



Comment on “Is This Time Different? The Slowdown in Healthcare Spending”

Presentation to the Brookings Panel on Economic Activity

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First...

The evolution of federal spending for health care appears to be more closely related to the evolution of private spending than the authors suggest.

Excess Cost Growth in Spending for Health Care

(Percent)

	Medicare	Medicaid	Other	Overall
1975 to 2011	2.0	1.6	1.9	1.9
1980 to 2011	1.7	1.2	1.8	1.7
1985 to 2011	1.5	0.8	1.6	1.5
1990 to 2011	1.3	0.2	1.3	1.2

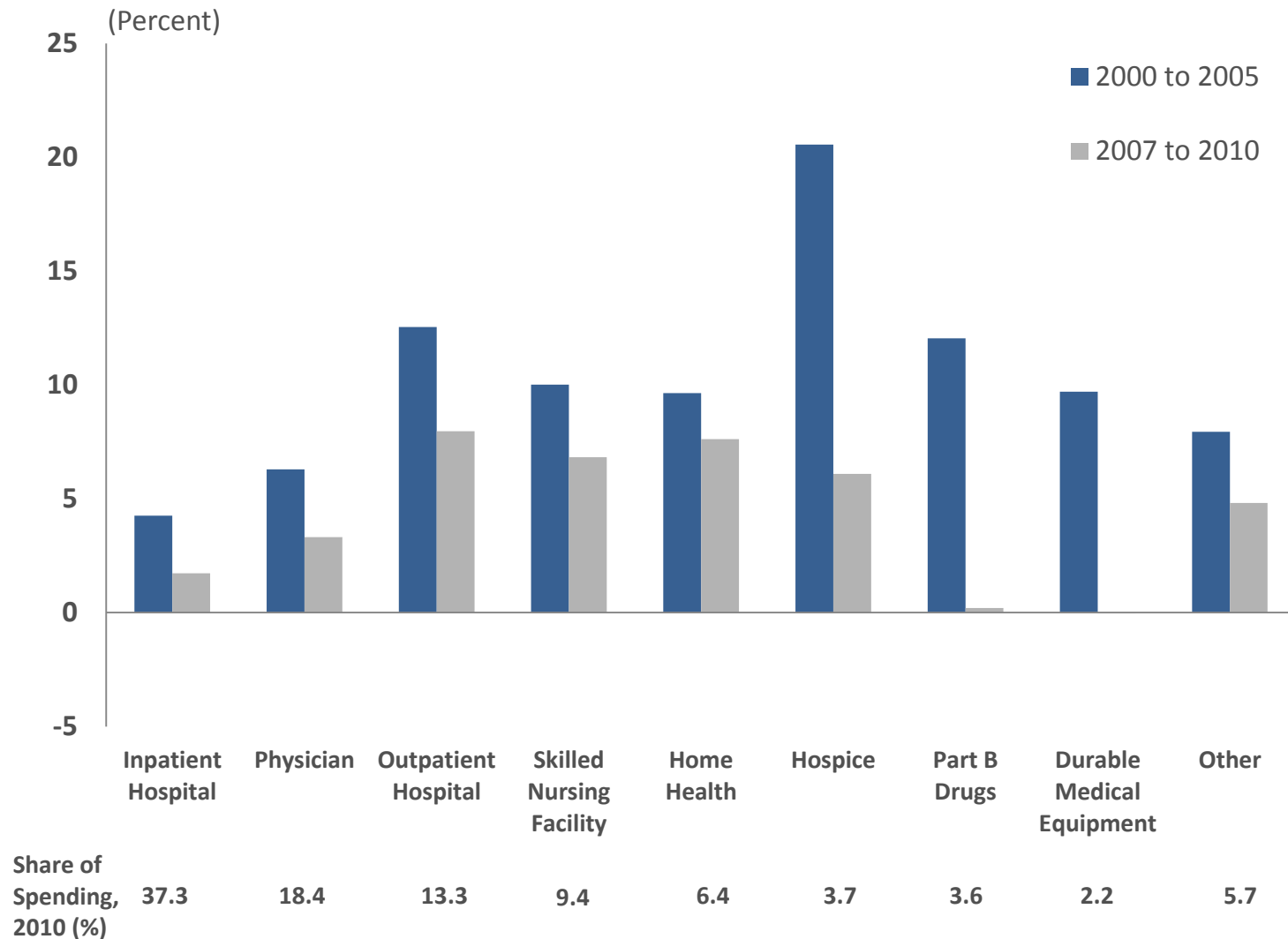
Source: *The 2013 Long-Term Budget Outlook* (September 2013)



Second...

Growth in spending for the fee-for-service portion of Medicare has slowed markedly in the past few years—apparently *not* because of the financial turmoil and recession but because of other factors affecting the behavior of beneficiaries and providers.

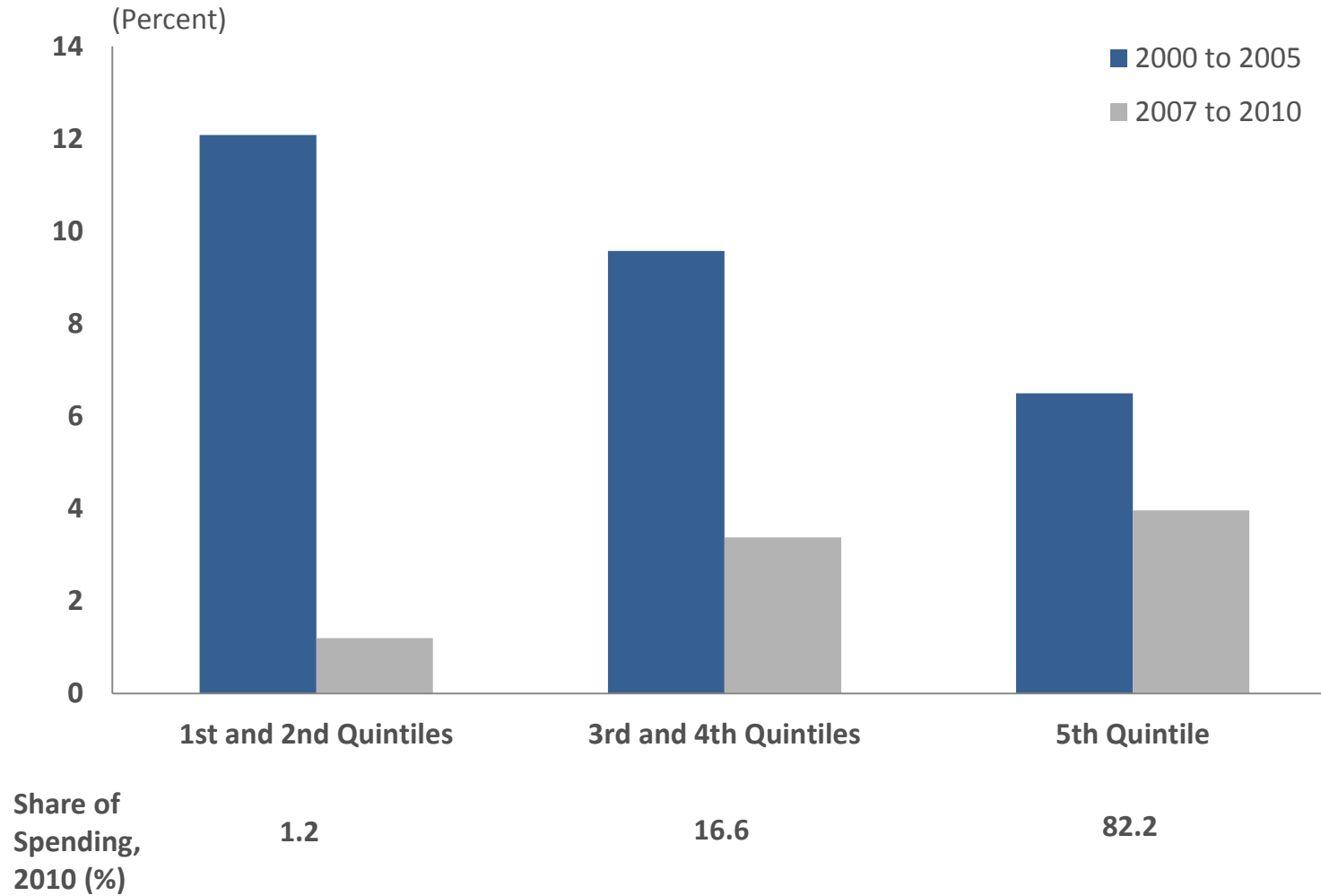
Annual Growth in Per-Beneficiary Spending for the Elderly in Parts A and B of Medicare, by Selected Service Category



Source: *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (August 2013)

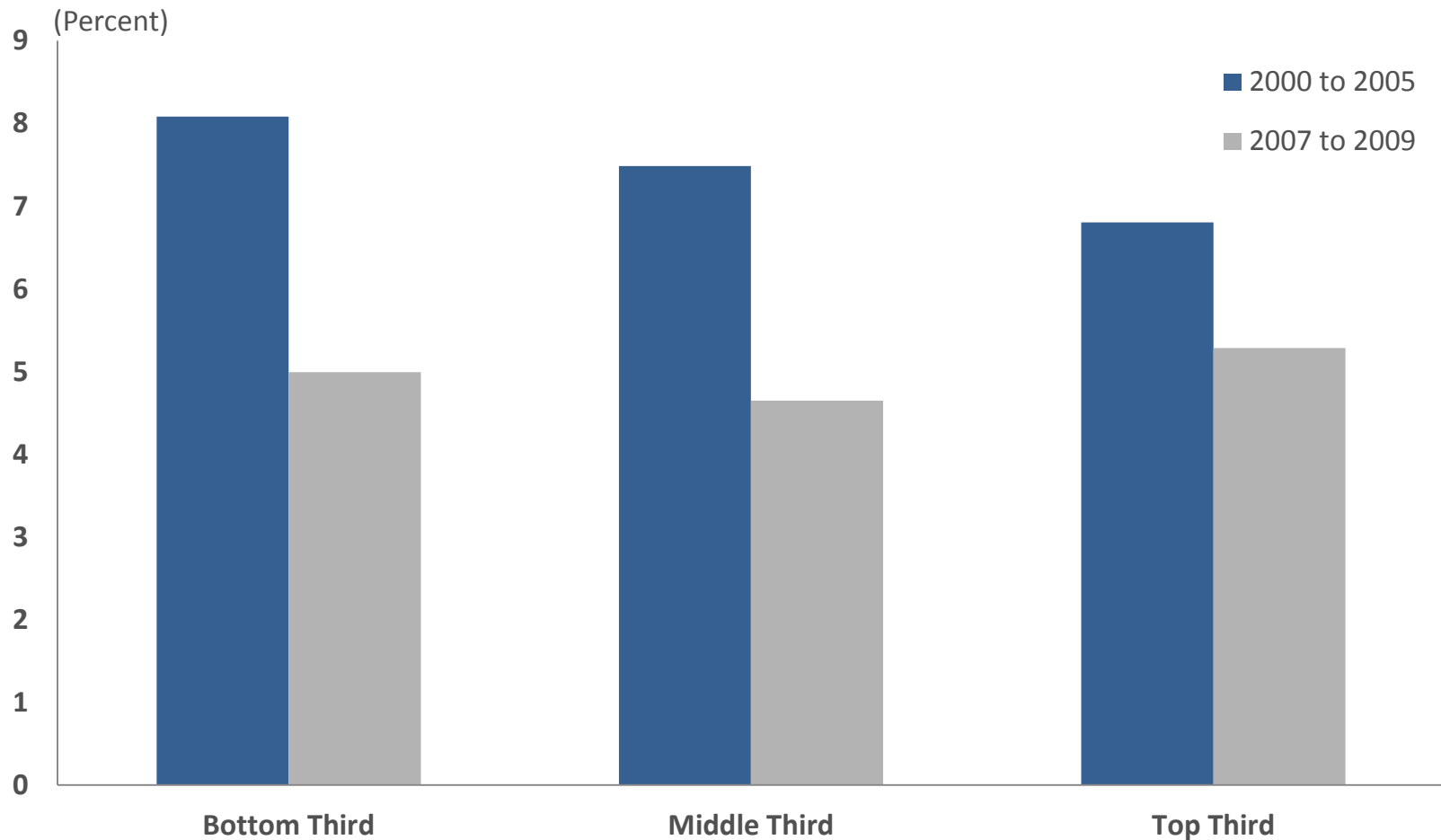


Annual Growth in Per-Beneficiary Spending for the Elderly in Parts A and B of Medicare, by Spending Quintile



Source: *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (August 2013)

Average Annual Growth in Per-Beneficiary Spending for the Elderly in Parts A and B of Medicare, by State Spending in 2000



Source: *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (August 2013)

Contributions of Various Factors to Annual Growth in Per-Beneficiary Spending for the Elderly in Parts A and B of Medicare

	2000 to 2005	2007 to 2010	Difference
Overall Spending Growth	7.1	3.8	-3.2
Potential Contributors to the Slowdown			
Growth in average payment rate	2.7	2.5	-0.2
Growth in demand by beneficiaries			
Changes in the age and health status of beneficiaries	0.0	-0.3	-0.3
Growth in the proportion of beneficiaries enrolled only in Part A	-0.1	-0.3	-0.2
Growth in the use of prescription drugs	-0.5	-0.6	-0.1
The financial crisis and economic downturn	0.0	0.0	0.0
Changes in supplemental coverage	*	*	*
Unexplained Contribution to Growth			-2.4

Source: *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (August 2013)



Third...

The slowdown in health care cost growth has been sufficiently broad and persistent to persuade us to make significant downward revisions to our projections of federal health care spending.

Changes in Projected Medicare and Medicaid Spending Between March 2010 and May 2013

	Medicare ^a		Medicaid ^b	
	Technical Revisions (Billions of dollars)	Percent Change	Technical Revisions (Billions of dollars)	Percent Change
2010	-14	-3%	0	0%
2011	-26	-5%	-1	-1%
2012	-30	-6%	-11	-4%
2013	-45	-8%	-17	-6%
2014	-63	-10%	-32	-10%
2015	-69	-11%	-48	-13%
2016	-78	-11%	-53	-13%
2017	-91	-13%	-59	-13%
2018	-106	-14%	-63	-13%
2019	-125	-15%	-74	-15%
2020	-137	-15%	-85	-16%
Total 2010-2020	-785	-11%	-445	-11%

a. Medicare spending is net of offsetting receipts.

b. The comparison for the Medicaid baseline is to August 2010, as the March 2010 baseline did not include the effects of the Affordable Care Act (ACA). Only minor changes were made in that August baseline beyond those related to the ACA.

Some Considerations Suggest That the Weight Given to the Recent Experience Should Be Substantial

- The slowdown encompasses many parts of multiple programs, which suggests that the causes are not just a few isolated developments.
- The slowdown has lasted for half-a-dozen years or more, which suggests that the causes are not just a flash in the pan.
- For Medicare, the slowdown does not appear to be caused by the weak economy, which suggests that it will not necessarily fade when the economy strengthens.

But Some Other Considerations Suggest That the Weight Given to the Recent Experience Should Be Limited

- Growth in health care spending varies a lot over time, and earlier periods of slow cost growth have been followed by faster growth.
- The development and adoption of new technologies and approaches for health care has not ceased.
- For Medicare, it remains primarily a fee-for-service program, in which doing more pays better than doing less.

Projections of Excess Cost Growth

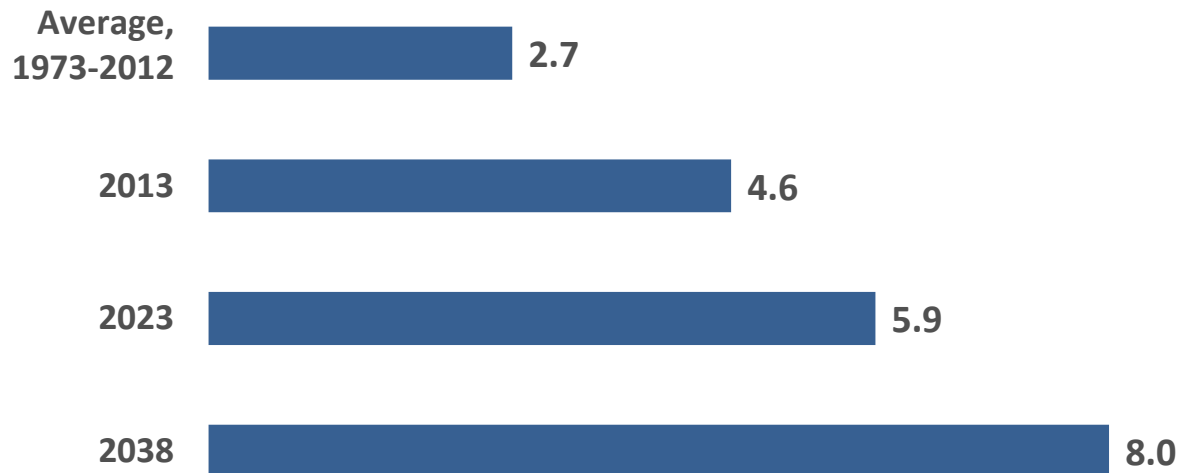
- Between our 2010 and 2013 long-term outlooks, we marked down our estimate of the current underlying pace of excess cost growth by 0.2 percentage points to 1.5 percent.
- Our projections incorporate a decline in that underlying pace over time in response to the rising pressures of health care spending, as well as provisions of law that apply to specific programs and other factors.
- All told, we project that excess cost growth during the next 25 years will average 0.8 percent per year for Medicare and 1.3 percent per year for Medicaid.

Fourth...

Despite the recent reductions in our projections of federal health care spending, growth in such spending remains the central challenge in putting the federal budget on a sustainable path.

Growth in Spending for Major Health Care Programs

Federal Spending for Major Health Care Programs as a Percentage of GDP



What Accounts for the Projected Increase Over the Next 25 Years?

- Aging of the population explains about 35 percent,
- Expansion of insurance coverage under the Affordable Care Act explains about 25 percent, and
- Excess cost growth explains about 40 percent.

Source: *The 2013 Long-Term Budget Outlook* (September 2013)