



Congressional Budget Office

CBO's Analysis of Health Care Policy

Presentation to the Healthcare Leadership Council

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Director

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Notes for each slide can be found at the end of the presentation on slide 17.

CBO's Approach to Policy Analysis

CBO Provides Objective, Nonpartisan Information to the Congress

CBO makes **baseline projections** of federal budget outcomes under current law.

CBO makes **estimates of the effects of changes in federal policies** (sometimes in collaboration with JCT):

- Legislation being developed by committees

- Conceptual proposals being discussed on the Hill or elsewhere

CBO makes **no recommendations**.

CBO's Estimates...

Focus on the **next 10 years**, but **sometimes look out 20 years** or more

Are meant to reflect the **middle of the distribution** of possible outcomes

Incorporate **behavioral responses** to the extent feasible

Use whatever **evidence** can be brought to bear given available resources and time

Change in **response to new analysis** by CBO and others

Provide **explanations of the analysis** to the extent feasible

CBO Analyzes Different Types of Effects of Health Care Policies

On the **federal** budget (always)

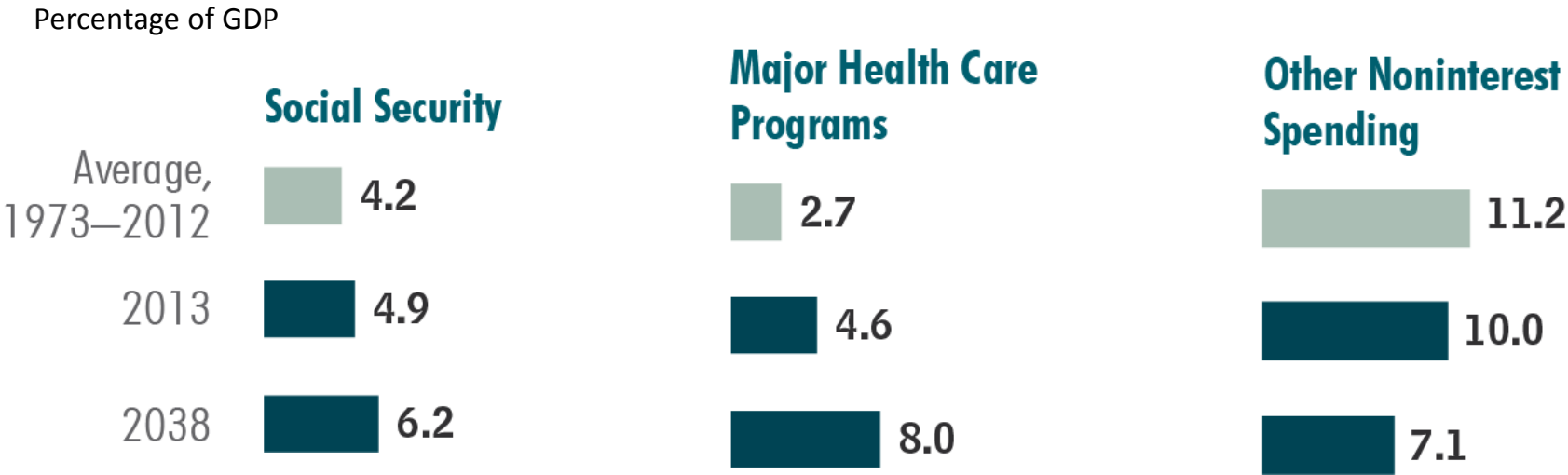
On **state governments'** budgets (sometimes)

On **beneficiaries'** costs (sometimes)

On **health care** (hopefully in the future)

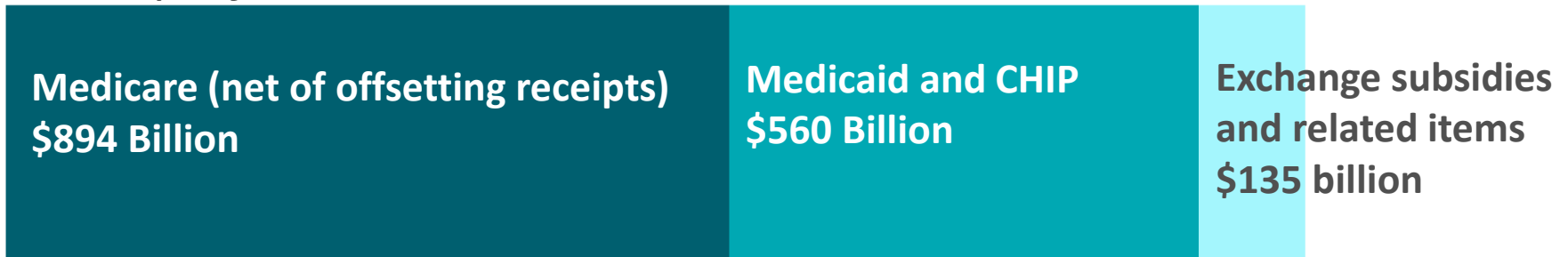
Federal Spending for Health Care

Federal Spending for Health Care Programs Is Growing Much Faster Than Other Federal Spending and the Economy as a Whole



Even After the Affordable Care Act Is Fully Implemented, Most Federal Dollars for Health Care Will Support Care for Older People

CBO's projections for 2023:



Federal spending in 2023 for the major health care programs will finance care for:



Key Types of Federal Health Care Policies that CBO is Studying

Improving the Health of the Population Would Help People and Might (or Might Not) Help the Federal Budget

Possible federal policies include **taxes, subsidies, or other ways** to:

- Reduce smoking or obesity

- Increase screening for diseases

- Enhance compliance with regimens for chronic conditions

Presumed links between policy and the federal budget:

Change behavior —→ **Improve health** —→ **Reduce health care costs**

The federal budgetary effects depend on the combination of:

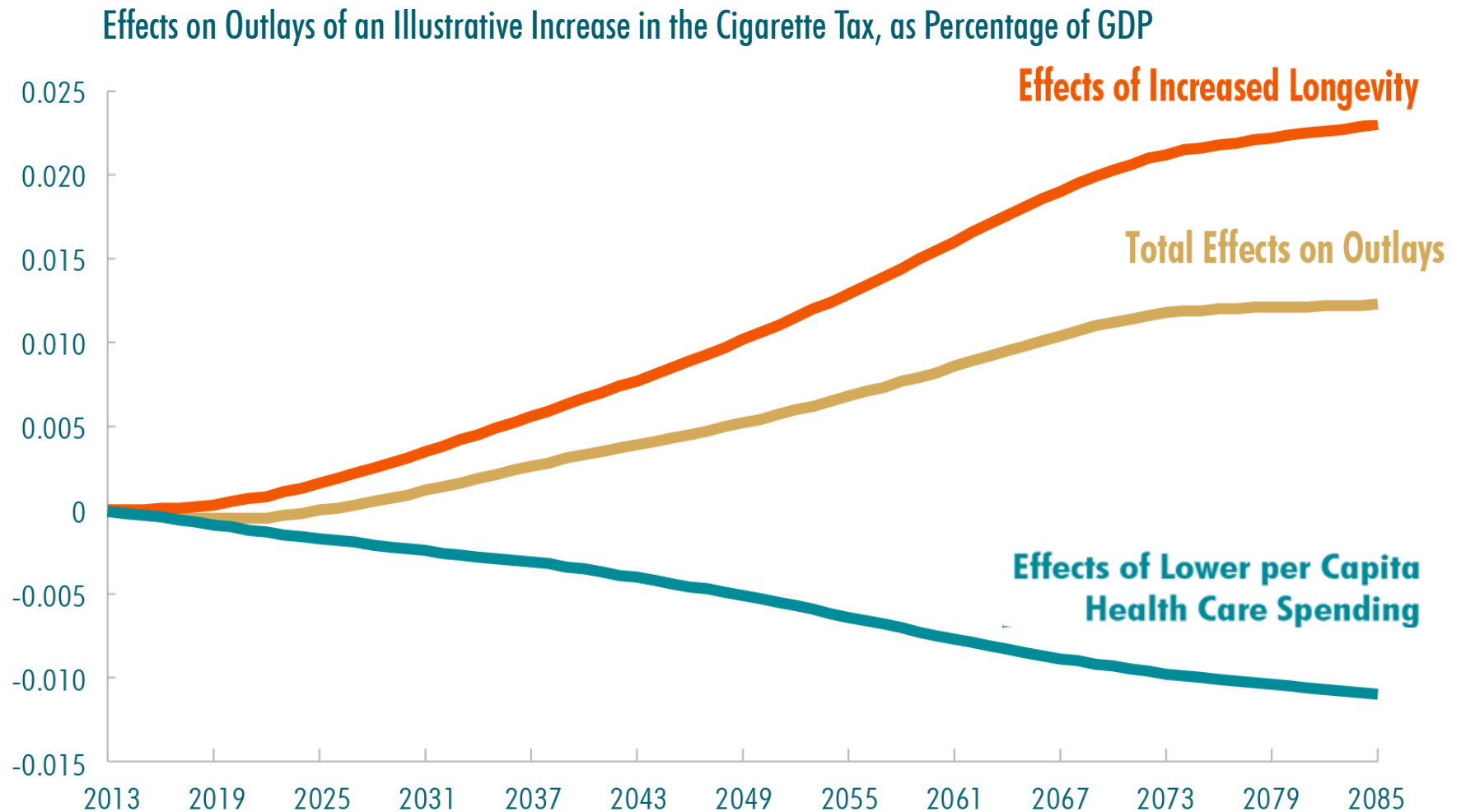
- Any reduction in annual health care costs per person

- Any increase in tax revenues from a larger or healthier workforce

- Any increase in costs for Social Security and health care benefits from people living longer

- Any budgetary cost or savings of the policy itself

CBO Examined an Illustrative Increase in the Cigarette Tax, Including Effects on Outlays (Shown Here) and Revenues (Not Shown)



Cutting Federal Subsidies for Health Insurance Would Help the Budget But Would Leave Affected People to Bear Higher Costs

Possible federal policies include:

Repeal or narrow the expanded eligibility for subsidies under the ACA

Reduce the size of exchange subsidies under the ACA

Raise the eligibility age for Medicare

Increase premiums in Medicare

Increase cost-sharing in Medicare

Reduce tax subsidy for employment-based health insurance

Paying Medicare Providers in Different Ways Could Help the Budget But Would Have A Range of Effects on Providers and Beneficiaries

Possible federal policies include:

Shifting physicians' payments to new models

Bundling payments for related services

Federal savings would be achieved only if providers were paid less in total than under current law, either because they would be delivering fewer and less complex services or because they would be receiving less money per service.

Making Larger Structural Changes to Federal Health Care Programs Could Help the Budget But Would Have A Range of Effects on Providers and Beneficiaries

Possible federal policies include:

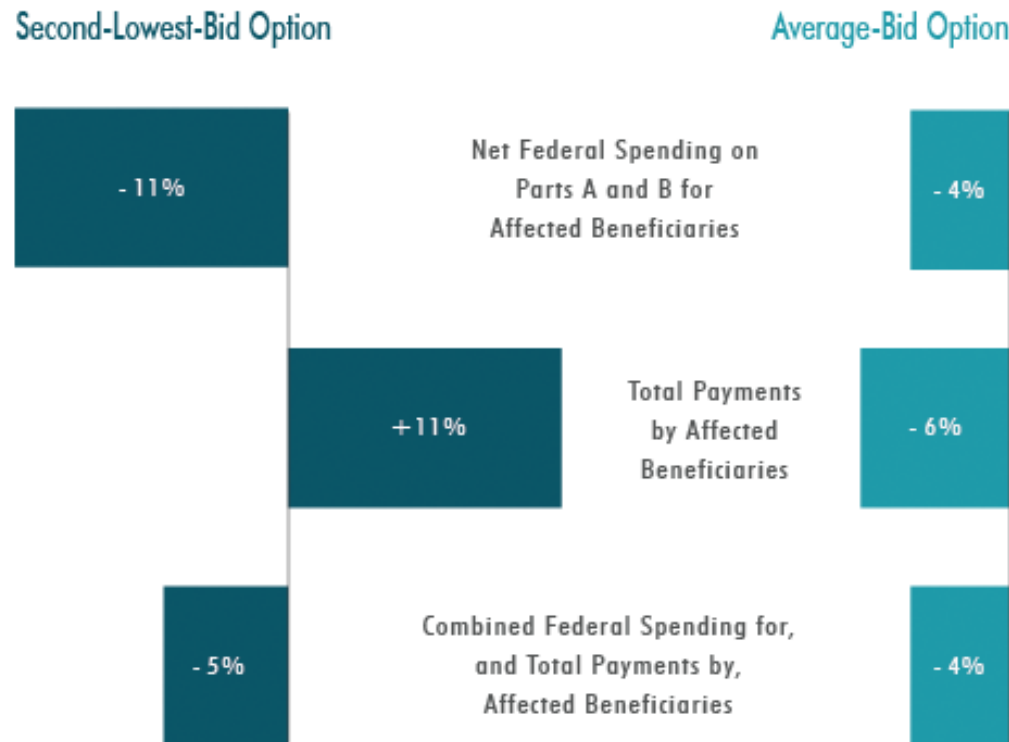
Adopting a premium support system for Medicare

Capping payments to states for Medicaid

Under either of those policies, numerous design choices would have very large effects on beneficiaries' costs, state governments' budgets, and the nature and magnitude of payments to providers.

Effects of Illustrative Premium Support Systems on Spending for Medicare Benefits

Effects of Options on Spending for Medicare Benefits



Conclusion

Federal lawmakers often strive for policies that both **reduce the growth of federal health care spending** and **improve the effectiveness of the national health care system**.

Designing federal policies to achieve those goals is challenging:

Most policies have **significant disadvantages as well as advantages**.

How health insurers, health care providers, and individuals would respond to most policies is uncertain.

Endnotes

Slide 2: JCT refers to the staff of the Joint Committee on Taxation.

Slide 6: These numbers reflect recent revisions by the Bureau of Economic Analysis (BEA) to estimates of gross domestic product (GDP) in past years and CBO's extrapolation of those revisions to projected future GDP. See Congressional Budget Office, *The 2013 Long-Term Budget Outlook* (September 2013), www.cbo.gov/publication/44521.

Numbers for 2013 were derived from information reported in Department of the Treasury, Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 2013 Through September 30, 2013, and Other Periods (October 2013), www.fms.treas.gov/mts/mts0913.pdf.

Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and subsidies offered through exchanges and related spending. Medicare spending is net of offsetting receipts.

Slide 10: For more information, see CBO's *Options for Reducing the Deficit: 2014 to 2023* (November 2013), <http://www.cbo.gov/budget-options/2013/44687>, and *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), <http://www.cbo.gov/publication/43319>. The illustrative tax increase modeled in this analysis is a 50-cent per pack rise in the federal excise tax on cigarettes and small cigars, beginning in 2013 and indexed each year thereafter to keep pace with inflation (and, after 2021, to keep pace with the growth of inflation-adjusted income). The outlay effects of the tax increase all result from improvements in health. The effects shown here apply only to mandatory outlays.

Slide 11: For more information, see CBO's *Options for Reducing the Deficit: 2014 to 2023* (November 2013), <http://www.cbo.gov/budget-options/2013/44687>. ACA refers to the Affordable Care Act.

Slide 12: For more information, see CBO's *Options for Reducing the Deficit: 2014 to 2023* (November 2013), <http://www.cbo.gov/budget-options/2013/44687>.

Slide 13: For more information, see CBO's *Options for Reducing the Deficit: 2014 to 2023* (November 2013), <http://www.cbo.gov/budget-options/2013/44687> and *A Premium Support System for Medicare: Analysis of Illustrative Options* (September 2013), <http://www.cbo.gov/publication/44581>.

Slide 14: For more information, see *A Premium Support System for Medicare: Analysis of Illustrative Options* (September 2013), <http://www.cbo.gov/publication/44581>.