How Should Policy Respond?

1. Population aging and rising health costs contribute to projected federal deficits.
2. Policies should aim to stabilize debt/GDP.
3. Radical changes are neither necessary nor desirable.
Projected Deficit Depends on Policy Assumptions

Primary Deficit or Surplus as a Percentage of GDP

<table>
<thead>
<tr>
<th>Scenario</th>
<th>2010</th>
<th>2020</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extended-Baseline Scenario</td>
<td>-0.8</td>
<td>0.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>Alternative Fiscal Scenario</td>
<td>-8.0</td>
<td>-2.9</td>
<td>-7.2</td>
</tr>
</tbody>
</table>

Notes: Primary deficit or surplus excludes interest. The extended-baseline scenario adheres closely to current law. CBO’s alternative fiscal scenario assumes certain changes to current law, including extension of most of 2001 and 2003 tax cuts, increases in Medicare payment rates for physicians, and discontinuance of certain policies to restrain the growth of health care costs.

Elderly (Aged 60 and Over) as a Percent of the Population in 2007 and 2040

Source: Center for Strategic and International Studies.
Growing Disparity in Life Expectancy by Socioeconomic Status

Cohort Life Expectancy at Age 65 for Males by Birth Year and Earnings Group

We’ve Been Here Before: Boomers Affect Public Spending at Both Ends of their Lives

<table>
<thead>
<tr>
<th>Government Spending as a Percent of GDP</th>
<th>1950</th>
<th>1960</th>
<th>1975</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and Local Education</td>
<td>2.6</td>
<td>3.6</td>
<td>5.6</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2020</td>
<td>2035</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>4.8</td>
<td>5.2</td>
<td>6.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Medicare</td>
<td>3.6</td>
<td>4.1</td>
<td>5.9</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Sources: Council of Economic Advisers; Congressional Budget Office (extended baseline scenario).
Mechanisms for Supporting the Retired

- Different mechanisms for supporting the retired
  - Intrafamily transfers
  - Tax and transfer programs
    - Social insurance (Social Security, Medicare)
    - Means-tested (SSI, Medicaid)
  - Asset decumulation (pensions, saving)
- Same result: Working-age population must consume less than income so that retired may consume more

Economic Cost of Supporting the Retired

\[
\frac{\text{Consumption of the Retired}}{\text{Total Income}} = \frac{\text{Total Consumption}}{\text{Total Income}} \times \frac{\text{Number of Retirees}}{\text{Total Population}} \times \frac{\text{Average Consumption of Retirees}}{\text{Average Consumption of Total Population}}
\]
Policies to Reduce Public-Sector Cost of Supporting the Retired

1. Increase retirement age
2. Reduce public benefits
3. Shift costs to the private sector
### Social Security Benefits Are Modest

**Beneficiaries and average amount, December 2010**

<table>
<thead>
<tr>
<th></th>
<th>Beneficiaries (millions)</th>
<th>Monthly</th>
<th>Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired workers</td>
<td>34.6</td>
<td>$1,175</td>
<td>$14,105</td>
</tr>
<tr>
<td>Disabled workers</td>
<td>8.2</td>
<td>1,068</td>
<td>12,813</td>
</tr>
<tr>
<td>Aged widow(er)s</td>
<td>4.0</td>
<td>1,134</td>
<td>13,607</td>
</tr>
</tbody>
</table>

Source: Social Security Administration, Office of the Chief Actuary (http://www.ssa.gov/OACT/ProgData/icp.html). These three groups account for nearly 90 percent of Social Security’s 54 million beneficiaries and over 90 percent of its benefit outlays.
Defined-Benefit Pension Plans Are On the Wane

Social Security Benefits Are Low Compared With Other Advanced Countries

Social Security Benefits Already Scheduled to Fall As a Share of Previous Earnings

U.S. Public Health Spending Low, Focused on Elderly

Public Expenditures on Health as Percent of Total, 2007

U.S. Patients Have Plenty of Skin in the Game

Out-of-pocket spending per capita in US$PPP as a percentage of GDP per capita, 2008

Medicare Costs Have Grown Less Rapidly than Private Health Insurance

Per Enrollee Growth in Medicare Spending and Private Health Insurance Premiums for Common Benefits

Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, Table 13, and Kaiser Family Foundation.
Projections of Medicare HI Insolvency Have Varied Substantially

<table>
<thead>
<tr>
<th>Year of Trustees Report</th>
<th>Projected Year of Insolvency</th>
<th>Year of Trustees Report</th>
<th>Projected Year of Insolvency</th>
<th>Year of Trustees Report</th>
<th>Projected Year of Insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>1999</td>
<td>2001</td>
<td>2029</td>
<td>2009</td>
<td>2017</td>
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<td>2011</td>
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<td>1996</td>
<td>2001</td>
<td>2004</td>
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<td>2019</td>
<td></td>
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<tr>
<td>1997</td>
<td>2001</td>
<td>2005</td>
<td></td>
<td>2020</td>
<td></td>
</tr>
</tbody>
</table>

Source: Medicare trustees reports, various years.
Medicaid Costs Less, Has Grown Less Rapidly

Medicaid Costs 27% Less for Children, 20% Less for Adults Than Private Insurance

Estimated 2005 per-capita costs of Medicaid vs. private insurance, after adjusting for enrollees' health differences

- Medicaid
- Private insurance

$909 vs. $1,247 for Children
$5,671 vs. $7,126 for Adults


- Total Medicaid Per Beneficiary: 4.6%
- Premiums for Employer Coverage: 7.7%

Controlling Health Care Cost Growth is System-Wide Problem

- “Many analysts would agree that controlling federal costs over the long term will be very difficult without addressing the underlying forces that are also causing private costs for health care to rise.”
  – Douglas W. Elmendorf, Director, Congressional Budget Office

- “[F]ederal health spending trends should not be viewed in isolation from the health care system as a whole. For example, Medicare and Medicaid cannot grow over the long term at a slower rate than cost in the rest of the health care system without resulting in a two-tier health care system.”
  – David Walker, former Comptroller General of the United States

- “[S]ustaining a lower rate of spending growth per capita in Medicare will only happen if there is a comparable rate of spending growth in the private sector.”
  – Gail Wilensky, former administrator, Health Care Financing Administration