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

Douglas W. Elmendorf, Director

March 13, 2015

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

Re: Spending for Means-Tested Programs

Dear Mr. Chairman:

As you requested, enclosed are two tables that show federal spending for each of 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 the Congressional Budget Office's January 2015 baseline projections for the 2015–2025 period; Table 2 shows historical spending data from 2005 through 2014, along with CBO's estimates for 2015.

The tables also include a line showing total spending for mandatory programs that are primarily not means-tested. Some of those programs have means-tested components (for example, student loans), but the tables do not show separate entries for such programs. They also do not include means-tested programs that are discretionary (for example, the Section 8 housing assistance programs and the Low Income Home Energy Assistance Program). However, the tables show discretionary spending for the Pell Grant program as a memorandum item because that program has both discretionary and mandatory components and the amount of the mandatory Pell Grant component depends in part on the annual amount of discretionary funding.

In the projections that CBO published in *The Budget and Economic Outlook: 2015 to 2025* in January 2015, mandatory outlays for means-tested programs are projected to grow over the next decade at an average annual rate of 4.6 percent, compared with an average rate of 5.5 percent for non-means-tested programs, which include, for example, Social Security, most of Medicare, and civilian and military retirement programs (see Table 1).[1]

[1] CBO published *Updated Budget Projections: 2015 to 2025* in March 2015; some of the amounts shown in Table 1 are different in the March baseline, but at the request of the committee staff, these tables show the projections from the January baseline. In total, for mandatory spending, the differences between the two baselines are small, and the average annual growth rates over the 2016–2025 period are very similar—5.3 percent in the January projections versus 5.2 percent in the March baseline.

Overall, the growth rates projected for total mandatory spending over the coming decade are slower than those experienced in the past 10 years—by a little less than one-half percentage point per year, on average. Projected growth from 2016 to 2025 is slightly higher for non-means-tested programs (which will have grown at an average rate of 5.4 percent from 2006 to 2015, CBO estimates), but much lower for means-tested programs (which will have grown at an average rate of 6.8 percent from 2006 to 2015, by CBO's estimate; see Table 2).

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. As a result, important aspects of the programs in the future may differ significantly from historical experience, 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 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. After dropping off a bit in the following few years, it 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 14 percent last year and is projected to rise by 11 percent in 2015. Under current law, the rate of growth in Medicaid spending will decline through 2018, CBO projects, after which it will level off at a rate of roughly 5.5 percent per year through the end of the projection period.

- Spending authority for the **CHIP** program expires at the end of fiscal year 2015. Consistent with statutory guidelines, CBO assumes in its baseline spending projections that annual funding for the program after 2015 will continue at \$5.7 billion.[2] As a result, in CBO's baseline, spending for CHIP is projected to drop from \$11 billion in 2016 to about \$6 billion in subsequent years; it had grown from \$5 billion to \$10 billion from 2005 to 2015.

[2] Under current law, funding for the program in 2015 consists of two semiannual allotments of \$2.85 billion—amounts that are much smaller than the allotments made in the four preceding years. (The first semiannual allotment in 2015 will be supplemented by \$15.4 billion in onetime funding for the program.) Following the rules prescribed by the Deficit Control Act, CBO extrapolates the \$2.85 billion provided for the second half of the year to arrive at projected annual funding of \$5.7 billion.

- Payments of **subsidies for health insurance purchased through an exchange** began in January 2014 and are projected to grow rapidly between 2015 and 2018, largely as a result of significant growth in enrollment. CBO and the staff of the Joint Committee on Taxation project annual growth will average about 4 percent between 2019 and 2025.

- **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) raised the maximum benefit under that program; subsequent legislation eliminated that increase as of October 31, 2013. The program's caseload peaked in 2014, and CBO expects that it will 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 9 percent per year over the 2006–2015 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. They are expected to dip after 2018 because provisions expanding the refundability of those credits (which were originally enacted in ARRA and were subsequently extended) are scheduled to expire on December 31, 2017.[3] In 2025, those outlays are projected to be about what they were in 2014.

Finally, because of the unique budgetary treatment of the Pell Grant program—which has both mandatory and discretionary components—the growth rates for the mandatory portion of that program give incomplete information. The bulk of the funding for Pell grants is provided annually in appropriation acts and thus is discretionary. In recent years, spending for Pell grants also has included two mandatory components, which 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 2015, adjusted for inflation. (Discretionary spending for the program 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 take into account such factors as changes in eligibility and enrollment.

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[3] 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.

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,

for Robert A. Sunshine

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Chris Van Hollen
Ranking Member

Table 1.

Mandatory Outlays in CBO's January 2015 Baseline

(Outlays by fiscal year, billions of dollars)

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Average Annual Growth 2016-2025**
Means-Tested Programs												
Health Care Programs												
Medicaid	335	360	384	405	428	452	477	503	530	558	588	5.8%
Medicare Part D Low-Income Subsidies	24	28	28	28	32	34	37	44	46	46	54	8.4%
Health insurance subsidies[a,b]	28	55	75	86	89	91	97	102	105	109	112	15.1%
Children's Health Insurance Program	10	11	6	6	6	6	6	6	6	6	6	-5.9%
Subtotal	397	454	493	524	555	584	617	656	687	719	760	6.7%
Income Security												
SNAP	78	78	76	75	74	74	74	73	74	74	75	-0.4%
Supplemental Security Income	55	60	57	54	61	63	64	71	68	65	72	2.7%
Earned income and child tax credits[b,c]	83	85	86	87	75	76	77	78	79	80	82	-0.1%
Family support and foster care[d]	31	32	32	32	33	33	33	34	34	34	35	1.0%
Child nutrition	21	22	23	24	25	26	27	28	29	31	32	4.3%
Subtotal	268	277	274	273	267	271	275	285	284	284	295	1.0%
Veterans' pensions	6	7	6	6	7	7	7	8	7	7	7	2.0%
Pell Grants[e]	11	6	7	9	9	9	9	9	10	10	10	-1.3%
Subtotal, Means-Tested Programs	683	744	781	811	838	871	909	957	988	1,019	1,072	4.6%
Non-Means-Tested Programs[f]	1,847	1,947	2,018	2,094	2,241	2,370	2,516	2,708	2,820	2,933	3,165	5.5%
Total Mandatory Outlays[g]	**2,530**	**2,691**	**2,799**	**2,905**	**3,079**	**3,241**	**3,425**	**3,666**	**3,808**	**3,952**	**4,237**	5.3%
Memorandum												
Pell Grants (Discretionary)[h]	20	27	27	23	24	24	25	25	26	26	27	3.0%

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

Notes: The projections shown here are the same as those reported in Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2015 to 2025* (January 2015). CBO recently updated its baseline projections as reported in Congressional Budget Office, *Updated Budget Projections: 2015 to 2025 (March 2015).* Some of the projections are different in the March baseline, but at the request of the committee staff, the projections shown are from the January baseline.

The average annual growth rate over the 2016-2025 period encompasses growth in outlays from the amount projected for 2015 through the amount projected for 2025.

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

a. Differs from the amounts reported in Table 3-2 from *The Budget and Economic Outlook: Fiscal Years 2015 to 2025* because 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 individuals who end up with high 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 on Table 3-2 from *The Budget and Economic Outlook: Fiscal Years 2015 to 2025* because 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 level 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, which are not considered part of mandatory spending.

h. The discretionary baseline does not represent a projection of expected costs for the discretionary portion of the Pell Grant program. As with all other discretionary programs, the budget authority is calculated by inflating the budget authority appropriated for fiscal year 2015. Outlays for future years are based on those amounts of budget authority and also reflect a temporary surplus of budget authority provided in 2015.

Table 2.

Mandatory Outlays Since 2005

(Outlays by fiscal year, billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Estimated, 2015	Average Annual Growth 2006-2015
Means-Tested Programs												
Health Care Programs												
Medicaid	182	181	191	201	251	273	275	251	265	301	335	6.3%
Medicare Part D Low-Income Subsidies	0	11	17	17	19	21	24	20	22	22	24	8.9% [a]
Health insurance subsidies[b,c]	0	0	0	0	0	0	0	0	0	13	28	n.a.
Children's Health Insurance Program	5	5	6	7	8	8	9	9	9	9	10	7.3%
Subtotal	187	197	213	225	277	302	308	279	297	346	397	7.8%
Income Security												
SNAP	33	35	35	39	56	70	77	80	83	76	78	9.1%
Supplemental Security Income	38	37	36	41	45	47	53	47	53	54	55	3.7%
Earned income and child tax credits[c]	49	52	54	75	67	77	78	77	79	82	83	5.3%
Family support and foster care[d]	31	30	31	32	33	35	33	30	32	31	31	0.3%
Child nutrition	13	14	14	15	16	17	18	19	20	20	21	5.1%
Subtotal	163	168	170	202	217	247	260	254	266	263	268	5.1%
Veterans' pensions	4	4	3	4	4	4	5	5	5	6	6	5.0%
Pell Grants[e]	0	0	0	1	2	4	14	12	16	8	11	n.a.
Subtotal, Means-Tested Programs	354	369	386	431	501	557	587	550	584	623	683	6.8%
Non-Means-Tested Programs[f]	1,094	1,188	1,242	1,349	1,787	1,553	1,648	1,710	1,752	1,757	1,847	5.4%
Total Mandatory Outlays[g]	**1,448**	**1,556**	**1,628**	**1,780**	**2,288**	**2,110**	**2,236**	**2,260**	**2,336**	**2,380**	**2,530**	5.7%
Memorandum												
Pell Grants (Discretionary)	13	13	13	15	13	20	21	21	17	23	20	4.3%

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

Notes: The average annual growth rate over the 2006-2015 period encompasses growth in outlays from the amount recorded in 2005 through the amount projected for 2015.

Data on spending for benefit programs in this table exclude administrative costs that are classified as discretionary but generally include administrative costs 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 that date were instead made at the end of the preceding September and thus shifted into the previous fiscal year. Those shifts primarily affected outlays for Supplemental Security Income, veterans' compensation benefits and pensions, and Medicare

a. The average annual growth rate reflects the program's growth from its inception in 2006 through 2015.

b. Differs from the amounts reported in Table 3-2 from *The Budget and Economic Outlook: Fiscal Years 2015 to 2025* because 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 individuals who end up with high costs). Spending for grants to states to establish exchanges is also excluded.

c. Does not include amounts that reduce tax receipts.

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 level set in the appropriation act plus mandatory spending that, by formula, increases the total maximum award above the amount set in the appropriation act.

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