



The cost of "health care is now the single-biggest factor driving down" the federal budget deficit.

— *Barack Obama on Thursday, October 2nd, 2014 in a speech at Northwestern University*



Obama: Health care is driving down the deficit

By *Lauren Carroll* on Wednesday, October 8th, 2014 at 2:09 p.m.



President Barack Obama addressed the economy in a speech at Northwestern University in Evanston, Ill.,

on Oct. 2, 2014. We checked one of his claims.

Since the Affordable Care Act was first proposed, policymakers have been debating its potential effect not just on health care but on the economy as a whole. The bill effectively increases some types of spending, reduces other types and increases some taxes.

President Barack Obama considers the health care legislation one of his economic success stories.

"Partly because health care prices have been growing at the slowest rate in nearly 50 years, the growth in what health care costs the government is down," Obama said in a speech about the economy last week at [Northwestern University](#). "Health care has long been the single-biggest driver of America's future deficits. It's been the single-biggest driver of our debt. Health care is now the single-biggest factor driving down those deficits."

We wondered: Is it true that "health care is now the single-biggest factor driving down" the federal budget deficit? We found that the claim is pretty well supported.

To put it simply: A few years ago, economists predicted that net federal spending on health care would get very high, very fast -- fast enough to drive the deficit [out of control](#). Now, by contrast, they predict that net federal spending on health care will grow, but not quite as fast as originally thought, making the deficit at least a little more manageable.

The projections

We know that the deficit has gone down [quite a bit](#) in the past few years -- from about 10 percent as a share of GDP in 2009 to about 3 percent

this year. For future projections, we turned to the nonpartisan Congressional Budget Office, which frequently publishes budget outlook reports.

In 2010, the [CBO](#) said the health care legislation, as proposed, would reduce the deficit by an estimated \$124 billion over a decade when compared to projections that did not include the Affordable Care Act. The CBO has [since said](#) that economic conditions have changed, making this projection less reliable; CBO still says it will likely lower the deficit, but it has not pinned down a specific dollar value.

[In February](#), the CBO produced a report outlining general budget projections for the next decade, through 2024. In that report, they said the deficit over those 10 years would be a cumulative \$7.9 trillion.

[Then, in April](#), CBO revised that calculation, shrinking the cumulative deficit over the next decade to \$7.6 trillion -- \$286 billion smaller than before.

The CBO said this shrunken projection of the deficit largely had to do with lower estimates of the cost of Affordable Care Act insurance subsidies and Medicare. Between February and April, CBO lowered estimated spending over the 10-year period for Affordable Care Act-related expenses by 15 percent and lowered estimated spending on Medicare by 1.4 percent.

Of course, this is a comparison between two scenarios that both take into account the Affordable Care Act. So some of these changes might have to do with costs associated with the Affordable Care Act, but those costs wouldn't have existed if the law hadn't been enacted in the first place.

This trend holds for the long term, too, said David Rosnick, an

economist at the liberal Center for Economic and Policy Research.

Rosnick pointed us to the CBO's [75-year projection](#) published in 2007, which was both before the recession and before the Affordable Care Act. That year, the CBO projected that the primary deficit (that is, the deficit not counting interest payments) in 2082 would be about 7.1 percent of GDP. By contrast, the [75-year budget outlook](#) published in 2014 projects that the 2082 deficit will be around 2.4 percent -- significantly lower than previous projections.

That coincides with lower projected spending on Medicare and Medicaid over the next several decades, Rosnick said. In 2007, the CBO predicted that Medicare and Medicaid spending would cost about 18.6 percent of GDP in 2082. But in 2014, the CBO predicted that Medicare, Medicaid and insurance subsidies would cost about 13.1 percent of GDP in 2082.

Rosnick said the change in projected federal health care spending compared to the change in projected deficit shows that the former "is the biggest factor driving down the long-run deficits."

Of course, the art of projecting deficits out to 2082 are far from exact -- that would be 21 years after Obama turns 100 -- and a lot of factors are at play. But we spoke with several budget experts who agree that health care is a major reason why CBO's projections for future deficits are going down.

Henry Aaron, a Brookings Institution senior fellow, said that while the spending cuts known as sequestration and ending certain tax cuts for the wealthy are helping to bring down the long-term deficit projections, health care is the main driver.

"The longer-term projections are now much less threatening than they

were just a few years ago," he said. "The big story is that health care spending growth is now projected to be much slower than it was projected to be just a few years back."

That said, there is debate among health economists over how much of the downward trend is specifically attributable to the Affordable Care Act.

Mark McClellan, a former head of Medicare and Medicaid under President George W. Bush, now at Brookings, said it's unlikely the legislation itself is the main factor, since the slowdown in health care costs began before the law was enacted, and most of the cost contractions comes from areas of health care care that aren't directly affected by the law.

McClellan also noted a shorter-term concern: The main reason deficits are projected to rise over the next decade is spending on health care. CBO agrees.

"The pressures stemming from an aging population, rising health care costs, and an expansion of federal subsidies for health insurance would cause spending for some of the largest federal programs to increase relative to GDP," CBO [said in July](#).

Of course, we should note that the aging population would have happened independent of the Affordable Care Act, and health care costs were rising for years before the law was signed.

Our ruling

Obama said the cost of "health care is now the single-biggest factor driving down" the federal budget deficit.

The CBO recently lowered its projection for long-term deficits and specifically cited health care costs as the main reason, though the Affordable Care Act is not necessarily the primary cause of that calculation. That said, even though projections are lower than they were years ago, health care spending is rising in the short term and will keep adding to the deficit. We rate Obama's claim Mostly True.



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