CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Keith Hall, Director

February 16, 2016

Honorable Tom Price, M.D.
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: Spending for Means-Tested Programs in CBO's Baseline, 2016–2026

Dear Mr. Chairman:

As you requested, enclosed are two tables that show federal spending for the government's major mandatory spending programs and tax credits that are primarily means-tested (that is, spending programs and tax credits that provide cash payments or other forms of assistance to people with relatively low income or few assets):

- Table 1 shows CBO's January 2016 baseline projections for the 2016–2026 period.

- Table 2 shows historical spending data from 2006 through 2015 along with CBO's estimates for 2016.

Each table also includes a line showing total spending for mandatory programs that are not primarily means-tested. (Some of those programs—the student loan programs, for example—have means-tested components, however.) The tables exclude means-tested programs that are discretionary (such as the Section 8 housing assistance programs and the Low Income Home Energy Assistance Program). However, each table shows discretionary spending for the Federal Pell Grant Program as a memorandum item because that program has discretionary and mandatory components and because the amount of the mandatory component depends in part on the amount of discretionary funding.

In *The Budget and Economic Outlook: 2016 to 2026*, which CBO published in January 2016, mandatory outlays for means-tested programs are projected to grow over the next decade at an average annual rate of 4.3 percent, compared with an average rate of 5.5 percent for non–means-tested programs, such as Social Security, most of Medicare, and civilian and military retirement programs (see Table 1). Mandatory outlays in 2016 will be boosted by an estimated shift of $39 billion in payments from fiscal year 2017 to 2016 (because October 1, 2016, falls on a weekend). If not for that shift, mandatory outlays for means-tested programs would grow over the next decade at an average annual rate of 4.4 percent, compared with 5.7 percent for non–means-tested programs. Compared with growth from 2007 through 2016, projected growth from 2017 to 2026 (adjusted for shifts in the timing of payments) is much lower for means-tested programs (which will have grown at an average rate of 7.2 percent from 2007 to 2016, by CBO's estimate). In contrast, projected growth for non–means-tested programs (which will have grown at an average rate of 4.8 percent from 2007 to 2016, CBO estimates) is almost one percentage point higher per year, in part because of the aging of the population (see Table 2).

Overall, the growth rates projected for total mandatory spending over the coming decade are slower than those of the past 10 years—by about one-half of a percentage point per year, on average. However, most of that difference results from the shift of some payments from 2017 to 2016. If not for that shift, the average growth rate projected for total mandatory spending over the coming decade would be 5.4 percent, equal to the rate recorded for the past 10 years.

A number of programs shown in Tables 1 and 2 have been or are scheduled to be significantly affected by changes in law. The most recent recession and the continuing recovery also exert an influence. As a result, important aspects of the programs in the future may differ significantly from experience over the past decade, and those differences may be the source of some of the variation between the growth rates in the past 10 years and those in the coming decade. For example, spending for several programs—Medicaid, the Children's Health Insurance Program (CHIP), subsidies for health insurance purchased through an exchange, the Supplemental Nutrition Assistance Program (SNAP), and the refundable portions of the earned income and child tax credits—has been or will be significantly affected by program changes that unfold over time:

- **Medicaid** spending shot up by 35 percent from 2008 to 2010, during the most recent recession, both because of enrollment growth and as a result of a temporary increase in the federal matching rate. After dropping off a bit subsequently, that spending has been boosted by the expansion of Medicaid coverage under the Affordable Care Act. As that expansion has been phased in, spending for the program increased by 32 percent from 2013 to 2015 and is projected to rise by 9 percent in 2016. Under current law, the rate of growth in Medicaid spending would decline through 2019, CBO projects, after which it would largely level off at a rate of roughly 5 percent per year through the end of the projection period.

- Under current law, spending authority for **CHIP** will expire at the end of fiscal year 2017. Consistent with statutory guidelines, CBO assumes in its baseline spending projections that annual funding for the program after 2017 will continue at $5.7 billion.[1] As a result, in CBO's baseline, spending for CHIP is projected to drop to $11 billion in 2018 and to about $6 billion in subsequent years; it had grown from $5 billion to $13 billion from 2006 to 2016.

- Payments of **subsidies for health insurance purchased through an exchange** began in January 2014 and totaled $27 billion in fiscal year 2015. They are projected to continue to grow rapidly between 2016 and 2018, largely as a result of significant growth in enrollment. CBO and the staff of the Joint Committee on Taxation project annual growth averaging about 4 percent between 2019 and 2026.

- **SNAP** spending increased markedly during the most recent recession—roughly doubling between 2008 and 2011—as more people became eligible for those benefits. In addition, the American Recovery and Reinvestment Act of 2009 (ARRA) temporarily raised the maximum benefit under that program. The combination of higher enrollment and an increased benefit caused outlays to peak at $83 billion in 2013. Spending has fallen since then because subsequent legislation eliminated the increase in the maximum benefit (as of October 31, 2013) and because the program's caseload (which peaked in 2014) has declined. CBO expects that enrollment will continue to fall in each year of the projection period as the economy continues to improve. As a result, spending for SNAP is projected to decline slightly over the next several years, after growing by an average of 8 percent per year over the 2007–2016 period.

- Outlays for the **earned income and child tax credits** rose by almost 40 percent from 2007 to 2008 and have grown slowly since then. Provisions expanding the refundability of those credits originally enacted in ARRA (and subsequently extended) recently were made permanent.[2] As a result, those outlays are projected to continue to grow slowly—by an average of about 2 percent per year—over the projection period.

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[1] Under current law, funding for the program in 2017 consists of two semiannual allotments of $2.85 billion—amounts that are much smaller than the allotments made in the past. (The first semiannual allotment in 2017 will be supplemented by $14.7 billion in one-time funding for the program.) Following the rules prescribed by the Balanced Budget and Emergency Deficit Control Act of 1985, CBO extrapolates the $2.85 billion provided for the second half of the year to arrive at projected annual funding of $5.7 billion.

[2] Refundable tax credits reduce a filer's overall income tax liability; if the credit exceeds the rest of the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer. Those tax credits also affect the budget, to a lesser extent, by reducing tax revenues; those revenue effects are not shown in the tables.

Finally, because of the unusual budgetary treatment of the Pell grant program—which has mandatory and discretionary components—the growth rates for the mandatory portions of that program give incomplete information. The bulk of the funding is provided annually in appropriation acts and thus is discretionary. In recent years, spending for the program also has included two mandatory components that have allowed the discretionary budget authority provided by the regular appropriation acts to remain well below the full cost of the program.

In keeping with procedures that govern CBO's baseline, the projection for the discretionary portion of the Pell grant program is based on the budget authority appropriated for fiscal year 2016, adjusted for inflation. (That projection of discretionary spending is shown as a memorandum item in both tables.) Thus, the baseline projection for both discretionary and mandatory spending for Pell grants does not represent an estimate of the expected future costs of the program; such a projection also would account for such factors as award amounts, eligibility, and enrollment.

I hope that you find this information helpful. If you have any further questions, please contact me or my staff. The primary staff contact is Barry Blom.

Sincerely,

Keith Hall
Director

Enclosure

cc: Honorable Chris Van Hollen
Ranking Member

Table 1.

Mandatory Outlays in CBO's 2016 Baseline

(Outlays by fiscal year, billions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average Annual Growth (Percent) 2017–2026
Means-Tested Programs												
Health Care Programs												
Medicaid	381	401	420	439	460	484	509	536	564	593	642	5.4
Medicare Part D Low-Income Subsidies	28	28	27	32	34	37	44	44	45	53	57	7.4
Health insurance subsidies[a,b]	39	57	67	70	71	74	79	82	86	89	93	9.1
Children's Health Insurance Program	13	13	11	6	6	6	6	6	6	6	6	-7.6
Subtotal	460	499	525	546	571	601	637	668	700	740	798	5.7
Income Security												
Earned income and child tax credits[b,c]	83	82	82	84	86	88	91	93	95	97	99	1.8
SNAP	75	74	73	73	72	72	72	72	72	73	74	-0.1
Supplemental Security Income	59	56	53	60	61	63	70	67	64	71	74	2.2
Family support and foster care[d]	31	32	32	33	33	33	34	34	34	35	35	1.1
Child nutrition	23	24	25	26	27	28	29	30	32	33	34	4.2
Subtotal	271	267	265	274	280	285	296	296	297	309	317	1.6
Veterans' pensions	6	6	6	7	7	7	8	7	7	8	8	2.9
Pell Grants[e]	7	6	8	8	8	8	8	8	8	8	8	2.3
Subtotal, Means-Tested Programs	744	778	804	835	865	901	948	979	1,012	1,065	1,130	4.3
Non–Means-Tested Programs[f]	1,959	2,018	2,076	2,238	2,377	2,519	2,720	2,829	2,933	3,156	3,362	5.5
Total Mandatory Outlays[g]	**2,703**	**2,796**	**2,880**	**3,073**	**3,243**	**3,419**	**3,669**	**3,808**	**3,944**	**4,221**	**4,492**	**5.2**
Memorandum												
Pell Grants (Discretionary)[h]	23	25	28	23	24	24	25	25	26	26	27	1.8
Means-Tested Programs												
Adjusted for Timing Shifts	737	778	811	835	865	901	939	979	1,021	1,065	1,130	4.4
Non–Means-Tested Programs												
Adjusted for Timing Shifts	1,927	2,015	2,111	2,238	2,377	2,519	2,669	2,825	2,988	3,156	3,362	5.7

Source: Congressional Budget Office; staff of the Joint Committee on Taxation.

The projections shown here are the same as those reported in Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2016 to 2026* (January 2016).

The average annual growth rate over the 2017–2026 period encompasses growth in outlays from the amount projected for 2016 through the amount projected for 2026.

Projections of spending for benefit programs in this table exclude administrative costs that are classified as discretionary but generally include administrative costs that are classified as mandatory.

SNAP = Supplemental Nutrition Assistance Program.

Because October 1 will fall on a weekend in 2016, 2017, 2022, and 2023, certain federal payments that are due on those dates will instead be made at the end of the preceding September and thus be shifted into the previous fiscal year. Those shifts primarily affect outlays for Supplemental Security Income, veterans' compensation benefits and pensions, and Medicare.

Continued

Mandatory Outlays in CBO's 2016 Baseline

a. Differs from the amounts reported in Table 3-2 in *The Budget and Economic Outlook: Fiscal Years 2016 to 2026* in that it does not include payments to health insurance plans for risk adjustment (amounts paid to plans that attract less healthy enrollees) and reinsurance (amounts paid to plans that enroll people with high health care costs). Spending for grants to states to establish exchanges is also excluded.

b. Does not include amounts that reduce tax receipts.

c. Differs from the amounts reported in Table 3-2 in *The Budget and Economic Outlook: Fiscal Years 2016 to 2026* in that it does not include other tax credits that were included in that table.

d. Includes the Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.

e. Includes mandatory spending designed to reduce the discretionary budget authority needed to support the maximum award amount set in the appropriation act plus mandatory spending that, by formula, increases the total maximum award above the amount set in the appropriation act.

f. Does not include offsetting receipts.

g. Does not include outlays associated with federal interest payments.

h. The discretionary baseline does not represent a projection of expected costs for the discretionary portion of the Federal Pell Grant Program. As with all other discretionary programs, the budget authority is calculated by inflating the budget authority appropriated for fiscal year 2016. Outlays for future years are based on those amounts of budget authority and also reflect a temporary surplus of budget authority provided in 2016.

Table 2.

Mandatory Outlays Since 2006

(Outlays by fiscal year, billions of dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Est., 2016	Annual Growth (Percent), 2007–2016
Means-Tested Programs												
Health Care Programs												
Medicaid	181	191	201	251	273	275	251	265	301	350	381	7.7
Medicare Part D Low-Income Subsidies	11	17	17	19	21	24	20	22	22	24	28	9.6
Health insurance subsidies[a,b]	0	0	0	0	0	0	0	0	13	27	39	n.a.
Children's Health Insurance Program	5	6	7	8	8	9	9	9	9	9	13	8.7
Subtotal	197	213	225	277	302	308	279	297	346	411	460	8.8
Income Security												
Earned income and child tax credits[b]	52	54	75	67	77	78	77	79	82	81	83	4.8
SNAP	35	35	39	56	70	77	80	83	76	76	75	8.1
Supplemental Security Income	37	36	41	45	47	53	47	53	54	55	59	4.8
Family support and foster care[c]	30	31	32	33	35	33	30	32	31	31	31	0.3
Child nutrition	14	14	15	16	17	18	19	20	20	22	23	5.1
Subtotal	168	170	202	217	247	260	254	266	263	264	271	4.9
Veterans' Pensions	4	3	4	4	4	5	5	5	6	5	6	5.5
Pell Grants[d]	0	0	1	2	4	14	12	16	8	10	7	n.a.
Subtotal, Means-Tested Programs	369	386	431	501	557	587	550	584	623	690	744	7.3
Non–Means-Tested Programs[e]	1,188	1,242	1,349	1,787	1,553	1,648	1,710	1,752	1,753	1,865	1,959	5.1
Total Mandatory Outlays[f]	**1,556**	**1,628**	**1,780**	**2,288**	**2,110**	**2,236**	**2,260**	**2,336**	**2,376**	**2,555**	**2,703**	5.7
Memorandum												
Pell Grants (Discretionary)	13	13	15	13	20	21	21	17	23	20	23	5.8
Means-Tested Programs Adjusted for Timing Shifts	368	389	431	501	557	581	556	584	623	690	737	7.2
Non–Means-Tested Programs Adjusted for Timing Shifts	1,202	1,241	1,349	1,787	1,553	1,627	1,731	1,752	1,753	1,865	1,927	4.8

Source: Congressional Budget Office; staff of the Joint Committee on Taxation.

The average annual growth rate over the 2007–2016 period encompasses growth in outlays from the amount recorded in 2006 through the amount projected for 2016.

Data on spending for benefit programs in this table exclude administrative costs that are classified as discretionary but generally include administrative costs that are classified as mandatory.

SNAP = Supplemental Nutrition Assistance Program; n.a. = not applicable.

Because October 1 fell on a weekend in 2006, 2007, and 2012, certain federal payments that were due on those dates were instead made at the end of the preceding September and thus shifted into the previous fiscal year.

Continued

Mandatory Outlays Since 2006

a. Differs from the amounts reported in Table 3-2 in *The Budget and Economic Outlook: Fiscal Years 2016 to 2026* in that it does not include payments to health insurance plans for risk adjustment (amounts paid to plans that attract less healthy enrollees) and reinsurance (amounts paid to plans that enroll people with high health care costs). Spending for grants to states to establish exchanges is also excluded.

b. Does not include amounts that reduce tax receipts.

c. Includes the Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.

d. Includes mandatory spending designed to reduce the discretionary budget authority needed to support the maximum award amount set in the appropriation act plus mandatory spending that, by formula, increases the total maximum award above the amount set in the appropriation act.

e. Does not include offsetting receipts.

f. Does not include outlays associated with federal interest payments.