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RESEARCH SUMMARY

WILL THE RECENT SLOWDOWN IN HEALTH CARE COST GROWTH IMPROVE MEDICARE'S FINANCING OUTLOOK?

"The suggestion that the ACA has slowed health care spending in a way that solves our Medicare financing problem is unrealistic, and reflects unfamiliarity with how Medicare projections are done."
—Charles P. Blahous

While analysts debate the reason for the recent slowdown in the growth of US health care costs, another key question is whether this trend suggests transformational, sustainable changes in the health care system that may ease the pressure on Medicare finances.

According to a new paper published by the Mercatus Center at George Mason University, the slowdown in health care cost growth is extremely unlikely to solve Medicare's financing problems. Indeed, such a suggestion primarily reflects an incomplete understanding of how current Medicare cost projections are done.

Study author Charles P. Blahous, a Mercatus senior research fellow and public trustee for Social Security and Medicare, notes that while it is impossible to definitively determine the cause of the health care cost slowdown at this time, the following points are clear:

1) The slowdown predated the passage of the Affordable Care Act (ACA) and isn't primarily a result of it.

2) Most of the ACA's projected effects on Medicare costs over the long term concern provisions that have yet to take full effect.

3) Medicare today is in worse financial shape than was projected before the cost slowdown began. The recession had a more severe impact in depressing Medicare revenues than it had a helpful effect on Medicare cost growth.

4) Current Medicare projections already assumed a substantial, long-term deceleration in national health cost growth—a slowdown much greater than what has transpired to this point.

5) Going forward, actual Medicare costs are much more likely to be higher than the trustees' current projections than they are to be lower.

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In this study, Blahous reviews the interaction between health cost inflation and the assumptions underlying Medicare projections. He concludes that neither the recent health care cost slowdown nor the ACA has—as some have suggested—solved the Medicare financing problem, nor has it given reason to expect that program finances may be healthier than now projected. He further finds it highly improbable that Medicare can be kept financially viable without substantial additional legislative reform.

Below is a brief overview. To read the study in its entirety and learn more about its author, please see "Will the Recent Slowdown in Health Care Cost Growth Improve Medicare's Financing Outlook?"

SUMMARY & KEY POINTS

Summary

In recent years the rate of US national health care spending growth has slowed, from an average annual per capita health consumption rate of 6.7 percent in 2000–07 to less than 4 percent in each year from 2008 through 2011. Experts have sought to determine how much of the deceleration was a temporary consequence of the Great Recession and how much of it relates to recent changes in national health care policy and practices that might continue to produce further cost savings in future years.

Some advocates have credited the ACA for much of the recent deceleration in health care cost growth, and further suggested that a continuation of these recent trends could brighten Medicare's financing outlook. The White House Council of Economic Advisers, for example, published a graph (in its *2013 Economic Report of the President*) indicating that if the annual growth rate of per-beneficiary Medicare spending were to remain at its recent level of 3.6 percent per year, "then after 75 years Medicare spending would account for only 3.8 percent of GDP," significantly less than the Medicare trustees' current estimate of 6.5 percent of GDP. Some have interpreted the graph as suggesting that much of Medicare's financing challenge might be solved without further legislation, merely by proceeding forward to implement the provisions of the ACA.

This study finds, however, that the policies of the ACA "are not the primary reason for the recent deceleration in national health expenditure growth, which was already in motion several years before the ACA and readily visible by 2008." It attributes speculation that the slowdown may further lessen the Medicare financing problem to a misunderstanding of Medicare projection methodology.

To inform this discussion, the study focuses on expanding public understanding of the following: (1) current methodologies for projecting Medicare finances; (2) the dependence of these projections on broader health spending trends, demographic trends, and other factors; and (3) how future Medicare financial outcomes may deviate from current projections.

Key Points

The recent deceleration in national health care cost growth does not translate into a significant probability that substantial further legislative changes to correct Medicare finances can be avoided.

- The cost slowdown has not improved Medicare's finances relative to prior projections; both of Medicare's trust funds (Hospital Insurance and Supplemental Medical Insurance) are in weaker financial condition than before the slowdown.

- Medicare's trustees project that under current law total program costs will rise substantially faster than the nation's economic output, and especially over the next few decades, as the large baby boom generation joins Medicare rolls.

Current Medicare projection methodologies, in use since well before the ACA's passage, already assumed a substantial long-term slowdown in the growth of national health care spending. Further, almost all of the currently projected positive effect of the ACA on Medicare finances is based on several of its provisions that have yet to take full effect.

- It is far more likely, as the Medicare trustees emphasize in their annual report, that actual Medicare costs will be higher, not lower, than currently projected.

- Current projections assume that costs per capita in many Medicare spending categories will grow much more slowly than per capita GDP over the long term—a much slower rate of growth than that observed historically, even with the recent health cost slowdown.

- Current projections assume full implementation of the statutory SGR physician payment cuts, which have been overridden each year since 2003. They also assume full implementation of the ACA's Medicare provider payment reductions, the long-term viability of which has been questioned by some experts.

Medicare remains financially troubled and requires substantial reforms to remain viable.

- Even in the most optimistic of the reasonable scenarios, prompt and substantial additional financing corrections are necessary to sustain Medicare finances.

- Such reforms will be much less potentially disruptive for beneficiaries, health care providers, and taxpayers if they are enacted soon rather than after a period of hopeful watching to see whether events may somehow render these difficult decisions unnecessary.