Summary

Medicaid is the nation’s primary health insurance program for low-income and high-need Americans. States administer Medicaid within broad federal rules and have a lot of flexibility to design their programs. Medicaid is jointly financed by the states and the federal government. The Affordable Care Act expands Medicaid to a national eligibility floor of 138% of the federal poverty level (FPL) and provides significant federal funding for this new coverage. The Supreme Court upheld the ACA but limited the federal government’s ability to enforce the Medicaid expansion to low-income adults, effectively making implementation of the Medicaid expansion a state choice.

The Congressional Budget Office (CBO) prepares reports and analysis with economic forecasts and budget projections that cover a 10 year period. CBO’s budget projections or “baseline” assume that current spending and revenue laws continue without changes. The projections reflect CBO’s best judgment about how the economy and other factors will affect federal revenues and spending under existing laws. The baseline serves as a neutral benchmark against which CBO can measure the budgetary effect of proposed legislation for Members of Congress. In this role, CBO is often referred to as the “scorekeeper” for federal policy changes. CBO does not provide state-by-state projections or state-by-state estimates of the effects of legislation. This brief examines the May 2013 CBO projections for federal Medicaid spending over the 2013-2023 period. Key findings include:

» Over the next decade, federal Medicaid expenditures are expected to grow by an average annual rate of about 8% (including the effects of the ACA), with acute care growing slightly faster than long-term care.

» Medicaid enrollment is expected to grow from 71 million in 2012 to 91 million by 2023, an average annual rate of about 2% per year. Enrollment for adults is expected to increase significantly due to the expansion of Medicaid under the ACA. Over time, the elderly and persons with disabilities will continue to account for the majority of Medicaid spending.
Average spending for disabled enrollee is nearly 7 times greater than spending for a non-disabled adult. Growth in spending per enrollee largely reflects inflation and expectations of the costs to purchase medical services in the health care market place. Over the 2013 to 2023 period, average annual growth in spending per enrollee is expected to increase at rates ranging from 4% for the aged to 9% for adults. Historically, Medicaid spending has increased at rates faster than inflation, but slower than per person increases for private health care premiums.

Due to the ACA, federal Medicaid and CHIP outlays will increase $710 billion over the 2013 to 2023 period and state spending could increase by $65 billion over the period. This represents over one-third (39%) of the total federal cost of the ACA coverage provisions. Accounting for the effects of the Supreme Court decision, an additional 13 million would enroll in Medicaid by 2023 due to the ACA and the uninsured would fall by 25 million.

Since 2012, CBO projections for Medicaid have declined due to the Supreme Court decision, lower year to date spending, lower projections of spending per enrollee and lower projections for long-term care spending. Understanding the CBO baseline estimates is important because they are the basis to evaluate the federal cost and coverage implications of proposed federal policy changes. There is active debate and discussion about the federal budget and federal deficit reduction. Social Security, Medicaid, and other programs serving low-income individuals are exempt from the sequestration. However, Medicaid continues to be discussed as part of federal deficit reduction efforts. The fiscal effect of any federal policy changes will be measured against the CBO baseline.
Introduction

What is Medicaid?

Medicaid is the nation’s primary health insurance program for low-income and high-need Americans. Medicaid covers more than 60 million low-income Americans including children, pregnant women, parents, elderly and individuals with disabilities. Medicaid provides critical assistance to low-income Medicare beneficiaries and accounts for about one in six dollars spent on health care and Medicaid is the largest source of funding for safety-net providers, the primary payer for long-term services and supports and the largest insurer of births. (Figure 1) States administer Medicaid within broad federal rules and have significant flexibility to design their programs. Medicaid is jointly financed by the states and the federal government. The federal share (FMAP) averages 57 percent and ranges from a floor of 50 percent to a high of 73 percent. The FMAP is determined by a formula that relies on state per capita income and is recalculated each year.

The Affordable Care Act expands Medicaid to a national eligibility floor of 138% of the federal poverty level (FPL) which will primarily expand Medicaid coverage to adults. In general, the ACA provides 100% federal financing for those newly eligible for Medicaid from 2014 to 2016 and then phases down the federal share to 90% by 2020 and beyond. The Supreme Court upheld the ACA but limited the federal government’s ability to enforce the Medicaid expansion to low-income adults, effectively making implementation of the Medicaid expansion a state choice.

What is Medicaid’s Role in the Federal Budget?

Medicaid is the third-largest domestic program in the federal budget following Medicare and Social Security. In federal fiscal year 2013, spending from Medicaid will account of an estimated 8% of federal spending. (Figure 2) The Budget Control Act of 2011 stipulated if Congress could not pass legislation to decrease federal deficits by $1.5 trillion between FY 2012 and FY 2021 then a sequestration of $1.2 trillion in federal funds should begin in January 2013. These cuts were reduced and delayed until March 1, 2013. Social Security, Medicaid, and other programs serving low-income individuals are exempt from the sequestration. However, Medicaid continues to be discussed as part of federal deficit reduction efforts.
What is the Role of the Congressional Budget Office?

The Congressional Budget Office (CBO) prepares reports and analysis with economic forecasts and budget projections that cover a 10 year period that is used in the Congressional budget process. In addition, CBO prepares other reports for Congress including long-term budget projections, an analysis of the President’s budget, cost estimates, analysis of federal mandates, budget options, reports and estimates related to appropriations and other program specific reports affecting the federal budget like health care.

CBO’s budget projections or “baseline” assume that current spending and revenue laws continue without changes. The projections reflect CBO’s best judgment about how the economy and other factors will affect federal revenues and spending under existing laws. The baseline serves as a neutral benchmark against which CBO can measure the budgetary effect of proposed legislation for Members of Congress. In updating the baseline projections, CBO assesses three types of changes: legislative (the result of new legislation), economic (the result of changes in the economic forecast), and technical (the result of changes in other factors). CBO also releases more detailed fact sheets for specific areas of spending including Medicaid.²

CBO provides formal written estimates of the cost of bills “reported” (approved) by Congressional committees as well as preliminary informal estimates at earlier states in the legislative process to show how they would affect federal spending or revenues over the next five years or more relative to the baseline estimates. In this role, CBO is often referred to as the “scorekeeper”. CBO provides aggregate estimates of the effects of legislative proposals on states, but CBO does not provide state-by-state Medicaid projections or estimates of the effects of legislation.

What Are CBO’s Estimates for Medicaid?

Each year, CBO produces a fact sheet that provides more detail about federal Medicaid spending projections over the next decade. The fact sheet shows federal Medicaid payments for benefits (acute and long-term care), disproportionate share hospital (DSH) payments, spending for the vaccines for children program and administrative expenses. The fact sheet also shows estimates of federal benefit payments by eligibility category, enrollment by eligibility category and average federal spending on benefits per enrollee. For the baseline released in May 2013, the projection period is for 2013-2023.³ Given that the Affordable Care Act (ACA) was enacted and is now current law, the CBO baseline Medicaid projections include the effects of the ACA. These projections also account for the Supreme Court decision that effectively gave states the option to implement the Medicaid expansion.

CBO generally reports on the legislative, economic and technical changes in the baseline from one projection period to the next; however, significant details about the underlying assumptions beyond what is included in the detailed baseline fact sheet are not generally available. Projections for Medicaid spending have dropped from the CBO projections released in 2012 due the effects of the Supreme Court decision on the Medicaid expansion, lower than anticipated year to date spending and other technical corrections. Examining the components of the baseline fact sheet may help to better understand the overall projections.
How Much Will Medicaid Cost in the Future and Why: A Look At Federal Projection

Spending

Over the next decade CBO expects federal Medicaid expenditures to grow by an average annual rate of about 8 percent. This growth rate includes higher federal Medicaid spending over the decade related to the implementation of the ACA. The CBO baseline consists of four key parts: benefits, Disproportionate Share Hospital (DSH) payments, the Vaccines for Children Program and Administrative expenses. More than 90 percent of federal Medicaid spending is benefits (acute care, long-term care and payments for Medicare premiums for low-income Medicare beneficiaries). Medicaid spending for benefits is expected to increase from $237 billion in 2013 to $510 billion in 2023, an average annual growth rate of about 8 percent. (Figure 3)

Acute care spending, which includes fee-for-service spending, payments to managed care and payments for Medicare premiums, accounts for about 70 percent of spending for Medicaid benefits. Long-term care, which includes both institutional and community-based long-term care spending, accounts for the remaining 30 percent. Fee-for-service and managed care spending both increase sharply in 2014 as the ACA requirements to expand Medicaid coverage become effective. This translates to faster growth for these categories of spending over the 10 year period relative to long-term care spending. Compared to the February 2013 baseline, the May 2013 baseline reduced estimated spending for long-term care by $119 billion over the period to reflect recent growth rate trends. (Figure 4) For a comparison of CBO projections to Medicaid projections estimate from the Administration, see the Appendix.
**Enrollment**

CBO estimates that total Medicaid enrollment will grow from 71 million in 2012 to 91 million by 2023. These figures are based on the total number of individuals enrolled in Medicaid at any point during the fiscal year. Average monthly enrollment is expected to increase from 56 million in 2012 to 71 million in 2023. CBO projects enrollment for four categories: the aged, disabled, children and adults. Overall enrollment is expected to grow at an average annual rate of about 2 percent per year; however, growth for adults is expected to increase significantly (from 20 million in 2012 to 32 million in 2016) due to the expansion of Medicaid under the ACA. CBO may account for underlying population growth trends, economic assumptions (i.e. unemployment rates) and assumptions about state or individual behavior that may affect enrollment. For example, with the aging of the baby boom generation, more individuals may qualify for Medicaid on the basis of disability and need for long-term care services. Despite these factors, CBO projects slow enrollment growth for the aged and disabled in the next decade. Since Medicaid enrollment is based on income, projections about the economy and unemployment will affect Medicaid. CBO also had to make assumptions about how states would implement the ACA and how individuals might respond to the availability of new Medicaid coverage in estimating participation in Medicaid under the ACA. (Figure 5)

**Benefit Payments by Eligibility Group**

While the aged and disabled have historically accounted for about one-quarter of Medicaid enrollees, they have accounted for about two-thirds of the spending. In the CBO projections, the aged and disabled will account for about 20 percent of enrollees and about 53 percent of federal benefit payments. This shift is largely due to the increase in the number of adult enrollees and spending for adults as a result of the ACA. (Figure 6)
Spending Per Enrollee

Growth in spending per enrollee largely reflects inflation and expectations of the costs to purchase medical services in the health care market place. Spending for an aged or disabled enrollee is more than five times greater than spending for a child or adult enrollee. The aged and disabled tend to use more complex acute care services as well as expensive long-term care services. Over the 2013 to 2023 period, spending per enrollee is expected to increase at rates ranging from 4 percent for the aged to 9 percent for adults. Historically, Medicaid spending has increased at rates faster than inflation, but slower than per person increases for private health care premiums. (Figures 7 and 8)

Since August 2012, the CBO has lowered Medicaid spending per person projections to account for the slowed growth in Medicaid spending partially to account for the fact that a larger share of the people who will be covered under the Medicaid program will be children and healthier adults, whose medical costs tend to be lower than those of less healthy adults.
**Medicaid and the ACA**

While the effects of the ACA are included in the May 2013 baseline projects, CBO also released updated estimates related to the health insurance coverage provisions in the ACA. CBO estimates that Medicaid and CHIP outlays will increase $710 billion over the 2014 to 2023 period as a result of the ACA coverage provisions.\(^4\) (Figure 9) This represents about one-third of the gross cost of the ACA coverage provisions.\(^5\) CBO estimates that state spending would increase by about $63 billion from 2013 to 2023 as a result of the ACA coverage provisions. CBO estimates that an additional 13 million individuals would enroll in Medicaid by 2023 as a result of the ACA.

These estimates of cost and coverage reflect the Supreme Court decision that effectively made the Medicaid expansion an option for states. Relative to estimates in March 2012 prior to the Supreme Court decision, these estimates reflect lower costs and coverage for Medicaid because CBO assumed not all states would implement the expansion and that some states would not fully implement the expansion. However, relative to estimates in February 2013, the estimates for Medicaid increased from $638 billion to $710 billion over the 2014-2023 period driven by higher enrollment estimates. By 2023, CBO estimates that the share of the non-elderly population covered by Medicaid would increase from 12 percent to 16 percent and the share of uninsured would decline from 20 percent to 11 percent. (Figure 10)
Current Medicaid Projections Compared to Early CBO Projections?

In aggregate, the CBO projections for Medicaid have declined from March 2012 to May 2013. (Figure 11) From March 2012 to August 2012, the primary reason for lower spending was primarily driven by the Supreme Court decision which effectively gave states the option to implement the Medicaid expansion. The August 2012 baseline assumed that some states will not expand their Medicaid programs at all or will not expand coverage to the full extent authorized by the ACA. From August 2012 to February 2013 the Medicaid baseline declined by 5.5 percent ($239 billion) due to lower anticipated enrollment (primarily tied to lower enrollment in the Supplemental Security Income program which is linked to Medicaid enrollment) and lower expected costs per person. The most recent estimates from May 2013 show a $77 billion (2 percent) reduction in projected Medicaid spending over the 2013-2023 period primarily due to lower projected spending for long-term care services. These reductions are offset by higher enrollment projections tied to higher current enrollment as well as higher projected enrollment due to the ACA Medicaid expansion. To see how CBO estimates for Medicaid compare to the Administration’s estimates, see the Appendix.

What do CBO Federal Medicaid Projections Mean for Federal Policy Discussions?

Debate about the federal budget and federal deficit reduction continue. Social Security, Medicaid, and other programs serving low-income individuals are exempt from the sequestration. However, Medicaid continues to be discussed as part of federal deficit reduction efforts. Understanding the CBO baseline estimates is important because the projections show Medicaid in the context of the overall federal budget and the baseline provides the basis to evaluate implications of proposed federal policy changes. Examining the drivers underlying Medicaid spending projections helps in understanding the effects of policy proposals on spending, enrollment and cost per enrollee.
APPENDIX: CBO ESTIMATES COMPARED TO ADMINISTRATION’S ESTIMATES FOR MEDICAID

Medicaid projections are also prepared by the Office of Management and Budget (OMB) as part of the President’s Budget Proposal and the Office of the Actuary (OACT) in the Centers for Medicare and Medicaid Services (CMS). OACT prepares an annual report on the past financial trends and projected outlook over the next 10 years for Medicaid. The 2012 report is the fourth annual report and provides information for FY 2011 and then projections for the period FY 2012-FY 2021. Unlike the CBO estimates, the OACT report provides more detail about the methods and data sources underlying the projections. The OACT report examines total Medicaid expenditures (not just federal outlays).

According to the projections in the President’s budget and OACT, federal Medicaid expenditures for benefits are projected to increase at an average annual rate of 7.6 percent over the next 10 years, and to reach $483 billion by 2023, slightly lower than the May 2013 CBO projections.¹ (Figure 12) Average enrollment is projected to increase at an average annual rate of 3.4 percent over the next 10 years and to reach 79 million in 2023 (CBO estimates total enrollment of 90 million in 2023). (Figure 13) Both estimates reflect significant increase in Medicaid enrollment that will begin in 2014 as a result of the expansion of Medicaid eligibility under the Affordable Care Act.

Endnotes


2 The Executive branch also prepares projections of Medicaid; however, these are not considered in estimating costs of legislative proposals. The Office of Management and Budget (OMB) is responsible for developing the President’s budget which is a ten year proposed spending plan that includes projections of spending as well as the estimated effects of proposed policy changes. The President’s budget is typically released in early February and OMB prepares a mid-session review to update budget projections in August. Due to the fiscal cliff and the sequester, the President’s Proposed budget for FY 2014 has been delayed.


5 CBO has not released an estimate of the Medicaid only outlays due to the ACA. However, CHIP is a much smaller program than Medicaid, so the large majority of the ACA spending will be for Medicaid.