 percent between 2017 and 2026. By 2026, federal outlays for Medicaid are projected to total \$642 billion, or about 2.3 percent of GDP (up from 2.1 percent of GDP in 2016).

CHILDREN'S HEALTH INSURANCE PROGRAM

Total federal spending for CHIP was approximately \$9 billion in 2015 and is expected to rise to \$13 billion in 2016. That projected growth stems almost entirely from an increase in the federal match rate that went into effect in January of this year. Without that change in the match rate, federal spending for CHIP would be about \$9 billion in 2016, CBO estimates. Funding for CHIP is authorized through 2017.

TABLES

Mandatory Outlays Projected in CBO's Baseline

	Actual,												Total	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
Billions of Dollars														
Major Health Care Programs														
Medicare ^a	634	692	699	711	787	845	907	1,015	1,048	1,075	1,193	1,288	3,949	9,569
Medicaid	350	381	401	420	439	460	484	509	536	564	593	642	2,205	5,049
Health insurance subsidies and related spending ^b	38	56	73	80	85	87	91	95	99	102	105	109	415	925
Children's Health Insurance Program	9	13	13	11	6	6	6	6	6	6	6	6	41	70
Subtotal^a	1,030	1,141	1,186	1,222	1,316	1,398	1,488	1,625	1,688	1,747	1,897	2,045	6,610	15,612

Analysis provided for MHA
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