DRAFT FINDING ON TRANSITION FROM SHORT-RANGE TO LONG-RANGE PROJECTIONS

February 2, 2017
Prepared by Ellen Meara & Austin Frakt

Finding 1: The panel finds that the current approach to transition from short-range to long-range forecasts for HI and SMI are appropriate.

Issue: The panel was asked to consider long-range growth assumptions for HI and SMI and the transition from short-range to long-range forecasts.

For each projection in the Trustees report (part A, part B, and part D), estimates are based on prices (from current law) and a measure of volume and intensity. The volume and intensity of services are estimated differently in the short-run (years 1 to 10), long-run (years 26 to 75) and transition (years 11 to 25) as summarized in the table below. Because different approaches for short-run periods and long-run periods are used, the growth rate at the end of year 10 is substantially different than the growth rate that would occur if the long run approach (the factors contributing to growth model based on National Health Expenditures (NHE), were used.

	Price	V&I
Years 1-10	Current law	Actuarial trend assumptions
Years 11-25	Current law	Linear transition
Years 26-75	Current law	NHE factors model

Source: August 30, 2016 presentation by John Shatto to the Panel

Prior panels: Focusing on panels since 2000, only the 2000 panel considered the transition explicitly in its report. Asked to comment on the definition of short range, transition period, and long range, the panel found that defining these periods similarly for HI and SMI despite differences in projection methods was appropriate. The 2010-2011 technical panel, during its discussions raised the issue of whether alternative approaches to handling the transition from years 11 to 25 should be handled differently. Some stated a preference for no transition period, which would lead to a cliff in the excess growth rate between short-range and long-range projections. Ultimately, though, findings on the transition approach was outside the scope of the final 2010-2011 technical panel report.

Current panel considerations, evidence, and conclusions: The panel discussed and dismissed an approach that would create difficult to explain jumps in the rate of excess growth. The panel felt this would add to confusion to an already complex set of projections.

Given the panel's general agreement with short-range and long-range approaches to the projections, the panel considered alternative, less abrupt transitions between short and long range. No evidence was presented, nor were panel members aware of any evidence that would lead to changing the length of the 15-year time period.

At the request of the panel, the staff at OACT prepared detailed examples of an alternative approach to the current transition, a blending of the short range and long range assumptions. For each program, part A, part B, and part D, these alternative blended transition approaches yielded trends nearly identical to those using current methods. The current methods used in the TR are slightly more straightforward than the blended method, as seen in figures 1 to 3. Thus, the panel concludes that there is no need to alter the approach to the transition period.

Figure 1
Part A Expenditures Under Various Alternatives for Transition Period (years 11-25)

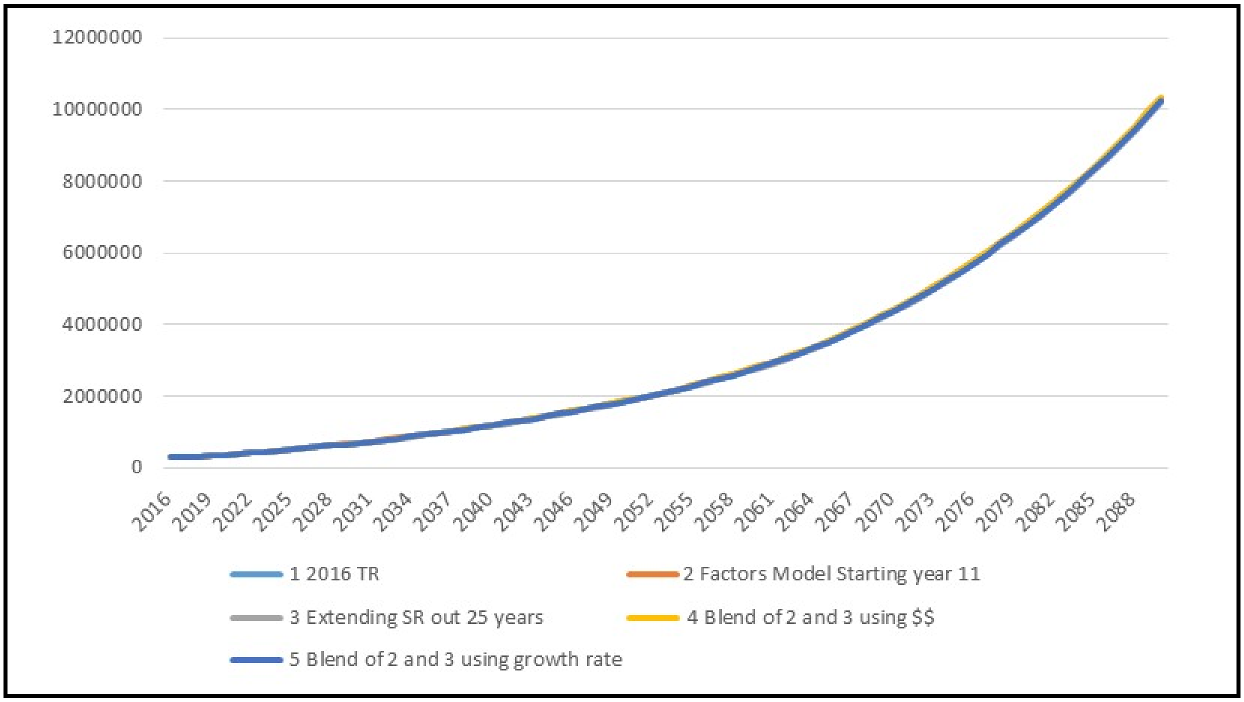

Figure 2
Part B Expenditures Under Various Transition Methods (Years 11-25)

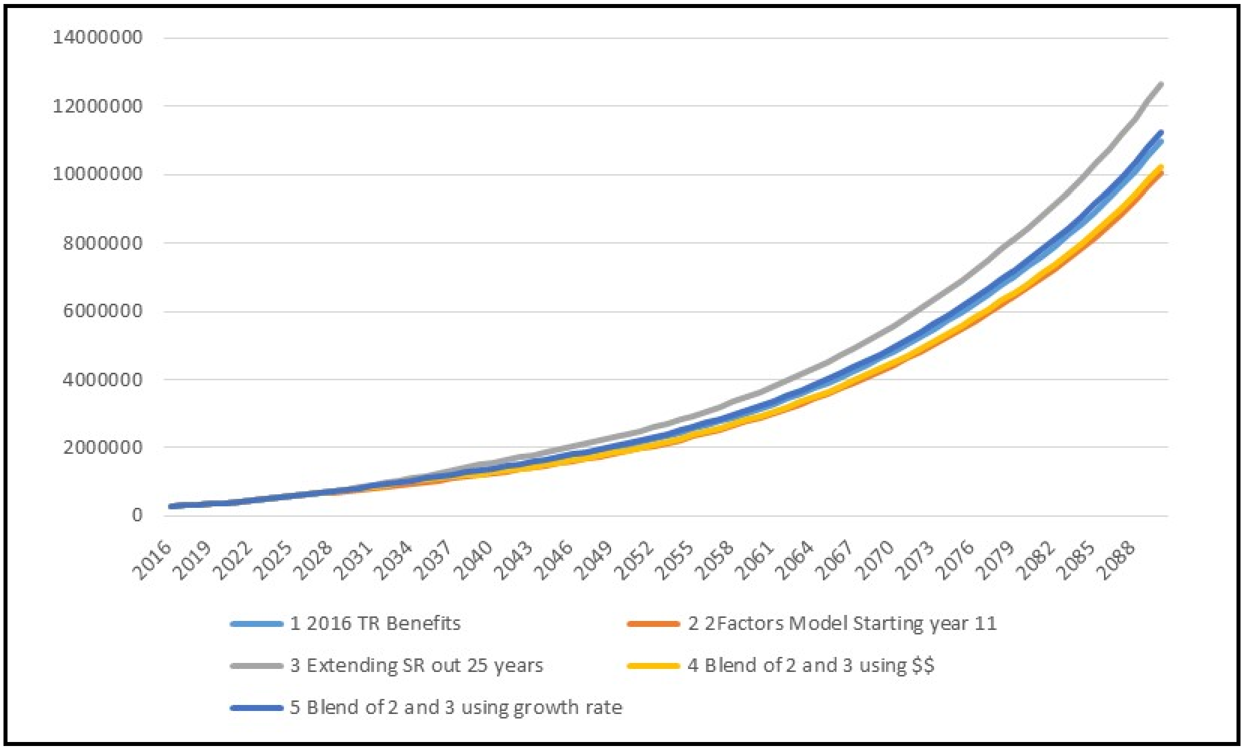

Figure 3
Part D Expenditures Under Various Transition Methods