



CONGRESSIONAL BUDGET OFFICE  
U.S. CONGRESS  
WASHINGTON, D.C. 20515

MEMORANDUM

March 4, 1988

TO: [Redacted]

FROM: Sandra Christensen *SC*  
Lisa Simonson *LS*

SUBJECT: Recent Trends in Medicare Costs

As you requested, this memorandum provides information about trends in Medicare costs by major category of service, for fiscal years 1980 through 1989. The tables show total disbursements, and do not show offsetting receipts (payroll taxes, premiums, and interest). The totals for Hospital Insurance (HI) and for Supplementary Medical Insurance (SMI) are actual spending amounts through 1987; the data for 1988 and 1989 are CBO projections, incorporating all legislation through December 31, 1987. For all years, the distribution of spending by category are estimates. Through 1986, we have used estimates made by the Health Care Financing Administration; for 1987-1989, the estimates are CBO's.

There are two sections below. Section 1 presents historical and projected data on Medicare spending under current law. Spending is shown both in current dollars and in constant 1980 dollars. Section 2 gives a rough indication of how changes in disbursements under the seven omnibus reconciliation bills since 1981 were distributed by service category, using saving (or cost) estimates made at the time of passage.

In brief, the data show that the rate of growth in spending for Medicare has declined over the decade, an effect that is more readily apparent after eliminating the effects of general inflation (see Figure 1). On a per enrollee basis, annual growth in real costs from 1985 through 1989 will be an estimated 3.0 percent, compared to an annual growth rate of 7.2 percent from 1980 through 1985.

The falling rate of growth in spending for Medicare is primarily due to lower growth in inpatient costs and in spending for physicians' services. These changes were coincident with:

- o Restraints enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA-82) and with implementation (under the Social Security Amendments of 1983) of the prospective payment system and a new peer review mechanism for hospital care; and
- o Physician fee constraints first mandated by the Deficit Reduction Act of 1984 (DEFRA-84) that were generally applicable through 1986 and applicable to specific services thereafter.

In addition, there was a decline in the rate of growth in spending for home health and skilled nursing care, due apparently to more stringent criteria used by HI intermediaries to distinguish between allowed and disallowed services.

Trends in the rate of growth in spending for hospital outpatient services and for services provided by independent laboratories are more variable, due in part to shifts in costs from other spending categories. Outpatient department costs have grown rapidly throughout the period, for example, partly because technological advances have made it possible to provide a growing number of procedures on an outpatient basis that could formerly be safely provided only on an inpatient basis, where costs are typically higher. As another example, the very large rate of growth in 1985 for services provided by independent labs resulted from provisions of DEFRA-84. Under this bill, physicians were prohibited from billing for services provided by independent laboratories, so that these costs were shifted from the physician category to the lab category, with perhaps some attendant savings due to elimination of middle-man profit for physicians.

#### TRENDS IN MEDICARE COSTS, 1980-1989

Projected spending for Medicare in fiscal year 1989 is \$97.2 billion, providing average benefits of nearly \$3,000 per enrollee. Of this total, nearly 60 percent will be under the HI program and 40 percent will be for SMI costs. More than 90 percent of HI costs are for hospital inpatient services, while about 70 percent of SMI costs are for the services of physicians and related providers. Hence, it is changes in spending for these two cost categories that largely determine the trends in overall Medicare costs.

#### Average Rates of Growth Over the Period

The average annual rate of growth in Medicare disbursements over the decade from 1980 through 1989 is about 12 percent. SMI costs are growing more rapidly than HI costs--16 percent versus 10 percent growth a year (Table 1).

Much of the growth in Medicare costs just reflects general price inflation in the economy, however. The average real rate of growth in Medicare costs--that is, in constant dollars--is about 7 percent a year between 1980 and 1989 (Table 2). Real costs for inpatient services under the HI program are growing at an average annual rate of nearly 5 percent a year, while real costs for physicians' services under the SMI program are growing at a rate of 10 percent a year. <sup>1/</sup>

When the effects of growth in Medicare enrollment are eliminated from the cost data, actual Medicare costs per enrollee are seen to have increased by about 10 percent a year from 1980 through 1989 (Table 3), while real costs per enrollee have grown by about 5 percent a year (Table 4). This residual growth of 5 percent a year, left after eliminating the effects of enrollment growth and general price inflation, includes two elements: price inflation for medical care in excess of general price inflation, and growth in the number or the complexity of services per enrollee.

#### Year-by-Year Rates of Growth

Examination of year-by-year growth shows that growth rates have generally declined over the period from 1980 through 1989 (Table 5). Growth in total Medicare costs was 21.3 percent in 1981, compared to growth of 7.6 percent in 1987. Growth is projected to be 9.5 percent for 1989.

The decline in rates of growth has been more pronounced for inpatient spending than for physician spending. In 1981, growth for both inpatient and physician services was about 21 percent. In 1989, projected growth for inpatient services is 7 percent, while projected growth for physician services is 12 percent (Table 5).

In fact, spending for inpatient services has grown more slowly than general inflation for some recent years, so that the rate of

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1. The implicit price deflator for gross national product (GNP) was used to obtain constant dollars, because this best represents general price inflation. Sector-specific indexes are available for hospital, skilled nursing facility, and home health agency costs, which show somewhat higher rates of change than the GNP deflator (see Appendix Table 1). By contrast, the Medicare Economic Index used to measure growth in physicians' costs has followed a pattern very similar to the GNP deflator in the past. A consistent series for the MEI as a measure of cost increases is not available for years after 1984, though, due to adjustments legislated during the physician fee freeze.

growth in real costs was negative in 1986 and 1987 (Table 6). On a per enrollee basis, this effect is even more pronounced (see Table 7 for per-enrollee results in current dollars, and Table 8 for constant dollars). Some of the variability in year-to-year rates of growth during this period reflects variations in the length of the payment cycle for inpatient claims, however, rather than changes in the incurred costs of services.

#### Percent Distribution of Costs by Category

In 1980, HI costs were 69 percent of total Medicare costs. Between 1980 and 1989, only about 53 percent of the growth in total Medicare costs was due to growth in HI costs. Consequently, by 1989 the HI share of costs had been reduced to 59 percent (Table 9). The decline in the share of costs due to the HI program reflects a decline for both inpatient and skilled nursing facility costs. By contrast, home health costs grew relative to total costs over the period.

Trends in the share of total costs due to SMI benefits are the mirror image of trends for HI costs. In 1980, SMI costs were 31 percent of the total, but increased to 41 percent by 1989. Between 1980 and 1989, about 47 percent of growth in total Medicare costs was due to growth in SMI costs. All categories of spending under the SMI program grew faster than total Medicare costs.

#### LEGISLATIVE CHANGES IN MEDICARE SINCE 1981

This section shows rough estimates of how changes in Medicare enacted during the period from 1981 through 1987 were distributed by major spending category.<sup>2/</sup> As in the preceding section, the effects of legislative changes that affected premium or payroll tax Medicare receipts are not discussed here. Hence, the discussion is focused on gross Medicare outlays.

The results shown in this section are derived from Congressional Budget Office estimates of savings (or costs) made at the time each bill was enacted. The amounts shown as total savings (or costs) for each bill are averages for the three fiscal years following the year of enactment. Using three-year averages simplifies the presentation to a single saving (or cost) measure

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2. The changes discussed here were incorporated in the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), the Social Security Amendments of 1983 (P.L. 98-21), the Deficit Reduction Act of 1984 (P.L. 98-369), the Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272), the Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509), and the Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203).

for each bill, and nets out changes that would just shift costs from one year to the next.

Although an estimate of overall annual savings (or costs) under each bill is shown in the tables, the amounts shown for each bill cannot be added to assess the cumulative effect of legislation during 1981-1987 on costs. This is because the estimate for each bill is based on a unique set of economic and spending projections, applicable at the time of the estimate. These underlying projections change over time, due partly to exogenous influences on the economy and partly to the impact of federal policies. Hence, the tables in this section are useful only as snapshots showing the estimated annual impact of each bill on spending by category at one point in time--the date of enactment.

In five of the seven years between 1981 and 1987, legislative changes were estimated to lower Medicare costs. For 1983 and 1986, though, legislation was expected to increase costs (ignoring changes affecting receipts, which are not shown here). These different legislative packages are discussed separately below.

#### Legislative Packages Estimated to Result in Net Medicare Savings

Estimated average annual savings are largest for legislation enacted in 1982 (TEFRA), primarily because of new limits imposed on hospital inpatient costs per discharge. In 1982, savings for the inpatient category were more than 80 percent of total Medicare savings estimated for that year (Table 10). For all but one of the other years with estimated savings, more than 50 percent of the savings came from inpatient services. The single exception is 1984, when a physician fee freeze was enacted. In this year, 71 percent of savings were from physician services, and 27 percent was from inpatient services.

It may be useful to compare the share of overall estimated savings taken from each category of spending to the share of total disbursements accounted for by the same category prior to the enactment of legislative changes. This is, however, only one of several alternative standards by which the distribution of savings in a given year could be judged. 3/

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3. Instead of using a standard based on whether savings are proportional to spending, some might prefer to judge the distribution of savings by whether the fastest-growing categories were cut the most. Alternatively, some might prefer to target cost-cutting efforts in areas where provider prices were thought to be particularly high relative to the cost of providing the services, or where adverse side effects would be minimal.

Estimated savings from inpatient services were disproportionately large in 1982 (when the share of savings was 1.27 times the share of disbursements) and were nearly proportionate to disbursements in 1985. In other years with overall savings, those expected from inpatient services have been disproportionately small (Table 11).

By contrast, the proportion of overall savings expected from the physician category has been large relative to spending since 1984, due to imposition of a fee freeze in 1984, continuation of the freeze in 1985, and enactment of service-specific fee reductions in 1987. In 1984, for example, the proportion of overall savings expected from physicians' services was nearly three times as large as the physicians' share of Medicare disbursements just prior to the 1984 legislation.

The share of savings expected from outpatient departments was disproportionately large in 1981, when Medicare's payments for enrollees with renal disease were reduced, and again in 1987 primarily because of reduction in payments for clinical laboratory services and for outpatient radiology. Expected savings from independent laboratories were disproportionately large in both 1986 and 1987 because of payment reductions for clinical laboratory services.

#### Legislative Packages Estimated to Result in Additional Spending

Estimated spending for Medicare was increased slightly by legislation in 1983 (more than offset by legislative changes that increased HI trust fund receipts). Expected inpatient costs were higher to pay Medicare's share of hospital payroll taxes, and expected costs for skilled nursing facility (SNF) services were increased by delaying implementation of a planned reimbursement limit. No other categories were affected by legislation in 1983.

In 1986, expected costs for inpatient and SNF services were increased by a change in the way the Part A deductible is updated, with the result that the deductible amount for 1987 and later years was lower than it would have been otherwise. In addition, costs for all Medicare services were expected to increase because of a requirement that clean claims be paid more quickly.

cc. Chuck Seagrave

Figure 1.

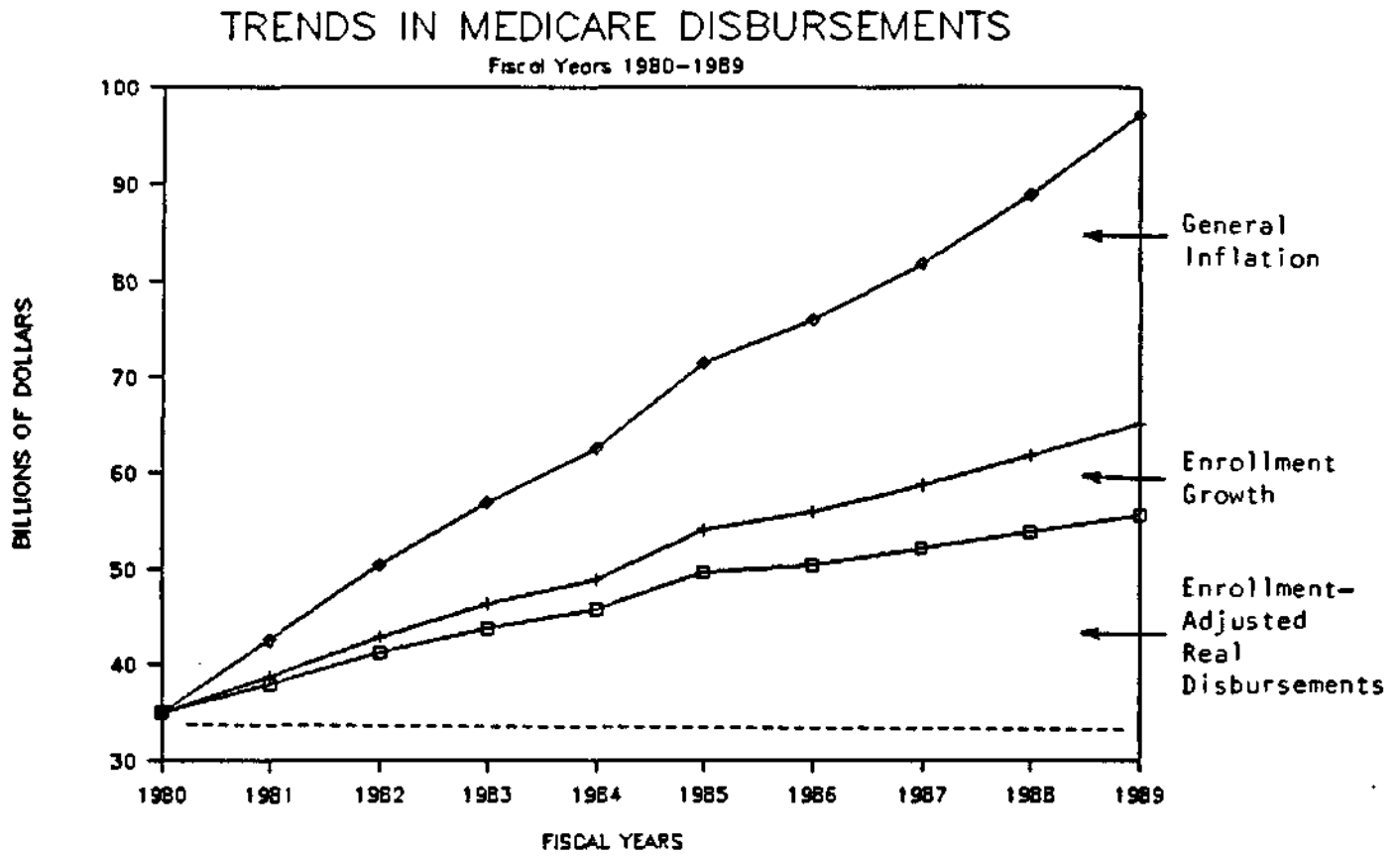


TABLE 1. MEDICARE DISBURSEMENTS BY CATEGORY, FISCAL YEARS 1980-1989 (In millions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
TOTAL MEDICARE	35,025	42,488	50,424	56,935	62,480	71,384	75,903	81,640	88,831	97,241	12.0%
Benefits	33,935	41,252	49,149	55,589	60,948	69,649	74,187	79,912	86,968	95,298	12.2%
Administration	1,090	1,236	1,275	1,346	1,532	1,735	1,716	1,728	1,863	1,943	6.6%
HOSPITAL INSURANCE (HI)	24,288	29,260	34,864	38,624	42,108	48,654	49,685	50,803	53,659	57,485	10.0%
Benefits	23,791	28,907	34,343	38,102	41,475	47,841	49,018	49,975	52,855	56,659	10.1%
Administration	497	353	521	522	633	813	667	828	804	826	5.8%
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	10,737	13,220	15,560	18,311	20,372	22,730	26,218	30,837	35,172	39,756	15.7%
Benefits	10,144	12,345	14,806	17,487	19,473	21,808	25,169	29,937	34,113	38,639	16.0%
Administration	593	883	754	824	899	922	1,049	900	1,059	1,117	7.3%
BY BENEFIT CATEGORY											
A. HOSPITAL INSURANCE (HI)											
1. Inpatient	22,864	27,764	32,721	36,076	39,093	45,156	46,278	47,020	49,646	53,164	9.8%
2. SNF	387	428	461	510	540	570	565	575	620	670	6.3%
3. Hospice	0	0	0	0	2	15	35	50	69	95	na
B. HOME HEALTH (HI AND SMI)	764	948	1,177	1,538	1,870	2,144	2,223	2,355	2,549	2,763	15.4%
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)											
1. Physician	7,814	9,513	11,392	13,499	15,196	16,790	18,548	22,081	24,748	27,685	15.1%
2. Outpatient Hospital	1,809	2,215	2,916	3,346	3,530	3,911	4,936	5,940	7,036	8,151	18.2%
3. Group Practice Plans	190	243	308	411	465	571	953	1,288	1,602	1,976	29.7%
4. Independent Lab	106	141	174	209	253	492	699	602	698	794	25.1%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.



TABLE 2. REAL MEDICARE DISBURSEMENTS BY CATEGORY, FISCAL YEARS 1980-1989 (In millions of 1980 dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
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TOTAL MEDICARE	35,025	38,655	42,726	46,298	48,861	54,081	56,009	58,579	61,805	65,009	7.1%
Benefits	33,935	37,530	41,646	45,204	47,663	52,766	54,743	57,339	60,509	63,710	7.2%
Administration	1,090	1,124	1,080	1,095	1,198	1,314	1,266	1,240	1,296	1,299	2.0%
HOSPITAL INSURANCE (HI)	24,288	26,620	29,542	31,408	32,929	36,860	36,663	36,453	37,334	38,430	5.2%
Benefits	23,791	26,299	29,100	30,984	32,434	36,244	36,170	35,859	36,774	37,878	5.3%
Administration	497	321	441	424	495	616	492	594	559	552	1.2%
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	10,737	12,035	13,185	14,890	15,931	17,220	19,346	22,127	24,471	26,578	10.6%
Benefits	10,144	11,231	12,546	14,220	15,228	16,522	18,572	21,481	23,734	25,831	10.9%
Administration	593	803	639	670	703	699	774	646	737	747	2.6%
BY BENEFIT CATEGORY											
A. HOSPITAL INSURANCE (HI)											
1. Inpatient /a/	22,864	25,259	27,726	29,336	30,572	34,210	34,149	33,738	34,542	35,542	5.0%
2. SNF	387	389	391	415	422	432	417	413	431	448	1.6%
3. Hospice	0	0	0	0	2	11	26	36	48	64	na
B. HOME HEALTH (HI AND SMI)	764	862	997	1,251	1,462	1,624	1,640	1,690	1,773	1,847	10.3%
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)											
1. Physician	7,814	8,655	9,653	10,977	11,884	12,720	13,687	15,844	17,219	18,508	10.1%
2. Outpatient Hospital	1,809	2,015	2,471	2,721	2,761	2,963	3,642	4,262	4,895	5,449	13.0%
3. Group Practice Plans	190	221	261	334	364	433	703	924	1,115	1,321	24.0%
4. Independent Lab	106	128	147	170	198	373	516	432	486	531	19.6%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.

NOTE: The implicit price deflator for gross national product (GNP) is used to obtain constant dollars.

a. If the hospital market basket had been used instead for inpatient costs, the average growth rate would be 4.1 percent.

TABLE 3. MEDICARE DISBURSEMENTS PER ENROLLEE, FISCAL YEARS 1980-1989 (In dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
<b>TOTAL MEDICARE</b>	1,257	1,497	1,747	1,937	2,096	2,349	2,449	2,611	2,787	2,994	10.1%
Benefits	1,218	1,453	1,703	1,891	2,045	2,291	2,393	2,556	2,728	2,934	10.3%
Administration	39	44	44	46	52	57	56	55	59	60	4.8%
<b>HOSPITAL INSURANCE (HI)</b>	865	1,023	1,199	1,305	1,404	1,591	1,592	1,620	1,678	1,765	8.2%
Benefits	848	1,011	1,181	1,288	1,383	1,564	1,570	1,593	1,653	1,739	8.3%
Administration	18	12	18	18	21	27	21	26	25	25	4.1%
<b>SUPPLEMENTARY MEDICAL INSURANCE (SMI)</b>	392	473	548	632	693	758	857	992	1,109	1,230	13.5%
Benefits	370	442	521	604	662	727	823	963	1,073	1,195	13.9%
Administration	22	32	27	28	31	31	34	29	33	35	5.3%
<b>BY BENEFIT CATEGORY</b>											
<b>A. HOSPITAL INSURANCE (HI)</b>											
1. Inpatient	815	971	1,126	1,219	1,303	1,476	1,483	1,499	1,553	1,632	8.0%
2. SNF	14	15	16	17	18	19	18	18	19	21	4.5%
3. Hospice	0	0	0	0	0	0	1	2	2	3	na
<b>B. HOME HEALTH (HI AND SMI)</b>											
	27	33	40	52	62	70	71	75	80	85	13.5%
<b>C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)</b>											
1. Physician	285	340	401	466	517	560	606	710	780	856	13.0%
2. Outpatient Hospital	66	79	103	115	120	130	161	191	222	252	16.1%
3. Group Practice Plans	7	9	11	14	16	19	31	41	50	61	27.4%
4. Independent Lab	4	5	6	7	9	16	23	19	22	25	22.8%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.

TABLE 4. REAL MEDICARE DISBURSEMENTS PER ENROLLEE, FISCAL YEARS 1980-1989 (In 1980 dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
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TOTAL MEDICARE	1,257	1,362	1,480	1,575	1,639	1,779	1,807	1,874	1,939	2,002	5.3%
Benefits	1,218	1,322	1,443	1,538	1,599	1,736	1,766	1,834	1,898	1,962	5.4%
Administration	39	40	38	37	40	43	41	40	41	40	0.2%
HOSPITAL INSURANCE (HI)	865	931	1,016	1,062	1,098	1,205	1,174	1,162	1,168	1,180	3.5%
Benefits	848	920	1,001	1,047	1,081	1,185	1,159	1,143	1,150	1,163	3.6%
Administration	18	11	15	14	17	20	16	19	17	17	-0.5%
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	392	431	464	514	542	574	632	712	771	822	8.6%
Benefits	370	402	442	491	518	551	607	691	748	799	8.9%
Administration	22	29	22	23	24	23	25	21	23	23	0.7%
BY BENEFIT CATEGORY											
A. HOSPITAL INSURANCE (HI)											
1. Inpatient <sup>a/</sup>	815	883	954	991	1,019	1,118	1,094	1,076	1,080	1,091	3.3%
2. SNF	14	14	13	14	14	14	13	13	13	14	-0.0%
3. Hospice	0	0	0	0	0	0	1	1	2	2	na
B. HOME HEALTH (HI AND SMI)											
	27	30	34	42	49	53	53	54	55	57	8.5%
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)											
1. Physician	285	310	340	379	404	424	447	509	543	572	8.0%
2. Outpatient Hospital	66	72	87	94	94	99	119	137	154	169	11.0%
3. Group Practice Plans	7	8	9	12	12	14	23	30	35	41	21.8%
4. Independent Lab	4	5	5	6	7	12	17	14	15	16	17.4%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.

NOTE: The implicit price deflator for gross national product (GNP) is used to obtain constant dollars.

a. If the hospital market basket had been used instead for inpatient costs, the average growth rate would be 2.3 percent.

TABLE 5. ANNUAL RATE OF GROWTH IN MEDICARE DISBURSEMENTS, FISCAL YEARS 1980-1989 (In percents)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
TOTAL MEDICARE	21.3X	18.7X	12.9X	9.7X	14.3X	6.3X	7.6X	8.8X	9.5X	12.0X
Benefits	21.6X	19.1X	13.1X	9.6X	14.3X	6.5X	7.7X	8.8X	9.6X	12.2X
Administration	13.4X	3.2X	5.6X	13.8X	13.3X	-1.1X	0.7X	7.8X	4.3X	6.6X
HOSPITAL INSURANCE (HI)	20.5X	19.2X	10.8X	9.0X	15.5X	2.1X	2.3X	5.6X	7.1X	10.0X
Benefits	21.5X	18.8X	10.9X	8.9X	15.3X	2.5X	2.0X	5.8X	7.2X	10.1X
Administration	-29.0X	47.6X	0.2X	21.3X	28.4X	-18.0X	24.1X	-2.9X	2.7X	5.8X
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	23.2X	17.6X	17.7X	11.3X	11.6X	15.3X	17.6X	14.1X	13.0X	15.7X
Benefits	21.7X	19.9X	18.1X	11.4X	12.0X	15.4X	18.9X	13.9X	13.3X	16.0X
Administration	48.9X	-14.6X	9.3X	9.1X	2.6X	13.8X	-14.2X	17.7X	5.5X	7.3X
BY BENEFIT CATEGORY										
A. HOSPITAL INSURANCE (HI)										
1. Inpatient	21.4X	17.9X	10.3X	8.4X	15.5X	2.5X	1.6X	5.6X	7.1X	9.8X
2. SNF	10.6X	7.7X	10.6X	5.9X	5.6X	-0.9X	1.8X	7.8X	8.1X	6.3X
3. Hospice					650.0X	133.3X	42.9X	38.0X	37.7X	na
B. HOME HEALTH (HI AND SMI)										
	24.1X	24.2X	30.7X	21.6X	14.7X	3.7X	5.9X	8.2X	8.4X	15.4X
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)										
1. Physician	21.7X	19.8X	18.5X	12.6X	10.5X	10.5X	19.0X	12.1X	11.9X	15.1X
2. Outpatient Hospital	22.4X	31.6X	14.7X	5.5X	10.8X	26.2X	20.3X	18.5X	15.8X	18.2X
3. Group Practice Plans	27.9X	26.7X	33.4X	13.1X	22.8X	66.9X	35.2X	24.4X	23.3X	29.7X
4. Independent Lab	33.0X	23.4X	20.1X	21.1X	94.5X	42.1X	-13.9X	15.9X	13.8X	25.1X

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.

TABLE 6. ANNUAL RATE OF GROWTH IN REAL MEDICARE DISBURSEMENTS, FISCAL YEARS 1980-1989 (in percents)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
TOTAL MEDICARE	10.4%	10.5%	8.4%	5.5%	10.7%	3.6%	4.6%	5.5%	5.2%	7.1%
Benefits	10.6%	11.0%	8.5%	5.4%	10.7%	3.7%	4.7%	5.5%	5.3%	7.2%
Administration	3.2%	-3.9%	1.3%	9.5%	9.7%	-3.7%	-2.1%	4.5%	0.2%	2.0%
HOSPITAL INSURANCE (HI)	9.6%	11.0%	6.3%	4.8%	11.9%	-0.5%	-0.6%	2.4%	2.9%	5.2%
Benefits	10.5%	10.7%	6.5%	4.7%	11.7%	-0.2%	-0.9%	2.6%	3.0%	5.3%
Administration	-35.4%	37.5%	-3.8%	16.6%	24.4%	-20.1%	20.7%	-5.8%	-1.3%	1.2%
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	12.1%	9.6%	12.9%	7.0%	8.1%	12.3%	14.4%	10.6%	8.6%	10.6%
Benefits	10.7%	11.7%	13.3%	7.1%	8.5%	12.4%	15.7%	10.5%	8.8%	10.9%
Administration	35.5%	-20.5%	4.9%	4.9%	-0.6%	10.8%	-16.6%	14.1%	1.3%	2.6%
BY BENEFIT CATEGORY										
A. HOSPITAL INSURANCE (HI)										
1. Inpatient /a/	10.5%	9.8%	5.8%	4.2%	11.9%	-0.2%	-1.2%	2.4%	2.9%	5.0%
2. SNF	0.6%	0.3%	6.2%	1.8%	2.3%	-3.5%	-1.0%	4.6%	3.8%	1.6%
3. Hospice					626.6%	127.3%	38.9%	33.8%	32.3%	na
B. HOME HEALTH (HI AND SMI)										
	12.9%	15.6%	25.4%	16.9%	11.1%	1.0%	3.0%	5.0%	4.2%	10.3%
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)										
1. Physician	10.8%	11.5%	13.7%	8.3%	7.0%	7.6%	15.8%	8.7%	7.5%	10.1%
2. Outpatient Hospital	11.4%	22.6%	10.1%	1.5%	7.3%	22.9%	17.0%	14.9%	11.3%	13.0%
3. Group Practice Plans	16.4%	18.0%	28.1%	8.8%	19.0%	62.6%	31.4%	20.6%	18.5%	24.0%
4. Independent Lab	21.0%	14.9%	15.3%	16.4%	88.4%	38.4%	-16.3%	12.4%	9.3%	19.6%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.

NOTE: The implicit price deflator for gross national product (GNP) is used to obtain constant dollars.

a. If the hospital market basket had been used instead for inpatient costs, the average growth rate would be 4.1 percent.

TABLE 7. ANNUAL RATE OF GROWTH IN MEDICARE DISBURSEMENTS PER ENROLLEE, FISCAL YEARS 1980-1989 (In percents)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
TOTAL MEDICARE	19.1%	16.7%	10.9%	8.2%	12.0%	4.3%	6.6%	6.7%	7.4%	10.1%
Benefits	19.3%	17.2%	11.1%	8.1%	12.1%	4.4%	6.8%	6.7%	7.6%	10.3%
Administration	11.7%	1.2%	3.6%	12.1%	10.9%	-2.9%	-0.6%	5.8%	2.4%	4.8%
HOSPITAL INSURANCE (HI)	18.3%	17.2%	8.8%	7.5%	13.3%	0.1%	1.8%	3.6%	5.1%	8.2%
Benefits	19.3%	16.8%	9.0%	7.4%	13.1%	0.4%	1.5%	3.8%	5.2%	8.3%
Administration	-30.3%	45.2%	-1.6%	19.6%	25.9%	-19.6%	23.5%	-4.7%	0.8%	4.1%
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	20.8%	15.7%	15.4%	9.6%	9.4%	13.1%	15.7%	11.8%	10.9%	13.5%
Benefits	19.3%	17.9%	15.8%	9.7%	9.8%	13.1%	17.0%	11.7%	11.2%	13.9%
Administration	46.0%	-16.0%	7.2%	7.5%	0.6%	11.5%	-15.6%	15.3%	3.5%	5.3%
BY BENEFIT CATEGORY										
A. HOSPITAL INSURANCE (HI)										
1. Inpatient	19.2%	15.9%	8.3%	6.9%	13.3%	0.4%	1.1%	3.6%	5.1%	8.0%
2. SNF	8.6%	5.9%	8.7%	4.4%	3.5%	-2.9%	1.3%	5.8%	6.1%	4.5%
3. Hospice					635.5%	128.6%	42.2%	35.4%	35.1%	na
B. HOME HEALTH (HI AND SMI)										
	21.8%	22.1%	28.4%	19.9%	12.4%	1.6%	5.4%	6.2%	6.4%	13.5%
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)										
1. Physician	19.4%	17.8%	16.2%	10.9%	8.4%	8.3%	17.1%	9.8%	9.8%	13.0%
2. Outpatient Hospital	20.1%	29.5%	12.5%	3.9%	8.7%	23.7%	18.4%	16.1%	13.7%	16.1%
3. Group Practice Plans	25.4%	24.6%	30.9%	11.4%	20.4%	63.6%	32.9%	21.9%	21.0%	27.4%
4. Independent Lab	30.4%	21.4%	17.8%	19.2%	90.7%	39.3%	-15.3%	13.6%	11.6%	22.8%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.

TABLE 8. ANNUAL RATE OF GROWTH IN REAL MEDICARE DISBURSEMENTS PER ENROLLEE, FISCAL YEARS 1980-1989 (In percents)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
TOTAL MEDICARE	8.3%	8.7%	6.4%	4.1%	8.5%	1.6%	3.7%	3.5%	3.2%	5.3%
Benefits	8.5%	9.1%	6.6%	4.0%	8.6%	1.7%	3.9%	3.5%	3.3%	5.4%
Administration	1.6%	-5.8%	-0.5%	7.8%	7.5%	-5.4%	-3.3%	2.5%	-1.6%	0.2%
HOSPITAL INSURANCE (HI)	7.6%	9.1%	4.3%	3.4%	9.8%	-2.5%	-1.1%	0.5%	1.0%	3.5%
Benefits	8.5%	8.8%	4.6%	3.3%	9.6%	-2.2%	-1.3%	0.6%	1.1%	3.6%
Administration	-36.6%	35.2%	-5.5%	15.0%	22.0%	-21.7%	20.1%	-7.6%	-3.1%	-0.5%
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	9.9%	7.7%	10.7%	5.4%	6.0%	10.1%	12.5%	8.4%	6.6%	8.6%
Benefits	8.6%	9.9%	11.1%	5.5%	6.4%	10.2%	13.8%	8.3%	6.8%	8.9%
Administration	32.8%	-21.8%	2.8%	3.3%	-2.5%	8.6%	-17.9%	11.8%	-0.5%	0.7%
BY BENEFIT CATEGORY										
A. HOSPITAL INSURANCE (HI)										
1. Inpatient /a/	8.5%	8.0%	4.0%	2.8%	9.7%	-2.2%	-1.7%	0.4%	1.0%	3.3%
2. SNF	-1.2%	-1.3%	4.3%	0.4%	0.3%	-5.4%	-1.5%	2.6%	1.9%	-0.0%
3. Hospice					612.5%	122.7%	38.2%	31.3%	29.8%	na
B. HOME HEALTH (HI AND SMI)										
	10.8%	13.7%	23.2%	15.3%	8.9%	-1.0%	2.5%	3.0%	2.2%	8.5%
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)										
1. Physician	8.6%	9.7%	11.5%	6.6%	5.0%	5.5%	13.9%	6.5%	5.5%	8.0%
2. Outpatient Hospital	9.2%	20.6%	8.0%	-0.1%	5.3%	20.5%	15.1%	12.6%	9.2%	11.0%
3. Group Practice Plans	14.1%	16.1%	25.6%	7.2%	16.7%	59.4%	29.3%	18.2%	16.3%	21.8%
4. Independent Lab	18.7%	13.0%	13.0%	14.7%	84.8%	35.7%	-17.6%	10.2%	7.3%	17.4%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.

NOTE: The implicit price deflator for gross national product (GNP) is used to obtain constant dollars.

a. If the hospital market basket had been used instead for inpatient costs, the average growth rate would be 2.3 percent.

TABLE 9. PERCENT DISTRIBUTION OF MEDICARE DISBURSEMENTS BY CATEGORY, FISCAL YEARS 1980-1989

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Contribution To Total Growth 1980-1989
TOTAL MEDICARE	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Benefits	96.9%	97.1%	97.5%	97.6%	97.5%	97.6%	97.7%	97.9%	97.9%	98.0%	98.6%
Administration	3.1%	2.9%	2.5%	2.4%	2.5%	2.4%	2.3%	2.1%	2.1%	2.0%	1.4%
HOSPITAL INSURANCE (HI)	69.3%	68.9%	69.1%	67.8%	67.4%	68.2%	65.5%	62.2%	60.4%	59.1%	53.4%
Benefits	67.9%	68.0%	68.1%	66.9%	66.4%	67.0%	64.6%	61.2%	59.5%	58.3%	52.8%
Administration	1.4%	0.8%	1.0%	0.9%	1.0%	1.1%	0.9%	1.0%	0.9%	0.8%	0.5%
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	30.7%	31.1%	30.9%	32.2%	32.6%	31.8%	34.5%	37.8%	39.6%	40.9%	46.6%
Benefits	29.0%	29.1%	29.4%	30.7%	31.2%	30.6%	33.2%	36.7%	38.4%	39.7%	45.8%
Administration	1.7%	2.1%	1.5%	1.4%	1.4%	1.3%	1.4%	1.1%	1.2%	1.1%	0.8%
BY BENEFIT CATEGORY											
A. HOSPITAL INSURANCE (HI)											
1. Inpatient	65.3%	65.3%	64.9%	63.4%	62.6%	63.3%	61.0%	57.6%	55.9%	54.7%	48.7%
2. SNF	1.1%	1.0%	0.9%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%	0.7%	0.5%
3. Hospice	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%
B. HOME HEALTH (HI AND SMI)											
	2.2%	2.2%	2.3%	2.7%	3.0%	3.0%	2.9%	2.9%	2.9%	2.8%	3.2%
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)											
1. Physician	22.3%	22.4%	22.6%	23.7%	24.3%	23.5%	24.4%	27.0%	27.9%	28.5%	31.9%
2. Outpatient Hospital	5.2%	5.2%	5.8%	5.9%	5.6%	5.5%	6.3%	7.3%	7.9%	8.4%	10.2%
3. Group Practice Plans	0.5%	0.6%	0.6%	0.7%	0.7%	0.8%	1.3%	1.6%	1.8%	2.0%	2.9%
4. Independent Lab	0.3%	0.3%	0.3%	0.4%	0.4%	0.7%	0.9%	0.7%	0.8%	0.8%	1.1%

SOURCE: Health Care Financing Administration for 1980-1987; Congressional Budget Office projections for 1988-1989.



TABLE 10. PERCENT DISTRIBUTION OF ESTIMATED MEDICARE SAVINGS (OR COSTS) BY CATEGORY UNDER SELECTED LEGISLATION, FISCAL YEARS 1981-1987

	-----Medicare Legislation Enacted In-----						
	1981	1982	1983	1984	1985	1986	1987
AVERAGE ANNUAL SAVINGS (OR COSTS) (In millions of dollars)	\$1,441	\$3,763	(\$90)	\$1,524	\$1,281	(\$338)	\$3,053

PERCENT DISTRIBUTION BY CATEGORY

	1981	1982	1983	1984	1985	1986	1987
TOTAL MEDICARE	100.0X	100.0X	100.0X	100.0X	100.0X	100.0X	100.0X
Benefits	98.9X	99.7X	97.6X	98.6X	100.7X	91.7X	100.1X
Administration	1.1X	0.3X	2.4X	1.4X	-0.7X	8.3X	-0.1X
HOSPITAL INSURANCE (HI)	61.5X	84.1X	100.0X	31.7X	64.5X	89.6X	51.4X
Benefits	61.1X	84.1X	97.6X	31.1X	64.8X	82.3X	51.6X
Administration	0.4X	0.0X	2.4X	0.6X	-0.3X	7.2X	-0.1X
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	38.5X	15.9X	0.0X	68.3X	35.5X	10.4X	48.6X
Benefits	37.8X	15.6X	0.0X	67.5X	36.0X	9.4X	48.6X
Administration	0.7X	0.3X	0.0X	0.8X	-0.4X	1.0X	0.0X
BY BENEFIT CATEGORY							
A. HOSPITAL INSURANCE (HI)							
1. Inpatient	51.6X	82.6X	86.5X	31.1X	64.8X	78.6X	51.5X
2. SNF	5.8X	0.6X	11.1X	-2.1X	-1.0X	0.8X	-0.3X
3. Hospice	0.0X	0.0X	0.0X	0.0X	0.0X	0.0X	0.0X
B. HOME HEALTH (HI AND SMI)	3.7X	1.0X	0.0X	2.1X	1.0X	3.0X	0.4X
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)							
1. Physician	19.6X	11.2X	0.0X	66.2X	34.2X	8.7X	37.8X
2. Outpatient Hospital	23.7X	4.0X	0.0X	1.1X	1.6X	4.4X	8.5X
3. Group Practice Plans	0.3X	0.1X	0.0X	0.1X	0.2X	0.8X	0.2X
4. Independent Lab	0.2X	0.0X	0.0X	0.1X	-0.1X	-4.5X	2.0X

SOURCE: Congressional Budget Office

NOTE: Savings (costs) are based on average of first three years following enactment. Legislative changes affecting receipts are not shown. Results for years with costs are shaded.

TABLE 11. DISTRIBUTION OF ESTIMATED MEDICARE SAVINGS (COSTS) COMPARED TO DISTRIBUTION OF PREVIOUS YEAR'S DISBURSEMENT FISCAL YEARS 1981-1987

	-----Medicare Legislation Enacted In-----						
	1981	1982	1983	1984	1985	1986	1987
AVERAGE ANNUAL SAVINGS (OR COSTS) (In millions of dollars)	\$1,441	\$3,763	(\$90)	\$1,524	\$1,281	(\$338)	\$3,053
RATIO OF DISTRIBUTIONS--SAVINGS (COSTS) OVER PREVIOUS YEAR'S DISBURSEMENTS							
TOTAL MEDICARE	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Benefits	1.02	1.02	1.00	1.01	1.03	0.94	1.02
Administration	0.38	0.12	1.00	0.57	-0.29	2.66	-0.06
HOSPITAL INSURANCE (HI)	0.89	1.22	1.47	0.47	0.95	1.37	0.83
Benefits	0.90	1.23	1.46	0.47	0.97	1.28	0.84
Administration	0.50	0.00	2.58	0.61	-0.25	8.23	-0.12
SUPPLEMENTARY MEDICAL INSURANCE (SMI)	1.24	0.51	0.00	2.09	1.12	0.30	1.29
Benefits	1.30	0.53	0.00	2.17	1.18	0.28	1.32
Administration	0.33	0.21	0.00	0.54	-0.33	0.76	0.00
BY BENEFIT CATEGORY							
A. HOSPITAL INSURANCE (HI)							
1. Inpatient	0.79	1.27	1.37	0.50	1.02	1.29	0.89
2. SNF	5.79	0.61	12.39	-2.42	-1.27	1.10	-0.44
3. Hospice	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B. HOME HEALTH (HI AND SMI)	1.65	0.44	0.00	0.70	0.33	1.01	0.14
C. SUPPLEMENTARY MEDICAL INSURANCE (SMI)							
1. Physician	0.61	0.50	0.00	2.72	1.46	0.36	1.40
2. Outpatient Hospital	4.55	0.70	0.00	0.20	0.30	0.68	1.16
3. Group Practice Plans	0.56	0.11	0.00	0.18	0.31	0.65	0.15
4. Independent Lab	0.51	0.10	0.00	0.20	-0.18	-4.91	2.75

SOURCE: Congressional Budget Office

NOTE: Savings (costs) are based on average of first three years following enactment. Legislative changes affecting receipts are not shown. Results for years with costs are shaded.

APPENDIX TABLE 1. COST INDEXES AND PERCENT GROWTH IN INDEXES, FISCAL YEARS 1980-1989

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Average Growth Rate 1980-1989
<b>GNP Deflator</b>											
Index	100.0	109.9	118.0	123.0	127.9	132.0	135.5	139.4	143.7	149.6	
Percent Change		9.9%	7.4%	4.2%	4.0%	3.2%	2.7%	2.8%	3.1%	4.1%	4.6%
<b>Hospital Market Basket</b>											
Index	100.0	110.5	119.8	127.0	133.3	138.8	143.2	147.7	154.3	162.5	
Percent Change		10.5%	8.4%	6.0%	5.0%	4.1%	3.2%	3.1%	4.5%	5.3%	5.5%
<b>SNF Market Basket</b>											
Index	100.0	109.6	118.0	125.4	131.1	135.5	140.2	na	na	na	
Percent Change		9.6%	7.7%	6.2%	4.6%	3.3%	3.5%	na	na	na	na
<b>Home Health Market Basket</b>											
Index	100.0	111.9	124.0	133.2	140.1	146.9	152.2	na	na	na	
Percent Change		11.9%	10.8%	7.4%	5.2%	4.9%	3.6%	na	na	na	na

SOURCE: Data Resources, Inc., for 1980-1986; Congressional Budget Office projections for 1987-1989.