

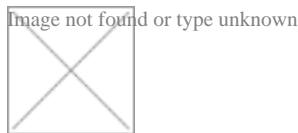
## Weekly Checkup



# Without Permanent Reduction in Medicare Spending Growth, Budget Outlook Even Worse

CONOR RYAN | APRIL 22, 2014

Budget hawks recognize that the inexorable growth of mandatory spending on Social Security benefits and federal health care programs like Medicare and Medicaid represents real fiscal danger. The Congressional Budget Office (CBO) estimates that in 25 years, the debt held by the public will be equal to the entire annual output of the American economy, which they warn will have “significant negative consequences for both the economy and the federal budget.” [1] And still, some of the assumptions CBO uses to make that prediction may be too optimistic. Medicare spending per beneficiary typically grows by 1 to 2 percent faster than gross domestic product (GDP) every year, exacerbating the costs associated with an aging population.[2] But in recent years, spending per beneficiary—as well as national health care spending in general—has slowed relative to the historical average. While periods of slow spending have occurred in the past, they have never lasted for more than a few years—as shown in the chart below. Despite the apparent cyclical nature of spending growth, CBO assumes that slow growth in Medicare spending per beneficiary will be permanent, averaging about 0.1% less than growth in real GDP over the next decade.[3] This assumption is due in part to an influx of “young” seniors as the baby boomer generation clears the retirement threshold of 65, but also to a perhaps aggressive assumption that the slow growth in Medicare spending is evidence of structural change and politically controversial payment reductions that may be delayed or repealed entirely. If the CBO is wrong in assuming that the cost growth of the most expensive federal health care program has plateaued, the budget outlook could be even more dismal.



[1] *The 2013 Long-Term Budget Outlook*, Congressional Budget Office, September 2013, available at: [http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO2013\\_0.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO2013_0.pdf)