



March 5, 2013

Honorable Paul Ryan
Chairman
Committee on the Budget
U.S. House of Representatives
Washington DC 20515

Dear Mr. Chairman:

As you requested, enclosed are two tables that show federal spending and average annual growth rates for the federal government's major mandatory spending programs that are primarily means-tested (that is, programs and tax credits that provide cash payments or assistance in obtaining health care, food, or education to people with relatively low income or few assets). Table 1 shows CBO's baseline projections for the 2013–2023 period; Table 2 shows historical spending data from 2003 through 2012, along with CBO's estimates for 2013.

Those means-tested programs include all of the mandatory programs that were highlighted in CBO's recent report on means-tested spending, *Growth in Means-Tested Programs and Tax Credits for Low-Income Households* (February 2013). In addition we have included some smaller mandatory means-tested programs that were not discussed in that report: the Children's Health Insurance Program (CHIP), veterans' pensions, foster care payments, and additional programs in the family support category.

The tables do not include data on mandatory programs that are mostly not means-tested, but that have components that are means-tested (for example, student loans and some portions of Medicare, other than low-income subsidies for Part D.) They also do not include means-tested programs that are discretionary (for example, the Section 8 housing assistance programs and the Low Income Home Energy Assistance Program).

In CBO's latest baseline projections, published in *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (February 2013), total mandatory spending (excluding offsetting receipts) is projected to grow at an average annual rate of 5.6 percent over the 2014–2023 period. In those projections, the means-tested programs identified in the enclosed tables grow more rapidly than the programs that are not means-tested—by 6.2 percent, as compared with 5.3 percent (see Table 1).

Overall, the growth rates projected for the coming decade are slower than those experienced in the past 10 years—by about one-half percent per year, on average. Over the 2004–2013 period, CBO estimates that total mandatory outlays will have increased at an average annual rate of 6.1 percent—means-tested programs by an average of 6.7 percent per year and non-means-tested programs by 5.9 percent per year (see Table 2).

A number of programs shown in Tables 1 and 2 have been or are scheduled to be significantly affected by changes in law, the recent recession, and the continuing recovery. As a result, important aspects of the programs in the future may differ significantly from historical experience, and those differences may be the source of some of the variation between the growth rates in the past 10 years and those in the coming decade. For example, spending for Medicaid, CHIP, health insurance subsidies, the Supplemental Nutrition Assistance Program (SNAP), and the refundable portions of the earned income and child tax credits has been or will be significantly affected by program changes that unfold over time:

- The difference in growth rates for **Medicaid** in the two periods stems in part from policy changes that *reduced* those rates for the past decade (when they averaged 5.1 percent) but *will increase* them in the coming decade (when they are projected to average 8.0 percent). For example, in 2006, Medicaid spending contracted when spending for prescription drugs for certain people was shifted to the new Medicare Part D program. Projected rates of growth in Medicaid spending over the coming decade are elevated, reflecting the expansion of Medicaid coverage under the Affordable Care Act. CBO expects growth to average about 11 percent per year over the 2014–2017 period, as the expansion is phased in, and then to level off at a steady-state rate of about 6 percent per year from 2018 through 2023.

- The difference in growth rates between the two periods for **CHIP** (8.1 percent over the 2004–2013 period vs. -5.0 percent over the 2014–2023 period) reflects the sunset of CHIP’s existing authority at the end of fiscal year 2015. Consistent with statutory guidelines, CBO assumes in its baseline spending projections that funding for the program after 2015 will continue at \$5.7 billion, which is a significant reduction from the amount available at the start of the 2014–2023 period.
- Payments of **health insurance subsidies** under the Affordable Care Act are scheduled to begin in 2014, and the high rates of growth beginning in that year reflect a startup period for the new program. In the current projection, the number of people gaining coverage through the exchanges rises from 7 million in 2014 to 24 million in 2016. CBO projects that, after the initial startup, annual growth will average about 5 percent from 2018 through 2023.
- **SNAP** spending increased markedly during the recent recession—particularly in 2009 and 2010—as more people became eligible for those benefits. In addition, provisions in the American Recovery and Reinvestment Act of 2009 (ARRA) raised the maximum benefit under that program; those provisions expire in October 2013. In addition, CBO expects that SNAP caseloads will eventually fall as the economy continues to improve.
- The outlay portions of the **earned income and child tax credits** are expected to dip after 2018 because provisions expanding the refundability of those credits (which were originally enacted in ARRA and were recently extended) are scheduled to expire on December 31, 2017.

Finally, because of the unique budgetary treatment of the Pell Grant program—which has both mandatory and discretionary components—the growth rates for the mandatory portions of that program give incomplete information. The bulk of the funding for Pell grants is discretionary and is provided annually in appropriation acts. In recent years, spending for Pell grants also has included two mandatory components that have allowed the

Honorable Paul Ryan

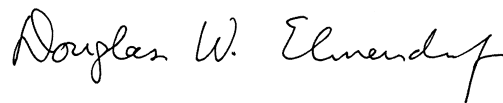
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discretionary budget authority provided by the regular appropriation acts to remain well below the full cost of the program.

In keeping with procedures that govern CBO's baseline projections, the projection for the discretionary portion of the Pell Grant program is based on the budget authority appropriated for fiscal year 2013, adjusted for inflation. (Discretionary spending for the program is shown as a memorandum item in both tables.) Thus, the baseline projection for both discretionary and mandatory spending for Pell grants does not represent an estimate of the expected future costs of the program; such a projection also would take into account such factors as changes in eligibility and enrollment.

I hope that you find this information helpful. If you have any further questions, please contact me or my staff. The primary staff contact is Barry Blom.

Sincerely,

A handwritten signature in cursive script that reads "Douglas W. Elmendorf".

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Chris Van Hollen
Ranking Member

Table 1

Mandatory Outlays in CBO's February 2013 Baseline

(Outlays by fiscal year, in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average Annual Growth 2014-2023
Means-Tested Outlays												
Health Care Programs												
Medicaid	265	297	331	372	399	422	449	476	505	536	572	8.0%
Medicare Part D Low-Income Subsidies	23	25	28	33	34	34	41	45	49	58	60	10.0%
Health insurance subsidies, exchanges, and related spending	1	21	42	74	95	106	111	115	122	128	134	22.9% ^a
Children's Health Insurance Program	9	13	14	8	6	6	6	6	6	6	6	-5.0%
Subtotal	299	356	416	487	533	569	606	642	683	727	772	9.9%
Income Security												
SNAP	82	80	79	79	78	76	75	74	73	73	73	-1.2%
Supplemental Security Income	53	55	56	63	59	56	63	64	66	74	70	2.8%
Earned income and child tax credits	80	83	84	83	83	84	73	74	75	77	78	-0.3%
Family support ^b	25	25	25	25	25	25	25	25	25	25	25	0.2%
Child nutrition	21	22	22	23	24	25	26	27	28	29	30	4.0%
Foster care	7	7	7	7	7	7	8	8	8	8	8	2.0%
Subtotal	268	271	273	280	277	273	269	272	276	286	285	0.6%
Veterans' Pensions	5	6	6	7	7	7	7	7	8	8	8	3.9%
Pell Grants ^c	18	12	7	7	9	11	11	11	11	11	11	-4.9%
Subtotal, Means-Tested Programs	590	644	701	781	826	859	893	932	977	1,032	1,075	6.2%
Non-Means-Tested Programs ^d	1,730	1,770	1,859	1,984	2,071	2,163	2,304	2,437	2,584	2,779	2,911	5.3%
Total Mandatory Outlays	2,321	2,414	2,560	2,765	2,897	3,022	3,197	3,369	3,561	3,812	3,986	5.6%
Memorandum												
Pell Grants (Discretionary) ^e	15	23	30	24	24	25	25	26	26	27	27	6.2%

Source: Congressional Budget Office.

Notes: The projections shown here are the same as those reported in Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (February 2013). Some of the projections differ from those reported in Congressional Budget Office, *Growth in Means-Tested Programs and Tax Credits for Low-Income Households* (February 2013). For an explanation of those differences, see the footnotes in Table A-2 of that report.

The average annual growth rate over the 2014-2023 period encompasses growth in outlays from the amount projected for 2013 to the amount projected for 2023.

Projections on spending for benefit programs in this table exclude administrative costs that are classified as discretionary but generally include administrative costs classified as mandatory.

SNAP = Supplemental Nutrition Assistance Program.

a. Because payments of the health insurance subsidies do not begin until 2014, the average growth rate reported here reflects the average increase from the amount projected for 2014 to the amount projected for 2023.

b. Includes Temporary Assistance for Needy Families and various programs that involve payments to states for child support enforcement and family support, child care entitlements, and research to benefit children.

c. Includes mandatory spending designed to reduce the discretionary budget authority needed to support the maximum award level set in the appropriation act plus mandatory spending that, by formula, increases the total maximum award above the amount set in the appropriation act.

d. Does not include offsetting receipts.

e. The discretionary baseline does not represent a projection of expected costs for the discretionary portion of the Pell Grant program. As with all other discretionary programs, the budget authority is calculated by inflating the budget authority appropriated for fiscal year 2013. Outlays for future years are based on those amounts of budget authority and also reflect a temporary surplus of budget authority provided in 2013.

Table 2**Mandatory Outlays Since 2003**

(Outlays by fiscal year, in billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Projected, 2013	Average Annual Growth 2004-2013
Means-Tested Programs												
Health Care Programs												
Medicaid	161	176	182	181	191	201	251	273	275	251	265	5.1%
Medicare Part D Low-Income Subsidies	0	0	0	11	17	17	19	21	26	20	23	10.9% ^a
Health insurance subsidies, exchanges, and related spending	0	0	0	0	0	0	0	*	*	*	1	n.a.
Children's Health Insurance Program	4	5	5	5	6	7	8	8	9	9	9	8.1%
Subtotal	165	181	187	197	213	225	277	302	310	280	299	6.1%
Income Security												
SNAP	25	29	33	35	35	39	56	70	77	80	82	12.5%
Supplemental Security Income	33	34	38	37	36	41	45	47	53	47	53	5.0%
Earned income and child tax credits	38	42	49	52	54	75	67	77	78	77	80	7.7%
Family support ^b	26	24	24	24	24	25	26	28	26	24	25	-0.8%
Child nutrition	12	12	13	14	14	15	16	17	18	19	21	5.4%
Foster care	6	6	6	6	7	7	7	7	7	7	7	1.3%
Subtotal	141	147	164	168	170	202	217	247	260	254	268	6.6%
Veterans' Pensions	3	3	4	4	3	4	4	4	5	5	5	5.1%
Pell Grants ^c	0	0	0	0	0	1	2	4	14	12	18	n.a.
Subtotal, Means-Tested Programs	309	331	354	369	386	431	501	558	589	550	590	6.7%
Non-Means-Tested Programs^d	974	1,015	1,095	1,187	1,242	1,349	1,783	1,539	1,631	1,690	1,730	5.9%
Total Mandatory Outlays	1,283	1,347	1,449	1,556	1,628	1,780	2,284	2,097	2,220	2,240	2,321	6.1%
Memorandum												
Pell Grants (Discretionary)	12	13	13	13	13	15	13	20	21	21	15	2.2%

Source: Congressional Budget Office.

Notes: The average annual growth rate over the 2004-2013 period encompasses growth in outlays from the amount recorded in 2003 through the amount projected for 2013.

Data on spending for benefit programs in this table exclude administrative costs that are classified as discretionary but generally include administrative costs classified as mandatory.

SNAP = Supplemental Nutrition Assistance Program; n.a. = not applicable.

* = between zero and \$500 million.

a. The average annual growth rate reflects the program's growth from its inception in 2006 through 2013.

b. Includes Temporary Assistance for Needy Families and various programs that involve payments to states for child support enforcement and family support, child care entitlements, and research to benefit children.

c. Includes mandatory spending designed to reduce the discretionary budget authority needed to support the maximum award level set in the appropriation act plus mandatory spending that, by formula, increases the total maximum award above the amount set in the appropriation act.

d. Does not include offsetting receipts.