How CBO Prepares Projections of Federal Spending for Social Security and Major Health Care Programs

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# CBO's Long-Term Projections of Federal Spending

A big part of pressures on the federal budget comes from a few major programs

- – Social Security
- – Medicare
- – Medicaid and CHIP (the Children's Health Insurance Program)
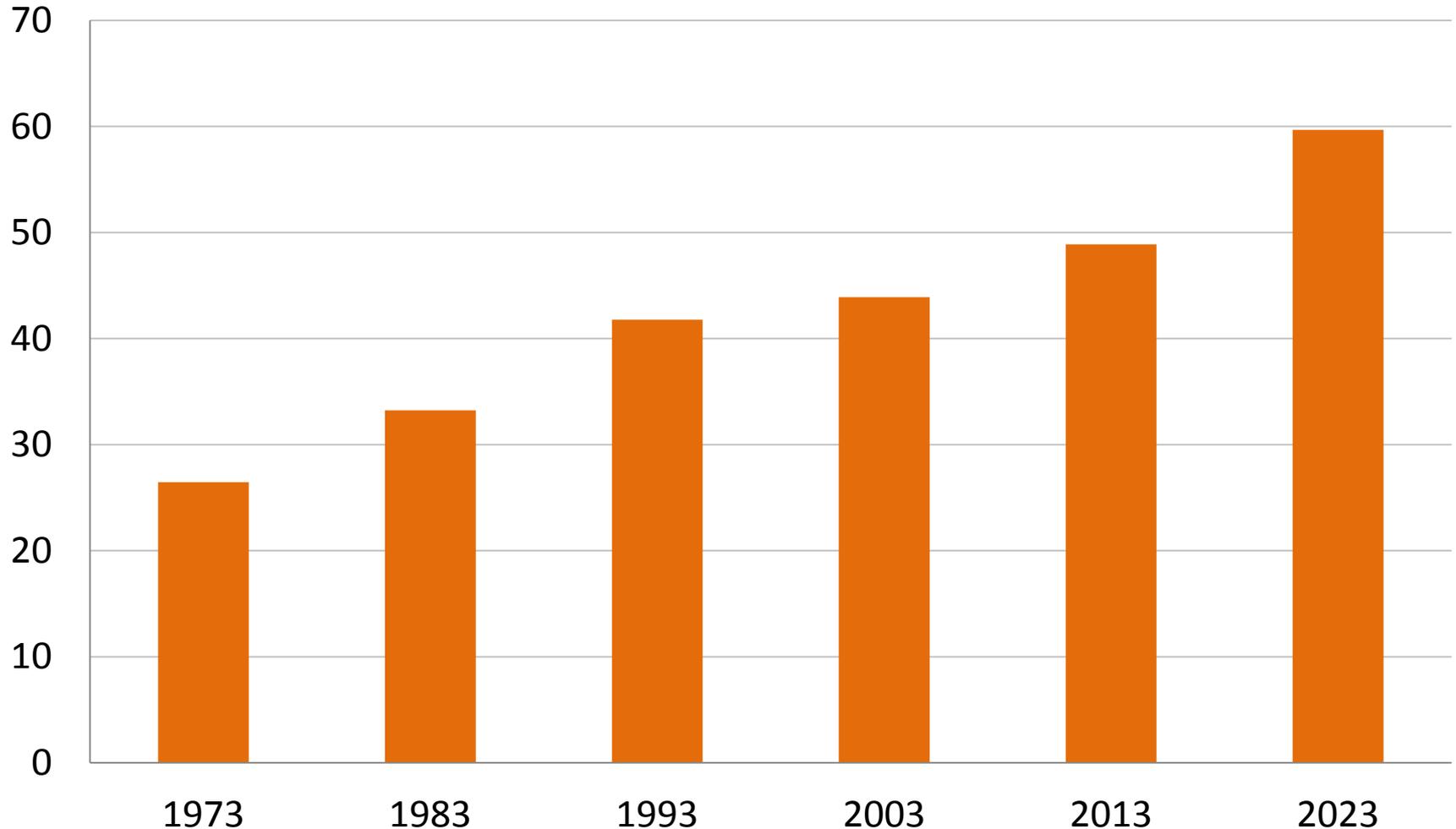- – Starting in 2014, subsidies for the purchase of health insurance through exchanges

Spending for Social Security and Major Health Care Programs as a Share of GDP
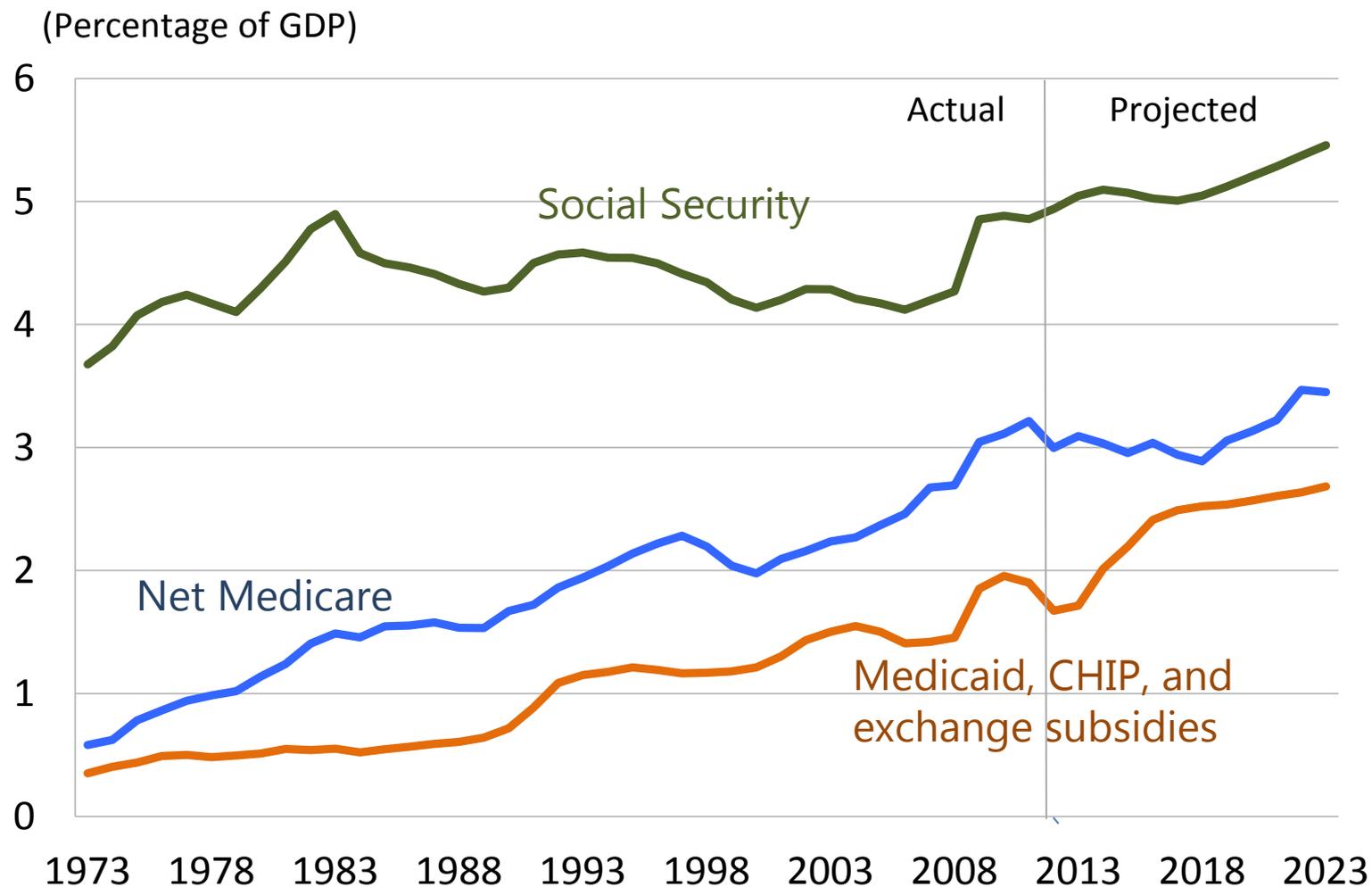
(Percentage of GDP)
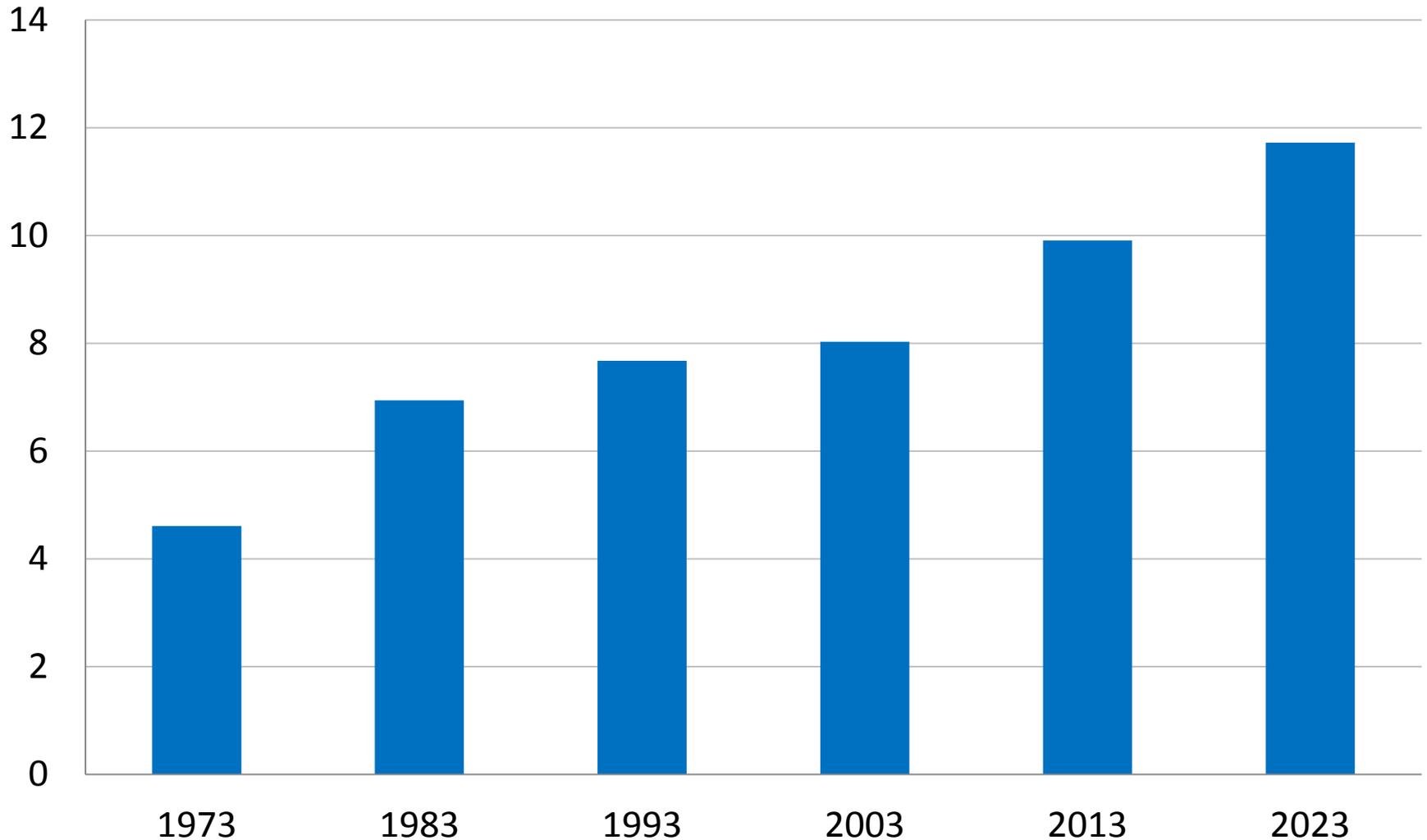
Spending for Social Security and Major Health Care Programs as a Share of Federal Spending Other Than Interest

(Percentage of noninterest federal spending)

Spending on Social Security and Major Health Care Programs, Historically and Projected under Current Law

(Percentage of GDP)

Framework for CBO's Long-Term Projections

CBO makes long-term budget projections in two ways

Within the context of current law

Assuming changes to current law that continue certain tax and spending policies that people have grown accustomed to

An "alternative fiscal scenario"

Framework for CBO's Long-Term Projections

Budget projections over the next 10 years are based on detailed program projections underlying CBO's baseline.

Beyond 10 years, CBO relies on its long-term model (CBOLT):

  A microsimulation model set within an actuarial framework

  Governed by an overarching macroeconomic model

Spending on the major federal health care programs is projected separately in an actuarial framework.

Longer-Term Budget Projections

CBO's long-term model, beyond 10 years
- Social Security
- Medicare
- Medicaid, CHIP, and exchange subsidies
- Other noninterest spending, which generally is assumed to grow with GDP
- Taxes

Value of long-term projections
- Highlight trends
- Provide baseline for assessing policy changes

Limitations of long-term projections
- Uncertainty, especially for health programs
- Interaction with macroeconomic conditions

Noninterest Spending and Revenues Under CBO's Long-Term Budget Scenarios as of June 2012

(Percentage of gross domestic product)

CBO's 10-Year Budget Projections, March 2012

(Percentage of gross domestic product)

Social Security and Major Health Care Programs

Social Security

Net Medicare

Medicaid, CHIP, and exchange subsidies
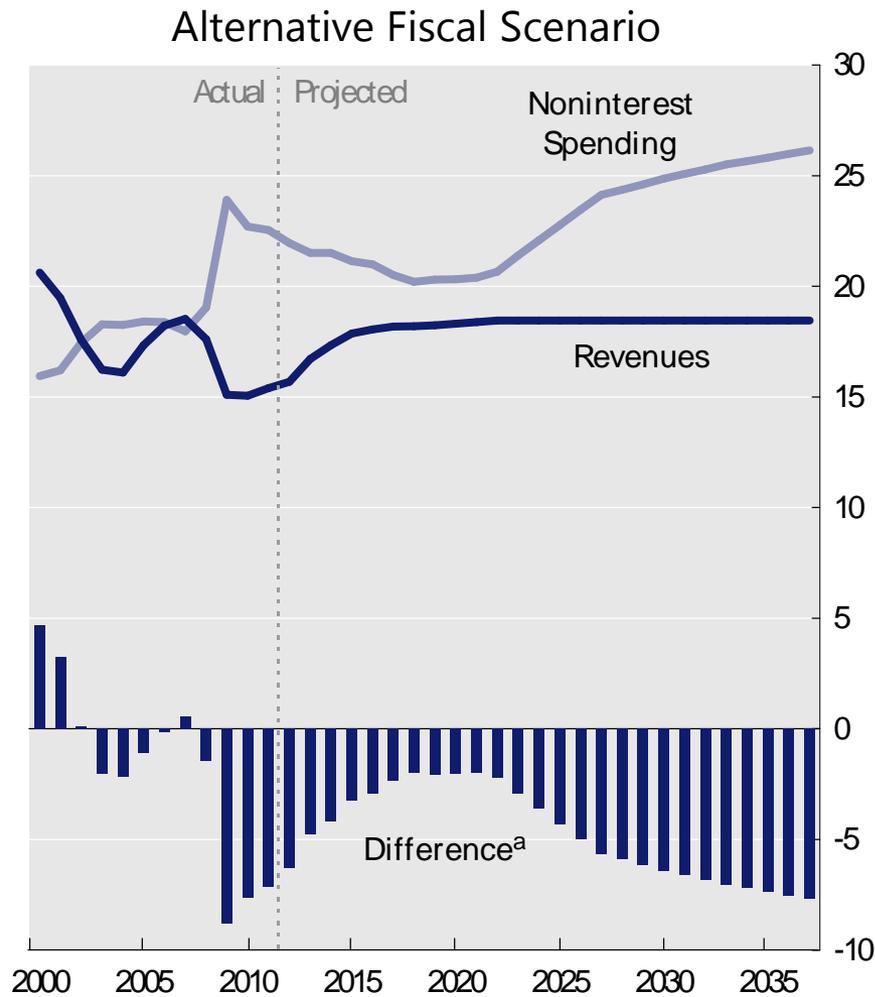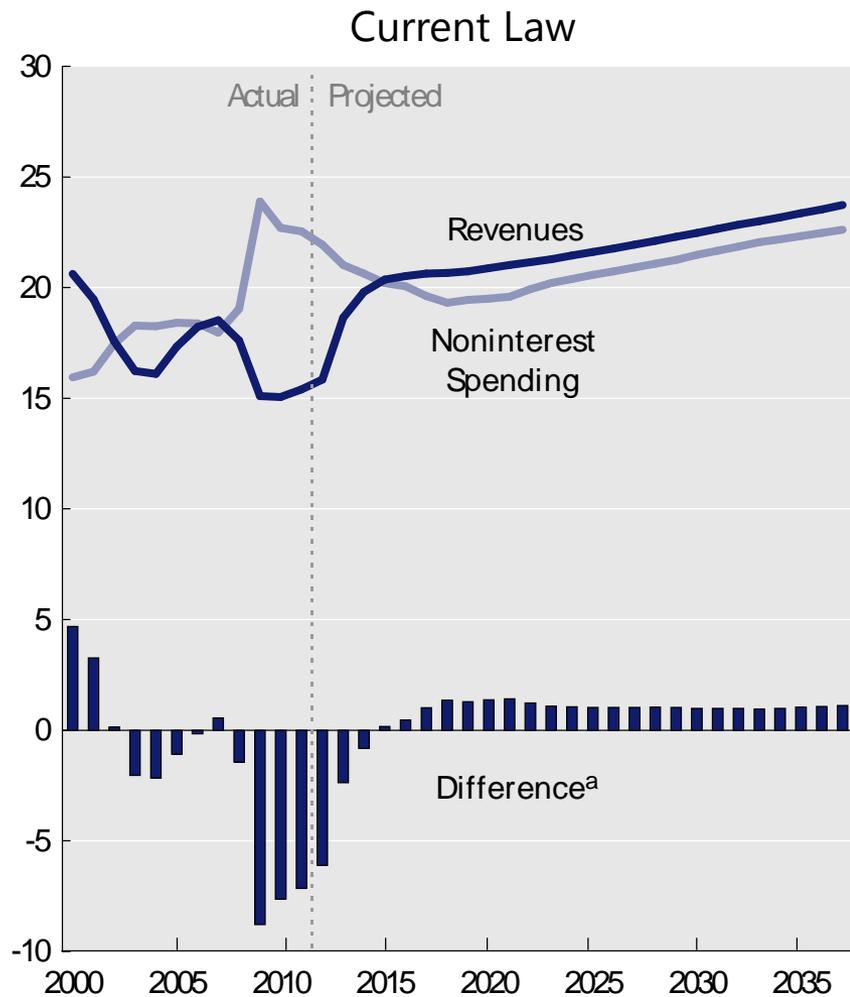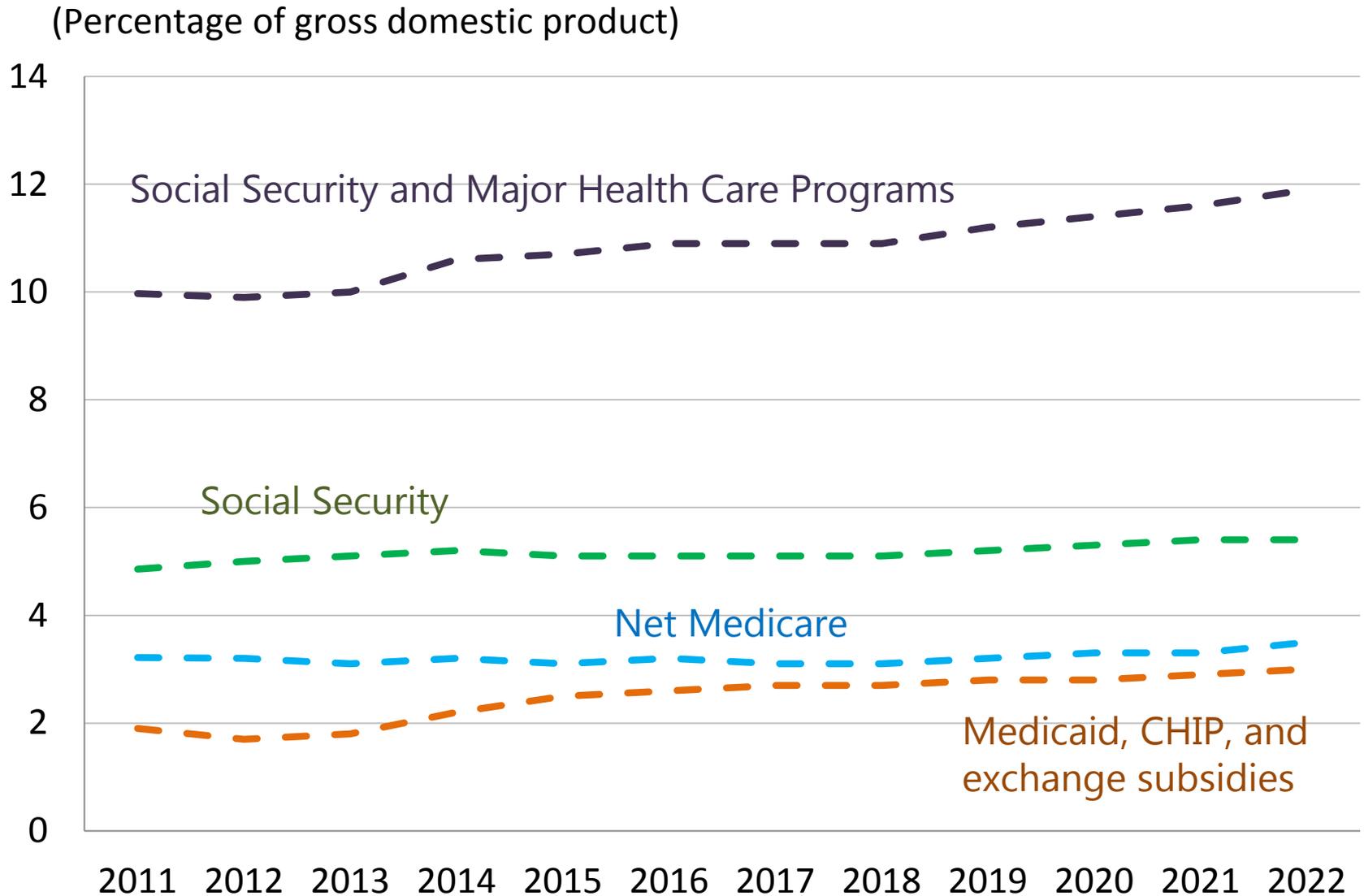
CBO's 10-Year Budget Projections, March 2012 vs. May 2013

(Percentage of gross domestic product)

Social Security and Major Health Care Programs

Social Security

Net Medicare

Medicaid, CHIP, and exchange subsidies
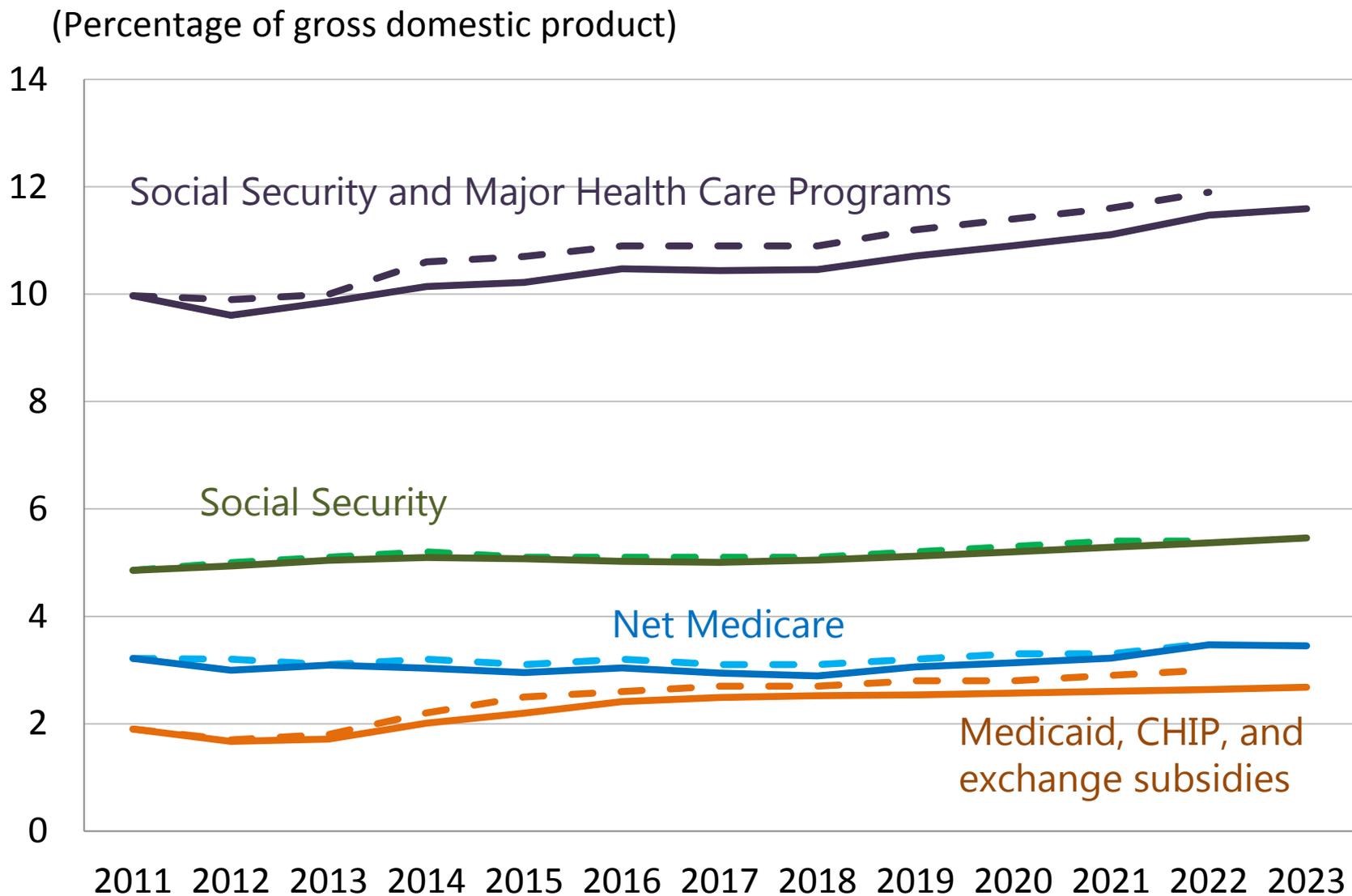
Outlook for the Federal Budget as of June 2012

Social Security and Major Health Care Programs, As Projected and Compared with the 40-year Average for Noninterest Spending
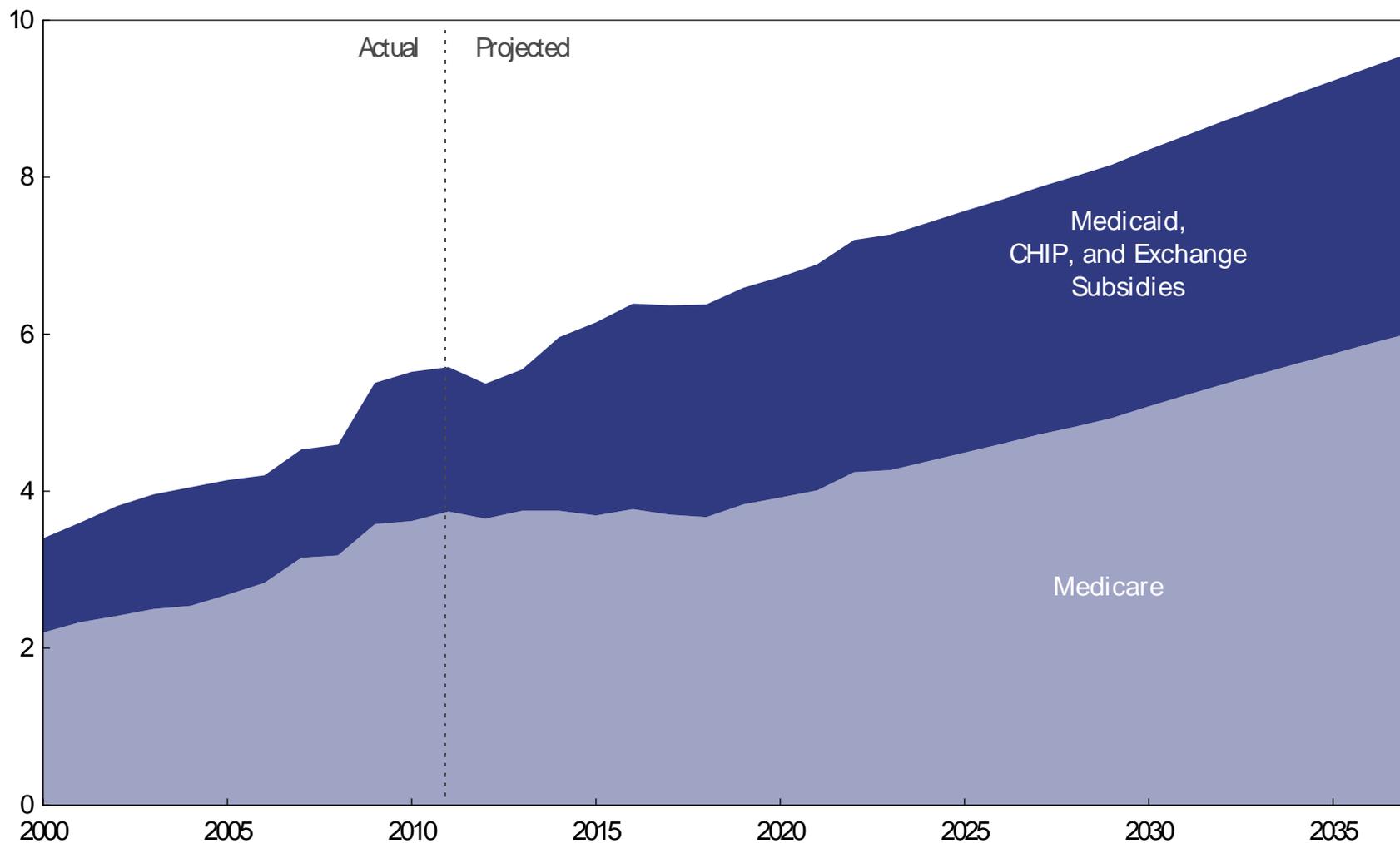(Percentage of GDP)
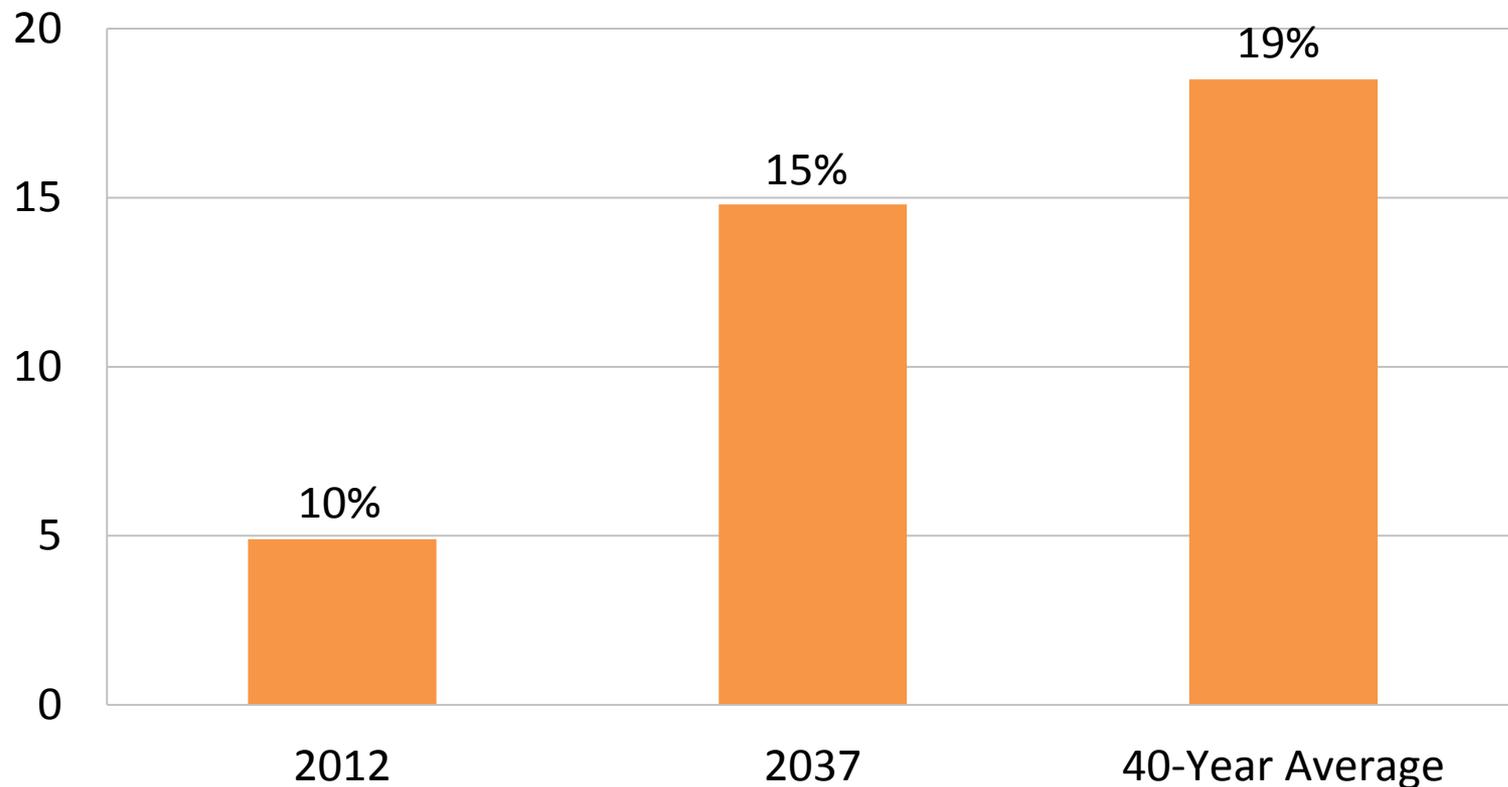
Federal Spending on Major Health Care Programs, by Category, Under Current Law, June 2012

(Percentage of gross domestic product)

CBO's Methodology for Long-Term Projections of Federal Health Care Spending

For the June 2012 projections

Spending from 2012 to 2022 followed CBO's March 2012 baseline.

Under the May 2013 baseline

The 10-year projection for net Medicare spending is slightly lower than it was in the 2012 baseline.

The 10-year projection for spending for Medicaid, CHIP, and exchange subsidies is somewhat smaller as well.

CBO's Methodology for Projecting Federal Health Care Spending

Projections beyond the 10-year budget window were based on historical trends in health care cost growth, population growth, and economic growth.

CBO will use the most recent data to update those trends.

Assumptions about trends in health care cost growth are central to CBO's long-term spending projections for health care.

Excess Cost Growth

The concept of excess cost growth (ECG) helps define the underlying path of the cost of health care.

> ECG is the increase in health care spending per person relative to the growth of potential GDP per person after removing the effects of demographic changes on health care spending.

CBO calculates historical rates of ECG as a weighted average of annual rates relative to potential GDP, placing twice as much weight on the latest year as on the earliest year.

> The resulting growth rate used in 2012 was 1.6 percentage points per year.

Excess Cost Growth in Spending for Health Care

(Percentage points)

	Medicare	Medicaid	Other, Including Private	Overall
1975 to 2010	2.1	1.8	2.0	2.0
1980 to 2010	1.8	1.4	1.9	1.8
1985 to 2010	1.5	0.9	1.7	1.6
1990 to 2010	1.4	0.3	1.4	1.3

Declining Path for Excess Cost Growth

Using the historical average for ECG for many years into the future results in a projection of federal health care spending that is very large.

Continued growth in health care spending will create mounting pressure to slow the growth of health care costs in general, even if federal law is unchanged (as is assumed in CBO's projections).

CBO assumes that ECG will slow over time.

2012 Assumptions About Excess Cost Growth in Spending for Medicare over the Long Term

The underlying annual rate of ECG for Medicare was assumed to decline from 1.6 percentage points to 1.0 percentage point over 75 years.

From 2023 to 2029 *under current law*, excess cost growth for Medicare was assumed to equal the average cost growth during the last three years of the 10-year projection period, 0.6 percentage points; thereafter, ECG was assumed to follow the underlying path.

Starting in 2023 *under the alternative fiscal scenario*, ECG was assumed to follow the underlying path.

2012 Assumptions About Excess Cost Growth in Spending for Medicaid over the Long Term

The underlying rate of ECG was assumed to decline from 1.6 percentage points in the first year to zero in the final year of the 75-year projection period.

> The ending point is lower than that for Medicare because state governments have more flexibility to respond to the pressures of rising health care spending than does the federal government, without changing federal law.

Under both current law and the alternative fiscal scenario, ECG for Medicaid followed the underlying rates beyond 2022.

Projecting Population and GDP

CBO projects the U.S. population using estimates of births, deaths, and immigration.

- CBO uses a cell-based approach to estimate the population annually by single year of age (0-119) and sex.
- For Medicare only, the population matrix is further extended by three "time until death" categories (0-12 months, 13-24 months, and survivor).
- Projections of mortality and fertility came from the actuaries at the Social Security Administration.
- CBO projects rates of immigration.

CBO projects GDP using a macroeconomic growth model.

Strengths of CBO's Approach

The long-term projections jump off a detailed 10-year baseline projection.

The approach is based on historical excess cost growth in health care spending
>   Adjusted for age, sex, and time until death (in Medicare).

The long-term projections for Social Security and health care spending are designed within the context of CBO's overall long-term budget projections.

The projections provide a baseline for policy changes.