

Highlights of [GAO-13-281](#), a report to the Ranking Member, Committee on the Budget, U.S. Senate

Why GAO Did This Study

GAO regularly prepares long-term federal budget simulations under different assumptions about broad fiscal policy decisions. GAO's Baseline Extended simulation illustrates the long-term outlook assuming current law at the time the simulation was run is generally continued, while the Alternative simulation illustrates the long-term outlook assuming historical trends and past policy preferences continue. Under either set of assumptions, these simulations show that the federal budget is on an unsustainable fiscal path driven on the spending side by rising health care costs and the aging of the population. PPACA provides for expanded eligibility for Medicaid and federal subsidies to help individuals obtain private health insurance and includes provisions designed to slow the growth of federal health care spending.

GAO was asked to describe the long-term effects of PPACA on the federal fiscal outlook under both its Baseline Extended and Alternative simulations; how changes in assumptions for federal health care cost growth might affect the outlook; and the key drivers of health care cost growth and how the uncertainty associated with each may influence future health care spending. To do this, GAO compared the results of its long-term fiscal simulations from before and after the enactment of PPACA and examined the key factors that contributed to changes in revenue and spending components; reviewed trends in health care cost growth and performed a sensitivity analysis varying rates of excess cost growth; and reviewed literature describing key drivers of health care cost growth and areas of uncertainty related to projections of federal health care costs.

View [GAO-13-281](#). For more information, contact Susan J. Irving at (202) 512-6806 or irvings@gao.gov, or James C. Cosgrove at (202) 512-7114 or cosgrovej@gao.gov

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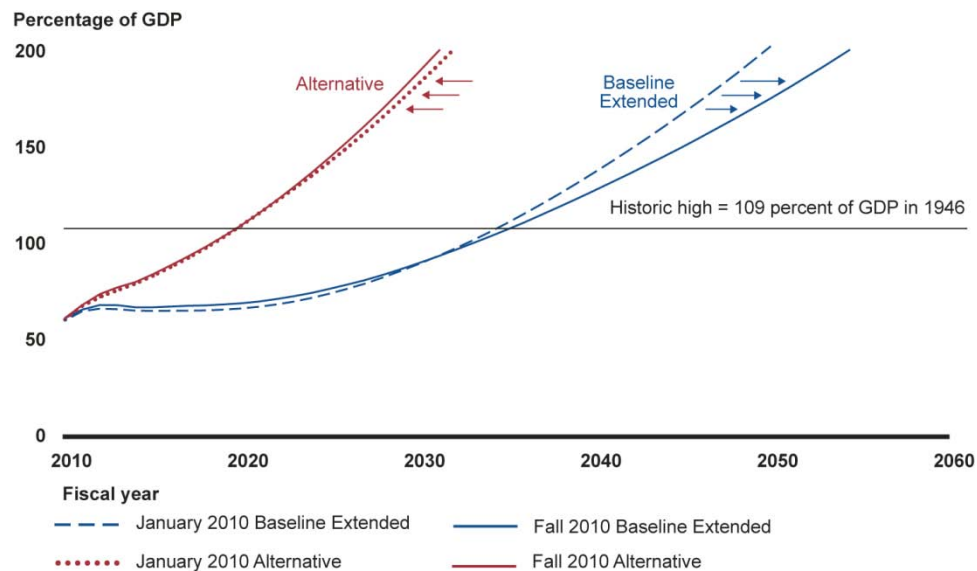
PATIENT PROTECTION AND AFFORDABLE CARE ACT

Effect on Long-Term Federal Budget Outlook Largely Depends on Whether Cost Containment Sustained

What GAO Found

The effect of the Patient Protection and Affordable Care Act (PPACA), enacted in March 2010, on the long-term fiscal outlook depends largely on whether elements in PPACA designed to control cost growth are sustained. As shown in the figure below, there was notable improvement in the longer-term outlook after the enactment of PPACA under GAO's Fall 2010 Baseline Extended simulation, which assumes both the expansion of health care coverage and the full implementation and effectiveness of the cost-containment provisions over the entire 75-year simulation period. However, the federal budget remains on an unsustainable path. Further, questions about the implementation and sustainability of these provisions have been raised by the Centers for Medicare & Medicaid Services' Office of the Actuary and others, due in part to challenges in sustaining increased health care productivity. The Fall 2010 Alternative simulation assumed cost containment mechanisms specified in PPACA were phased out over time while the additional costs associated with expanding federal health care coverage remained. Under these assumptions, the long-term outlook worsened slightly compared to the pre-PPACA January 2010 simulation.

Comparison of Debt Held by the Public in GAO's January 2010 and Fall 2010 Simulations



Source: GAO analysis.

Federal health care spending is expected to continue growing faster than the economy. In the near term, this is driven by increasing enrollment in federal health care programs due to the aging of the population and expanded eligibility. Over the longer term, excess cost growth (the extent to which growth of health care spending per capita exceeds growth of income per capita) is a key driver. Slowing the rate of health care cost growth would help put the budget on a more sustainable path. There is general agreement that technological advancement has been the key factor in health care cost growth in the past, along with the effects of expanding health insurance coverage and increasing income, but there is considerable uncertainty about the magnitude of the impact that the different factors will have on future health care cost growth.