



Congressional Budget Office

Presentation at the American Enterprise Institute

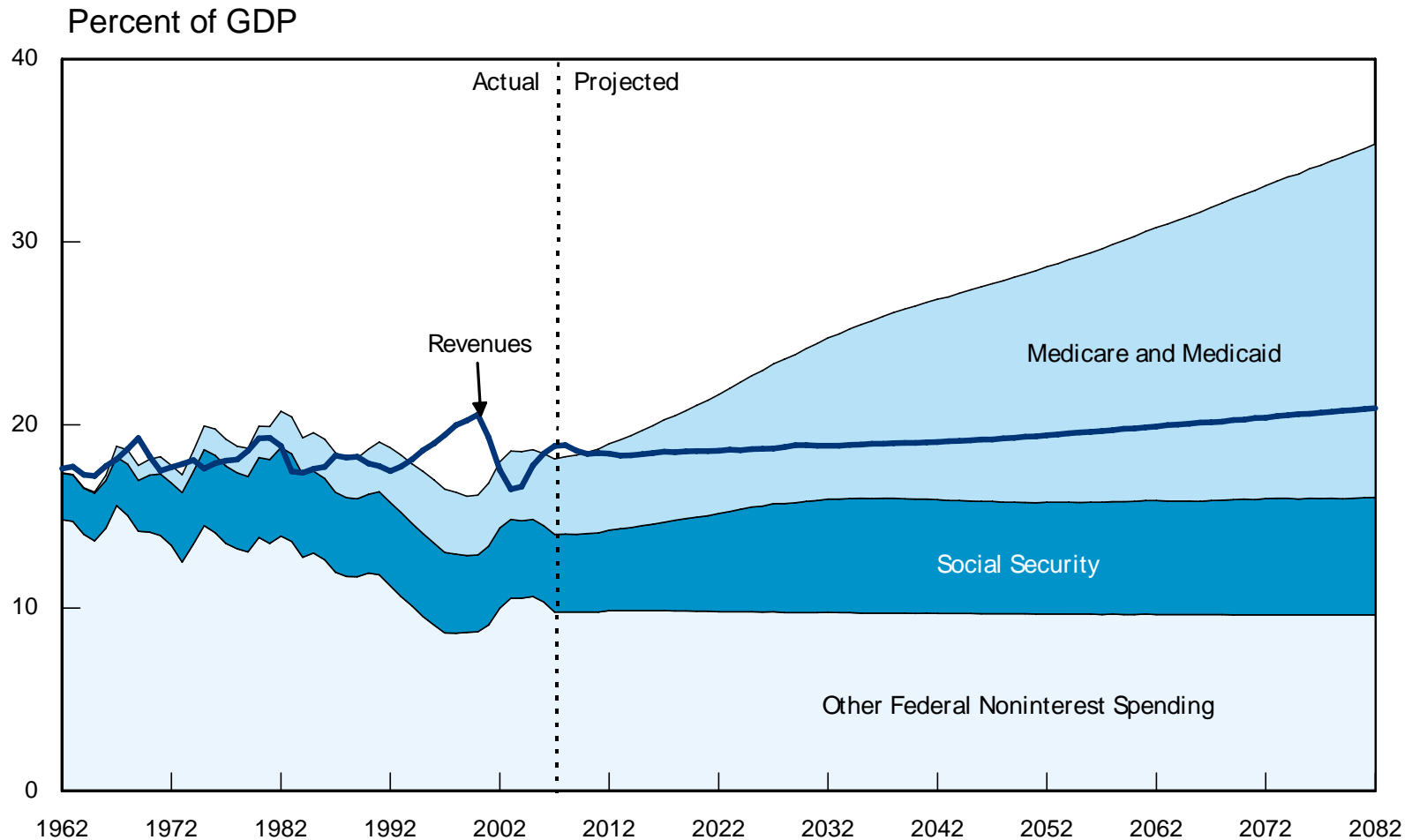
**It's the Cost per
Enrollee, . . . !**

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Revenues and Outlays as a Share of GDP Under CBO's Alternative Fiscal Scenario



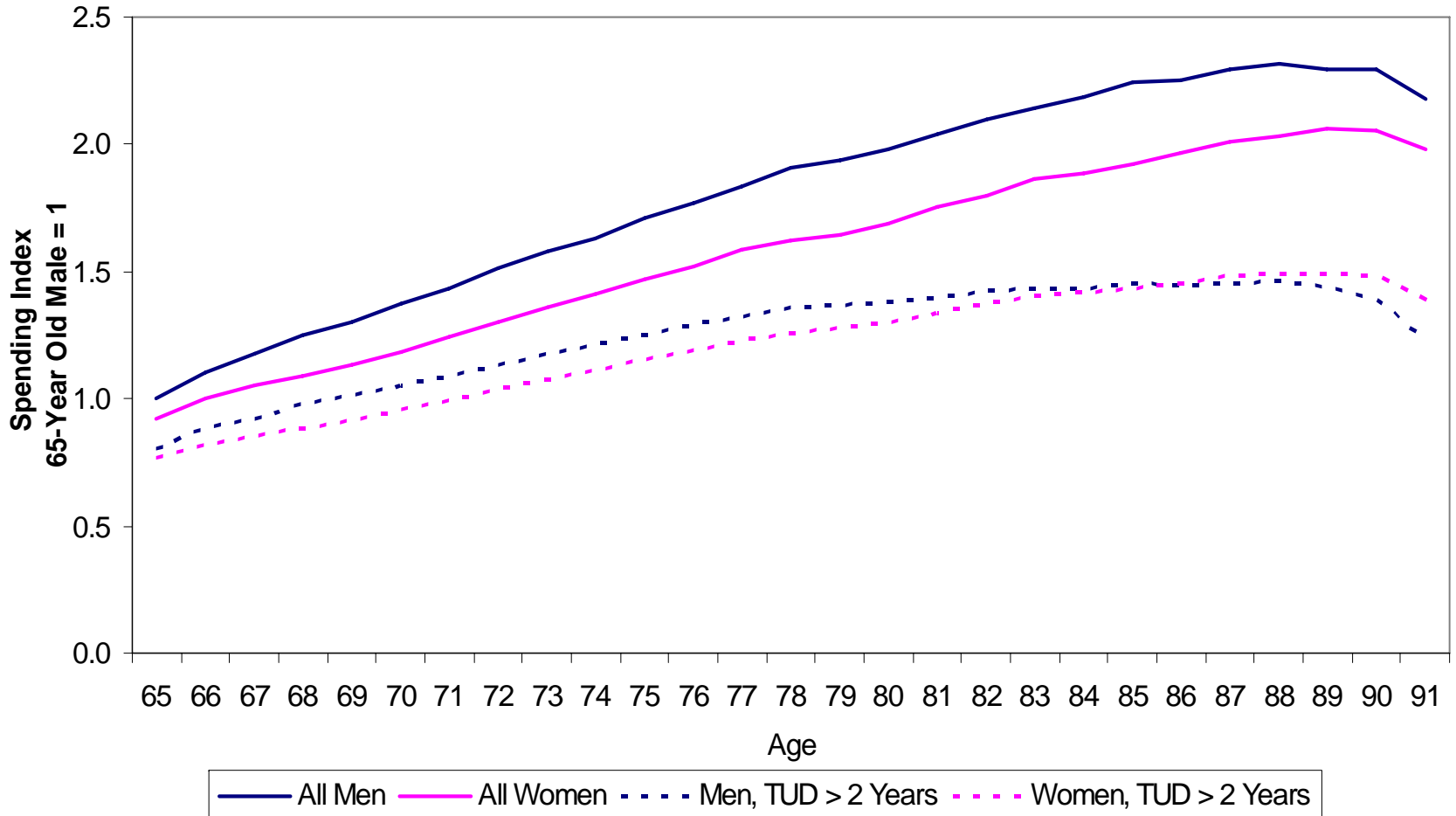


Estimated Contributions of Selected Factors to Long-Term Growth in Real Health Care Spending per Capita, 1940 to 1990

	Smith, Heffler, and Freeland (2000)	Cutler (1995)	Newhouse (1992)
Aging of the Population	2%	2%	2%
Changes in Third-Party Payment	10%	13%	10%
Personal Income Growth	11-18%	5%	<23%
Prices in the Health Care Sector	11-22%	19%	Not Estimated
Administrative Costs	3-10%	13%	Not Estimated
Defensive Medicine and Supplier-Induced Demand	0%	Not Estimated	0%
Technology-Related Changes in Medical Practice	38-62%	49%	>65%



CBO's Modeling of Medicare Spending Adjusts for Time Until Death (TUD)



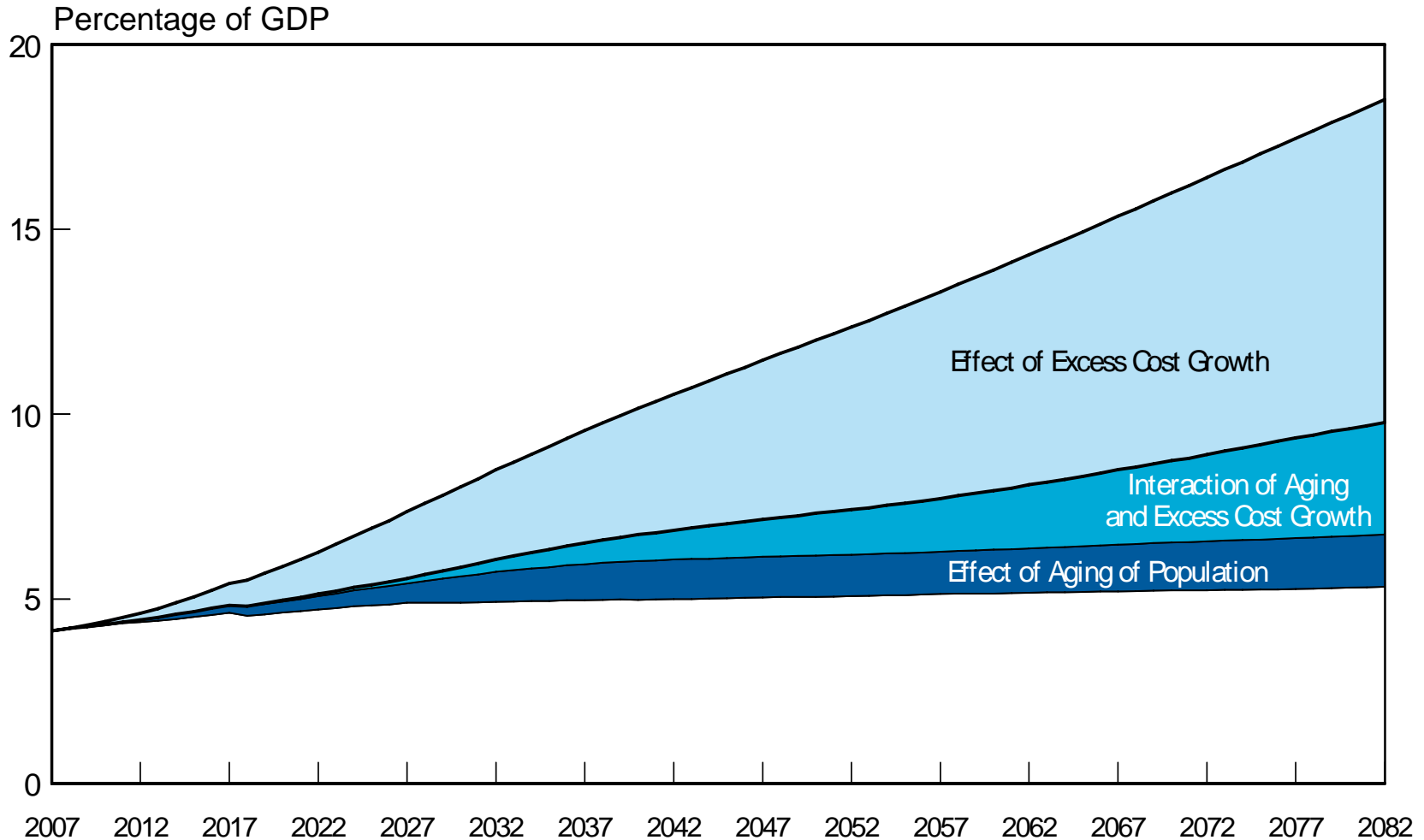


Effects of Aging on Federal Costs for Health Care

- The effect of aging on total spending for health care may be small, but in the U.S. its effect on public spending will be large
 - Most enrollees enter Medicare at age 65
 - Medicare enrollment will grow from 45 million today to about 83 million in 2030 – or roughly from 15% to 22% of the population
 - Aged Medicaid enrollees account for about 20% of costs
- Even so, the effect of aging is smaller than the effect of rising health care costs per enrollee
 - Nearly all of the “aging” effect is due to a rising number of enrollees
- Note: After adjusting for demographic changes, cost growth per enrollee that exceeds growth in GDP per capita is labeled “excess” cost growth



Sources of Growth in Projected Federal Spending on Medicare and Medicaid





Allocation of Projected Cost Growth

Year	Unallocated Interaction Term			Allocated Interaction Term	
	Aging	Interaction	“Excess” Cost Growth	Aging	“Excess” Cost Growth
2032	27%	12%	61%	31%	69%
2057	18%	21%	61%	23%	77%
2082	14%	26%	60%	19%	81%

Source: CBO, *Accounting for Sources of Projected Growth in Federal Spending on Medicare and Medicaid* (May 2008); results shown for “Approach 1.”



CBO References (available at www.cbo.gov)

- **Incorporating Longevity Effects Into Long-Term Medicare Projections** (January 2004) by John Sabelhaus, Michael Simpson, and Julie Topoleski
 - Part of the “Working and Technical Papers” Series
- **The Long-Term Outlook for Health Care Spending** (November 2007)
- **The Long-Term Budget Outlook** (December 2007)
- **Technological Change and the Growth of Health Care Spending** (January 2008) by Colin Baker
- **Accounting for Sources of Projected Growth in Federal Spending on Medicare and Medicaid** (May 2008) by Noah Meyerson