Order Code RS22898
June 16, 2008

CRS Report for Congress

Government Spending on Health Care Benefits and Programs: A Data Brief

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Summary

In a country where health spending accounts for more than 16%[1] of gross domestic product (GDP), health care costs and spending are often described as a problem for consumers and their families; for employers that provide (or seek to provide) health benefits; and for government, which finances a mix of health care services, health research and training, and health safety programs.[2]

To describe government spending on health care benefits and programs, this report presents data from the Office of Management and Budget (OMB), the Congressional Budget Office (CBO), and the Centers for Medicare and Medicaid Services (CMS). Spending estimates vary slightly across these sources, but differences in the data do not change the overall story.

- Health spending accounts for a large and growing share of federal spending.
- Medicare and Medicaid account for the bulk of federal health spending, but other programs and tax expenditures for health insurance also account for billions of dollars in spending and forgone revenue.
- Public spending accounts for a growing share of national health expenditures, and private spending for a shrinking share.

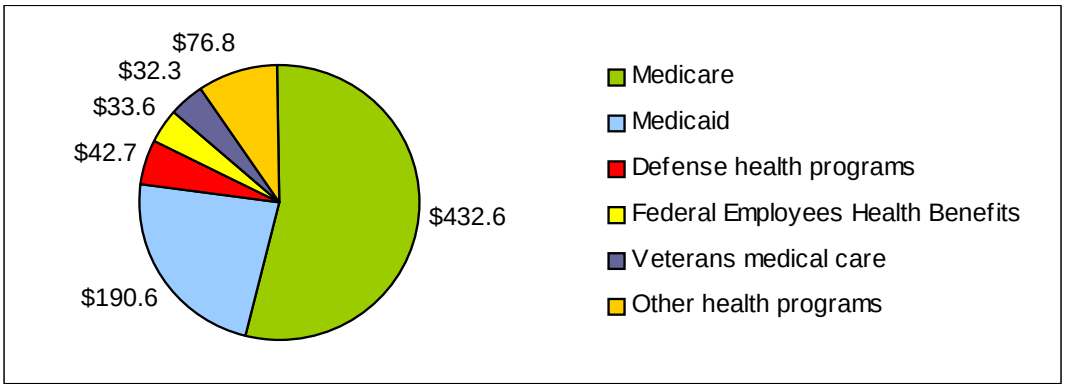
[1] According to estimates from the Centers for Medicare and Medicaid Services, health spending accounted for 16.3% of GDP in 2007 and is expected to account for 16.6% in 2008. See Keehan et al., "Health Spending Projections Though 2017: The Baby-Boom Generation is Coming to Medicare," *Health Affairs — Web Exclusive*, February 26, 2008, p. w146.

[2] For more information on consumer and employer spending, see CRS Report RL34295, *Spending by Consumers on Health Care and Health Insurance: A Data Brief*, and CRS Report RS22735, *Spending by Employers on Health Insurance: A Data Brief*, both by Jennifer Jenson.

Federal Spending on Health Programs

According to data from OMB, in FY2007, federal spending for health programs totaled $808.6 billion (see **Figure 1**). This amount is the sum of gross outlays for health care benefits and public health programs. More than three-quarters (77.1%) of the spending was for Medicare and Medicaid. Health care benefits for military personnel and retirees, federal employees and retirees, and veterans together accounted for 13.4% of gross outlays; the remaining 9.5% was for other health programs.

Figure 1. Federal Outlays for Health Programs (in billions), FY2007



Source: Executive Office of the President, Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington: U.S. Government Printing Office, 2008), Table 16-1, p. 328.

Notes: "Other health programs" includes spending for the State Children's Health Insurance Program, public health agencies (such as the National Institutes of Health and the U.S. Food and Drug Administration), and other health programs under budget function 550 (Health).

After accounting for premium payments under Medicare and the Federal Employees Health Benefits (FEHB) program, in 2007, net outlays for health programs totaled $716.8 billion. This amount was 26.3% of federal outlays and 5.2% of GDP (see **Table 1**). In 1967, two years after Medicare and Medicaid were created, health programs accounted for 4.8% of federal outlays and 0.9% of GDP.

Table 1. Federal Outlays for Health Programs, as a Share of Federal Outlays and GDP, 1967-2007

Fiscal Year	1967	1972	1977	1982	1987	1992	1997	2002	2007
Share of federal outlays	4.8%	8.1%	10.1%	11.7%	13.5%	17.2%	21.6%	23.5%	26.3%
Share of GDP	0.9%	1.6%	2.1%	2.7%	2.9%	3.8%	4.2%	4.6%	5.2%

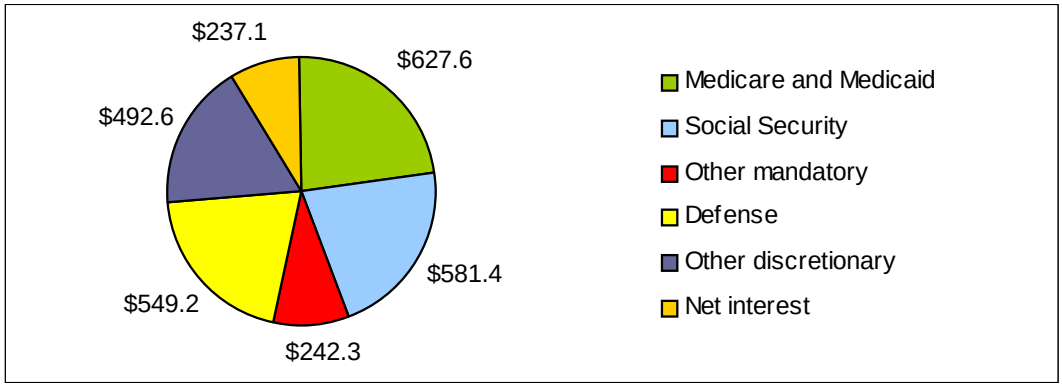
Source: Executive Office of the President, Office of Management and Budget (see **Figure 1**).

Notes: Reported shares are based on the sum of net outlays (gross outlays, less offsetting receipts) for the health programs shown in **Figure 1**. The values for 1967, 1972, and 1977 do not include spending for defense health programs.

Medicare, Medicaid, and the Federal Budget

According to data from CBO, in FY2007, federal outlays for Medicare and Medicaid were $627.6 billion, compared with $581.4 billion for Social Security and $549.2 billion for national defense (see **Figure 2**). Total outlays were $2.7 trillion.

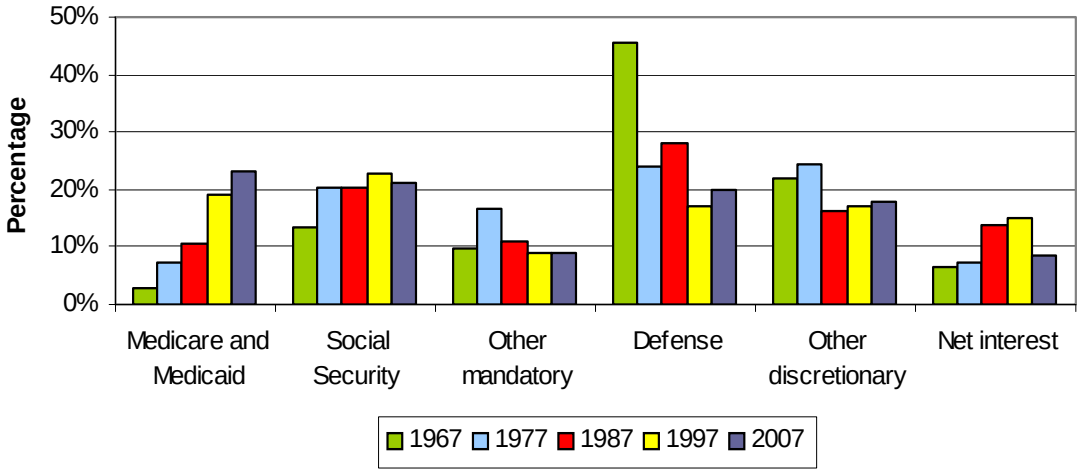
Figure 2. Federal Outlays for Selected Programs and Major Spending Categories (in billions), FY2007



Source: Congressional Budget Office, Historical Budget Data, "Outlays for Major Categories of Spending," "Outlays for Mandatory Spending," and "Discretionary Outlays," as released on March 3, 2008, at [http://cbo.gov/budget/historical.shtml].

Notes: The amount shown for "Other mandatory" outlays is the sum of outlays for mandatory programs other than Medicare, Medicaid, and Social Security, less offsetting receipts for mandatory programs. Offsetting receipts include Medicare premiums, payments by states from savings on prescription drugs under Medicaid, employer contributions for employees' retirement benefits, and other receipts. The amount shown for "Other discretionary" is the sum of spending for domestic and international programs.

Figure 3. Outlays for Selected Programs and Major Spending Categories, as a Share of Federal Outlays, FY1967-FY2007



Source: Congressional Budget Office, Historical Budget Data, as released on March 3, 2008.

Notes: See **Figure 2**.

Medicare and Medicaid accounted for 23.0% of federal outlays in 2007, up from 2.8% in 1967 (see **Figure 3**). Over the same 40-year period, federal spending for Social Security increased from 13.5% of outlays in 1967 to 21.3% in 2007, while defense spending decreased as a share of federal outlays, from 45.7% in 1967 to 20.1% in 2007.

The changing composition of federal outlays does not itself imply that entitlement programs in general, and health entitlements in particular, are unaffordable for the federal government. On the one hand, to the extent that change represents public priorities for the use of government resources, it might be both appropriate and desirable to dedicate a growing share of federal spending to Medicare and Medicaid.

On the other hand, if health care costs continue to grow faster than the economy, growth in spending for Medicare and Medicaid is expected to lead to a growing gap between federal spending and federal revenues. Absent significant changes in spending policy, revenue policy, or both, growing annual deficits will increase federal debt, which in turn could harm the economy.[3]

Tax expenditures for health insurance and health care expenses. In addition to spending for Medicare, Medicaid, and other health programs, tax subsidies for health insurance and health care expenses affect the federal budget outlook by reducing revenue from personal income taxes.

By far the largest health-related tax expenditure is for employer-provided health benefits. According to estimates from the Joint Committee on Taxation (JCT), because such benefits are excluded from federal income and employment taxes, tax receipts were $106 billion lower in FY2007 that they would have been otherwise.[4] Other health-related tax expenditures include the itemized deduction for unreimbursed medical and dental expenses above 7.5% of adjusted gross income, the deduction for health insurance for the self-employed, and the deduction and exclusion for health savings accounts.[5]

Public and Private Spending on Health Care

In calendar year 2006, National Health Expenditures (NHE) were $2.1 trillion (see **Table 2**).[6] Of this amount, just over $1.1 trillion in spending came from private funds, including private health insurance and consumer out-of-pocket payments. Just under $1.0 trillion came from public funds, including federal, state, and local funds.

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[3] See, for example, U.S. Government Accountability Office, *The Nation's Long-Term Fiscal Outlook: April 2008 Update*, GAO-08-783R, April 2008; and U.S. Congressional Budget Office, *The Long-Term Budget Outlook*, December 2007.

[4] JCT Joint Committee on Taxation (JCT), Estimates of Federal Tax Expenditures for Fiscal Years 2007-2011, Joint Committee Print #JCS-3-07, September 24, 2007, pp. 33-34.

[5] For more information on tax expenditures, see CRS Report RL33505, *Tax Benefits for Health Insurance and Expenses: Overview of Current Law and Legislation*, by Bob Lyke and Julie Whittaker.

[6] 2006 is the latest year for which actual data are available. According to CMS estimates, NHE exceeded $2.2 trillion in 2007 and are expected to approach $2.4 trillion in 2008. Keehan et al., p. w146.

Table 2. National Health Expenditures (in billions), by Source of Funds, 1966-2006

	1966	1971	1976	1981	1986	1991	1996	2001	2006
National Health Expenditures	$46.4	$83.3	$152.5	$293.6	$471.3	$781.6	$1,068.8	$1,469.6	$2,105.5
Private funds	**$32.5**	**$51.2**	**$89.3**	**$171.0**	**$277.5**	**$456.1**	**$580.3**	**$807.6**	**$1,135.2**
Consumer payments	$28.8	$44.1	$77.9	$146.6	$239.1	$394.6	$494.8	$697.8	$980.0
Out-of-pocket payments	$18.5	$26.3	$40.6	$65.2	$103.2	$140.1	$152.1	$199.8	$256.5
Private health insurance	$10.3	$17.8	$37.3	$81.3	$135.9	$254.5	$342.7	$489.0	$723.4
Other private funds	$3.7	$7.1	$11.4	$24.4	$38.4	$61.5	$85.5	$109.8	$155.3
Public funds	**$13.9**	**$32.1**	**$63.2**	**$122.6**	**$193.8**	**$325.5**	**$488.6**	**$662.0**	**$970.3**
Federal funds	$7.6	$20.6	$42.8	$83.1	$132.6	$233.3	$348.1	$464.1	$704.9
Medicare	$1.8	$8.4	$19.7	$44.5	$76.4	$120.6	$198.7	$247.4	$401.3
Medicaid & SCHIP	$0.6	$3.8	$9.2	$17.1	$25.4	$56.7	$92.1	$134.7	$180.0
VA & Dept. of Defense	$2.2	$3.7	$6.7	$10.8	$16.3	$23.2	$27.3	$36.3	$60.2
Research	$1.3	$1.7	$3.1	$4.8	$7.1	$10.8	$13.5	$22.3	$32.7
Public health activity	$0.3	$0.8	$1.1	$1.2	$1.3	$2.6	$3.8	$5.6	$9.7
Other federal	$1.3	$2.1	$3.1	$4.8	$6.1	$9.4	$12.7	$17.9	$21.1
State and local funds	$6.4	$11.5	$20.4	$39.5	$61.1	$102.1	$140.5	$197.9	$265.4
Medicaid & SCHIP	$0.7	$2.9	$6.0	$13.2	$20.0	$36.5	$60.1	$93.6	$136.9
Public health activity	$0.5	$0.9	$2.3	$6.3	$11.0	$19.6	$28.7	$41.4	$49.0
Other state and local	$5.2	$7.7	$12.1	$19.9	$30.2	$46.0	$51.6	$62.8	$79.5

Source: Office of the Actuary, Centers for Medicare and Medicaid Services, historical data on national health expenditures, as published January 2008, at [http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage].

Note: Numbers may not add to totals because of rounding.

Table 3. Percentage of National Health Expenditures, by Source of Funds, 1966-2006

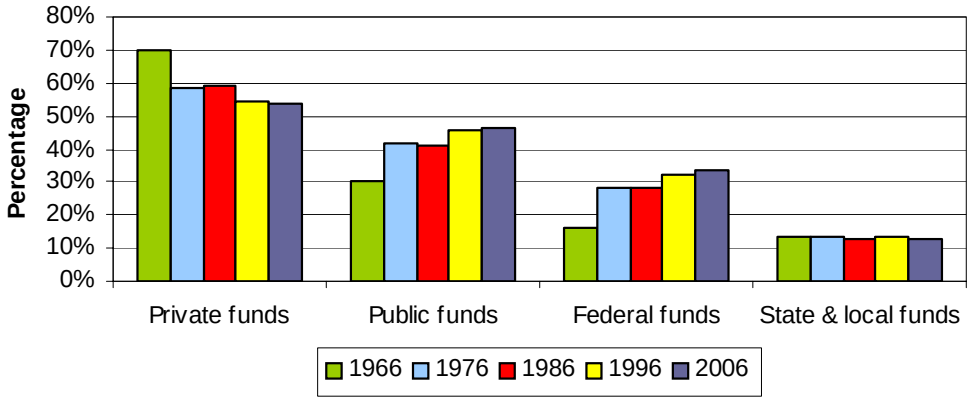
	1966	1971	1976	1981	1986	1991	1996	2001	2006
Private funds	**70.0%**	**61.5%**	**58.5%**	**58.2%**	**58.9%**	**58.4%**	**54.3%**	**55.0%**	**53.9%**
Consumer payments	62.0%	52.9%	51.1%	49.9%	50.7%	50.5%	46.3%	47.5%	46.5%
Out-of-pocket payments	39.8%	31.5%	26.6%	22.2%	21.9%	17.9%	14.2%	13.6%	12.2%
Private health insurance	22.2%	21.4%	24.5%	27.7%	28.8%	32.6%	32.1%	33.9%	34.4%
Other private funds	8.0%	8.5%	7.5%	8.3%	8.1%	7.9%	8.0%	7.5%	7.4%
Public funds	**30.0%**	**38.5%**	**41.5%**	**41.8%**	**41.1%**	**41.6%**	**45.7%**	**45.0%**	**46.1%**
Federal funds	16.3%	24.7%	28.1%	28.3%	28.1%	28.6%	32.6%	31.6%	33.5%
Medicare	4.0%	10.1%	12.9%	15.2%	16.2%	15.4%	18.6%	16.8%	19.1%
Medicaid & SCHIP	1.4%	4.6%	6.0%	5.8%	5.4%	7.3%	8.6%	9.2%	8.6%
VA & Dept. of Defense	4.8%	4.5%	4.4%	3.7%	3.5%	3.0%	2.6%	2.5%	2.9%
Research	2.9%	2.0%	2.0%	1.6%	1.5%	1.4%	1.3%	1.5%	1.6%
Public health activity	0.6%	0.9%	0.7%	0.4%	0.3%	0.3%	0.4%	0.4%	0.5%
Other federal	2.7%	2.6%	2.0%	1.6%	1.3%	1.2%	1.2%	1.2%	1.0%
State and local funds	13.7%	13.9%	13.4%	13.5%	13.0%	13.1%	13.1%	13.5%	12.6%
Medicaid & SCHIP	1.4%	3.5%	4.0%	4.5%	4.2%	4.7%	5.6%	6.4%	6.5%
Public health activity	1.0%	1.1%	1.5%	2.2%	2.3%	2.5%	2.7%	2.8%	2.3%
Other state and local	11.2%	9.3%	7.9%	6.8%	6.4%	5.9%	4.8%	4.3%	3.8%

Source and Note: See **Table 2**.

Within the public category, in 2006, federal spending was $704.9 billion, with most of this amount for Medicare and Medicaid, as discussed already. State and local spending was $265.4 billion, including $136.9 billion for Medicaid and SCHIP, and $49.0 billion for public health activity. State and local spending for public health was about five times the federal amount.

Over the 1966-2006 period, private spending fell, and public spending rose, as a share of National Health Expenditures (see **Table 3** and **Figure 4**). In 2006, private funds accounted for 53.9% of NHE, down from a 70% share in 1966. Within the private category, private heath insurance payments accounted for a growing share of spending (34.4% in 2006, compared with 22.2% in 1966), while consumer out-of-pocket payments accounted for a shrinking share (12.2% in 2006, compared with 39.8% in 1966).

Figure 4. Public and Private Spending as a Share of National Health Expenditures, 1966-2006



Source: Office of the Actuary, Centers for Medicare and Medicaid Services (see **Table 2**).

Public spending accounted for 46.1% of NHE in 2006, up from 30.0% in 1966. Within this category, the federal government took on a growing share of spending (33.5% of NHE in 2006, compared with 16.3% in 1966), while state and local governments spent proportionately less (12.6% of NHE in 2006, a 40-year low).

Much as the changing composition of federal outlays does not itself imply that health care entitlements are unaffordable, the changing distribution of National Health Expenditures is not itself a problem. Among developed countries in the Organization for Economic Cooperation and Development (OECD), public spending generally accounts for the majority of national health spending. In 2005, public spending accounted for 72.7% of health spending, on average, in OECD countries. Luxembourg had the highest public share (90.7%), Greece had the lowest (42.8%), and the median share was 76.2%.[7] Of course, both public and private expenditures can be problematic to the extent that spending exceeds available revenue or displaces preferred uses of limited resources.

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[7] OECD, *OECD Health Data 2007-Frequently Requested Data*, October 2007, at [http://www.oecd.org/document/16/0,2340,en_2649_37407_2085200_1_1_1_37407,00.html]. The average and median values reported here were calculated using data for most OECD countries (2005 data were not available for Australia, Hungary, Japan, and the Netherlands).