

Government Medical Spend Forecasts

SUMMARY

There is a close relationship between the current concerns over government debt and prior years' controversies over the Affordable Care Act (ACA) or health reform. The link between them is that Medicare costs will rise significantly above current levels. That will put pressure on entitlement spending that will be nearly impossible to offset with other spending cuts. Medicare itself will need significant reform.

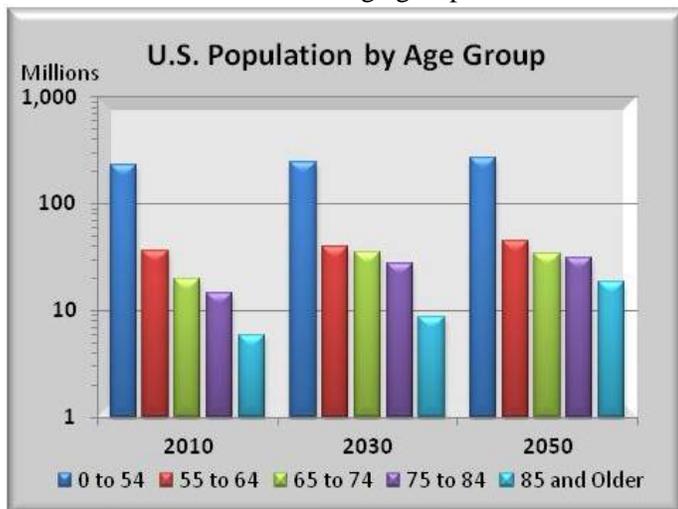
However, the principal factor behind the enormous cost increases is the huge increase in the senior population. The population for those 0 to 54 years is expected to rise just 16% between 2010 and 2050. The population of those 55 and over is expected to grow nearly 70% over that same period and the older the age, the greater the increase. This major shift in the aging population is the main cause of higher Medicare costs. Higher per-capita costs just add to the problem.

As part of the solution, Congress will have to find ways to make Medicare far more efficient. In fact, the ACA includes multiple initiatives to bring down Medicare costs per capita. However more efficiencies will likely need to be found.

DISCUSSION

The methodology of this analysis is described in the last section of this report. It begins with Medicare cost data for the year 2004 and which was broken down by specific age groups. The costs per capita for the three youngest groups were relatively similar. Accordingly, these three were volume weighted and combined into one group 0-54 years.

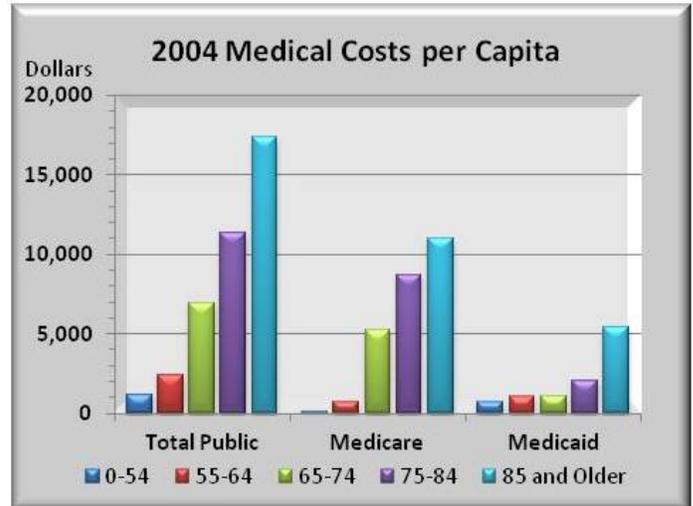
The U.S. Census Bureau provides detail population forecasts from age 0 to 100 and from year 200 to 2050. These forecasts were combined into the same age groups as Medicare costs.



The graph above shows the population of five age groups at 2010, 2030, and 2050. The vertical axis is logarithmic scale that gives a visual focus to smaller numbers, in this case, the smaller groups of seniors. The bulk of the population (ages 0 to 54 and 55 to 64) grow only gradually over the 40 year period of the graph. The three senior groups grow faster than

those under 65 as seniors live longer and project to continue to do so far into the distant future. The result is the average American continues to get older. This has consequences not only for and Social Security but for labor markets as well. Fortunately, minor adjustments to Social Security benefits can continue its solvency since only age need be considered.

In contrast to Social Security, the Medicare problem is far more serious because medical costs continue to rise with age. Inflation affects both but obviously the major Medicare problem is age-related medical costs increases.



The graph above depicts 2004 medical costs per capita for the same age groups as in the prior graph. Costs here include Medicaid and other public as well as Medicare. Medicaid is available to seniors who are indigent and whose medical costs exceed coverage from Medicare.

The combination of rapidly increasing numbers of seniors along with a sharp rise in age-related medical expenses is behind the huge long-term increases in Medicare costs.

Below are two sets of graphs, three showing **Total Public Medical Spend** by government, and three showing **Medicare Spend**. The size of each circle is proportional to the total cost (population X cost per capita) for that age group.

The vertical axis reflects the per capita cost. The height of each circle matches the bars of the 2004 graph adjusted for inflation. Medical inflation was conservatively estimated at 5% in 2010 declining 1% every five years until reaching 2% and remaining a constant 2% thereafter.

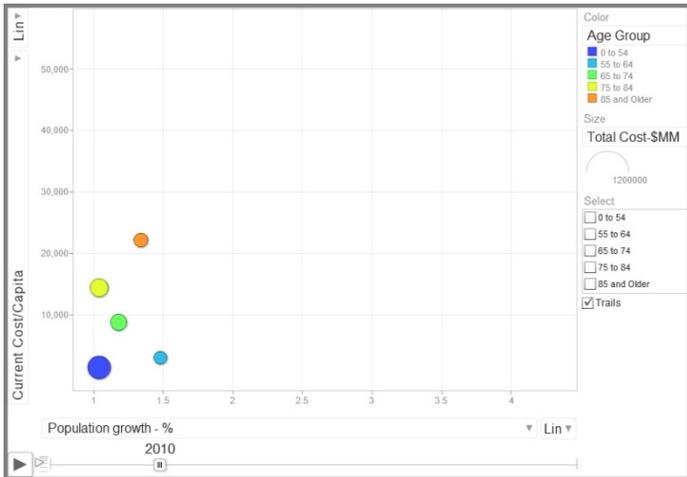
The horizontal axis shows population growth from the year 2000. As population increases, the circles move from left to right. Conversely as population decreases, circles move from right to left.

For a dynamic view of all these changes from 2000 to 2050, position the mouse anywhere on the underlined graph titles below and press [Enter]. You will be re-directed to Google's dynamic scatter graphs.

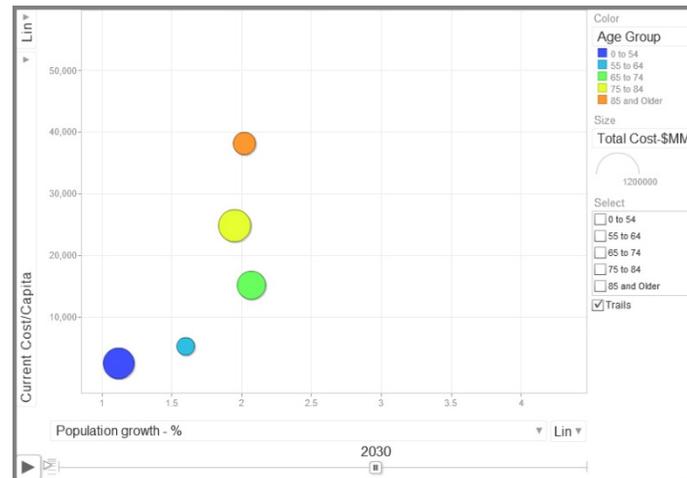
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Public Medical Spend: In 2010, the largest public medical spending was for younger people (0 to 54) as shown in the lower left corner of the first graph. Through time, the three oldest age groups not only move further right but higher up the cost scale. By 2050, the costs for the two oldest groups each exceed the total costs for the entire population 0 to 54.

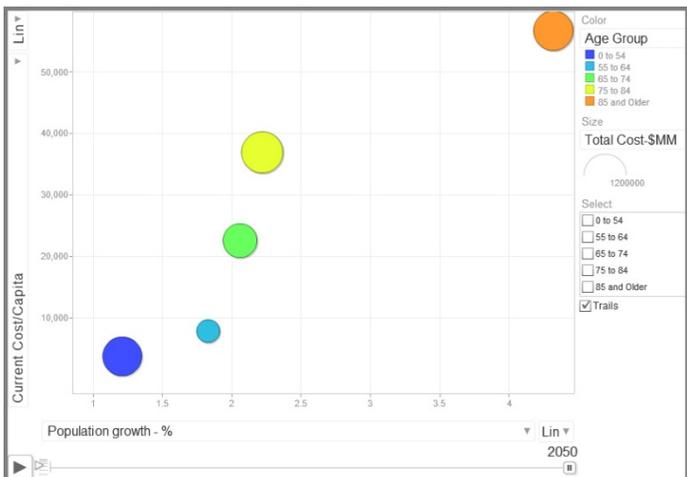
Total Public Medical Spend – 2010



Total Public Medical Spend – 2030

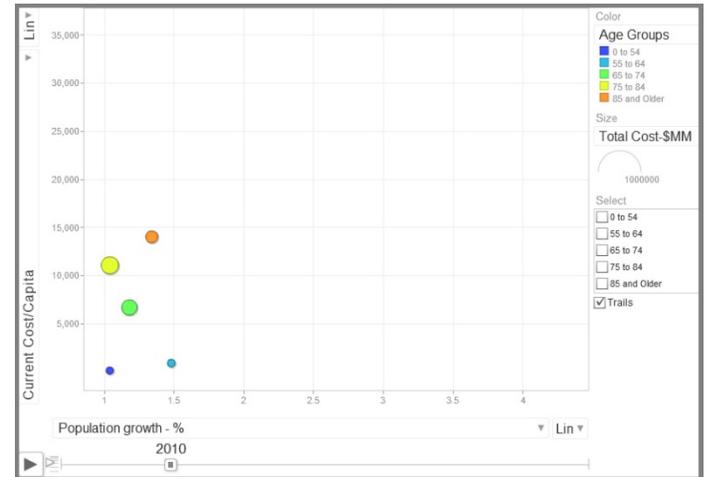


Total Public Medical Spend – 2050

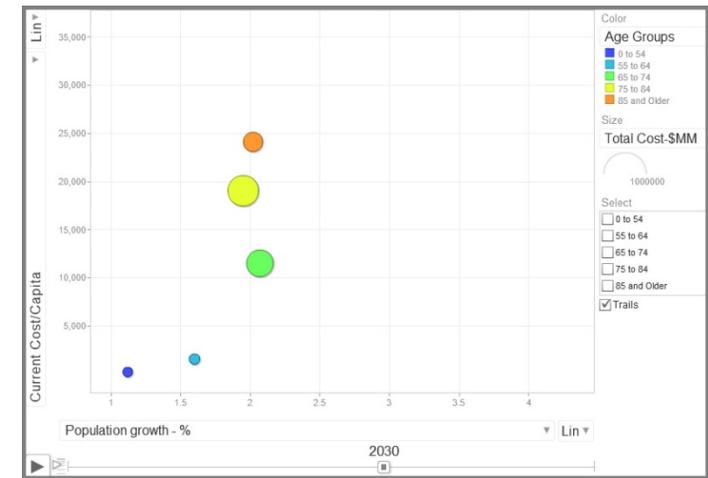


Medicare A similar graph below shows trends for Medicare only. While some young people are eligible for Medicare, the majority are seniors in the three highest age groups. Here the growth in seniors 85 and older dramatically pushes up costs in the later years. These outer years are where Medicare will certainly have funding problems if no changes are made.

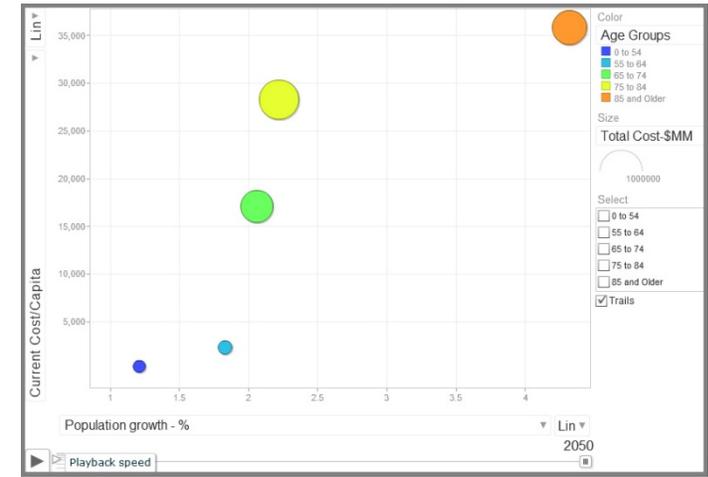
Medicare Spend – 2010



Medicare Spend – 2030



Medicare Spend – 2050



METHODOLOGY

Cost per capita: Medicare provides historical health spending data by age group for selected years through the year 2004. It includes not only Medicare spending but also Medicaid and other public spending. The further provides some statistics on private spending which is outside the scope of this analysis.

https://www.cms.gov/NationalHealthExpendData/25_NHE_Fact_Sheet.asp -2004-age-tables.

The age groups are 0 to 18, 19 to 44, 45 to 54, 55 to 64, 65 to 74, 75 to 84, and 85 and older. Per-capita medical spending by age looks something like a hockey stick with a long period with low medical costs and a sharp cost increase in a person's senior years.

Population forecasts: The United States Census Bureau projects population by ages 0 to 100 out to the year 2050. <http://www.census.gov/popest/datasets.html> - (NST-EST2009-alldata). This analysis combines the individual wages by the above Medicare age groups to get a comparable grouping of ages and costs.

Since medical costs and early years are low and climb only gradually, this analysis combines the costs of the first three groups into a single group 0 to 54 years old. This group is volume weighted using the population from each group to compute the overall average per-capita cost.