

# CRS Report for Congress

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## Trends in Medicare Spending: Fact Sheet

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When Congress passed the Balanced Budget Act of 1997 (BBA, P.L. 105-33), the legislation was intended, in part, to constrain Medicare growth. However, both current and projected spending are even lower than expected at the time of BBA's passage. In fact, the last 2 years have set records for low or declining rates of program growth. In fiscal year 1998, the Medicare growth rate slowed to a then record low of just 1.5% for the entire year, an amount less than would be expected allowing for increases in enrollment and for inflation. The following year set a new record, when, for the first time in the program's history Medicare spending dropped from 1 year to the next. Mandatory program spending declined by about \$2 billion from \$211 billion in 1998 to \$209.3 billion in 1999, almost a 1% decline.

Over the next several years Medicare spending is projected to grow at a moderate rate, reversing the recent record trends of low (or negative) growth, according to CBO. Projected Medicare spending for 2000 will increase by 4.1% over the 1999 level, while over the 5-year period (2001- 2005), spending is estimated to increase at a 7% annual rate. This moderate rate of the growth in program costs can be contrasted with the 10% yearly growth experienced in the 1990s prior to the passage of the BBA. Interestingly, CBO's most recent estimates continue to show this tempered growth despite the inclusion of additional Medicare spending provided by the Balanced Budget Refinement Act of 1999 (BBRA, P.L. 106-113). CBO estimates that the BBRA would add \$1 billion back to the Medicare program for 2000, and approximately \$16 billion total for 2001-2005.

While part of the lower rate of growth may be attributed to under-estimates of the savings derived from the BBA, it is difficult to pinpoint any one factor as the exact cause for this projected decline. Many factors other than the BBA, such as an improved economic forecast and heightened anti-fraud activities, are significant components of the decline in the rates of growth in Medicare spending. (See CRS Report RS20238, *Trends in Medicare Spending After the Balanced Budget Act*, for a detailed discussion of the factors affecting Medicare projections.)

CBO also projects that Medicare spending growth over the course of the 2001 to 2010 decade will average 6.9% annually. Over that period, Medicare's share of the U.S. national income is projected to increase from 2.3% of Gross Domestic Product (GDP) in 2000 to 2.9% by 2010. Most of Medicare's program growth is expected to result from two factors: increased enrollment and automatic updates in reimbursements for services.

Enrollment growth in Part A of Medicare is expected to increase from 39 million to 46 million beneficiaries, between 2000 and 2010. Further, some of the provisions of the BBA are set to expire in 2002, so that automatic annual updates for many services that currently average 2.5%, are expected to begin to increase by about 3% annually beginning in 2003. The remaining components of Medicare program growth include factors such as changes in the costs for new medical technology and changes in the practice and billing patterns in medicine. Historically these other factors have added about 3 to 4 percentage points to the growth of the Medicare program each year. However, CBO's latest projections hold growth resulting from these factors to about 2.5% each year, largely as a result of improved compliance with Medicare billing rules, and an expected shift in the age distribution of the Medicare population to a larger proportion of relatively younger, and therefore less costly, beneficiaries.

<b>CBO Baseline Estimates for Medicare (fiscal year, dollars in billions)</b>		
	<b>1 year (2000)</b>	<b>5 years (2001- 2005)</b>
<b>Mandatory Outlays<sup>a</sup></b>		
CBO Pre-BBA <sup>b</sup> Baseline (1/97)	\$273.0	\$1,716.7
CBO Pre-BBRA <sup>c</sup> Baseline (7/99)	\$224.8	\$1,398.6
CBO Latest Baseline (1/00)	\$217.9	\$1,342.6
<b>Change</b>		
Pre-BBA to Pre-BBRA Baseline	-\$48.2	-\$318.1
Pre-BBRA to Latest Baseline	-\$6.9	-\$56.0
Total Change	-\$55.1	-\$374.1
<b>Average Annual Rates of Growth</b>		
CBO Pre-BBA Baseline (1/97)	10.0%	9.4%
CBO Pre-BBRA Baseline (7/99)	7.3%	7.8%
CBO Latest Baseline (1/00)	4.1%	7.0%

**Source:** U.S. Congressional Budget Office.  
<sup>a</sup> Mandatory Outlays include benefits outlays and only mandatory administration outlays. It does not include discretionary administration outlays or premium receipts.  
<sup>b</sup> BBA is the Balanced Budget Act of 1997.  
<sup>c</sup> BBRA is the Balanced Budget Refinement Act of 1999.

The table compares CBO's latest projections, released in January 2000, with two earlier estimates; those made in July 1999, just prior to the passage of the BBRA, and the January 1997, estimates calculated prior to the passage of the BBA. As shown in the table, according to CBO's latest projections, Medicare will spend about \$217.9 billion in fiscal year 2000 and a total of \$1,342.6 billion over the following 5 years (2001-2005). These figures reflect the downward trend in estimates, even when compared to CBO's pre-BBRA estimates done just 6 months ago. Comparing the latest figures to the July 1999 estimates, shows that projected spending is lower by \$6.9 billion for 2000. For the 5-year period, estimated spending is lower by \$56 billion, a 4% reduction. Concurrently, the projected rate of growth for Medicare spending for the 5-year period was lowered from 7.8% per

year to 7% per year. Comparing the latest estimates to pre-BBA estimates, computed 3 years ago, shows a significant decline in the projected rate of growth. Five-year estimates of Medicare spending are down by \$374.1 billion, or more than 20%, with a concomitant decline in the estimated average annual rate of growth from 9.4% to 7% per year.

When CBO updates the component parts of their latest baseline estimates (such as hospital and home health costs), CRS Report RS20238 will be revised to provide more detailed analysis.