Rising Health Costs and the Federal Budget

June 23, 2015
Health Care Spending Growth

Source: CBO March 2015 Baseline, June 2015 Long Term Budget Outlook, CRFB Calculations

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Most Spending Growth is Health Care and Interest

The graph shows the actual and projected spending as a percentage of GDP from 2000 to 2050. The spending is categorized into Social Security, Other Spending, Net Interest, and Health Care. The largest growth in spending is projected to be in Health Care. The graph also shows the historical average revenue and projected revenues. The source of the data is the Congressional Budget Office Long-Term Budget Outlook, 2015.
Consequences of Health Spending Growth

- **Hospital Insurance Trust Fund Insolvency by 2030** as program spending continues to exceed payroll tax revenue.

- **Fewer Resources for Other Initiatives** with health spending growing by 4 percent of GDP by 2050 (a 75 percent increase) and non-health non-retirement spending shrinking by 2.5 percent of GDP (a 25 percent decrease).

- **Rising Deficits and Debt** with trillion dollar deficits returning within a decade and debt exceeding the size of the economy between 2030 and 2040.
Long-Term Debt is Unsustainable

Debt as a Percent of GDP

- **Actual**
- **Projected**

- **Today**: 74%
- **2030**: 101%
- **2040**: 103%

“Alternative Fiscal Scenario”

Source: Congressional Budget Office Long-Term Budget Outlook, 2015
Non-ACA Sources of Spending Growth (2015-2040)

CRFB estimates based on CBO data.

Excess health care cost growth is the extent to which health care costs per beneficiary, adjusted for demographic changes, grow faster than potential GDP per-capita.
Are There Win-Wins in Health Reform?

- **Modernize Benefit Design** to streamline cost-sharing and focus on catastrophic instead of first-dollar coverage

- **Restrict Medigap Plans** to reduce costly Medigap premiums and overutilization of health care

- **Reform Payment Models** to promote care coordination and focus on quality over quantity of care (bundled payments, ACOs, etc.)

- **Encourage Generic Drugs** by reforming Part B reimbursements, LIS subsidies, and various regulations

- **Discourage Unnecessary Hospital Readmissions and Complications** through penalties, bonuses, and quality metrics

- **Enact Medical Malpractice Reform** to reduce the cost of defensive medicine

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### An Example of Benefit Redesign

<table>
<thead>
<tr>
<th>Percent of Poverty Line</th>
<th>100-150%</th>
<th>150-250%</th>
<th>250-500%</th>
<th>500%+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>$150</td>
<td>$300</td>
<td>$600</td>
<td>$700</td>
</tr>
<tr>
<td>Physician visits</td>
<td>Exempt from the deductible</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal coinsurance amount</td>
<td>20%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First out-of-pocket threshold</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$7,000</td>
</tr>
<tr>
<td>High-cost coinsurance amount</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5%</td>
</tr>
<tr>
<td>Out-of-pocket maximum</td>
<td>$1,500</td>
<td>$3,000</td>
<td>$6,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Medigap First-Dollar Restriction</td>
<td>Cannot cover deductible, can only cover half of coinsurance up to out-of-pocket maximum</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESI supplemental plan excise tax</td>
<td>20%, with option to instead cash out full value</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Illustrative Benefit Redesign Lowers Costs By $280

Overall | 100-150% FPL | 150-250% FPL | 250-500% FPL | 500+% FPL
---|---|---|---|---
$0 | $280 | $383 | $163 | $129

Source: Actuarial Research Corporation

FPL=Federal Poverty Level

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