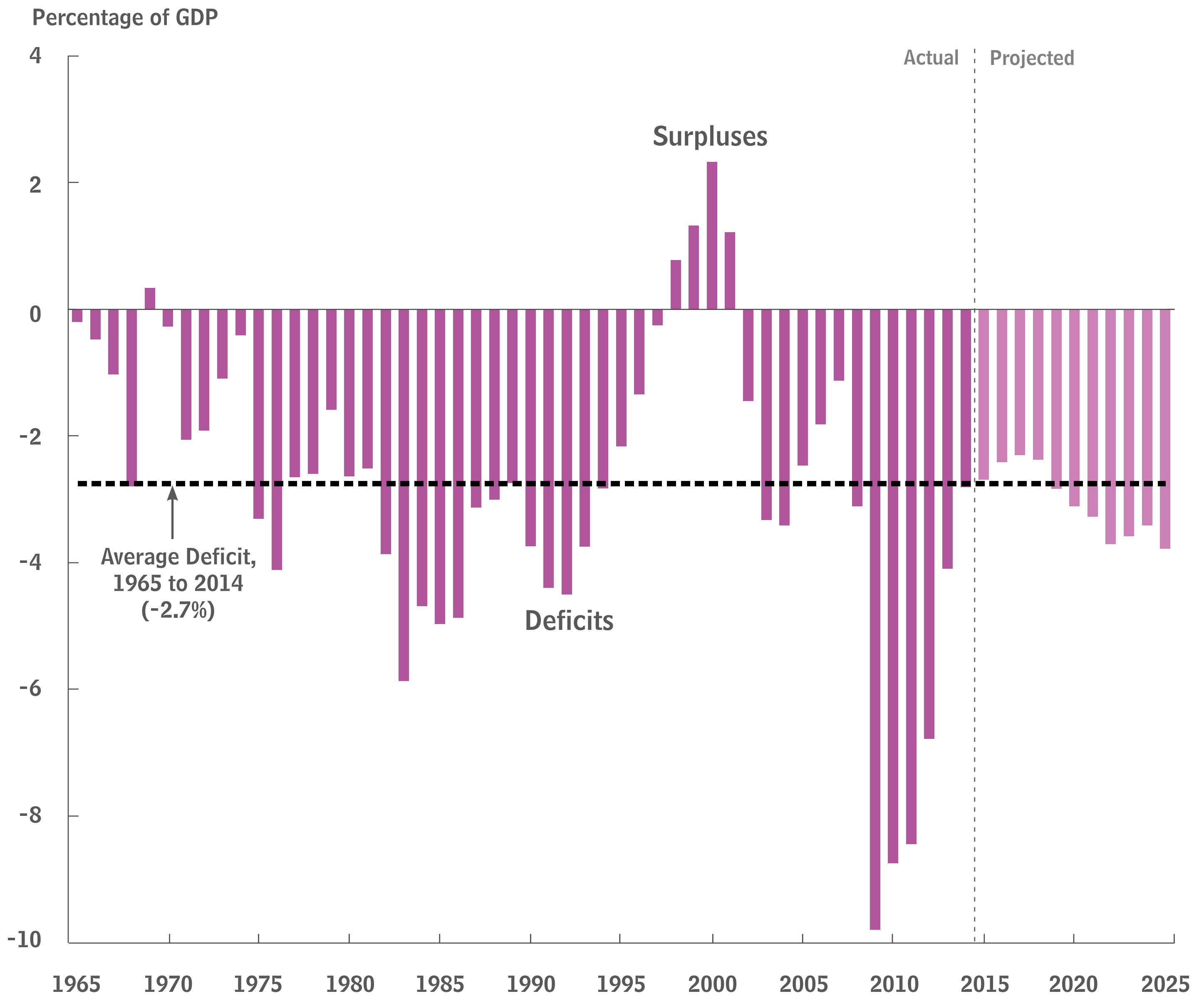
CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

CBO

Updated Budget Projections: 2015 to 2025



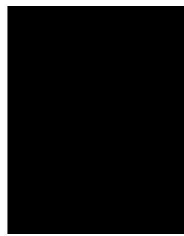
MARCH 2015

Notes

Unless otherwise noted, years referred to in this report are federal fiscal years, which run from October 1 through September 30 and are designated by the calendar year in which they end.

Numbers in the text and tables may not add up to totals because of rounding.

Supplemental data for this analysis are available on CBO's website (www.cbo.gov/publication/49973), as is a glossary of common budgetary and economic terms (www.cbo.gov/publication/42904).



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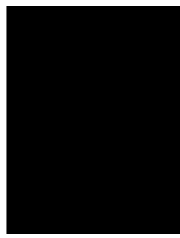


Updated Budget Projections: 2015 to 2025

Summary

As it typically does after the President's budget is released, the Congressional Budget Office has updated the baseline budget projections it published earlier in the year.[1] CBO now estimates that if the laws that currently govern federal taxes and spending generally remain in place, the federal budget deficit will total $486 billion in fiscal year 2015, about the same as the shortfall posted in 2014 (see Table 1). However, because the nation's output (its gross domestic product, or GDP) has increased, the deficit projected for 2015 represents a slightly lower percentage of GDP—2.7 percent—compared with 2.8 percent last year. In 2009, the deficit peaked at 9.8 percent of GDP; as recently as 2011 it was equal to 8.5 percent of GDP (see Figure 1).

Under the assumption that current laws will generally remain unchanged, the budget deficit is projected to decline in 2016, to $455 billion, or 2.4 percent of GDP, and then to hold roughly steady relative to the size of the economy through 2018. Beyond that time, however, the gap between spending and revenues is projected to grow faster than GDP: The deficit in 2025 is projected to reach $1.0 trillion, or 3.8 percent of GDP, and cumulative deficits over the 2016–2025 period are projected to total $7.2 trillion.

CBO's estimate of the deficit for 2015 is $18 billion greater than the shortfall it projected in January, mostly because the agency has increased estimated outlays for student loans, Medicare, and Medicaid. In contrast, the projected deficits for the 2016–2025 period total $431 billion less than the cumulative deficit that CBO projected in January. The largest factor underlying that reduction is a downward revision to projected growth in private health insurance spending, which is estimated to lower the net cost of the provisions of the Affordable Care Act (ACA) that are related to insurance coverage and to increase overall revenues from income and payroll taxes (because a larger share of employees' compensation over the coming decade is now projected to be paid in the form of taxable wages and salaries).

With such deficits, CBO projects that federal debt held by the public would amount to 73 percent or 74 percent of GDP over the next several years—more than twice what it was at the end of 2007 and more than in any previous year since 1950 (see Figure 2 on page 4). By 2025, in CBO's baseline projections, federal debt rises to 77 percent of GDP.

Such high and rising debt would have serious negative consequences for the nation: When interest rates returned to more typical, higher levels, federal spending on interest payments would increase substantially. Moreover, because federal borrowing reduces national saving over time, the nation's capital stock would ultimately be smaller and productivity and total wages would be lower than they would be if the debt was smaller. In addition, lawmakers would have less flexibility than otherwise to use tax and spending policies to respond to unexpected challenges. Finally, a large debt increases the risk of a fiscal crisis, during which investors would lose so much confidence in the government's ability to manage its budget that the government would be unable to borrow at affordable rates.

CBO's Baseline Budget Projections

CBO's baseline projections, which are constructed in accordance with provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 and the Congressional Budget and Impoundment Control Act of 1974, are not a forecast of future outcomes. Those laws specify that CBO is to construct its baseline projections under the assumption that current laws will generally remain unchanged; the projections therefore serve as a benchmark against which potential changes in law can be measured. However, even if federal laws remained

1. See Congressional Budget Office, *The Budget and Economic Outlook: 2015 to 2025* (January 2015), www.cbo.gov/publication/49892.

Table 1.

CBO's Baseline Budget Projections

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
							In Billions of Dollars							
Revenues														
Individual income taxes	1,395	1,506	1,652	1,757	1,843	1,928	2,027	2,133	2,244	2,362	2,485	2,614	9,207	21,046
Payroll taxes	1,023	1,056	1,097	1,138	1,181	1,230	1,284	1,340	1,393	1,451	1,510	1,574	5,929	13,197
Corporate income taxes	321	328	429	437	453	450	447	450	459	472	488	506	2,216	4,591
Other	283	302	293	270	250	266	277	288	299	311	323	336	1,357	2,913
Total	**3,021**	**3,191**	**3,470**	**3,601**	**3,728**	**3,874**	**4,034**	**4,211**	**4,395**	**4,596**	**4,806**	**5,030**	**18,709**	**41,747**
On-budget	2,286	2,428	2,677	2,776	2,870	2,982	3,107	3,247	3,393	3,554	3,724	3,906	14,411	32,235
Off-budget[a]	736	763	794	826	859	892	927	964	1,002	1,042	1,082	1,124	4,298	9,512
Outlays														
Mandatory	2,099	2,274	2,470	2,541	2,618	2,787	2,945	3,107	3,337	3,463	3,585	3,861	13,361	30,714
Discretionary	1,179	1,175	1,178	1,184	1,194	1,222	1,249	1,276	1,311	1,336	1,361	1,400	6,027	12,712
Net interest	229	229	277	331	405	472	537	590	647	704	759	808	2,022	5,530
Total	**3,506**	**3,677**	**3,925**	**4,056**	**4,217**	**4,481**	**4,730**	**4,974**	**5,295**	**5,503**	**5,705**	**6,069**	**21,410**	**48,956**
On-budget	2,800	2,936	3,143	3,227	3,331	3,537	3,720	3,895	4,143	4,272	4,390	4,665	16,959	38,325
Off-budget[a]	706	741	782	829	886	945	1,010	1,079	1,152	1,231	1,315	1,403	4,451	10,631
Deficit (-) or Surplus	**-485**	**-486**	**-455**	**-455**	**-489**	**-607**	**-696**	**-763**	**-900**	**-907**	**-899**	**-1,038**	**-2,701**	**-7,209**
On-budget	-514	-508	-467	-452	-462	-555	-613	-648	-751	-718	-667	-759	-2,548	-6,090
Off-budget[a]	30	22	12	-3	-27	-52	-83	-115	-150	-189	-233	-279	-153	-1,119
Debt Held by the Public	12,780	13,366	13,897	14,428	14,983	15,654	16,409	17,226	18,179	19,138	20,089	21,182	n.a.	n.a.
Memorandum:														
Gross Domestic Product	17,251	18,016	18,832	19,701	20,558	21,404	22,315	23,271	24,261	25,287	26,352	27,456	102,810	229,438
							As a Percentage of Gross Domestic Product							
Revenues														
Individual income taxes	8.1	8.4	8.8	8.9	9.0	9.0	9.1	9.2	9.3	9.3	9.4	9.5	9.0	9.2
Payroll taxes	5.9	5.9	5.8	5.8	5.7	5.7	5.8	5.8	5.7	5.7	5.7	5.7	5.8	5.8
Corporate income taxes	1.9	1.8	2.3	2.2	2.2	2.1	2.0	1.9	1.9	1.9	1.9	1.8	2.2	2.0
Other	1.6	1.7	1.6	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.3
Total	**17.5**	**17.7**	**18.4**	**18.3**	**18.1**	**18.1**	**18.1**	**18.1**	**18.1**	**18.2**	**18.2**	**18.3**	**18.2**	**18.2**
On-budget	13.3	13.5	14.2	14.1	14.0	13.9	13.9	14.0	14.0	14.1	14.1	14.2	14.0	14.0
Off-budget[a]	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.1	4.2	4.1
Outlays														
Mandatory	12.2	12.6	13.1	12.9	12.7	13.0	13.2	13.4	13.8	13.7	13.6	14.1	13.0	13.4
Discretionary	6.8	6.5	6.3	6.0	5.8	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.9	5.5
Net interest	1.3	1.3	1.5	1.7	2.0	2.2	2.4	2.5	2.7	2.8	2.9	2.9	2.0	2.4
Total	**20.3**	**20.4**	**20.8**	**20.6**	**20.5**	**20.9**	**21.2**	**21.4**	**21.8**	**21.8**	**21.7**	**22.1**	**20.8**	**21.3**
On-budget	16.2	16.3	16.7	16.4	16.2	16.5	16.7	16.7	17.1	16.9	16.7	17.0	16.5	16.7
Off-budget[a]	4.1	4.1	4.2	4.2	4.3	4.4	4.5	4.6	4.7	4.9	5.0	5.1	4.3	4.6
Deficit (-) or Surplus	**-2.8**	**-2.7**	**-2.4**	**-2.3**	**-2.4**	**-2.8**	**-3.1**	**-3.3**	**-3.7**	**-3.6**	**-3.4**	**-3.8**	**-2.6**	**-3.1**
On-budget	-3.0	-2.8	-2.5	-2.3	-2.2	-2.6	-2.7	-2.8	-3.1	-2.8	-2.5	-2.8	-2.5	-2.7
Off-budget[a]	0.2	0.1	0.1	*	-0.1	-0.2	-0.4	-0.5	-0.6	-0.7	-0.9	-1.0	-0.1	-0.5
Debt Held by the Public	74.1	74.2	73.8	73.2	72.9	73.1	73.5	74.0	74.9	75.7	76.2	77.1	n.a.	n.a.

Source: Congressional Budget Office

Note: n.a. = not applicable; * = between -0.05 percent and zero.

a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

Figure 1.

Total Deficits or Surpluses

As percentages of gross domestic product, projected deficits in CBO's baseline decline slightly through 2017 but then grow as mandatory spending and interest payments rise and revenues remain essentially flat.

Source: Congressional Budget Office.

unchanged for the next decade, actual budgetary outcomes would differ from CBO's baseline projections because of unanticipated changes in economic conditions and in a host of other factors that affect federal spending and revenues.

Outlays

Under current law, total federal outlays will average about 21 percent of GDP over the coming decade, CBO projects, rising from 20.4 percent of GDP in 2015 to 22.1 percent of GDP in 2025 (see Figure 3). Over that period, net interest costs are projected to rise by 1.7 percentage points of GDP, and mandatory spending is projected to rise by 1.4 percentage points; in contrast, discretionary spending is projected to decline by 1.4 percentage points of GDP.[2]

Mandatory Spending. For most mandatory spending programs, the Deficit Control Act requires CBO to construct baseline projections under the assumption that current laws continue unchanged. CBO's projections of mandatory spending reflect expected changes in the economy, demographics, and other factors. They also incorporate the effects of sequestration—across-the-board reductions in funding imposed by the Budget Control Act of 2011—on the programs subject to it.

CBO projects that under current law, mandatory spending (net of offsetting receipts, which are recorded as reductions in outlays) will increase from $2.3 trillion in 2015 to $3.9 trillion in 2025, an average annual rate of growth of 5.4 percent. As a percentage of GDP, mandatory spending is projected to be about 13 percent through 2021 and then to rise, reaching 14.1 percent of GDP in 2025.[3] During the past 50 years, mandatory spending has averaged 9.3 percent of GDP.

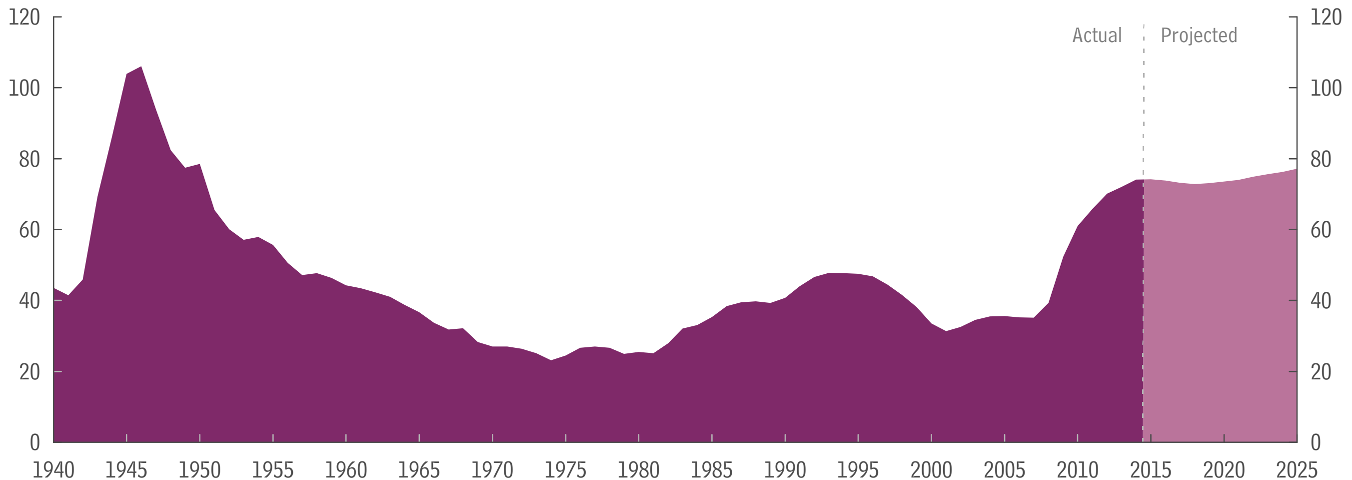
2. Mandatory (or direct) spending includes spending for certain benefit programs and other payments to people, businesses, nonprofit institutions, and state and local governments. It is generally governed by statutory criteria and is not normally constrained by the annual appropriation process. Discretionary spending is controlled by annual appropriation acts; policymakers decide each year how much money to provide for a broad array of government activities, including defense, law enforcement, and transportation.

3. In CBO's baseline, mandatory outlays decline as a percentage of GDP from 2016 through 2018, and then again from 2022 through 2024. That pattern results largely from shifts in the timing of certain payments. Because October 1 will fall on a weekend in 2016, 2017, 2022, and 2023, certain federal payments that are due on that date will instead be made at the end of the preceding September and thus be shifted into the previous fiscal year. Without those timing shifts, mandatory outlays in CBO's baseline would hold steady at 12.9 percent of GDP in 2016 through 2018 and would increase from 13.5 percent of GDP in 2022 to 13.8 percent in 2024.

Figure 2.

Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Mandatory spending consists mostly of outlays for Social Security and the federal government's major health care programs—Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges (and related spending). Under current law, outlays for those components of mandatory spending, net of premiums and other offsetting receipts related to Medicare, will increase from 10.0 percent of GDP in 2015 to 11.8 percent in 2025, CBO projects (see Figure 4). By 2025, outlays for those programs are projected to total $3.2 trillion, accounting for more than half of the $6.1 trillion in federal spending projected for that year (see Table 2 on page 8).

CBO's baseline projections include the following major elements:

- Spending for Social Security and Medicare remains fairly stable as a percentage of GDP through 2018 but rises relative to GDP in subsequent years. By 2025, Social Security and net Medicare outlays reach 5.7 percent and 3.6 percent of GDP, respectively, compared with 4.9 percent and 2.9 percent in 2015.

- Federal outlays for Medicaid rise modestly as a percentage of GDP over the next 10 years, from 1.9 percent in 2015 to 2.1 percent in 2025.

- Spending on subsidies for health insurance purchased through the exchanges (along with related spending) increases from 0.2 percent of GDP in 2015 to 0.4 percent in 2025.[4]

- All other mandatory spending, net of offsetting receipts, declines relative to GDP, from 2.6 percent in 2015 to 2.3 percent in 2025.

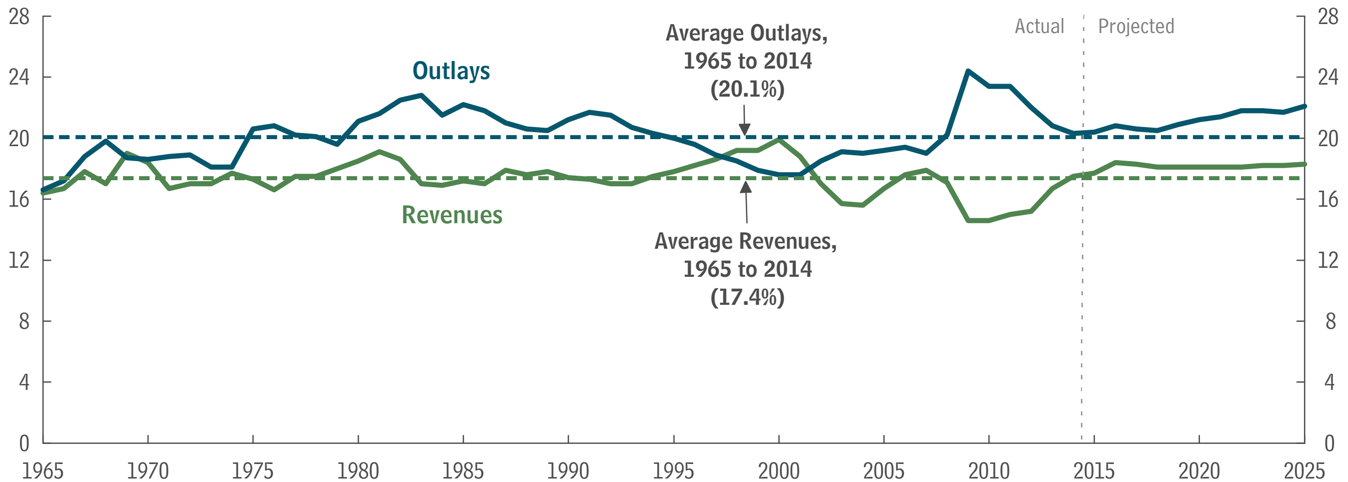
Discretionary Spending. For discretionary spending, CBO's baseline incorporates the caps put in place by the Budget Control Act (as later amended), and it accounts for reductions in those caps in 2016 through 2021 under the law's automatic enforcement procedures. For years after 2021, appropriations for programs that are constrained by the caps are assumed to grow with inflation from the amounts projected for 2021. Appropriations for programs that are not constrained by the caps—those for overseas contingency operations (that is, overseas military operations, such as those in Afghanistan), disaster relief (up to certain limits),

4. The subsidies for health insurance premiums are structured as refundable tax credits. Following the usual procedures for such credits, the portions that exceed taxpayers' income tax liabilities are classified as outlays in CBO's baseline projections, and the portions that reduce tax payments are classified as reductions in revenues. All of the subsidies for out-of-pocket costs are classified as outlays.

Figure 3.

Total Revenues and Outlays

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

emergency requirements, and certain program integrity initiatives—are assumed to grow with inflation from the amounts provided in 2015.[5]

To date, discretionary budget authority in 2015 is $12 billion less than it was in 2014.[6] Nondefense funding has increased by nearly $9 billion, and defense funding has decreased by $20 billion. By CBO's estimate, in the absence of further appropriation action this year, discretionary outlays in 2015 will total $4 billion (or 0.3 percent) less than in 2014 (see Table 3 on page 10). Defense spending is anticipated to fall by $14 billion (or about 2 percent). Nondefense spending, in contrast, is estimated to increase by $10 billion (or 1.7 percent).[7]

5. The program integrity initiatives that are not constrained by the caps are aimed at reducing improper benefit payments in one or more of the following programs: Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program. For more information on the discretionary caps, see Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2015* (January 2015), www.cbo.gov/publication/49889.

6. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal funds.

7. Some outlays in 2015—both for defense and for nondefense activities—will stem from budget authority provided in previous years.

For 2016, the caps on discretionary budget authority are $2.4 billion higher than those in place for 2015. However, total discretionary budget authority in CBO's baseline declines by $17 billion in 2016 because in 2015 some reductions in mandatory budget authority were included in appropriation legislation to help meet the caps. Satisfying the caps in 2016 would require less discretionary budget authority in that year unless similar changes in mandatory programs were enacted in appropriation acts for 2016—but such changes for that year are not part of current law and thus are not included in the baseline. After 2016, discretionary budget authority is projected to rise by about 2.4 percent per year, on average, reflecting the rate of increase in the caps for 2017 through 2021 and the anticipated rate of inflation in subsequent years.

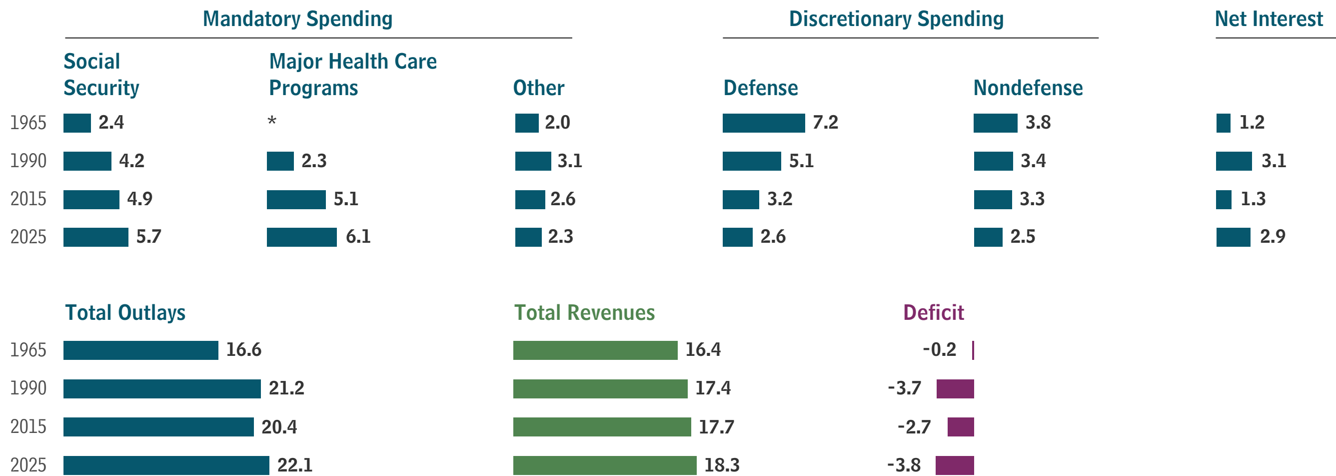
In the baseline, total discretionary outlays grow very slowly over the next few years—by less than 2 percent in total from 2015 to 2018—and then roughly keep pace with the projected 2.4 percent annual rate of increase in budget authority, reaching $1.4 trillion by 2025. Measured relative to GDP, discretionary outlays are projected to drop from 6.5 percent in 2015 to 5.1 percent in 2025; over the past 50 years, they have averaged 8.8 percent.

Interest Payments. CBO expects the government's interest payments to rise sharply during the coming decade, largely as a result of two conditions. The first is the

Figure 4.

Spending and Revenues Projected in CBO's Baseline, Compared With Levels in 1965 and 1990

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Notes: "Major Health Care Programs" consists of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending. (Medicare spending is net of premiums paid by beneficiaries and other offsetting receipts.)

* = between zero and 0.05 percent.

anticipated increase in interest rates as the economy strengthens. Between 2015 and 2025, CBO projects, the average interest rate on 3-month Treasury bills will rise from 0.1 percent to 3.4 percent and the average rate on 10-year Treasury notes will rise from 2.6 percent to 4.6 percent.

Second, debt held by the public is projected to increase significantly under current law. Debt held by the public consists mostly of securities that the U.S. Treasury issues to raise cash to fund the federal government's activities and to pay off its maturing liabilities. The net amount that the Treasury borrows by selling those securities (the amounts that are sold minus the amounts that have matured) is influenced primarily by the annual budget deficit. In addition, the Treasury borrows to provide financing for student loans and other credit programs; in the baseline, such additional borrowing, often referred to as other means of financing, is projected to average $61 billion per year during the 2016–2025 period (see Table 4 on page 11). After accounting for all of the government's borrowing needs, CBO projects that, under current law, debt held by the public will rise from $13.4 trillion at the end of 2015 to $21.2 trillion at the end of 2025. Relative to the size of the economy, the debt is projected to stay at 73 percent or 74 percent of GDP through 2021 but then increase, reaching 77 percent of GDP at the end of 2025.

Together, the rising interest rates and federal debt are projected to more than triple net interest costs—from $229 billion in 2015 to $808 billion in 2025; as a percentage of GDP, those costs are projected to increase from 1.3 percent to 2.9 percent.

Revenues

If current laws generally do not change, total federal revenues will equal 17.7 percent of GDP in 2015 and then rise significantly in 2016—to 18.4 percent of GDP—before stabilizing at 18.1 percent to 18.3 percent of GDP over the 2017–2025 period, CBO projects. Between 1965 and 2014, revenues averaged 17.4 percent of GDP (see Figure 3 on page 5).

In 2015, according to CBO's baseline estimates, federal revenues will total about $3.2 trillion—$170 billion (or 5.6 percent) more than the amount collected in 2014. That increase, at a faster pace than the expected growth in nominal GDP, stems largely from an anticipated rise in individual income tax receipts relative to GDP—in part because of an increase in average tax rates (total taxes as a percentage of total income). As the economy grows, people's income tends to increase faster than the increase in the amounts that delineate tax brackets because those amounts are indexed only to inflation; that phenomenon is known as real bracket creep. In addition, CBO expects an increase in distributions from tax-deferred retirement

accounts, whose balances have been boosted in the past few years by strong stock market gains.

In 2016, under current law, revenues are projected to rise more rapidly—by $279 billion, or 8.7 percent. That faster rate of growth is projected mainly because the end of calendar year 2014 saw the expiration of several provisions of law that had reduced the income tax liabilities of corporations and individuals—including provisions that allowed businesses to immediately deduct significant portions of their investments in equipment. Although such provisions have been extended routinely in the past for limited periods, those extensions are not assumed in CBO's baseline, which follows current law. As a result, in CBO's baseline projections, the expiration of those provisions boosts corporate and individual income tax payments somewhat in fiscal year 2015 and much more in 2016 and later because payments in 2015 will still reflect many effects of those provisions before their expiration.

In CBO's baseline projections for 2017 through 2025, revenues remain in the narrow range of 18.1 percent to 18.3 percent of GDP largely because of offsetting movements in revenues from three sources:

- Individual income tax receipts are projected to increase relative to GDP, mostly as a result of rising average tax rates from real bracket creep.
- Corporate income tax receipts are projected to decline relative to GDP, primarily because of an expected drop in domestic economic profits relative to the size of the economy, the result of increasing labor costs and rising interest payments on businesses' debt.
- Remittances to the Treasury from the Federal Reserve System are projected to decline to more typical amounts relative to GDP, after having been very large since 2010, because of substantial changes in the size and composition of the central bank's portfolio.

Alternative Assumptions About Fiscal Policy

Fiscal policies that differed from those that CBO assumes in its baseline projections could lead to budget outcomes that vary considerably from those in the baseline. For example, CBO derived the baseline projections of spending for overseas contingency operations by assuming that appropriations in the future would equal the amount of funding that such operations have received this year, with adjustments for inflation. But if the number of deployed troops and the pace of operations diminished over time, the funding provided for overseas contingency operations might be smaller than the amounts in the baseline, which would reduce outlays.[8]

Alternatively, if the automatic spending reductions that are in place under current law through 2024 were reversed, outlays would be higher than they are in the baseline. And if lawmakers decided to extend tax provisions that have recently expired or that are scheduled to expire over the next decade—such as the provision that allowed businesses to immediately deduct 50 percent of the cost of new investments in equipment—without making offsetting changes in other tax policies, revenues would be lower than those in the baseline.[9]

Changes in CBO's Baseline Projections Since January 2015

CBO's updated budget projections are based on the same overall economic forecast that the agency developed for its January 2015 baseline, and legislation enacted since January has had little effect on the budget totals projected for the 2015–2025 period. Therefore, nearly all of the revisions that CBO has made to its baseline since January are technical changes—revisions that are made for reasons other than updated economic information or the enactment of new laws.[10] Technical changes include, for example, modified estimates of how quickly programs will obligate and expend funds, new projections of the default rates for loan programs, and updates to reflect recent tax collections.

The deficit that CBO now estimates for 2015, in the absence of further changes to tax and spending laws, is $18 billion (or 4 percent) larger than the $468 billion that CBO projected in January (see Table 5 on page 12). That increase stems largely from higher estimates of mandatory spending.

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8. Budget authority for overseas contingency operations in 2015 currently totals $74 billion. In CBO's baseline, outlays projected from the extrapolation of such funding total $761 billion from 2016 through 2025.

9. For the budgetary effects of some alternative tax and spending policies, see the supplemental material that accompanies this report at www.cbo.gov/publication/49973.

10. CBO projects workers' wages and salaries as part of its economic forecast, so updates of estimates of tax revenues related to changes in projected wages and salaries are generally deemed to be economic revisions. However, for the projections in this report, the agency changed its outlook for wages and salaries not as part of a general update of its economic forecast but in response to its analysis of spending for private health insurance. Therefore, this change is categorized as technical.

Table 2.

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
Social Security														
Old-Age and Survivors Insurance	703	738	772	815	871	929	993	1,057	1,125	1,197	1,272	1,350	4,380	10,380
Disability Insurance	142	145	148	153	158	164	171	179	188	197	207	216	794	1,781
Subtotal	845	883	920	968	1,029	1,094	1,163	1,237	1,313	1,394	1,479	1,566	5,174	12,162
Major Health Care Programs														
Medicare[a]	600	626	671	681	698	775	829	888	995	1,026	1,053	1,183	3,654	8,798
Medicaid	301	343	367	386	404	423	445	468	493	519	547	576	2,025	4,627
Health insurance subsidies and related spending[b]	15	41	60	78	83	87	88	92	97	100	103	107	396	895
Children's Health Insurance Program	9	10	12	6	6	6	6	6	6	6	6	6	35	64
Subtotal[a]	925	1,020	1,110	1,153	1,191	1,290	1,367	1,454	1,590	1,651	1,709	1,870	6,110	14,384
Income Security Programs														
Earned income, child, and other tax credits[c]	86	87	89	89	91	75	76	77	78	79	80	82	420	815
Supplemental Nutrition Assistance Program	76	77	77	76	75	74	73	73	73	73	73	74	375	743
Supplemental Security Income	54	55	60	57	54	60	62	64	71	68	64	72	292	631
Unemployment compensation	44	35	36	37	39	42	46	49	51	54	57	60	200	471
Family support and foster care[d]	31	31	32	32	32	32	33	33	33	34	34	35	162	331
Child nutrition	20	22	22	23	24	25	26	27	28	30	31	32	121	269
Subtotal	311	306	316	315	315	309	316	323	335	337	341	355	1,570	3,260
Federal Civilian and Military Retirement														
Civilian[e]	94	97	98	102	105	108	111	115	119	123	127	131	524	1,138
Military	55	57	62	59	56	62	64	66	73	70	67	74	303	653
Other	8	7	6	6	7	7	8	8	9	10	9	9	34	79
Subtotal	158	160	166	167	167	177	183	189	201	203	203	214	861	1,870
Veterans' Programs[f]														
Income security	71	74	82	78	74	83	84	85	93	87	81	91	402	839
Other	16	18	22	21	17	18	18	19	21	21	21	23	95	201
Subtotal	87	92	104	99	91	100	103	104	114	108	103	114	497	1,040
Other Programs														
Agriculture	19	13	16	18	17	16	15	15	15	15	15	15	81	157
MERHCF	9	10	10	10	11	11	12	13	14	15	16	17	55	128
Deposit insurance	-14	-10	-9	-10	-13	-16	-13	-10	-12	-13	-14	-15	-61	-126
Fannie Mae and Freddie Mac[g]	0	0	3	3	3	2	1	1	2	2	2	2	13	21
Higher education	-12	7	-5	-1	2	3	4	4	4	3	3	4	2	20
Other	52	62	65	67	66	67	67	66	65	64	64	68	331	658
Subtotal	54	81	80	88	85	83	86	88	86	86	86	90	421	857

Continued

For the 2016–2025 period, CBO's new baseline projections show cumulative deficits that are $431 billion less than the $7.6 trillion that the agency projected in January. The largest factor underlying that reduction is a downward revision in projected growth in premiums for private health insurance, reflecting the fact that spending by private health insurers on health care and administration rose less in 2013 (the most recent year for which data are available) than in preceding years and by much less than the agencies had expected for 2013. That change boosts projections of revenues from income and payroll taxes and reduces the estimated net costs of the ACA's health insurance provisions, thereby

Table 2. **Continued**

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
Offsetting Receipts														
Medicare[h]	-95	-99	-110	-119	-124	-133	-140	-150	-162	-174	-187	-202	-627	-1,502
Federal share of federal employees' retirement														
Social Security	-16	-16	-17	-17	-18	-18	-19	-20	-20	-21	-22	-23	-89	-195
Military retirement	-21	-20	-19	-20	-20	-21	-22	-23	-23	-24	-25	-26	-102	-223
Civil service retirement and other	-29	-32	-32	-34	-35	-36	-37	-38	-39	-40	-41	-42	-174	-373
Subtotal	-65	-68	-68	-71	-73	-75	-78	-80	-83	-85	-88	-90	-365	-791
Receipts related to natural resources	-14	-12	-13	-13	-16	-16	-16	-17	-16	-17	-19	-19	-73	-160
MERHCF	-8	-7	-7	-7	-8	-8	-9	-9	-10	-10	-11	-11	-39	-90
Fannie Mae and Freddie Mac[g]	-74	-26	0	0	0	0	0	0	0	0	0	0	0	0
Other	-25	-57	-27	-38	-38	-34	-30	-31	-31	-31	-30	-27	-168	-317
Subtotal	-281	-268	-225	-248	-260	-266	-273	-288	-302	-317	-334	-349	-1,272	-2,860
Total Mandatory Outlays	**2,099**	**2,274**	**2,470**	**2,541**	**2,618**	**2,787**	**2,945**	**3,107**	**3,337**	**3,463**	**3,585**	**3,861**	**13,361**	**30,714**
Memorandum:														
Mandatory Spending Excluding the Effects of Offsetting Receipts	2,380	2,542	2,696	2,789	2,877	3,053	3,218	3,395	3,639	3,779	3,920	4,209	14,633	33,575
Spending for Medicare Net of Offsetting Receipts	505	527	560	562	574	642	688	738	833	852	866	981	3,027	7,296
Spending for Major Health Care Programs Net of Offsetting Receipts[i]	831	921	999	1,033	1,066	1,158	1,227	1,304	1,428	1,477	1,522	1,669	5,483	12,882

Source: Congressional Budget Office.

Notes: Data on spending for benefit programs in this table generally exclude administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life).

a. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is included in the memorandum section of the table.)

b. Subsidies for health insurance purchased through the exchanges established under the Affordable Care Act.

c. Includes outlays for the American Opportunity Tax Credit and other credits.

d. Includes the Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.

e. Includes Civil Service, Foreign Service, Coast Guard, and smaller retirement programs as well as annuitants' health care benefits.

f. "Income security" includes veterans' compensation, pensions, and life insurance programs. "Other" benefits are primarily education subsidies. The costs of veterans' health care are classified as discretionary spending and thus are not shown in this table.

g. The cash payments from Fannie Mae and Freddie Mac to the U.S. Treasury are recorded as offsetting receipts in 2014 and 2015. Beginning in 2016, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

h. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid's prescription drug costs.

i. Consists of outlays for Medicare (net of offsetting receipts), Medicaid, health insurance subsidies and related spending, and the Children's Health Insurance Program.

Table 3.

Discrepancy Spending Projected in CBO's Baseline

Billions of Dollars

	Actual, 2014	2015[a]	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
Budget Authority														
Defense	606	586	589	603	617	632	647	663	679	696	713	730	3,087	6,568
Nondefense	527	536	516	527	539	554	568	581	595	610	625	641	2,704	5,757
Total	**1,134**	**1,122**	**1,105**	**1,130**	**1,156**	**1,185**	**1,215**	**1,244**	**1,274**	**1,306**	**1,338**	**1,371**	**5,791**	**12,324**
Outlays														
Defense	596	583	587	592	599	616	631	646	666	677	689	711	3,025	6,414
Nondefense	582	592	591	592	595	606	618	631	645	659	673	689	3,002	6,298
Total	**1,179**	**1,175**	**1,178**	**1,184**	**1,194**	**1,222**	**1,249**	**1,276**	**1,311**	**1,336**	**1,361**	**1,400**	**6,027**	**12,712**
Memorandum:														
Caps in the Budget Control Act (As amended), Including Automatic Reductions to the Caps														
Defense	520	521	523	536	549	562	576	590	n.a.	n.a.	n.a.	n.a.	2,746	n.a.
Nondefense	492	492	493	504	515	529	543	555	n.a.	n.a.	n.a.	n.a.	2,584	n.a.
Total	1,012	1,014	1,017	1,040	1,064	1,091	1,119	1,145	n.a.	n.a.	n.a.	n.a.	5,331	n.a.
Adjustments to the Caps[b]														
Defense	86	65	66	67	68	70	71	73	n.a.	n.a.	n.a.	n.a.	341	n.a.
Nondefense	13	23	23	23	24	25	25	26	n.a.	n.a.	n.a.	n.a.	120	n.a.
Total	99	87	88	90	92	94	96	98	n.a.	n.a.	n.a.	n.a.	461	n.a.

Source: Congressional Budget Office.

Notes: CBO's baseline projections incorporate the assumption that the caps on discretionary budget authority and the automatic enforcement procedures specified in the Budget Control Act of 2011 (as amended) remain in effect through 2021.

Nondefense discretionary outlays are usually higher than budget authority because of spending from the Highway Trust Fund and the Airport and Airway Trust Fund that is subject to obligation limitations set in appropriation acts. The budget authority for such programs is provided in authorizing legislation and is not considered discretionary.

n.a. = not applicable.

a. The amount of budget authority for 2015 in CBO's baseline does not match the sum of the spending caps plus adjustments to the caps mostly because changes to mandatory programs included in the Consolidated and Further Continuing Appropriations Act of 2015 were credited against the caps; in CBO's baseline, those changes (which reduced mandatory budget authority) appear in their normal mandatory accounts.

b. Funding for overseas contingency operations, emergencies, disaster relief, and certain program integrity initiatives (which identify and reduce overpayments in some benefit programs) is generally not constrained by the statutory caps established by the Budget Control Act.

also reducing federal borrowing needs. (See the appendix for a more extensive discussion of the changes in the baseline projections related to the ACA's insurance coverage provisions.)

Outlays

Relative to its previous projections, CBO has increased its estimate of outlays in 2015 by $21 billion and has decreased its projection of outlays for the 2016–2025 period by $354 billion (or 0.7 percent).

Technical Changes. The largest technical changes involve spending on subsidies provided for health insurance purchased through the exchanges, spending for Medicaid, and net interest costs.

Exchange Subsidies and Related Spending. CBO and the staff of the Joint Committee on Taxation (JCT) have reduced their projection of outlays for exchange subsidies and related spending by $209 billion for the 2016–2025 period, relative to the January 2015 estimate. (The subsidies are provided to eligible people to purchase health

Table 4.

Federal Debt Projected in CBO's Baseline

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Debt Held by the Public at the Beginning of the Year	11,983	12,780	13,366	13,897	14,428	14,983	15,654	16,409	17,226	18,179	19,138	20,089
Changes in Debt Held by the Public												
Deficit	485	486	455	455	489	607	696	763	900	907	899	1,038
Other means of financing	313	100	76	76	66	65	59	55	53	51	51	55
Total	797	586	531	531	555	672	754	817	953	959	951	1,093
Debt Held by the Public at the End of the Year	**12,780**	**13,366**	**13,897**	**14,428**	**14,983**	**15,654**	**16,409**	**17,226**	**18,179**	**19,138**	**20,089**	**21,182**
Debt Held by the Public at the End of the Year (As a percentage of GDP)	74.1	74.2	73.8	73.2	72.9	73.1	73.5	74.0	74.9	75.7	76.2	77.1
Memorandum:												
Debt Held by the Public Minus Financial Assets[a]												
In billions of dollars	11,545	12,030	12,456	12,882	13,342	13,921	14,588	15,323	16,194	17,072	17,941	18,950
As a percentage of GDP	66.9	66.8	66.1	65.4	64.9	65.0	65.4	65.8	66.7	67.5	68.1	69.0
Gross Federal Debt[b]	17,794	18,486	19,127	19,807	20,516	21,309	22,160	23,048	24,023	24,987	25,924	26,942
Debt Subject to Limit[c]	17,781	18,473	19,114	19,794	20,502	21,295	22,146	23,033	24,008	24,971	25,908	26,926
Average Interest Rate on Debt Held by the Public (Percent)[d]	1.8	1.7	2.0	2.3	2.7	3.0	3.3	3.4	3.6	3.7	3.8	3.8

Source: Congressional Budget Office.

Note: GDP = gross domestic product.

a. Debt held by the public minus the value of outstanding student loans and other credit transactions, cash balances, and other financial instruments.

b. Federal debt held by the public plus Treasury securities held by federal trust funds and other government accounts.

c. The amount of federal debt that is subject to the overall limit set in law. "Debt Subject to Limit" differs from gross federal debt mainly because most debt issued by agencies other than the U.S. Treasury and the Federal Financing Bank is excluded from the debt limit. That limit was most recently set at $17.2 trillion but has been suspended through March 15, 2015. On March 16, the debt limit will be raised to its previous level plus the amount of federal borrowing that occurred while the limit was suspended.

d. The average interest rate is calculated as net interest divided by debt held by the public.

insurance through the exchanges established under the ACA or to assist them in paying out-of-pocket costs.) Most of that reduction stems from a $186 billion decrease in projected cost-sharing subsidies and outlays for premium assistance tax credits. CBO and JCT now anticipate lower premiums and slightly lower enrollment through the exchanges than they estimated in January. The remainder of the change, a $23 billion reduction in projected outlays for risk adjustment, also results mainly from projections of lower premiums.[11] (That decrease is completely offset by a reduction in projected revenues.)

Medicaid. CBO has raised its estimate of Medicaid spending in 2015 by $8 billion and reduced its estimate of spending over the 2016–2025 period by $59 billion

11. The risk adjustment program transfers resources from health insurance plans that attract a relatively small proportion of high-risk enrollees (people with serious chronic conditions, for example) to plans that attract a relatively large proportion of such people. Although the risk adjustment system is facilitated by the federal government, by law it essentially entails transfers between insurance companies and thus it has no net effect on the federal budget.

Table 5.

Changes in CBO's Baseline Projections of the Deficit Since January 2015

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
Deficit in CBO's January 2015 Baseline	-468	-467	-489	-540	-652	-739	-814	-948	-953	-951	-1,088	-2,887	-7,641
Changes to Revenue Projections													
Legislative Changes	*	*	*	1	1	*	*	*	*	*	*	2	4
Technical Changes													
Individual income taxes	3	8	11	11	10	10	10	9	10	8	8	50	95
Payroll taxes	1	2	3	2	3	2	3	2	2	1	1	12	22
Other[a]	*	1	*	-1	-4	-3	-6	-7	-8	-8	-9	-7	-44
Subtotal	3	11	13	13	9	9	6	5	5	2	1	54	73
Total Revenue Changes	**3**	**11**	**14**	**13**	**10**	**9**	**7**	**6**	**5**	**2**	**1**	**57**	**77**
Changes to Outlay Projections													
Legislative Changes													
Mandatory outlays	*	*	*	*	1	1	*	*	*	*	*	2	4
Discretionary outlays	1	*	*	*	*	*	*	*	*	*	*	2	4
Net interest outlays (Debt service)	*	*	*	*	*	*	*	*	*	*	*	*	1
All Legislative Changes	1	1	1	1	1	1	1	1	1	1	1	5	8
Technical Changes													
Mandatory outlays													
Health insurance subsidies and related spending	-4	-11	-15	-18	-20	-22	-24	-25	-25	-25	-25	-85	-209
Medicare	4	-2	-6	-4	1	1	1	10	9	3	5	-10	18
Medicaid	8	6	3	-1	-5	-8	-9	-11	-11	-11	-12	-4	-59
Student loans	10	2	2	2	3	3	3	3	3	3	3	12	27
Other	*	1	-7	-15	-8	2	-1	-3	*	*	-1	-28	-33
Subtotal	19	-4	-22	-35	-29	-24	-30	-26	-24	-31	-30	-115	-256
Discretionary outlays	-1	2	2	1	1	*	*	*	*	*	*	6	7
Net interest outlays													
Debt service	*	-1	-1	-2	-4	-5	-7	-9	-12	-14	-16	-13	-70
Other	2	1	*	-2	-5	-6	-8	-8	-6	-5	-4	-12	-43
Subtotal	2	1	-1	-4	-8	-12	-16	-17	-18	-19	-19	-25	-114
All Technical Changes	20	-2	-21	-39	-37	-36	-45	-43	-42	-50	-49	-134	-363
Total Outlay Changes	**21**	**-1**	**-20**	**-38**	**-36**	**-35**	**-44**	**-42**	**-41**	**-49**	**-48**	**-129**	**-354**
All Changes													
Total Effect on the Deficit[b]	**-18**	**12**	**34**	**51**	**45**	**44**	**51**	**47**	**46**	**51**	**49**	**186**	**431**
Deficit in CBO's March 2015 Baseline	-486	-455	-455	-489	-607	-696	-763	-900	-907	-899	-1,038	-2,701	-7,209
Memorandum:[b]													
Total Legislative Changes	-1	-1	*	*	*	*	*	*	*	*	-1	-2	-4
Total Technical Changes	-17	13	34	51	46	44	52	48	46	52	50	188	436

Source: Congressional Budget Office.

Note: * = between -$500 million and $500 million.

a. Consists of changes to revenues from miscellaneous fees and fines and, to a lesser extent, excise taxes.

b. Positive numbers represent a decrease in the deficit; negative numbers indicate an increase in the deficit.

(or 1.3 percent), relative to its January 2015 estimates. The 2015 increase is attributable to higher-than-anticipated spending during the first four months of the fiscal year. Projected outlays over the 2016–2025 period have declined because CBO now expects that somewhat fewer additional people will enroll in Medicaid as a result of the ACA (as discussed in the appendix); that effect is partially offset by an increase in projected spending for 2016 and 2017 to reflect the higher estimate of 2015 spending.

Net Interest. CBO has reduced its projection of net interest costs for the 2016–2025 period by $114 billion. That decrease has two components. One is a $70 billion reduction that results from lower projected borrowing because of technical updates in other areas of the budget (shown in Table 5 as “Debt service”). The other is a $43 billion (or 0.8 percent) reduction in projected interest payments that results from a slight increase in the proportion of longer-term securities that CBO expects the Treasury to issue to finance future deficits and from other factors. The small change in the maturity structure of Treasury issuance raises projected interest payments in the next few years, but it lowers total payments over the 10-year period because less debt would mature—and therefore less would need to be refinanced—later in the decade when interest rates are expected to be higher.

Student Loans. CBO increased its estimate of 2015 outlays for student loans by $10 billion, almost entirely because the Department of Education is recording an upward revision to the subsidy costs of loans made in prior years. In addition, several technical updates led CBO to project a $27 billion (or 30 percent) increase in outlays for student loans for the 2016–2025 period. Those updates, reflecting recent data, included higher estimates of the number of loans in default (and lower collections on such loans), increases in the estimated cost to administer the federal student loan programs, and increased participation in repayment plans that are based on the income of borrowers.

Discretionary Spending. CBO’s current projections of total discretionary outlays are quite similar to its prior projections because the caps on discretionary funding and other provisions of the Budget Control Act (as amended) have not been altered and CBO has not changed its projections of inflation (which affect estimated funding when the caps are not a constraint). Therefore, the $7 billion reduction in the projection for discretionary spending over the 2016–2025 period results largely from revisions to the rate at which projected funding would be spent.

Within the amounts set by the caps (and the amounts extrapolated when such limits expire in 2021), the largest change to projected spending for individual discretionary programs since CBO’s January baseline is an increase in the estimated subsidy cost for mortgages guaranteed by the Federal Housing Administration (FHA), which stems from an announced fee reduction. As a result, CBO has boosted projected budget authority and outlays for FHA by $33 billion between 2016 and 2025. However, because the baseline is constrained by the caps on nondefense discretionary spending, that change does not affect aggregate funding projected for that category—both through 2021, when the caps are in effect, and for the following years, when discretionary funding is assumed to equal the 2021 caps, with adjustments for inflation.

Legislative Changes. CBO’s updated baseline incorporates the effects of the Terrorism Risk Insurance Program Reauthorization Act of 2015. That law extended the terrorism risk insurance program, which had expired at the end of December 2014, through December 2020. The law allows the federal government, under certain conditions, to help insurers cover losses in the event of a terrorist attack and to impose assessments on the insurance industry to recover all or a portion of those federal payments. As a result of that extension and other provisions of that law with smaller budgetary effects, CBO increased its baseline projections of mandatory spending by less than $500,000 in 2015 and by $4 billion for the 2016–2025 period. (That legislation also boosted revenue projections by an estimated $4 billion for that period.)

In addition, CBO’s baseline includes the effects of the full-year appropriations provided in early March for the Department of Homeland Security. That law boosted 2015 budget authority for the department by $1 billion relative to the annualized amount under the continuing resolution that previously had been in force; extrapolating that funding increases projected discretionary outlays by $4 billion over the 2016–2025 period.[12]

12. Most spending for the Department of Homeland Security is subject to the caps on discretionary funding. However, previous appropriations for 2015 were nearly $200 million below the cap on nondefense funding (in CBO’s estimation); the recent appropriations for the department filled that gap. Furthermore, the Congress appropriated an additional $812 million for disaster relief; that funding is not counted against the caps. However, under CBO’s projections, the extrapolation of such funding would cause it to exceed the amounts permissible starting in 2019. CBO’s baseline projections incorporate future spending designated as disaster relief only at or below the limits indicated by the formula specified in the Budget Control Act.

Revenues

As a result of technical updates and, to a much lesser extent, legislation enacted since its January projections were finalized, CBO has raised its projections of revenues by $3 billion for 2015 and by $77 billion (or 0.2 percent) for the 2016–2025 period. The changes are attributable primarily to the higher taxable income that will result from the expected lower health insurance premiums.

The projection for growth in private health insurance premiums has been revised downward by about 0.5 percentage points per year, on average, over the 2016–2025 period as a result of the continued slow growth in spending by private health insurers for health care and for plan administration in recent years. (See the appendix for further detail on the projection for health insurance premiums.) Economic theory and evidence suggest that changes in the amounts spent by employers on untaxed fringe benefits—the largest of which is employment-based health insurance—are generally offset over time by changes in taxable wages and salaries, thereby keeping total compensation roughly unchanged. With lower expected growth in health insurance premiums, CBO now anticipates that a larger share of employees' compensation over the coming decade will be paid in the form of wages and salaries than was the case in its previous projection, resulting in more revenues from income and payroll taxes.

All told, technical changes have led CBO to boost its projections of revenues over the 2016–2025 period by $73 billion. That increase is mainly the result of a $210 billion increase in projected revenues that is attributable to the effects of lower health insurance premiums on wages and salaries; about two-thirds of that change is offset by a reduction in projected revenues arising from changes in employment-based insurance stemming from the ACA. (See the appendix for further detail on the changes in the estimated budgetary effects of the ACA's insurance coverage provisions.) Other technical changes to the revenue projections were small and largely offsetting over the projection period.

Appendix: Updated Estimates of the Insurance Coverage Provisions of the Affordable Care Act

In preparing the March 2015 baseline projections, the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) have updated their estimates of the budgetary effects of the major provisions of the Affordable Care Act (ACA) that concern health insurance coverage.[1] CBO and JCT currently project that those provisions will result in a net cost to the federal government of $1,207 billion over the 2016–2025 period—$142 billion (or 11 percent) less than the agencies estimated in January 2015 (see Table A-1).[2]

Key Factors Leading to Changes in the Estimates Since January 2015

The reduction in the projected net cost is the result of two factors in particular:

- A downward revision in the projection of health insurance premiums that led to a lower estimate of the costs of subsidizing health insurance through the exchanges, and
- New data about the sources of health insurance coverage and the number of people without coverage in previous years that led to a slightly lower estimate of the number of people who will gain insurance coverage because of the ACA. For the next decade, CBO and JCT now project that the ACA will reduce the number of people without health insurance by 24 million to 25 million in most years relative to what would have occurred under prior law.

Reduction in Projected Health Insurance Premiums

CBO and JCT have lowered their projection of private health insurance premiums for the 2016–2025 period. New information on national health expenditures is the reason: Spending by private health insurers on health care and administration rose less in 2013 (the most recent year for which data are available) than in preceding years and by much less than the agencies had expected for 2013. The 2013 results reinforced a trend of relatively slow growth that had begun some years earlier: After excluding the effects of overall inflation (using the consumer price index) and adjusting for changes in the age and gender mix of the population, CBO and JCT estimate that growth in private health insurance spending per enrollee over the 2006–2013 period averaged 1.8 percent per year, compared with an average rate of 5.0 percent per year during the 1998–2005 period.

1. As referred to in this report, the Affordable Care Act comprises the Patient Protection and Affordable Care Act; the health care provisions of the Health Care and Education Reconciliation Act of 2010; and the effects of subsequent judicial decisions, statutory changes, and administrative actions. In addition to provisions dealing with health insurance coverage, that act included other provisions that made changes to the federal tax code, Medicare, Medicaid, and other programs.

2. For more detail on CBO and JCT's current estimates of the effects of the ACA's insurance coverage provisions, see the supplemental data for this report at www.cbo.gov/publication/49973. For the previous set of projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2015 to 2025* (January 2015), Appendix B, www.cbo.gov/publication/49892. The current estimates incorporate information about enrollment through insurance exchanges that was available through mid-February and administrative actions taken through that time, including the announcement of a special enrollment period for the exchanges this spring. The estimates do not incorporate federal regulations or guidance issued on or after February 20, 2015.

Table A-1.

Comparison of CBO and JCT's Current and Previous Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act

	January 2015 Baseline	March 2015 Baseline	Difference
	Change in Insurance Coverage Under the ACA in 2025 (Millions of nonelderly people, by calendar year)[a]		
Insurance Exchanges	24	22	-1
Medicaid and CHIP	16	14	-2
Employment-Based Coverage[b]	-9	-7	2
Nongroup and Other Coverage[c]	-4	-4	*
Uninsured[d]	-27	-25	2
	Effects on the Cumulative Federal Deficit, 2016 to 2025[e] (Billions of dollars)		
Exchange Subsidies and Related Spending and Revenues[f]	1,058	849	-209
Medicaid and CHIP Outlays	920	847	-73
Small-Employer Tax Credits[g]	15	11	-4
Gross Cost of Coverage Provisions	1,993	1,707	-286
Penalty Payments by Uninsured People	-47	-43	3
Penalty Payments by Employers[g]	-164	-167	-3
Excise Tax on High-Premium Insurance Plans[g]	-149	-87	62
Other Effects on Revenues and Outlays[h]	-284	-202	81
Net Cost of Coverage Provisions	**1,350**	**1,207**	**-142**
Memorandum:			
Increases in Mandatory Spending	2,026	1,747	-279
Increases in Revenues	677	540	-137

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: ACA = Affordable Care Act; CHIP = Children's Health Insurance Program; * = between -500,000 and zero.

a. Figures for the nonelderly population include residents of the 50 states and the District of Columbia who are younger than 65.

b. The change in employment-based coverage is the net result of projected increases and decreases in offers of health insurance from employers and changes in enrollment by workers and their families.

c. "Other Coverage" includes Medicare; the changes under the ACA are almost entirely for nongroup coverage.

d. The uninsured population includes people who will be unauthorized immigrants and thus ineligible either for exchange subsidies or for most Medicaid benefits; people who will be ineligible for Medicaid because they live in a state that has chosen not to expand coverage; people who will be eligible for Medicaid but will choose not to enroll; and people who will not purchase insurance to which they have access through an employer, through an exchange, or directly from an insurer.

e. Except in the memorandum lines, positive numbers indicate an increase in the deficit, and negative numbers indicate a decrease in the deficit. These numbers exclude effects on the deficit of provisions of the ACA that are not related to insurance coverage and effects on discretionary spending of the coverage provisions.

f. Includes spending for exchange grants to states and net spending and revenues for risk adjustment and reinsurance. The risk corridors program is recorded in the budget as a discretionary program; CBO estimates that payments and collections will offset each other in each year, resulting in no net budgetary effect.

g. These effects on the deficit include the associated effects of changes in taxable compensation on revenues.

h. Consists mainly of the effects of changes in taxable compensation on revenues.

CBO and JCT's projection of growth in private health insurance spending per enrollee for the coming decade places some weight on the very slow growth seen recently and some weight on the faster growth in previous years. CBO and JCT now estimate that spending by private health insurers per enrollee will increase, on average, by 2.2 percent per year over the 2014–2018 period and by 3.1 percent per year over the 2019–2025 period, excluding the effects of overall inflation and changes in the age and gender mix of the population.[3] The agencies' previous projection incorporated a more rapid increase in the rate of growth to a pace that was closer to that observed before 2006, but such a bounce back seems less likely in light of the further slowing of spending growth observed in the most recent data.

With overall inflation and demographic changes included, CBO and JCT now project that private health insurance spending per enrollee will grow by an average of 4.3 percent per year over the 2014–2018 period and by an average of 5.9 percent per year over the 2019–2025 period. For the decade from 2016 through 2025 that is the focus of these baseline budget projections, CBO and JCT project that private health insurance spending per enrollee will increase by an average of 5.6 percent per year. Relative to the agencies' previous projection, the current estimate amounts to a downward revision in such spending of roughly 5 percent in 2016 and roughly 10 percent in 2025.

Growth in premiums both for employment-based insurance coverage and for insurance coverage obtained through the exchanges will generally reflect the underlying trend in spending by private health insurers. However, for the 2016–2018 period, CBO and JCT project that the average cost of individual policies for the second-lowest-cost "silver" plan in the exchanges—the benchmark for determining exchange subsidies—will increase at an average rate of 8.5 percent per year. In those years, premiums for policies sold through the exchanges are expected to increase more rapidly than the underlying trend in spending for two reasons:

- Reinsurance payments that the government makes to insurance plans whose enrollees incur particularly high costs for medical care will be phased out over the next two years, placing upward pressure on exchange premiums.

- Plans initially offered through the exchanges appeared to have, in general, lower payment rates for providers, narrower networks of providers, and tighter management of their subscribers' use of health care than do employment-based plans. CBO and JCT anticipate that many plans will not be able to sustain such low provider payment rates or such narrow networks over the next few years, placing upward pressure on exchange premiums.

After 2018, exchange premiums will grow roughly in line with the underlying trend in private health insurance spending, CBO and JCT expect. For the 2019–2025 period, the agencies project that the average premium for individual policies for the second-lowest-cost "silver" plan in the exchanges will increase by an average of 5.6 percent per year. Therefore, for the 2016–2025 period as a whole, growth in the benchmark premium in the exchanges is projected to be 6.4 percent per year, on average.

Projections of spending by private health insurers are highly uncertain, especially because the causes of the pronounced slowdown in spending in the past several years are not well understood. Projections of growth in premiums for private health insurance offered through the exchanges are even more uncertain because the exchanges are so new. In CBO and JCT's view, the current projections reflect the middle of a wide distribution of possible outcomes.

New Information on Sources of Health Insurance Coverage

CBO and JCT have revised their assessment of the sources of health insurance coverage in the recent past and their projection of sources of coverage for the 2016–2025 period.[4] The most recent data from household and employer surveys have led CBO and JCT to change their

3. Those figures are roughly consistent with values from a model that predicts the growth in private health insurance spending per enrollee on the basis of lagged growth in such spending and growth in disposable personal income. For a similar approach, see Centers for Medicare & Medicaid Services, Office of the Actuary, *Projections of National Health Expenditures: Methodology and Model Specification* (September 2014), http://go.usa.gov/3xsYj (PDF, 511 KB).

4. CBO and JCT also reduced their estimates of the total nonelderly population for 2016 through 2025 because of new demographic estimates reported by the Social Security Trustees; improvements in CBO's models; and, most significantly, reductions in CBO's estimates of immigration (with the largest change occurring in the estimates of the number of unauthorized immigrants).

estimates of insurance coverage before 2014: The agencies have lowered the estimate of the total number of people with employment-based coverage, increased the estimate of the share of workers who were employed by businesses with 1,000 or more workers, and decreased the estimate of the number of people who had no health insurance at all. In addition, new data from the Centers for Medicare & Medicaid Services indicate higher Medicaid enrollment before 2014 than CBO and JCT had estimated earlier.

Those data affected CBO and JCT's projections in several ways:

- Because large employers are less likely than smaller employers to stop offering health insurance to their employees as a result of the ACA, and because fewer people had employment-based coverage before the large coverage expansion under the ACA than previously estimated (and therefore fewer people would be likely to have such coverage in the future in the absence of the ACA), CBO and JCT now project **a somewhat smaller loss of employment-based coverage** under the law.[5]

- The combination of the smaller projected loss in employment-based coverage and the conclusion that fewer people were uninsured before the coverage expansion under the ACA (and therefore that fewer people would be likely to be uninsured in the future in the absence of the ACA) led CBO and JCT to project that **somewhat fewer people will take up coverage through the exchanges and Medicaid.**

- Because Medicaid enrollment before the coverage expansion under the ACA turned out to be higher than CBO and JCT anticipated, the pool of people who would have been eligible for Medicaid but not enrolled in the program before the ACA expansion is now estimated to be smaller (and therefore the pool of people who would be likely to be eligible but not enrolled in the future in the absence of the ACA would be smaller) and thus **a somewhat smaller number of people are projected to enroll in Medicaid because of the ACA**.

- Although somewhat fewer people are now projected to gain insurance coverage because of the ACA, because CBO and JCT estimate that fewer people would be uninsured in the absence of the ACA, **the total number of people who will be uninsured under current law is now expected to be smaller** than previously projected.

Changes From Previous Estimates

CBO and JCT now project that the ACA's insurance coverage provisions will result in a net cost to the federal government of $1,207 billion over the 2016–2025 period, as follows:

- Gross costs of $1,707 billion are projected for subsidies for insurance obtained through the exchanges and related spending and revenues, for Medicaid and the Children's Health Insurance Program (CHIP), and for tax credits for small employers; and

- Savings of $500 billion are projected for net receipts from penalty payments, additional revenues resulting from the excise tax on certain high-premium insurance plans, and the effects on income and payroll tax revenues and associated outlays arising from projected changes in employment-based insurance coverage.

The current estimate of the net cost is $142 billion less than the agencies' previous estimate: A $286 billion reduction in projected gross costs was partially offset by a $144 billion reduction in projected savings.[6] The decline in gross costs can be attributed almost entirely to lower projected spending for insurance subsidies through the exchanges and for Medicaid and CHIP. The decline in offsetting savings stems primarily from changes related to

5. For a more extensive discussion of employers' decisions to offer health insurance to their employees, see Congressional Budget Office, *CBO and JCT's Estimates of the Effects of the Affordable Care Act on the Number of People Obtaining Employment-Based Health Insurance* (March 2012), footnote 30, www.cbo.gov/publication/43082, and *CBO's Health Insurance Simulation Model: A Technical Description* (October 2007), pp. 17–18, www.cbo.gov/publication/19224. For the most recently available data on differences in the rate of offering health insurance among businesses of different sizes, see Beth Levin Crimmel, *Trends in Offers, Eligibility, and Take-Up Rates for Employer-Sponsored Health Insurance: Private Sector, by Firm Size, 1996–2011,* Statistical Brief 389 (Agency for Healthcare Research and Quality, Department of Health and Human Services, November 2012), http://go.usa.gov/3xsjz.

6. The $142 billion reduction in the projected net cost of the ACA's insurance coverage provisions for the 2016–2025 period comprises a $279 billion reduction in projected outlays partially offset by a $137 billion reduction in projected revenues.

employment-based health insurance—the reduction in projected health insurance premiums and the smaller anticipated loss of employment-based insurance coverage as a result of the ACA.

Reduced Costs for Exchange Subsidies

CBO and JCT now project that the government's net costs for exchange subsidies and related spending and revenues over the 2016–2025 period will be $849 billion—$209 billion (or 20 percent) below the previous projection. That reduction is largely a result of projections of slower growth in premiums and, to a lesser extent, slightly lower exchange enrollment (as discussed above). Relative to CBO and JCT's previous projection, the agencies now anticipate that, in most years, premiums in the exchanges will be roughly 10 percent lower and about 1 million fewer people will obtain health insurance through the exchanges.

For calendar year 2015, CBO and JCT have reduced their estimate of average enrollment through the exchanges from about 12 million to about 11 million people, based on data available through mid-February. The agencies expect that more than 12 million people will have selected a plan by the close of the special enrollment period in April.[7] However, for two reasons, the agencies also estimate that the average number covered through the exchanges over the course of the year will be slightly less than that. First, people who enrolled toward the end of the initial open-enrollment period or who enroll during the subsequent special enrollment period will be covered for only part of the year. Second, some net attrition is expected later in the calendar year, as occurred in 2014.[8]

Reduced Spending for Medicaid and CHIP

CBO and JCT now project that the federal cost of the additional enrollment in Medicaid and CHIP under the ACA over the 2016–2025 period will be $847 billion, $73 billion (or 8 percent) less than they projected in January 2015. That change is mostly the result of a downward revision to the estimated number of people gaining Medicaid coverage because of the ACA (as discussed above). CBO and JCT now anticipate that, in most years, about 2 million fewer people will enroll in Medicaid or CHIP because of the ACA than they projected previously.

Reduced Savings Related to Changes in Employment-Based Health Insurance

The $144 billion reduction in projected savings from the ACA's insurance coverage provisions is mainly attributable to revisions to projected federal revenues stemming from the excise tax on certain high-premium insurance plans and to other effects on revenues and outlays arising from projected changes in employment-based coverage.

CBO and JCT now estimate that federal revenues stemming from the excise tax on certain high-premium insurance plans will be $62 billion (or 41 percent) lower over the 2016–2025 period than was estimated previously. Because premiums are now projected to be lower, fewer workers are expected to be enrolled in employment-based insurance plans whose costs exceed the excise tax thresholds specified in the ACA.

In addition, CBO and JCT now estimate that the ACA's insurance coverage provisions will have other effects on revenues and outlays that will lower estimated savings (and thus boost estimated net costs) by $81 billion (or 29 percent) relative to the agencies' previous projection. That change is mainly attributable to a projection of a smaller amount of additional revenues generated by losses in employment-based coverage: The agencies now project that, on net, 1 million to 2 million fewer people will move out of employment-based coverage under the ACA than they projected previously. A smaller loss of employment-based coverage means that less nontaxable compensation in the form of health benefits will be converted to taxable compensation as a result of the ACA. Moreover, the downward revision to projected premiums for employment-based coverage means that the losses in such coverage as a result of the ACA will yield smaller increases in taxable compensation and therefore smaller increases in tax revenues.[9]

7. See Centers for Medicare & Medicaid Services, "CMS Announces Special Enrollment Period for Tax Season" (press release, February 20, 2015), http://go.usa.gov/3xWBR.

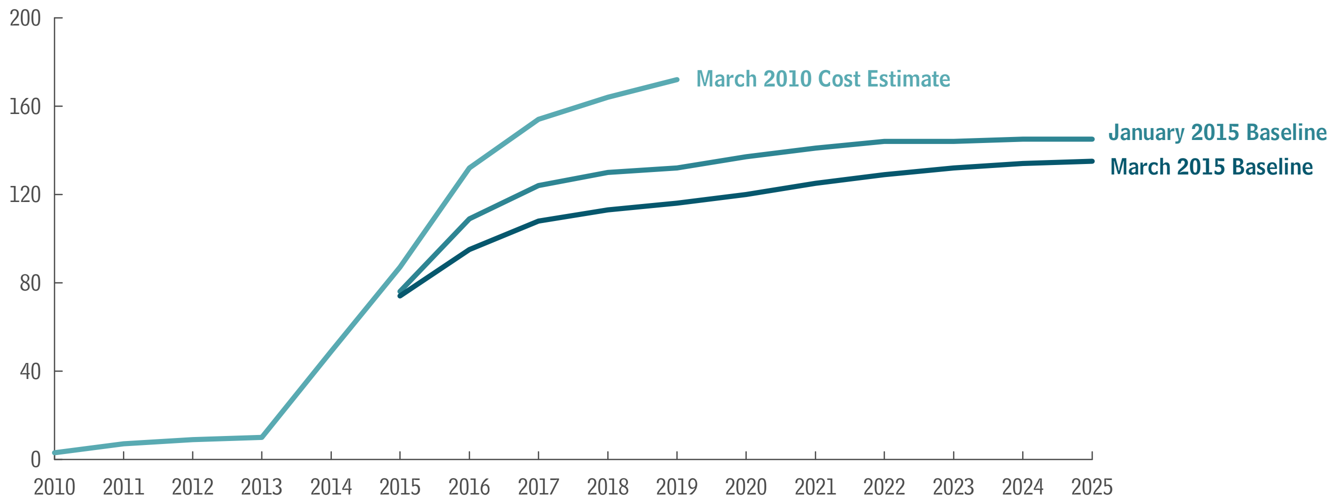
8. CBO and JCT anticipate that the net attrition will occur because the number of people who drop their exchange-based coverage when they become eligible for insurance through another source or who stop paying their premiums altogether will be larger than the number who will purchase coverage through an exchange when they become eligible because of a qualifying life event.

9. Although the reduction in projected premiums reduces the estimated gain in revenues because of changes in employment-based coverage stemming from the ACA, that change results in higher taxable compensation for people with employment-based coverage and, overall, leads to higher projected revenues in CBO's baseline. (For further discussion, see the Revenue section in "Changes in CBO's Baseline Projections Since January 2015.")

Figure A-1.

CBO and JCT's Estimates of the Net Budgetary Effects of the Insurance Coverage Provisions of the Affordable Care Act

Billions of Dollars, by Fiscal Year



Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: Effects on the deficit of provisions of the Affordable Care Act that are not related to insurance coverage and effects on discretionary spending of the coverage provisions are not shown.

Changes in Estimates Since the Enactment of the ACA

CBO and JCT have updated their baseline estimates of the budgetary effects of the ACA's insurance coverage provisions many times since the law was enacted in March 2010. As time has passed, projected costs over the subsequent 10 years have generally risen because the period spanned by the estimates has changed: Each time the projection period changes, a less expensive early year is replaced by a more expensive later year. But when compared year by year, CBO and JCT's estimates of the net budgetary impact of the ACA's insurance coverage provisions have decreased notably, on balance, over the past five years (see Figure A-1).

In March 2010, CBO and JCT projected that the insurance-related provisions of the ACA would cost the federal government $710 billion from fiscal year 2015 through fiscal year 2019 (the last year of the 10-year projection period used in 2010).[10] The most recent projections indicate that the cost will be $506 billion for that same period, a reduction of 29 percent. For 2019, CBO and JCT originally projected that the net federal cost of the insurance coverage provisions would be $172 billion. The agencies currently project a cost of $116 billion, which is $56 billion, or 33 percent, below the original projection.

The downward revision since March 2010 to the estimate of the net federal costs of the ACA's insurance coverage provisions (measured year by year) is attributable to several factors, including changes in law, revisions to CBO's economic projections, numerous improvements in CBO and JCT's modeling, the Supreme Court's decision to allow states to choose whether to expand eligibility for Medicaid, administrative actions, and the availability of new data. Another notable influence is the slowdown in the growth of health care costs covered by private insurance and in the Medicare and Medicaid programs. Although it is unclear how much of that slowdown is attributable to the recession and its aftermath and how much to other factors, the slower growth has been sufficiently broad and persistent to persuade CBO and JCT to significantly lower their projections of federal costs for health care.

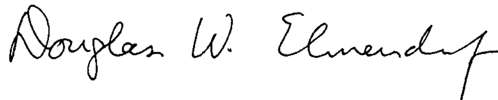
10. See Congressional Budget Office, cost estimate for H.R. 4872, Reconciliation Act of 2010—final health care legislation (March 20, 2010), www.cbo.gov/publication/21351.

About This Document

This document is one of a series of reports on the state of the budget that the Congressional Budget Office issues each year. It satisfies the requirement of section 202(e) of the Congressional Budget and Impoundment Control Act of 1974 that CBO submit to the Committees on the Budget periodic reports about fiscal policy and its baseline projections of the federal budget.

Amber Marcellino of CBO's Budget Analysis Division wrote the report with assistance from Mark Booth and Dan Ready; Sarah Masi of the Budget Analysis Division wrote the appendix with assistance from Jessica Banthin. Sarah Puro and Dan Ready prepared the supplemental material. Guidance was provided by Peter Fontaine, Theresa Gullo, Holly Harvey, Jeffrey Holland, and David Weiner. The estimates described here were the work of more than 100 staff members at CBO and the staff of the Joint Committee on Taxation. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

Robert Sunshine reviewed the report; Kate Kelly edited it; and Christine Bogusz, Maureen Costantino, and Jeanine Rees prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/49973).



Douglas W. Elmendorf
Director

March 2015