



July 3, 2018

CBO's Analyses and Projections of Federal Health Care Costs

10th Annual Meeting of the OECD Network of Parliamentary
Budget Officials and Independent Fiscal Institutions

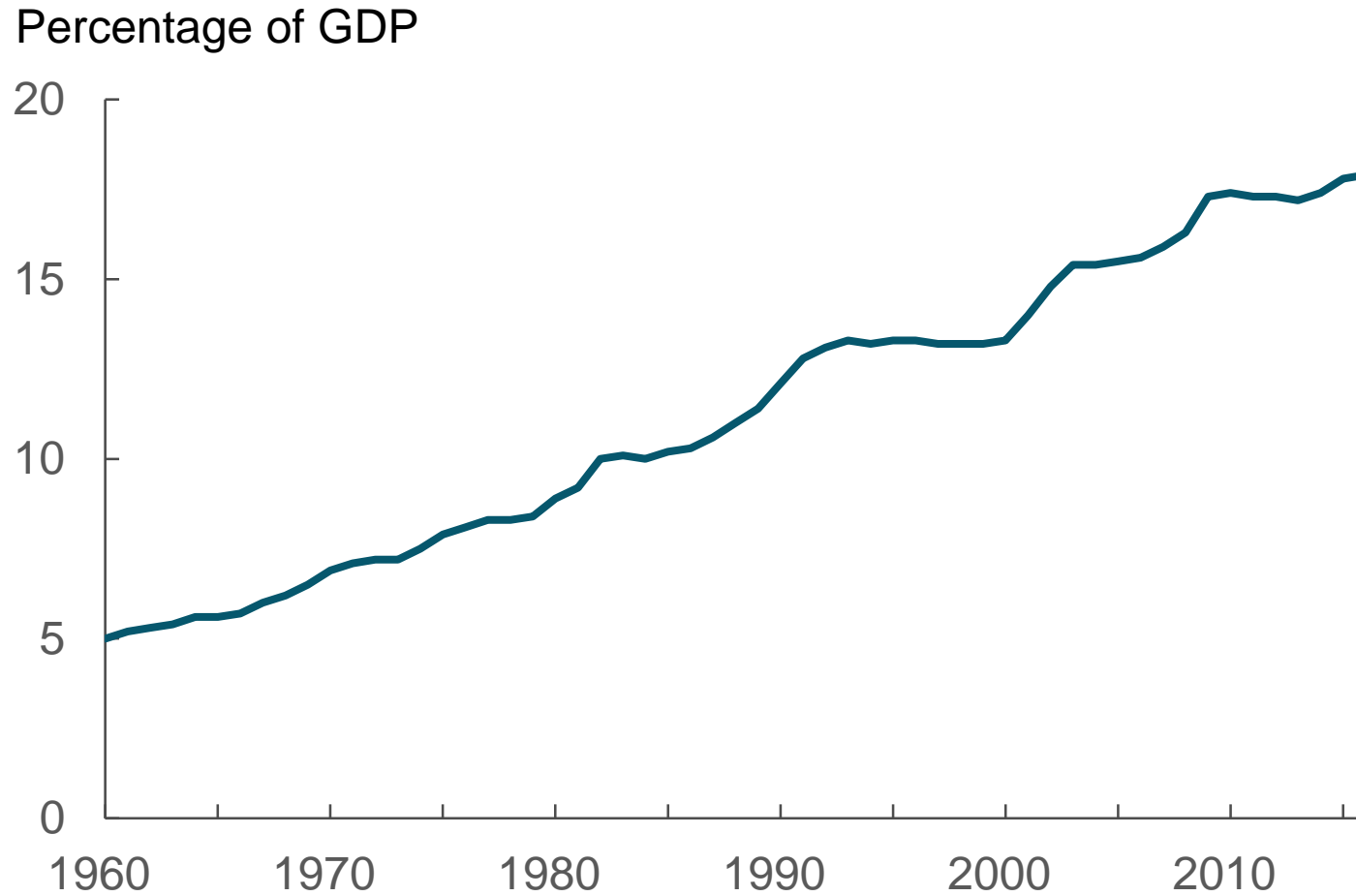
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Senior Advisor

Health Care Spending and Insurance Coverage in the United States

National spending for health care now comprises over one-sixth of gross domestic product (GDP), more than triple its share in 1960.

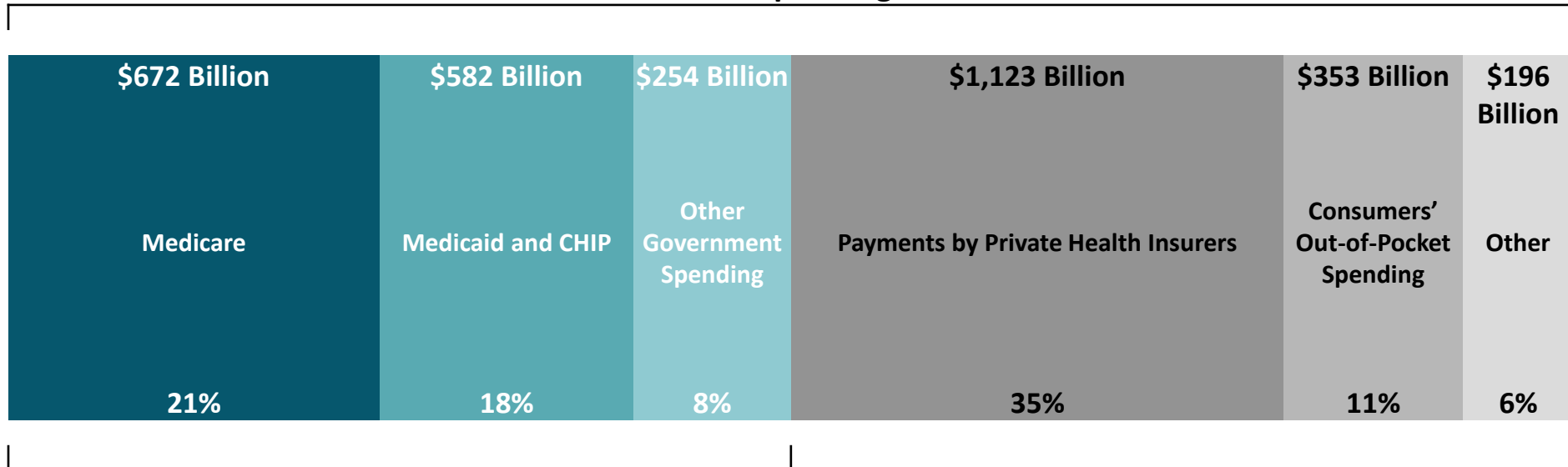
National Spending for Health Care



Almost half of the nation's spending for health care comes from government sources and is mostly for older people.

National Spending for Health Care, 2016

Total Health Care Spending: \$3.2 Trillion

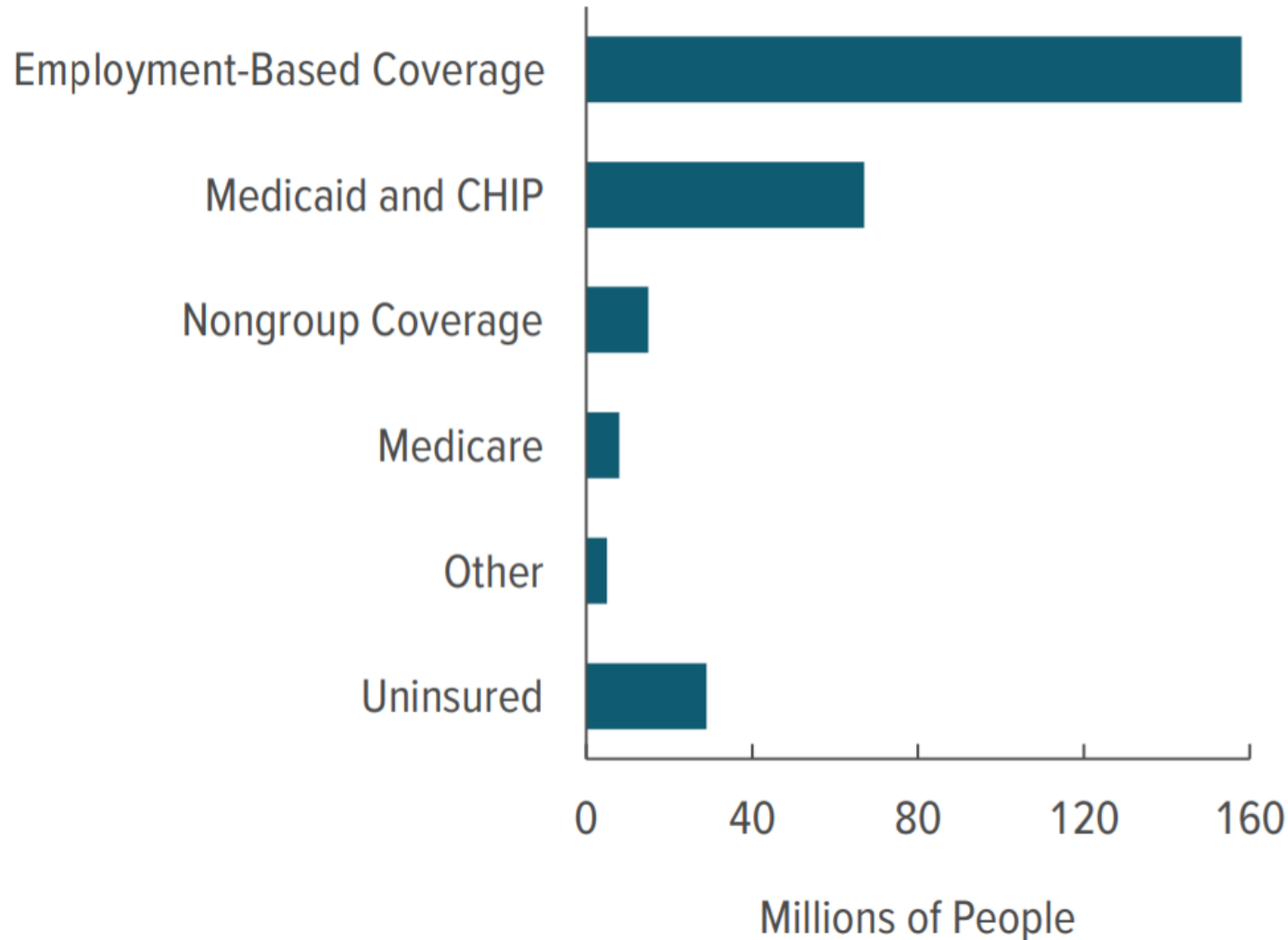


Public Spending: \$1.5 Trillion, or 47 Percent

Private Spending: \$1.7 Trillion, or 53 Percent

Most people under age 65 obtain insurance coverage through their employers.

Health Insurance Coverage in 2018 for People Under Age 65

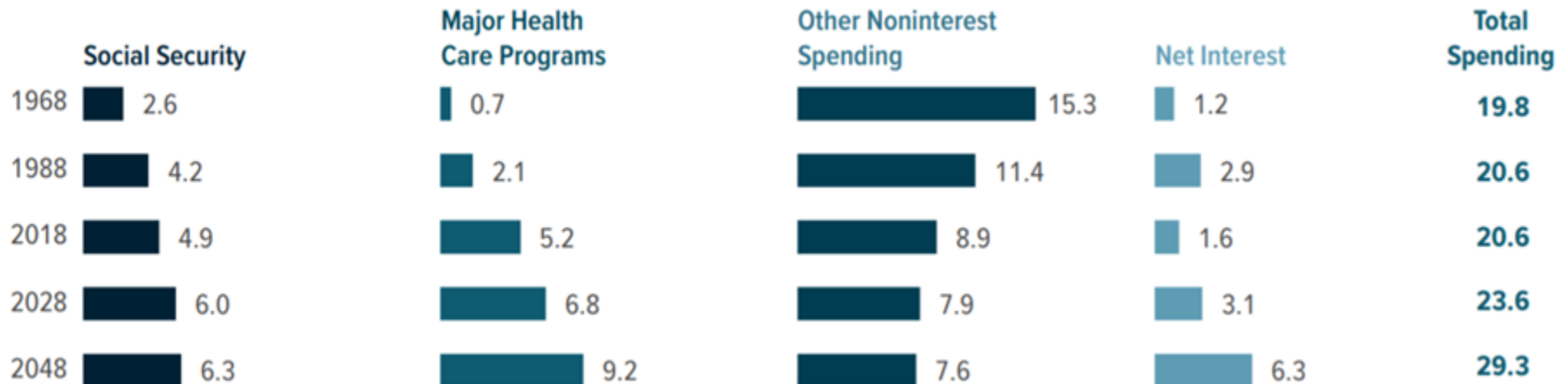


The Impact of Health Care Programs on the Federal Budget

The federal government's spending for major health care programs is projected to rise substantially over the next 30 years.

Federal Spending in the Past and Under CBO's Extended Baseline

Percentage of GDP



Spending on the major health care programs would account for 40 percent of federal noninterest spending in 2048, compared with 27 percent today.

Two factors explain the projected growth in spending on major health care programs: aging and rising health care costs per person.

CBO's Role and Major Products Related to Health Care

Key CBO Products

- 10-year baseline projections of federal spending and revenues
- Long-term budget projections
- Broad policy analyses
- Budget options
- Analyses of proposed legislation

Examples of CBO's Policy Analyses

- [*A Premium Support System for Medicare: Updated Analysis of Illustrative Options*](#)
- [*Approaches to Changing Military Health Care*](#)
- [*Private Health Insurance Premiums and Federal Policy*](#)
- [*Comparing the Costs of the Veterans' Health Care System With Private-Sector Costs*](#)
- [*Competition and the Cost of Medicare's Prescription Drug Program*](#)
- [*Health-Related Options for Reducing the Deficit: 2014 to 2023*](#)

Preparing for CBO's Work on Major Health Care Legislation

Preparing for Analytical Challenges

- Began developing health insurance model (HISIM) in 2002 and continually refined it as specific analytical needs became clearer
- Increased staffing devoted to health care issues and reorganized staff and managerial structure to provide more focus and direction
- Created Panel of Health Advisers to facilitate more input from outside experts
- Published two important reports in December 2008: [*Key Issues in Analyzing Major Health Insurance Proposals*](#) and [*Budget Options, Volume 1: Health Care*](#)

Key Issues Volume

- Provided insight into CBO's approaches to estimating the effects of proposals on the federal budget, on health insurance coverage, and on total spending for health care
- Addressed common elements of major proposals; did not estimate the impact of any particular package
- Described key parameters that would be used in estimating effects of major proposals on costs, coverage, and other outcomes
- Discussed the evidence for those parameters
- When possible, quantified effects or ranges and explained relevant factors
- Provided useful background to and a context for the health options volume

CBO's Health Insurance Simulation Model

CBO's Health Insurance Simulation Model

CBO and the Joint Committee on Taxation estimate changes in health insurance coverage and changes in premiums for the population under age 65 with a microsimulation model, HISIM—along with other models as needed.

HISIM models how individuals' and employers' choices about coverage might change on the basis of the relative price and generosity of the different health insurance options available.

The model incorporates a wide range of information—drawn from administrative and survey data—about a representative sample of individuals and families, including their income, employment, health status, and health insurance coverage.

Modeling Individuals' Coverage Decisions in HISIM

Individual behavior is currently modeled with an elasticity approach.

- Take-up elasticities are drawn from research based on real-world behavior.
- Elasticities incorporate inertia and other behavioral responses that economic theory may not be able to fully explain but that have nonetheless been observed in studies.
- Elasticities may vary among population subgroups depending on their income and their insurance status.

In an updated version of HISIM, which is currently being developed and tested, individuals make decisions about health insurance coverage on the basis of the expected utility of all options available to them. Those decisions are probabilistic and maximize utility in a random utility model.

Modeling Other Effects

Because HISIM simplifies how individuals and employers make coverage choices, CBO must then account for complex aspects of current law or a proposal that would affect:

- States' behavior,
- The timing of individuals' and employers' responses, and
- Insurers' participation and market stability.

CBO's Analyses of Legislation Related to the Affordable Care Act (ACA)

Contents of Cost Estimates

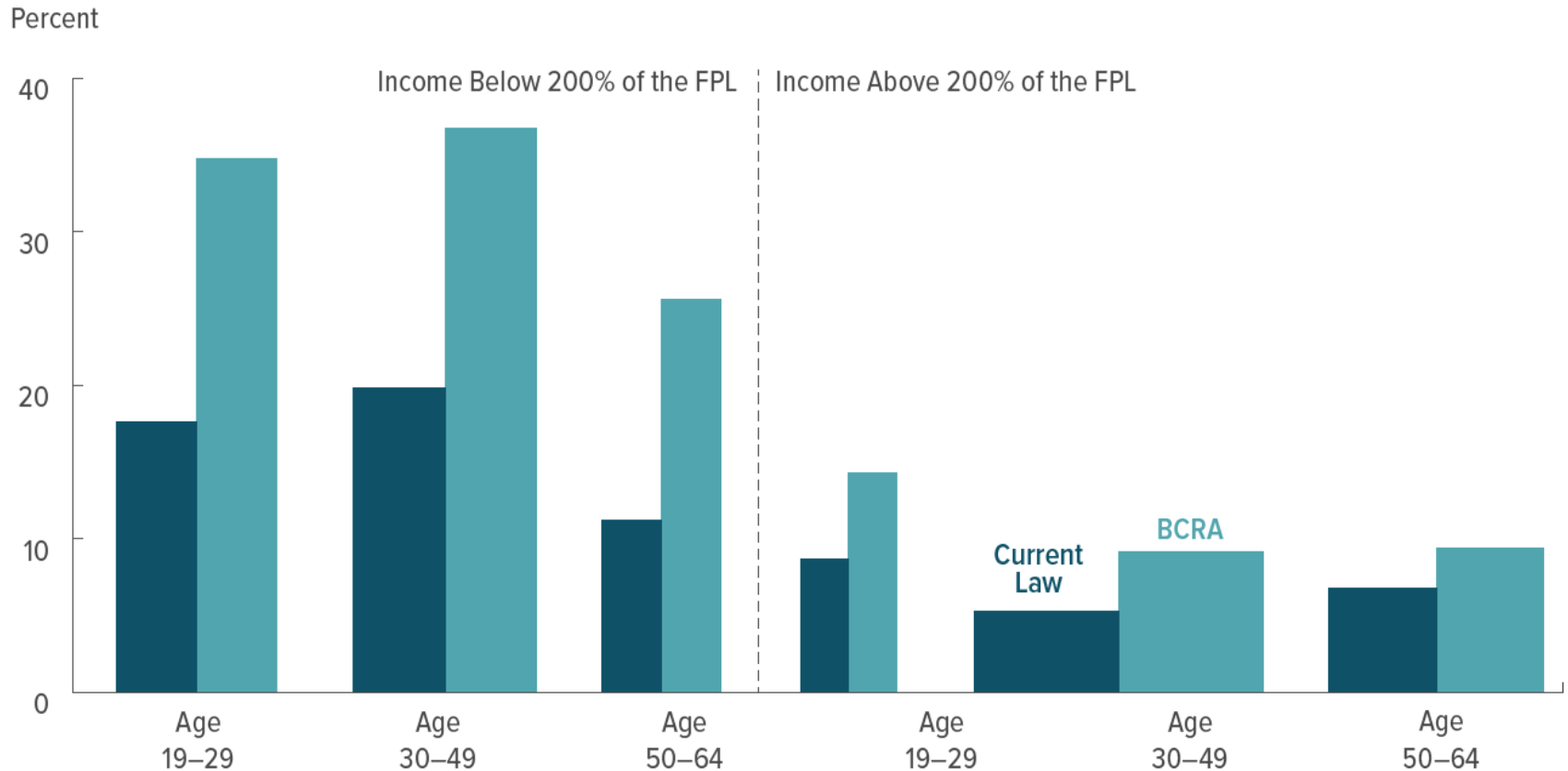
Cost estimates for legislation included effects on:

- Federal revenues and spending
- The number of people with health insurance of various types
- The number of people without health insurance
- Premiums for private insurance
- The stability of private insurance markets
- The size of the labor force and other macroeconomic factors (when significant and feasible to estimate)

Example: Cost Estimate for the Better Care Reconciliation Act of 2017 (BCRA)

- Enacting that legislation would reduce the cumulative federal deficit over the 2017–2026 period by \$321 billion.
- The bill would increase the number of people who are uninsured by 22 million in 2026 relative to the number under current law. By 2026, an estimated 49 million people would be uninsured, compared with 28 million who would lack insurance that year under current law.
- Nongroup insurance markets would continue to be stable in most parts of the country.
- The legislation would increase average premiums in the nongroup market prior to 2020 and lower average premiums thereafter, relative to projections under current law.

Share of Nonelderly Adults Without Health Insurance Coverage Under Current Law and the Better Care Reconciliation Act, by Age and Income Category, 2026



Source: Congressional Budget Office, cost estimate for H.R. 1628, the Better Care Reconciliation Act of 2017 (June 26, 2017), www.cbo.gov/publication/52849. FPL = federal poverty level.

The early estimates of Medicaid spending and subsidies for health insurance resulting from the ACA were close to the actual amounts in 2014 and 2015 but well above the actual amounts in 2016.

Federal Subsidies for People Made Eligible for Medicaid by the ACA and for Coverage Through the Marketplaces or the Basic Health Program

Billions of dollars

Fiscal Year	Estimate in March 2010	Actual
2014	50	36
2015	91	87
2016	145	101

Explanation and Documentation of CBO's Work

Some Cost Estimates and Reports Describing CBO's Analyses of Policy Proposals

Extensive discussion in cost estimates, such as

- [Better Care Reconciliation Act of 2017](#)
- [American Health Care Act of 2017](#)

Reports

- [*How CBO and JCT Analyze Major Proposals That Would Affect Health Insurance Coverage*](#)
- [*A Premium Support System for Medicare*](#)
- [*Preliminary Analysis of Legislation That Would Replace Subsidies for Health Care With Block Grants*](#)
- [*The Effects of Terminating Payments for Cost-Sharing Reductions*](#)

Some Reports and Presentations Describing CBO's Baseline Projections of Health Insurance

Projections and Their Accuracy

- [*Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2018 to 2028*](#)
- [*CBO's Record of Projecting Subsidies for Health Insurance Under the Affordable Care Act: 2014 to 2016*](#)

Data and Modeling

- [*How CBO Defines and Estimates Health Insurance Coverage for People Under Age 65*](#)
- [*"The Health Insurance Simulation Model Used in Preparing CBO's 2018 Baseline"*](#)

Other Documentation and Explanation: Working Papers

- [*Issues and Challenges in Measuring and Improving the Quality of Health Care*](#)
- [*How CBO Estimates the Effects of the Affordable Care Act on the Labor Market*](#)
- [*Why Has Growth in Spending for Fee-for-Service Medicare Slowed?*](#)

Other Documentation and Explanation: Blog Posts

- [“Challenges in Estimating the Number of People With Nongroup Health Insurance Coverage Under Proposals for Refundable Tax Credits”](#)
- [“CBO’s Analysis of Financial Pressures Facing Hospitals”](#)
- [“Estimating the Effects of Federal Policies Targeting Obesity: Challenges and Research Needs”](#)
- [“Telemedicine”](#)