JAMA Forum: The Forecast Slowdown in Medicare Spending: Is More Coming?

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The President pushed his budget in last week's State of the Union address, but the show was stolen by the Congressional Budget Office (CBO) 2 weeks ago, when it released its **2013 Budget and Economic Outlook**.

The biggest news was the "baseline"—defined as the CBO's projections of federal revenues and spending assuming current laws remain unchanged. As has happened annually since 2010, the CBO lowered its forecast of federal health spending growth, independent of any policy action. Medicare and Medicaid costs combined are expected to be 15% *lower* in 2020 than was forecast just 3 years previously. In dollars, the savings for Medicare over the next 7 years are nearly $400 billion, about two-thirds as much as the revenue from the expiration of some of the high-income tax cuts that happened this January.

Although this change is large, the bigger question is whether it should be even larger. A graph (Exhibit 1, shown below) constructed using data from the CBO projections shows 2 forecasts for the annual growth of "excess" Medicare spending, one made in August 2010 and a second made 2 weeks ago. The CBO has reduced its growth forecast in 2015-2018 but not in subsequent years. Thus, Medicare is forecast to jump from –2.9% excess annual growth during 2013-2018 to 1.4% excess annual growth during 2018-2023.

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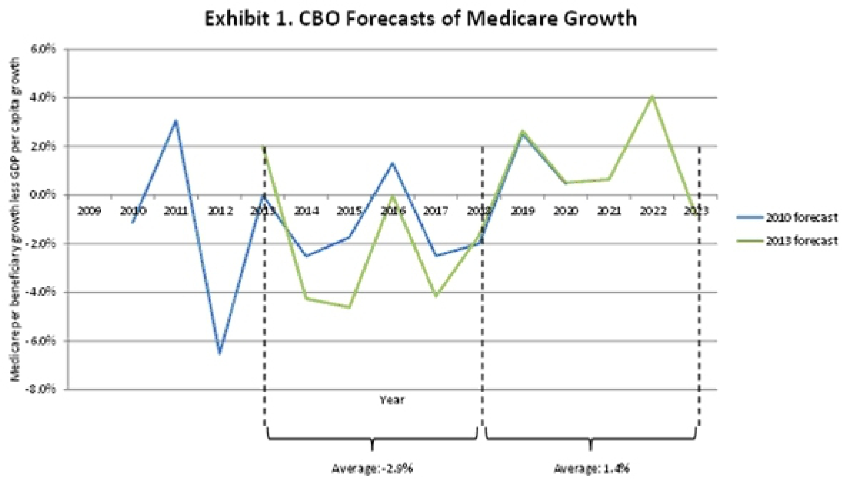

Note: Excess health care spending is the increase in spending per beneficiary less the increase in gross domestic product per capita. Calculations are made by the authors using projections released by the CBO.

A Weakening of Cost Drivers?

Although the CBO did not provide much detail about why it made this forecast change, the agency appears to think of the current spending slowdown as somewhat akin to a prolonged recession: something has made people forgo spending in recent years, but that factor won't hold as the economy recovers.

But is that the right way to view the situation? Many of the traditional cost drivers that would feed a return to higher growth—price increases, administrative expenses, rapid technological change, and delivery inefficiencies—are weaker than they have been in some time.

Price increases explain a good share of spending increases in the early 2000s, when newly created health systems got high prices from suddenly weaker private insurers. However, Medicare and Medicaid reimbursements are likely to decrease further in the next decade, and private insurers are finally starting to convey comparative price information to consumers—who have as much "skin in the game" as they've ever had. While health systems continue to get larger, the outlook for price increases at a macro level seems lower than when the first big systems were formed.

Second, the logjam of *administrative expenses* may finally be starting to break. With medical records increasingly computerized and standard operating rules part of the Affordable Care Act (ACA) and state legislation, billing and collection costs are **likely to fall**. Further, payers who use alternative payment methods like bundled or global payments can move from

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approving every line item of spending to approving pre-set bundles. Legions of workers who deal with the minutia of reimbursement-related coding could be liberated.

Technological change has also been a key driver of spending increases for some time. From pharmaceuticals to imaging to cardiac procedures, markets have been saturated with new and expensive services and products in recent decades. But the adoption of new technology seems to have slowed. Major parts of **imaging growth are down**, some cardiac procedures are being performed less frequently as studies show they are **overused**, and the number of new molecular entities approved by the Food and Drug Administration has **not kept up with research and development spending**.

To be sure, there are many new drugs and imaging devices on the market, especially in fields like oncology. But sales of these new technologies have been more disappointing than robust. The therapeutic prostate cancer vaccine Provenge was not the hit it was **expected to be**; Zaltrap, a therapy for some cancers and macular degeneration, had to **halve its price** because it was losing out to Avastin.

Efficiency efforts are finally taking hold in the health care community. Recent news reports about **delivery system changes** in large health care organizations, declining rates of **hospital-acquired infections**, and new emphasis on **reducing readmissions** are indicative of changes going on across the country. These efforts have been facilitated by the ACA and state efforts to limit Medicaid, total health care spending, or both (as in **Arkansas**, **Massachusetts**, and **Oregon**).

A Blip or a Trend?

All of these health system factors suggest that the health care cost curve may be bending more rapidly than official forecasts project. Of course, we will not know whether recent reductions in spending growth are temporary or longer-term for some time. But a fair reading of the evidence argues at least as strongly for a long-term bending of the curve as for a short-term reduction.

A continuation of recent cost trends would be very consequential indeed. If Medicare cost increases slow as they have recently, the savings through 2023 will be $363 billion over even the new CBO forecast. That is nearly a quarter of the $1.5 trillion in additional deficit reduction that the President suggested in his State of the Union address.

None of this is to say that policy makers should be sanguine about Medicare and Medicaid. We still have an aging population and thus a declining tax base relative to expected payouts. Policy changes to reduce Medicare and Medicaid spending will continue to be a priority (the President suggested reforms in his State of the Union address last week), and revenue increases will almost certainly be necessary. But these observations suggest that we need to continue doing what has been successful in reducing growth in health care spending rather than pursue a radical rethinking of those programs' operations.

Clearly, a lot is riding on the judgment about the determinants of Medicare's growth rate. The good news is that we may be in for some pleasant surprises, even without significant policy changes.

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