

Age distribution of spending, December 2016
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In the October meeting, information on differential growth in health spending by age was presented. The oldest old, those 85 and older, have experienced much more rapid per capita growth in recent decades compared with those 65 to 84 (Table 1). This means that as baby boomers move through older age groups, spending growth projections could be understated.

For long range growth rates, the current TR projects spending forward by 5-year age group and Medicare part using the average part-specific growth rate. This is fine if population shares by age remain relatively constant over time, or if spending grows at constant rate across age groups. However, age shares are changing with baby boomers, and spending grows at different rates for different age groups. Ignoring these differences could influence long run projections.

Potential recommendation: When trending spending forward by age within each part of Medicare, growth rates should be age-specific rather than based on the overall growth rate.

Information needed—the first question is whether this refinement may influence estimates in a meaningful way. In October, panel members asked whether the differential growth in spending by age effect is important in magnitude. Using medical spending by age in the recent CBO report on this topic, a simple example is presented below.

Table 1
Spending by year and age group from [Niu et al. 2015](#)

	Part A & B spending 1999	Part A & B spending 2012	Compound annual growth rate 1999 to 2012*
Age 65 to 74	4,484	5,601	1.92%
Age 75 to 84	6,979	9,690	2.99%
Age 85 and older	8,359	12,669	3.97%
Average (age 65+)	5,822	7,891	2.37%

*Computed comparing 2012 to 1999 spending numbers

Table 2
Share of 65 and older population by age group

	2012	2040 projected
Age 65 to 74	0.56	0.45
Age 75 to 84	0.32	0.38
Age 85 and older	0.12	0.18

Source: 2012 data based on Census [estimates](#). 2040 data based on Census [projections](#).

Table 3
Projected spending in 2040 based on age-specific vs. constant growth rates

	Projected Part A & B spending in 2040	
	Age-specific growth rate	Constant growth rate
Age 65 to 74	9,043	10,784
Age 75 to 84	19,648	18,657
Age 85 and older	32,839	26,435
Average (age 65+)	17,273	16,536

Source: Calculations use 2012 Part A & B spending projected forward using the compound growth rates (either age-specific or the average) in Table 1.

Based on these projections, 2040 spending is 4.5 percent lower using constant growth rates across age groups compared with age-specific growth rates. In earlier years, the spending gap is likely to be smaller in both absolute and relative terms, and these later differences would be discounted in estimates of the actuarial balance.

Next steps—The group may comment on what additional information would be needed to justify a recommendation that spending growth rates by age-specific growth rates.