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SOCIAL INSURANCE IN THE WAKE OF THE AFFORDABLE CARE ACT

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As we enter 2013, the sixth year since the beginning of the Great Recession in December 2007, it seems that the political culture of Washington is permanently changed. No political issue gets talked about more than deficit reduction, and our elected leaders lurch from the debt ceiling to the government shutdown to the fiscal cliff to the sequester and back to the government shutdown, with no meaningful deficit reduction plan resulting from any of these crises.

One constant in the discussions surrounding all of these crises is the need to "reform entitlement spending. As the baby boom generation retires, politicians from both political parties acknowledge that Social Security and Medicare benefits will inexorably consume a larger and larger portion of the nation's Gross Domestic Product (GDP). As a result, the current tax structures supporting Social Security and Medicare will not be able to provide the promised benefits at some point in the future.

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As actuaries, we might know entitlement spending by another name—social insurance. These programs, starting with Social Security in the 1930s and expanding with Medicare and Medicaid in the 1960s, were enacted to provide, on a national basis, statutorily defined benefits to those who qualify based on age, disability or low income.

We might also recognize that passage of the Affordable Care Act in 2010 introduced another social insurance program. The federal goverment will now provide private medical insurance premium and cost sharing subsidies for Americans with incomes lower than 400 percent of the Federal Poverty Level (FPL). Medicaid, in many states, will also be significantly expanded by replacing a patchwork of state Medicaid eligibility rules with a national income test of 133 percent (or, in some states, lower) of FPL.

HOW BAD IS THE ENTITLEMENT SPENDING PROBLEM?

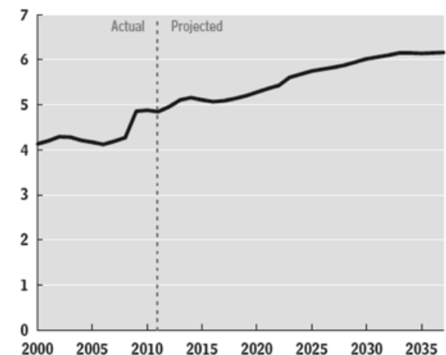
With this addition to our social insurance infrastructure about to go into effect in 2014, now is a good time for actuaries to remind themselves of the overall magnitude of spending on these programs. When politicians in search of sound bites start throwing around loaded terms like "bankruptcy" actuaries can provide a balanced view. We can provide mathematically sound projections that show the magnitude of the impact of proposed policy changes.

Fortunately, we can look to projections from the Congressional Budget Office (CBO) to see the magnitude of these social insurance programs. The graphs below show figures for the next 25 years, until 2037, from the CBO's 2012 Long-Term Budget Outlook.

Figure 4-1.

Spending for Social Security Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

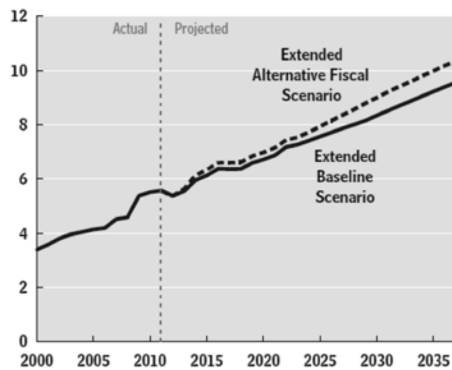
Note: Projected spending for Social Security is identical under CBO's two long-term budget scenarios—the extended baseline scenario and the extended alternative fiscal scenario. (For details of the scenarios, see Table 1-1 on page 8.)

Figure 4-1 shows that Social Security, because of the aging of the population, is projected to gradually increase from 5.0 percent of GDP to 6.2 percent. So over these 25 years, Social Security is projected to grow to take up 24 percent more of our economy than it does today.

Figure 3-3.

Federal Spending on Major Health Care Programs Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: The extended baseline scenario generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2022 and then extending the baseline concept for the rest of the long-term projection period. The extended alternative fiscal scenario incorporates the assumptions that certain policies that have been in place for a number of years will be continued and that some provisions of law that might be difficult to sustain for a long period will be modified. (For details, see Table 1-1 on page 8.)

Figure 3-3 paints an even more ominous picture for Medicare and the newly expanded Medicaid, CHIP, and Exchange programs. Under the alternative scenario, combined government spending is projected to grow from 5.4 percent of GDP today to 10.4 percent of GDP in 2037. That is a 93 percent increase in the portion of the economy taken up by federal government health care spending.

CONTRIBUTION OF THE AFFORDABLE CARE ACT

These social insurance spending increases would obviously be smaller without the new social insurance benefits added just three years ago with the Affordable Care Act. However, subsidies and Medicaid expansion did not add a huge amount to our social insurance burden. Subtracting the current spending for Medicaid, CHIP and Exchanges (1.8 percent of GDP) from the projected 2016 spending (after all ACA changes will have had time to phase in—2.6 percent of GDP), you can see that the new spending under the ACA only added at most 0.8 percent of GDP to total social insurance costs. This is less than 10 percent of total social insurance spending in 2016.

COMBINED IMPACT OF INCREASED SPENDING

Individually, the increasing cost of any given social insurance program is concerning, but when you add them all together, the figures start to take on real significance. According to Figures 4-1 and 3-3, the combined social insurance programs' current costs are 10.4 percent of GDP. After 25 years, they are projected to increase to 16.6 percent of GDP. These social insurance payments will take up 60 percent more of our economy than they do today.

That increased share of GDP is probably enough to be concerning on its own. But when you compare this total spending to the CBO's Long-Term Budget Outlook for tax revenues, you can see why politicians will be talking about entitlements for a long time. In the CBO's alternative (i.e., more realistic) scenario, tax revenues are projected to be 18.5 percent of GDP in the long run. Federal government interest payments are projected to be 2.5 percent to 3.0 percent of GDP.

That means that social insurance plus interest spending is projected to be 19.1 percent to 19.6 percent of GDP while tax revenues will only be 18.5 percent! To have something close to a balanced budget, that leaves no room for any other federal government spending for defense or anything else. Today that other spending accounts for about 10 percent of GDP. So you can see why, aside from political posturing, our political leaders talk so much about entitlement spending and why they will continue to do so for the foreseeable future.

IS THERE ANY HOPE?

With distressing budget projections like the ones above, is there any hope for the federal government-

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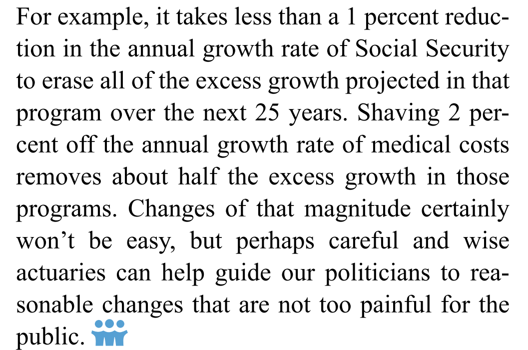
... social insurance payments will take up 60 percent more of our economy than they do today.

ment's fiscal situation, or should a wise actuary just move to Norway?

Actually, it is important for actuaries and others familiar with long-term projections to provide reasonable and measured input to politicians as they assess potential changes to social insurance programs. Long-range projections can provide valuable insights into the future of these programs. They also can demonstrate how seemingly small changes can greatly influence the magnitude of perceived problems.



For example, it takes less than a 1 percent reduction in the annual growth rate of Social Security to erase all of the excess growth projected in that program over the next 25 years. Shaving 2 percent off the annual growth rate of medical costs removes about half the excess growth in those programs. Changes of that magnitude certainly won't be easy, but perhaps careful and wise actuaries can help guide our politicians to reasonable changes that are not too painful for the public.

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