

Health Spending, the Economy, the ACA and the Federal Budget

Atlanta FRB Conference on the ACA

Charles Roehrig

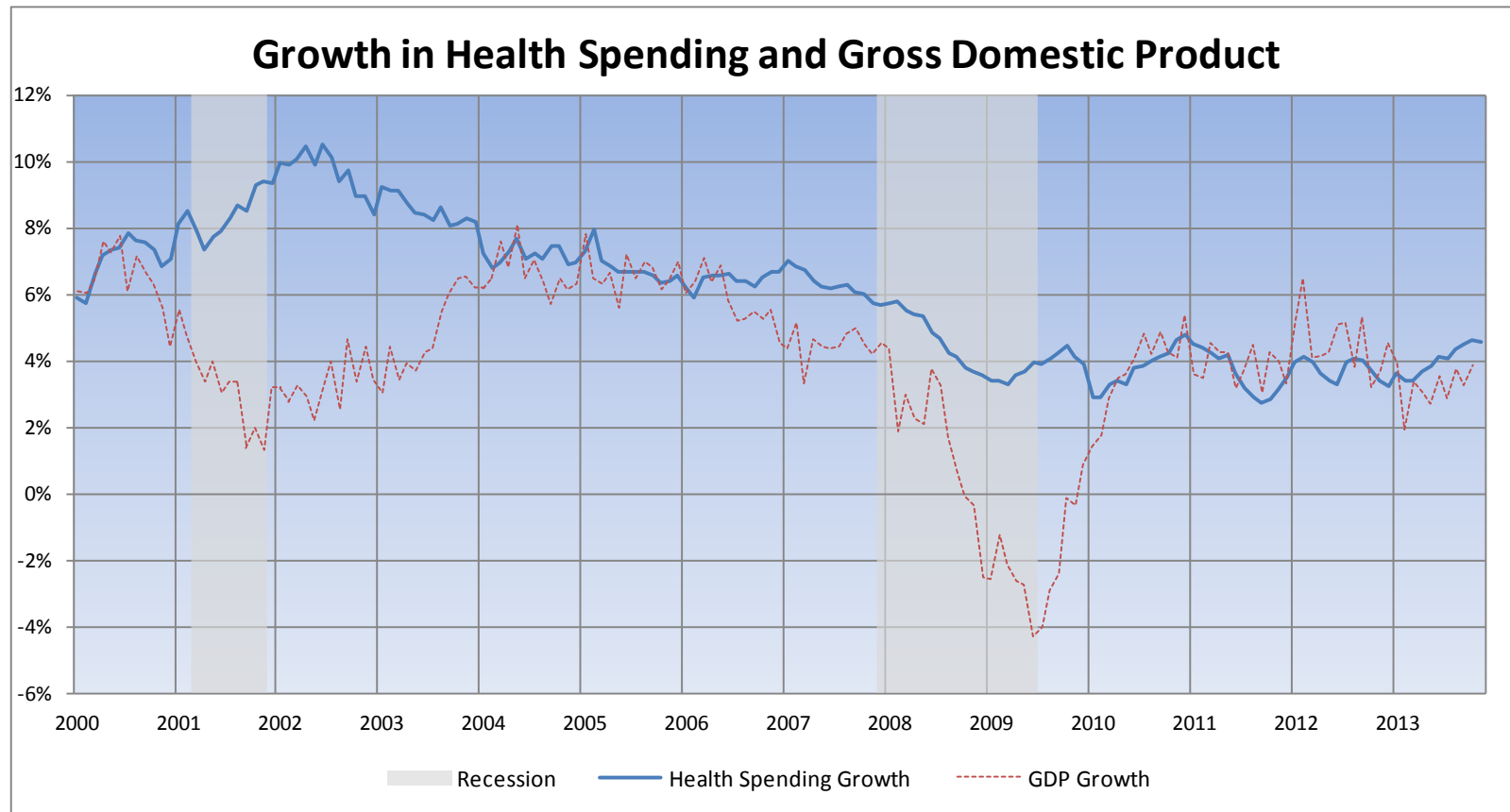
Altarum Center for Sustainable Health Spending

January 9, 2014

Topics

- ▲ Update on healthcare spending, prices, and employment
- ▲ Temporary effects of the recession, recovery, and ACA expanded coverage
- ▲ The underlying trend
- ▲ Is this trend low enough (e.g., sustainable)?

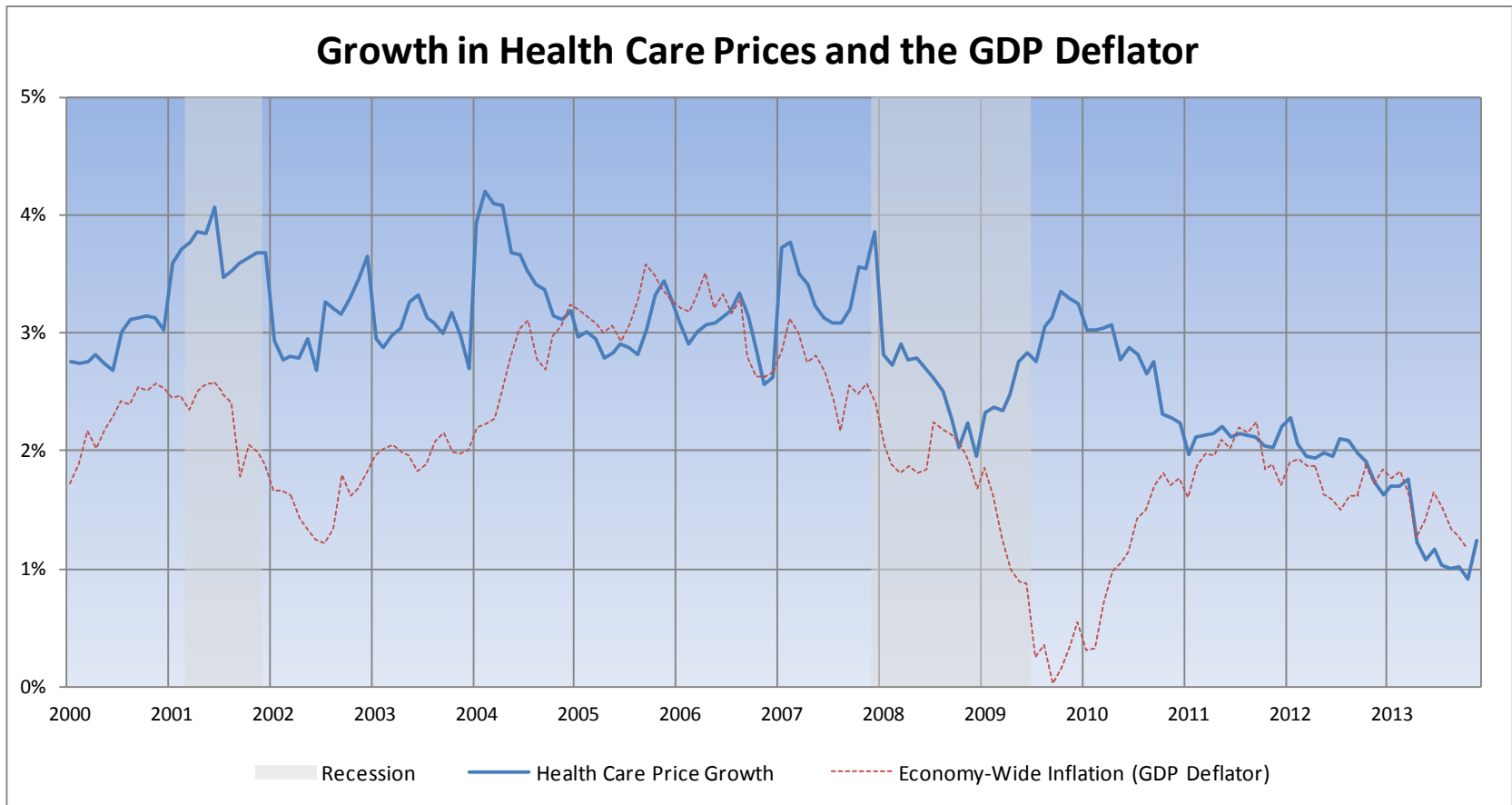
Updates on Health Spending, Prices, and Employment



Source: Altarum Health Sector Economic Indicators, January 2014

Health spending has grown at about 4% annually since 2009

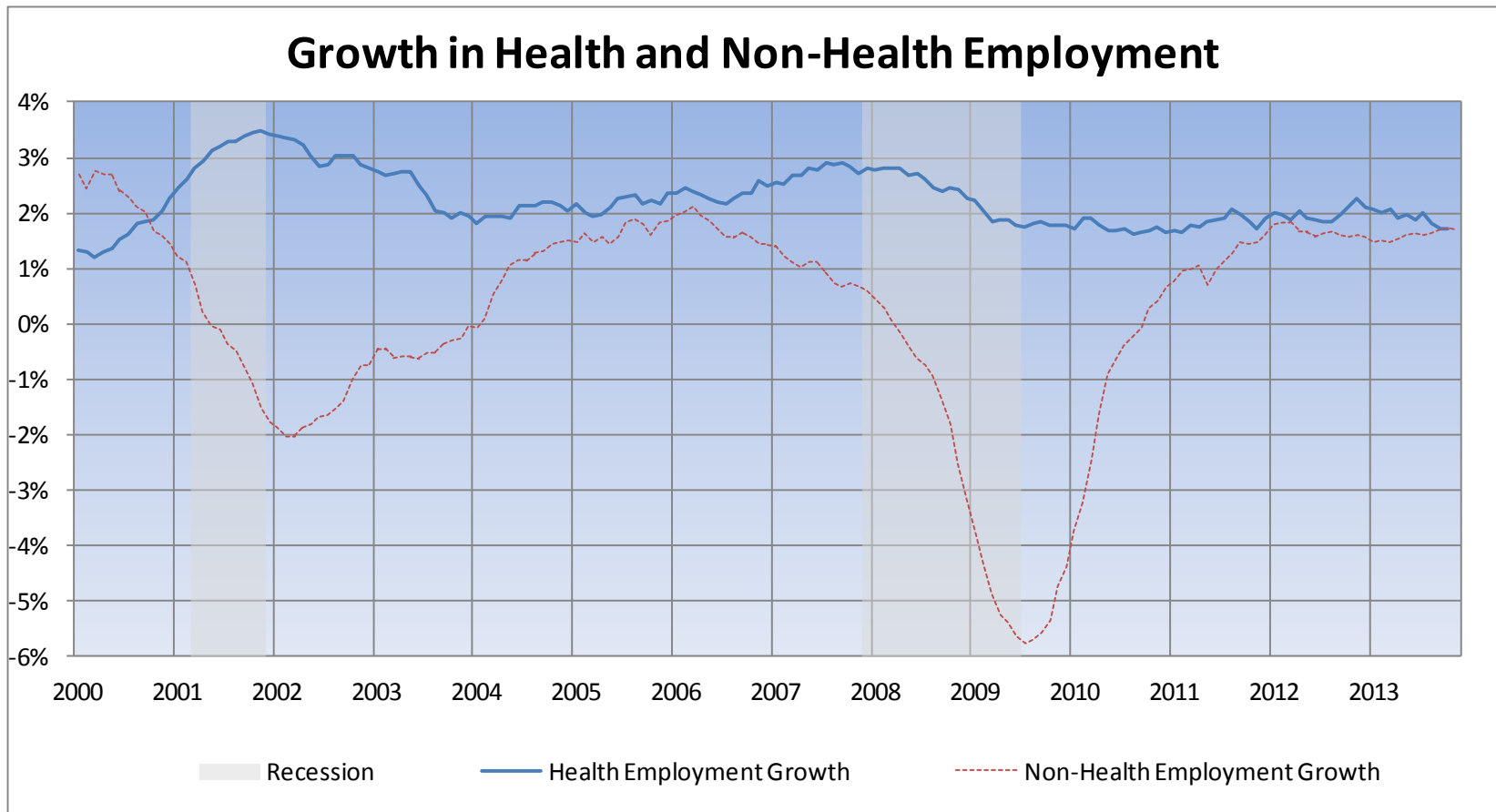
Updates on Health Spending, Prices, and Employment



Source: Altarum Health Sector Economic Indicators, January 2014

Health care prices have tracked the GDP deflator for the past 3 years

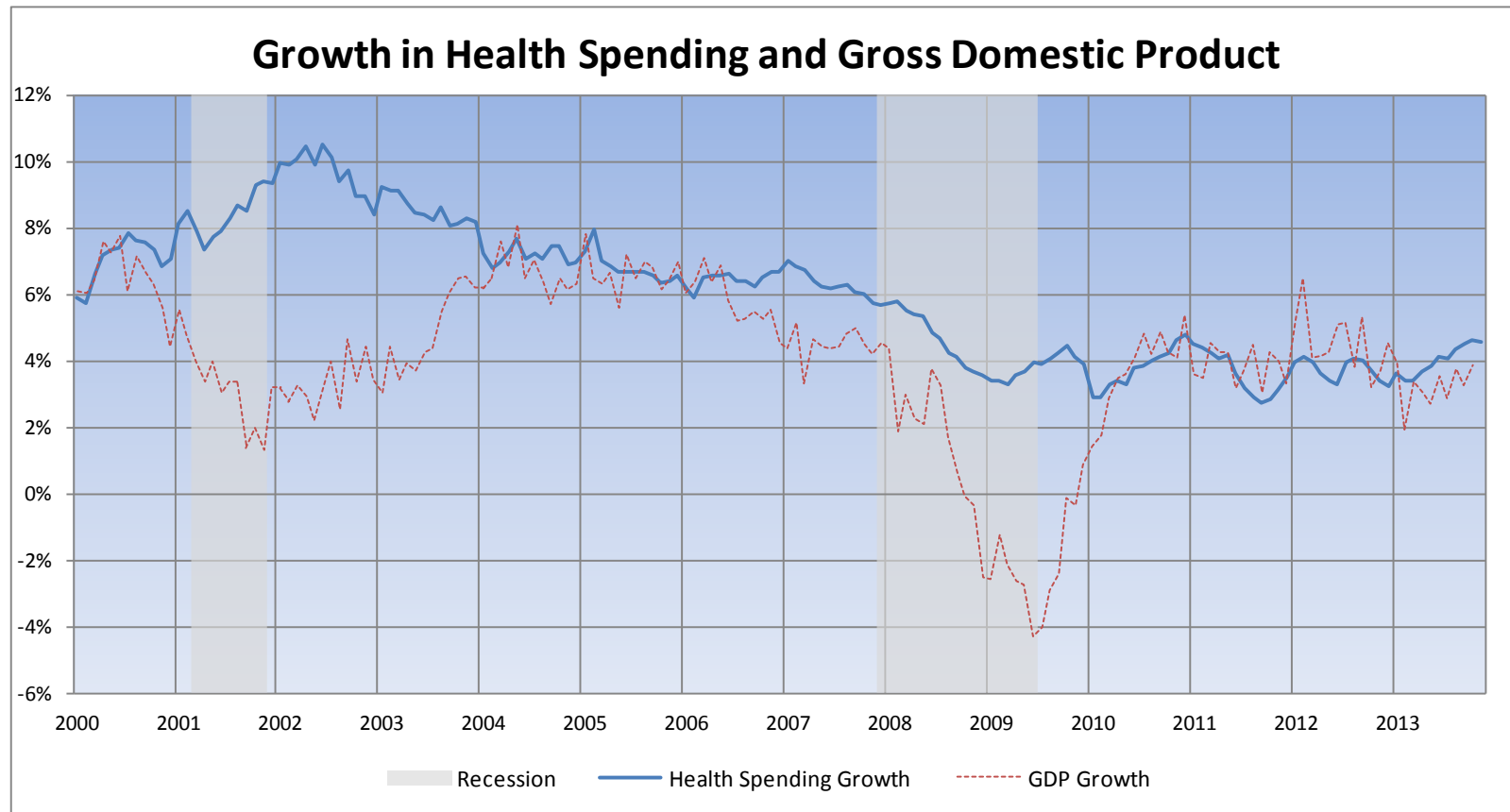
Updates on Health Spending, Prices, and Employment



Source: Altarum Health Sector Economic Indicators, January 2014

Recessions seem to have little impact on health employment

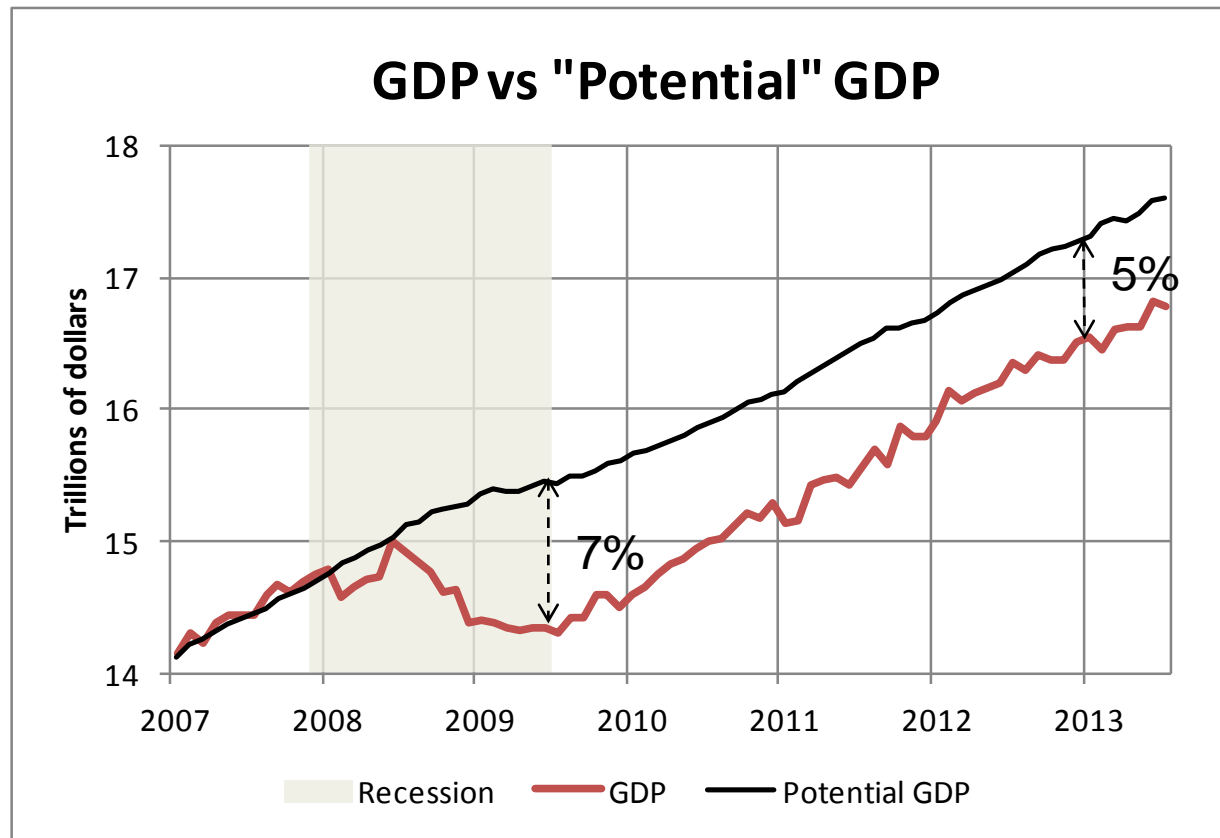
Recession, Recovery, and ACA



Source: *Altarum Health Sector Economic Indicators, January 2014*

Recessions seemingly have little immediate impact on health spending

Recession, Recovery, and ACA

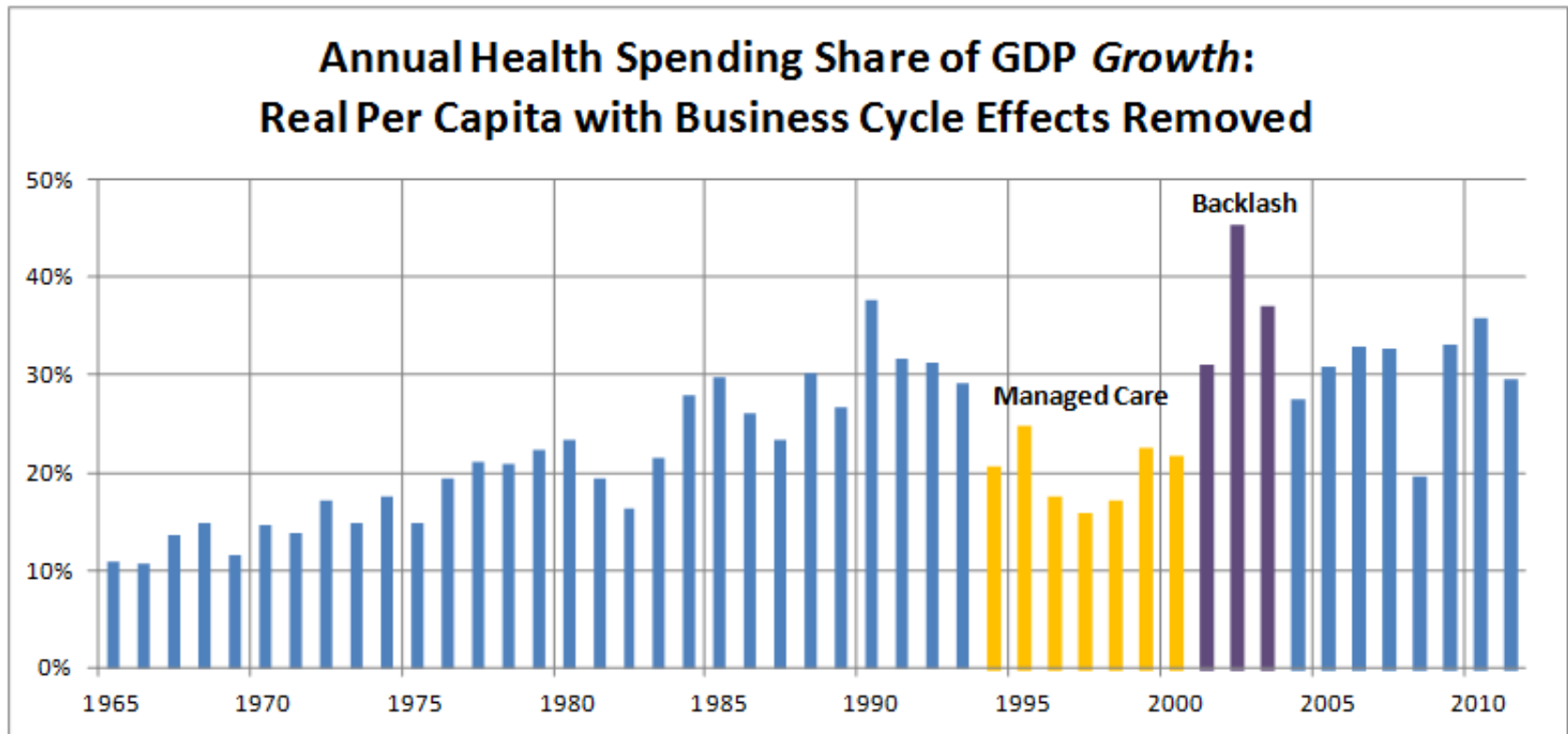


However, when an economic downturn persists, we expect health spending to adjust eventually to the new reality of lower GDP. We estimate it takes about 6 years for health spending to fully adjust – about 1 percent per year to close the gap shown above.

Recession, Recovery, and ACA

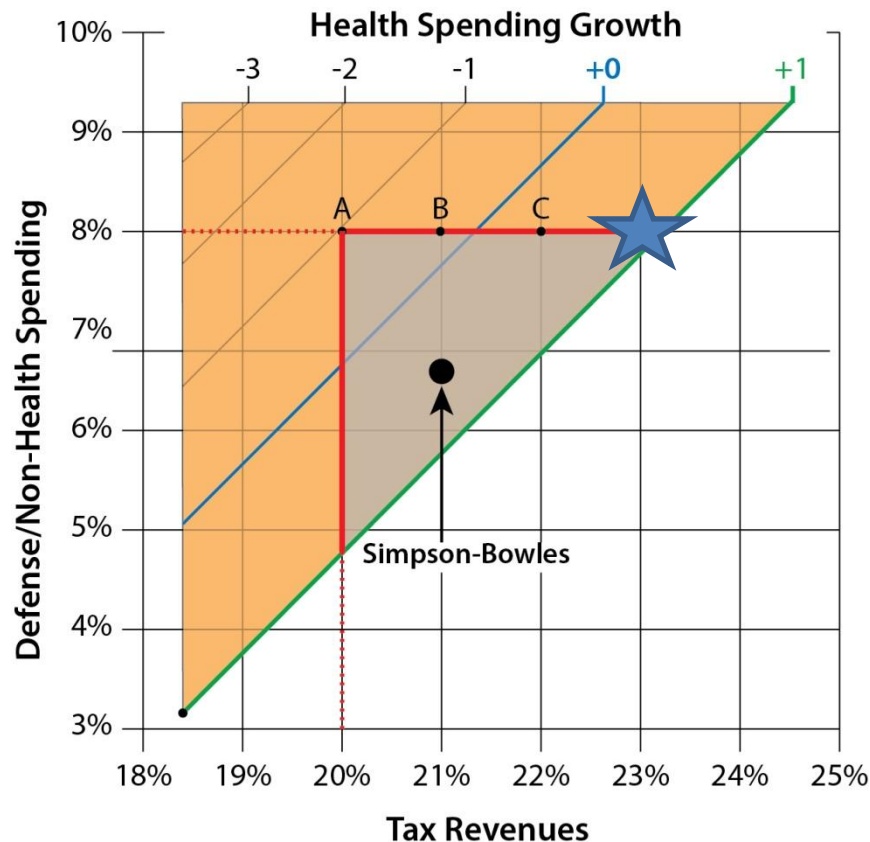
- ▲ Since the end of the recession in June 2009, health spending has grown at about 4% per year (GDP+0)
- ▲ In the absence of the recession, health spending would likely have grown at about 5% per year (GDP+1)
- ▲ A recovery is like a reverse recession (unemployment falls) and is likely to push spending above 5% for a few years – say 6%.
- ▲ Expanded coverage under ACA will drive the growth rate up by about 1.5% per year in 2014 and 2015

Underlying health spending trend



Since 1990, we have spent about 30% of our annual increase in per capita income on health. A continuation translates into an underlying growth rate of GDP+1 in 2013, declining to GDP+0.8 in 2025 and GDP+0.5 in 2050.

Is this sustainable?



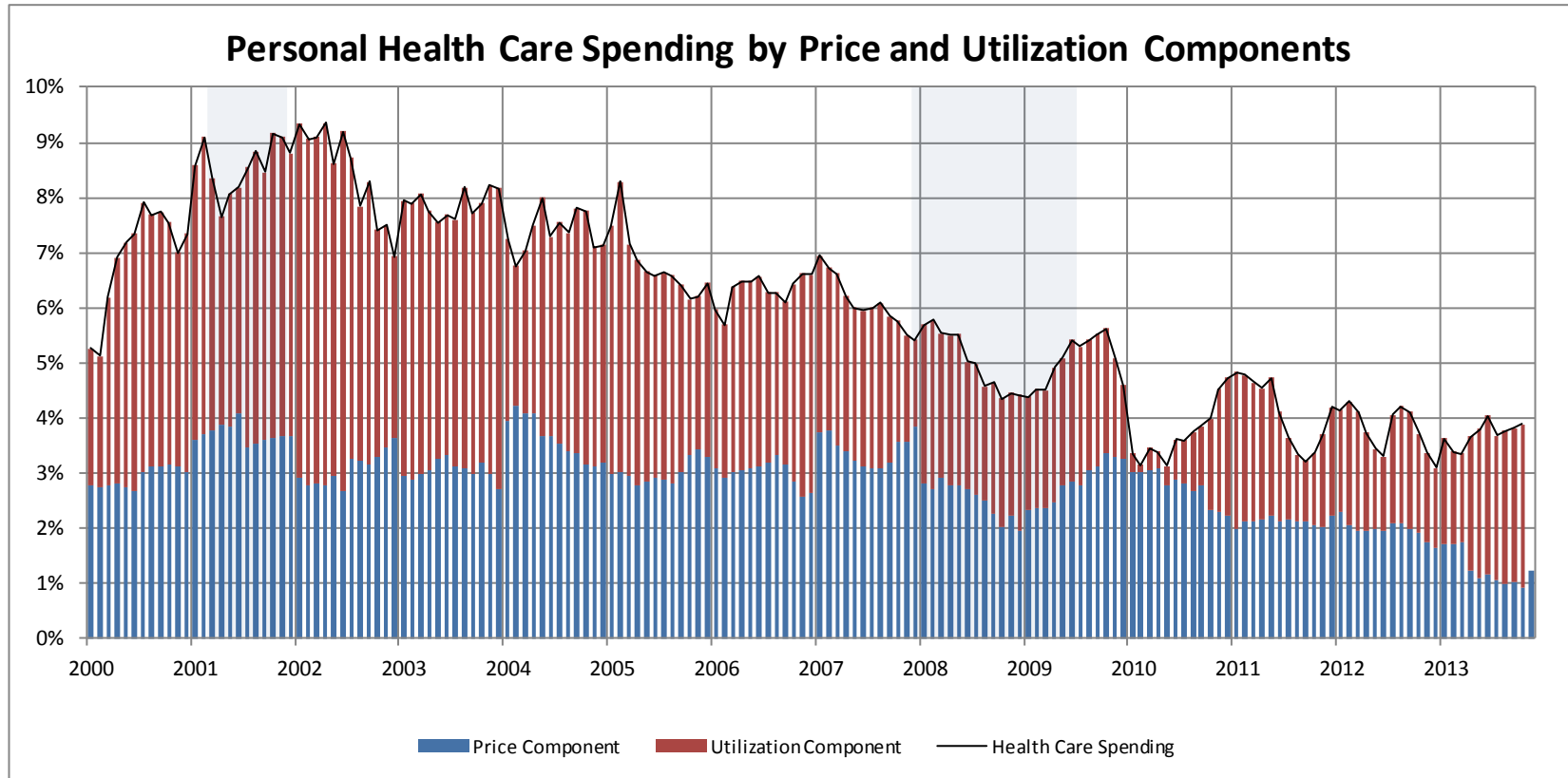
This chart shows the tradeoffs required for a balanced federal budget in 2035.

Is health spending growth of GDP+0.8 sustainable?

Tax revenues would have to rise to 23% of GDP in order to keep spending on defense and other health items (excluding social security) at its historical low of 8% of GDP.

Tax revenues and defense and other non-health spending are expressed as a percentage of GDP. Spending on Social Security and interest is 6.3% of GDP in all scenarios. Health spending growth is expressed relative to GDP growth. The smaller triangle represents historically high tax revenues, historically low spending for defense and other non-health, and health spending growth below GDP+1.

Addendum: Spending by Price & Utilization



Source: Altarum Health Sector Economic Indicators, January 2014