

**MEMORANDUM**

August 24, 2011

**To:** Senate Finance Committee  
Attention: Stephanie Carlton

**From:** Thomas L. Hungerford  
Specialist in Public Finance  
7-6422

**Subject:** **Public and Private Expenditures for Health Care, 2014**

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This memorandum responds to your request for an analysis of U.S. national health expenditures in 2014. Specifically you requested a breakdown of expenditures by funding source (i.e., public sources and private sources) that includes tax expenditures and the health care reform measures (the Patient Protection and Affordable Care Act, P.L. 111-148). It can be argued that some funding from private sources should be attributed to the public sector because of tax subsidies available for health care spending. Furthermore, the Affordable Care Act will greatly expand access to insurance coverage beginning in 2014, mainly through Medicaid and new state health insurance exchanges.

### **Assumptions, Methods, and Limitations**

Projecting national health expenditures and the funding sources for these expenditures involves making several assumptions. The results should be interpreted in light of these assumptions and the limitations they place on the analysis.

National health expenditures for 2014 were obtained from the Office of the Actuary at Center for Medicare and Medicaid Services (CMS).<sup>1</sup> The revenue losses for health related tax expenditures in 2014 are based on tax expenditure estimates from the Joint Committee on Taxation (JCT).<sup>2</sup>

Complicating the analysis is the fact that CMS and JCT use different economic assumptions in projecting health expenditures, government revenues, and government expenditures. JCT uses the Congressional Budget Office's (CBO) baseline economic projections. For example, CMS has projected that nominal GDP in 2014 will be \$17,804 billion (18.5% higher than the 2010 value) while CBO projects it will be \$17,258 billion (15.9% higher than the 2010 value).<sup>3</sup>

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<sup>1</sup> Center for Medicare and Medicaid Services, National Health Expenditure Projections 2010-2018, tables 3 & 17, available at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2010.pdf>.

<sup>2</sup> U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2010-2014*, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess. December 15, 2010, JCS-3-10 (Washington: GPO, 2010).

<sup>3</sup> CBO, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011.

The method and many assumptions used for previous analyses for your office are employed in this analysis. It is assumed that state and local tax expenditures will be 27.8% of federal tax expenditures in 2014. It is further assumed that the payroll tax expenditure for the exclusion of employer-provided health insurance will continue to be 69.3% of individual income tax expenditures in 2014.

## Results

**Table 1** reports the results of the analysis to revise the breakdown national health expenditures into public and private funding sources in 2014. Overall, it is estimated that about 36% of national health expenditures will be funded from private sources in 2014 and 64% will be funded from public sources (see the last two rows of **Table 1**). The first two columns report the dollar amounts of CMS's projection of national health expenditures by funding source and the percentage of the total from each source. CMS projects that 48.6% of health care expenditures will be funded from private sources (\$1,567.8 billion) and 51.4% from public sources (\$1,659.6 billion) in 2014.

The final two columns of **Table 1** report the revised breakdown of national health expenditures by funding source. The shift of \$405.5 billion from private sources to public sources (see the first row) is due to health-related tax expenditures. Therefore, of the \$1,567.8 billion that CMS categorizes as private funding sources, \$405.5 billion could arguably be attributed as coming from public sources and the remaining \$1,162.3 billion from private sources. After including tax expenditures and the health care reform measures, it is projected that 36% of health care expenditures will be funded from private sources (\$1,162.3 billion) and 64% will be funded from public sources (\$2,065.1 billion).

**Table I. National Health Expenditures and Revised Funding Sources, 2014**

Dollar amounts in billions

Funding Source	CMS Projection		Revised: Expenditures by Funding Source	
	Amount	Percentage	Private	Public
Private	\$1,567.8	48.6%	\$1,162.3	\$405.5
Public	\$1,659.6	51.4%	\$0.0	\$1,659.6
Total	\$3,227.4		\$1,162.3	\$2,065.1
Percentage			36.0%	64.0%

**Source:** CRS calculations of CMS and JCT estimates and projections.