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How Our Nation's Health Care Expenditures Reduce Education Funding, and Better Ways To Structure Our Nation's Investments

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- In 1980, a new associate professor at the University of Illinois at Urbana-Champaign, a leading public school, earned about the same amount as one at the University of Chicago, a nearby leading private school; ditto for the University of Texas at Austin and Rice University.
 - By 2000, new associate professors at the University of Illinois and the University of Texas were earning about 15 percent less than their counterparts at Chicago and Rice. And by this year, the differential had widened to 20 percent.
 - And these differences ultimately affect quality. The U.S. News and World Report college rankings are hardly perfect, but they do provide some perspective. In the 1987 survey, there were 8 public schools among the top 25; this year (2014 Rankings) there were only 3 (UC Berkeley, UC LA, and UVA), and just one in the top 20.
 - In 1987, the top-ranked public university (the University of California at Berkeley) came in fifth. This year, Berkeley was still the top-rated of the public universities, but it had fallen to 20th overall.

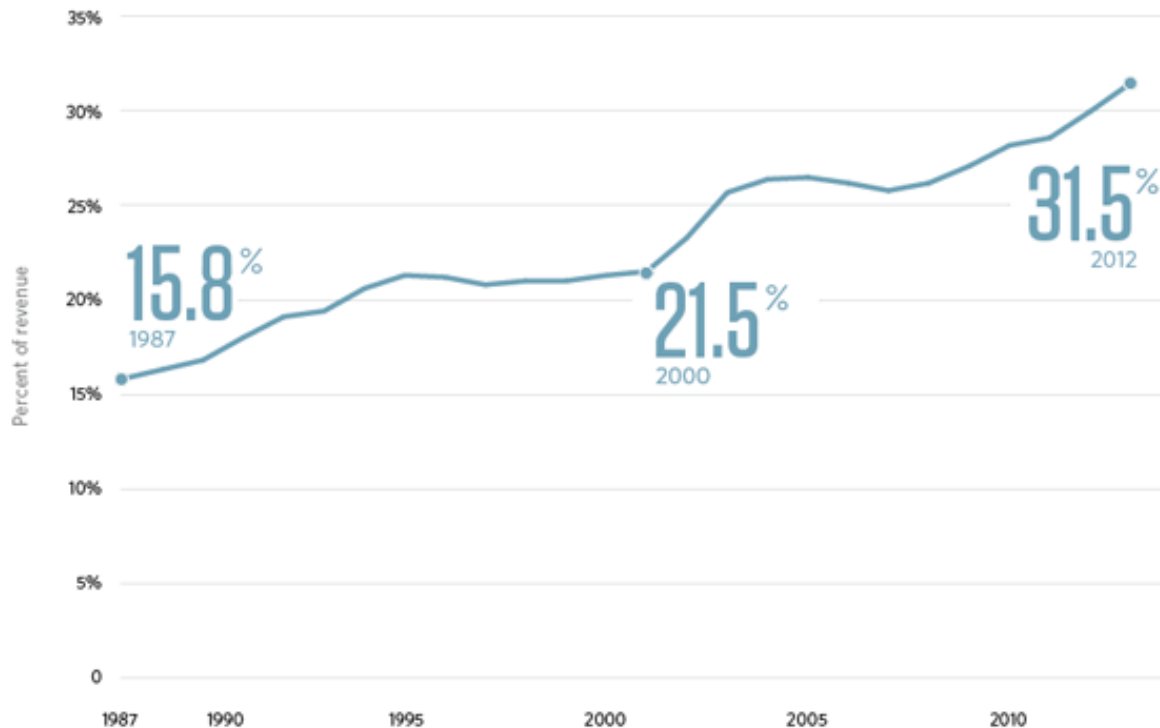
Kane and Orszag:

- Governments' general support for higher education 25 years ago was nearly 50 percent greater than state spending on health care. That relationship has now flipped: health spending is about 50 percent greater than support for higher education.
- If higher education's share of state budgets had remained constant instead of being crowded out by rising health costs, it would be getting some \$30 billion more than it receives today, or more than \$2,000 per student.
- To be sure, tuitions have risen significantly and now account for almost half of total public higher education budgets, up from about a quarter in 1985. Yet this has not been enough to offset state government cutbacks.
- Three decades ago, state appropriations generally accounted for about four times the revenue of tuition — so offsetting a 20 percent reduction in state support would require raising tuition by 80 percent.
- The result, as we've seen, is that public colleges haven't been able to stay competitive with private universities on salaries and spending on students. And the solution is to slow health costs.

Figure 1

State and Local Budgets Pressured by Health Care Spending

Total state and local government health care spending as a share of own-source revenue, 1987-2012



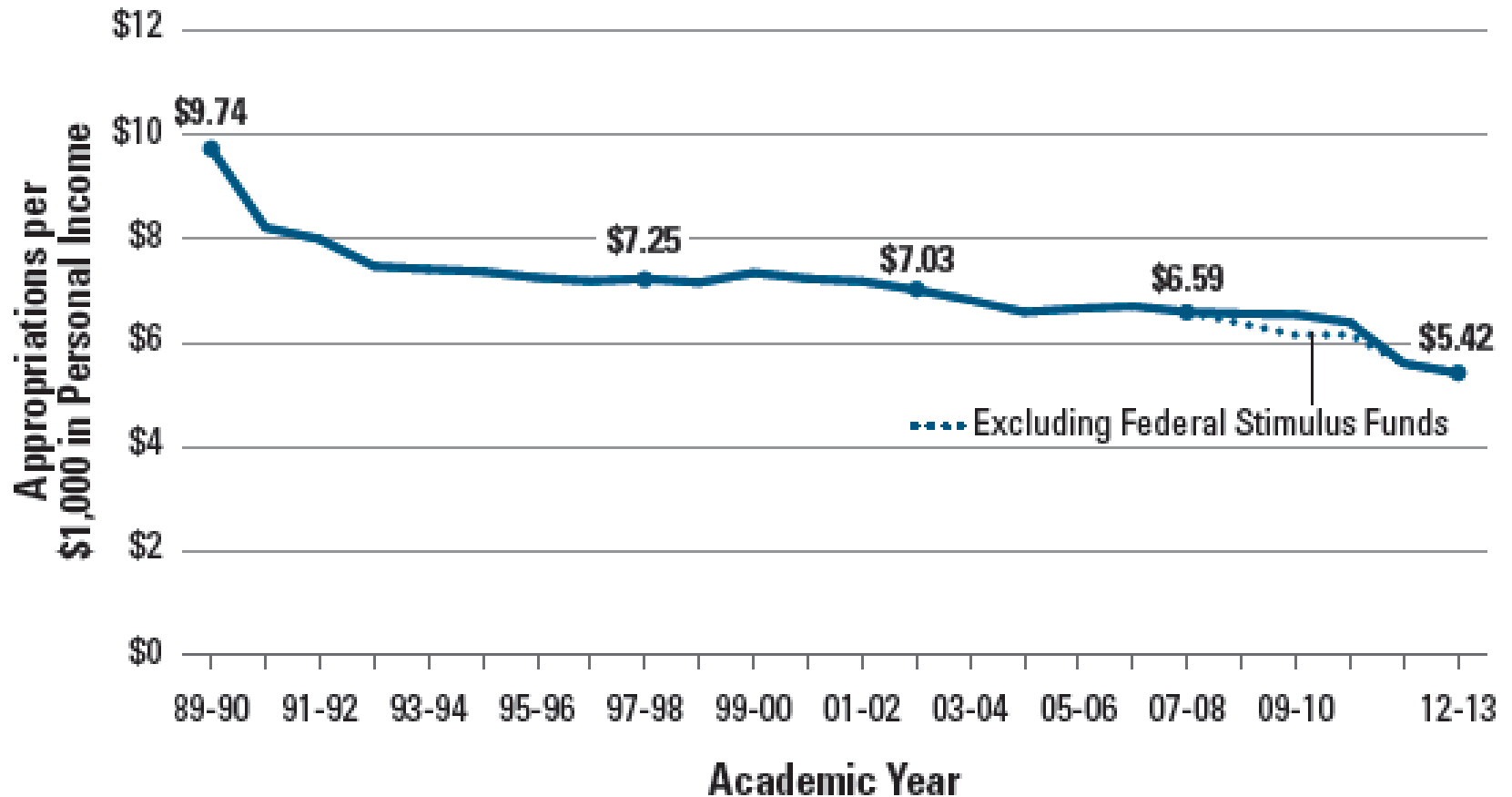
Note: Expenditure data from the National Health Expenditure Accounts were divided by revenue data from the National Income and Product Accounts. State and local revenues is state and local current receipts minus contributions for government social insurance and federal grants-in-aid.

Sources: Centers for Medicare and Medicaid Services; Bureau of Economic Analysis

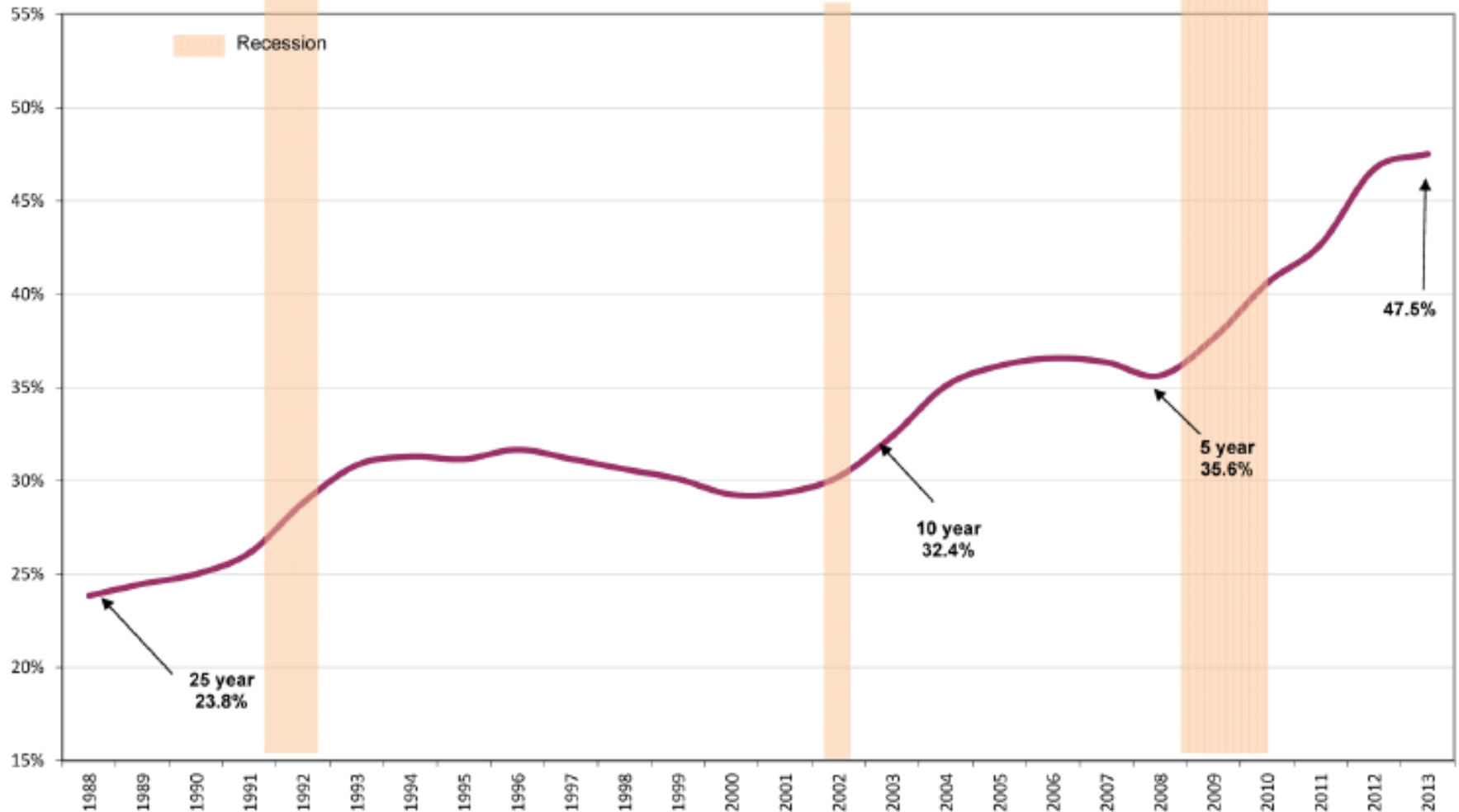
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FIGURE 15A

Average State Appropriations for Higher Education per \$1,000 in Personal Income, 1989-90 to 2012-13



Net Tuition as a Percent of Public Higher Education Total Educational Revenue, U.S., Fiscal 1988-2013

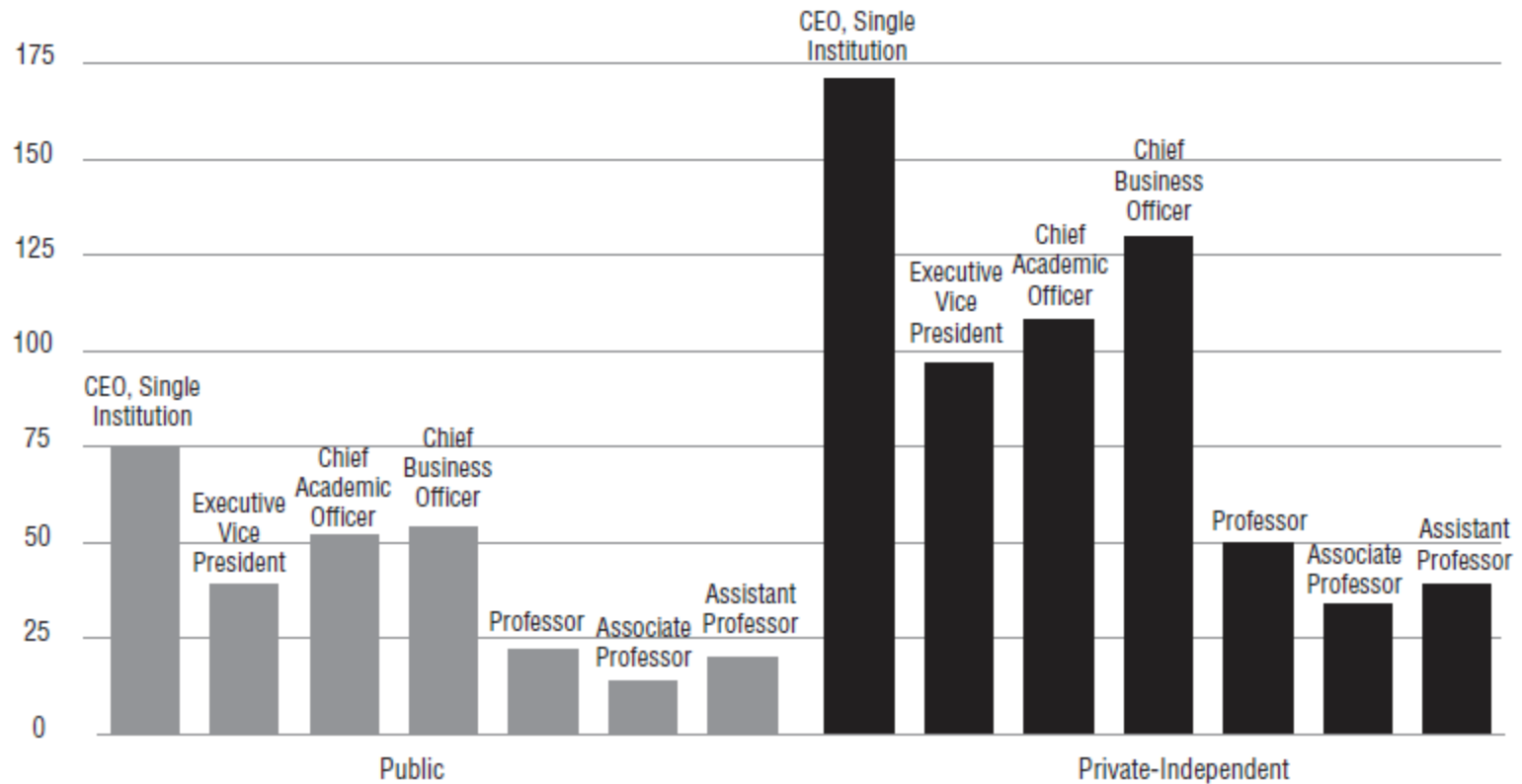


Note: Net tuition revenue used for capital debt service is included in net tuition revenue, but excluded from total educational revenue in calculating the above figures.

Source: State Higher Education Executive Officers

FIGURE 2

Percentage Change in Average Salary for Senior Higher Education Administrators and Full-Time Faculty Members, by Sector, 1978–79 to 2013–14



Note: Percentage increase controlled for inflation. Administrator salary is the median, faculty salary is a weighted mean. Administrator salary for 1978–79 was for all private institutions.

Source: Administrator Salary from College and University Professional Association for Human Resources, *Administrators in Higher Education Salary Survey*. (Prior to 2013, *Administrative Compensation Survey*.) Faculty salary from American Association of University Professors, *The Annual Report on the Economic Status of the Profession*.

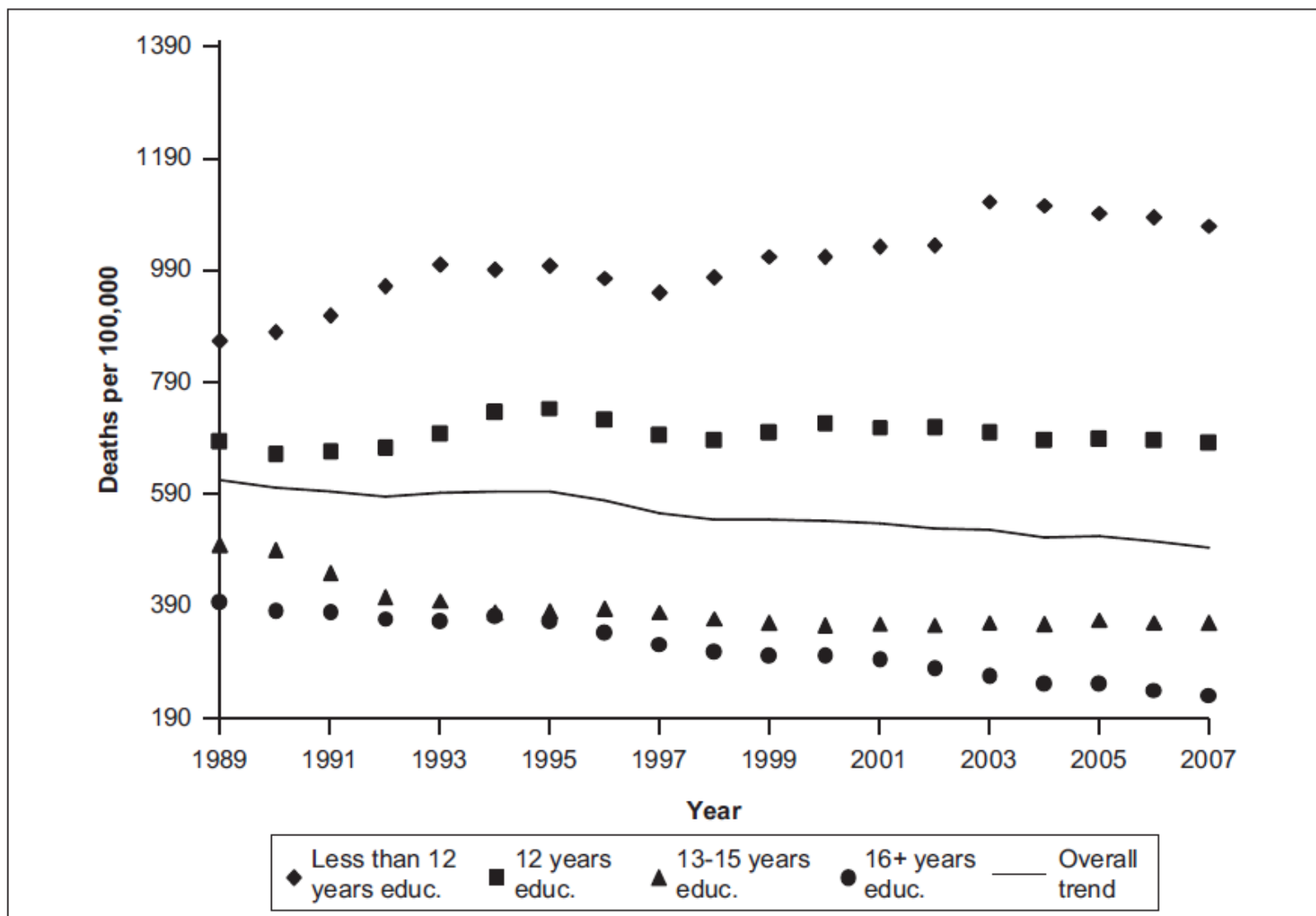
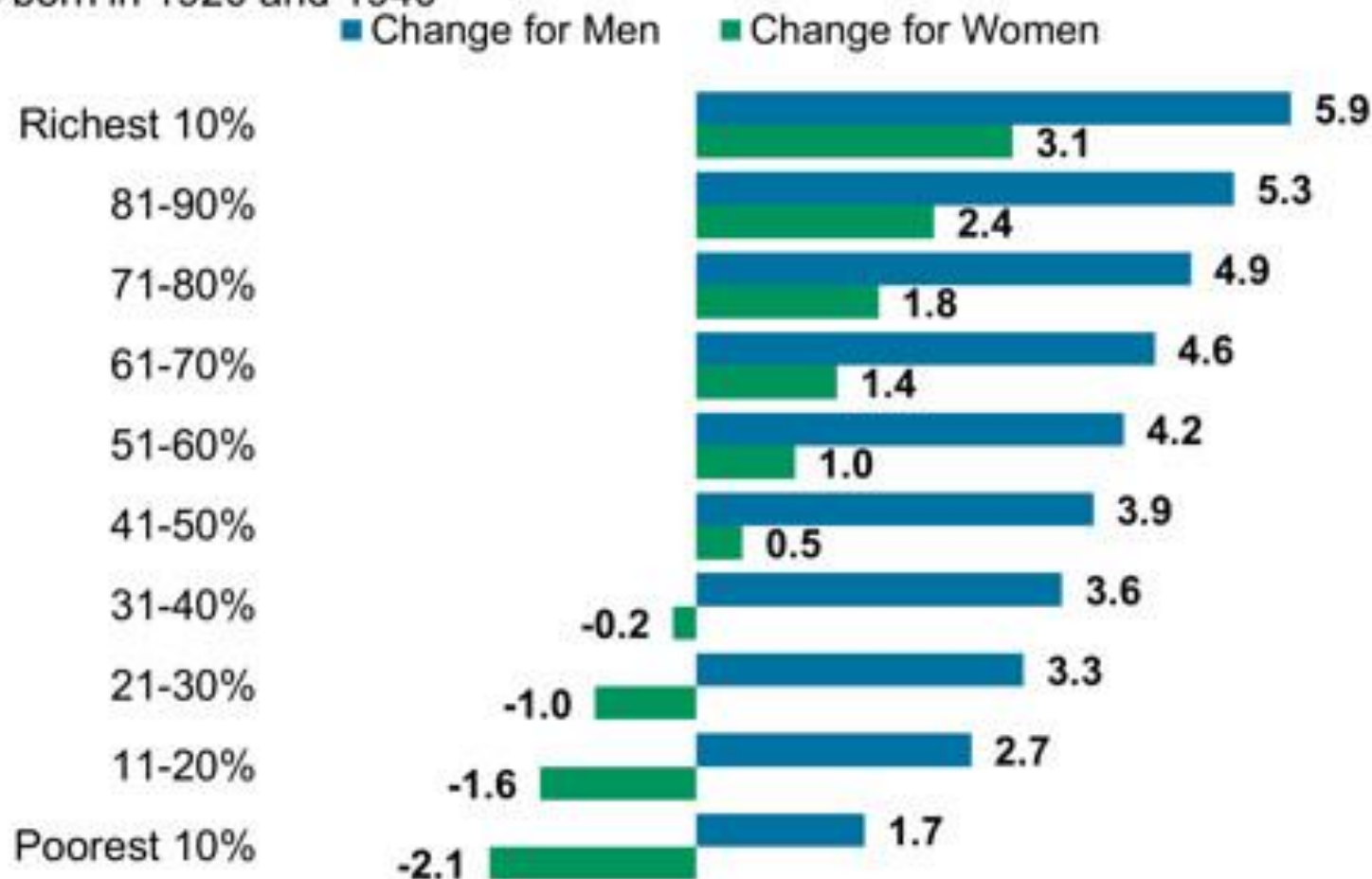


Figure 1. Trends in U.S. Mortality Levels by Education for Individuals Age 40 to 64 Years, 1989 to 2007

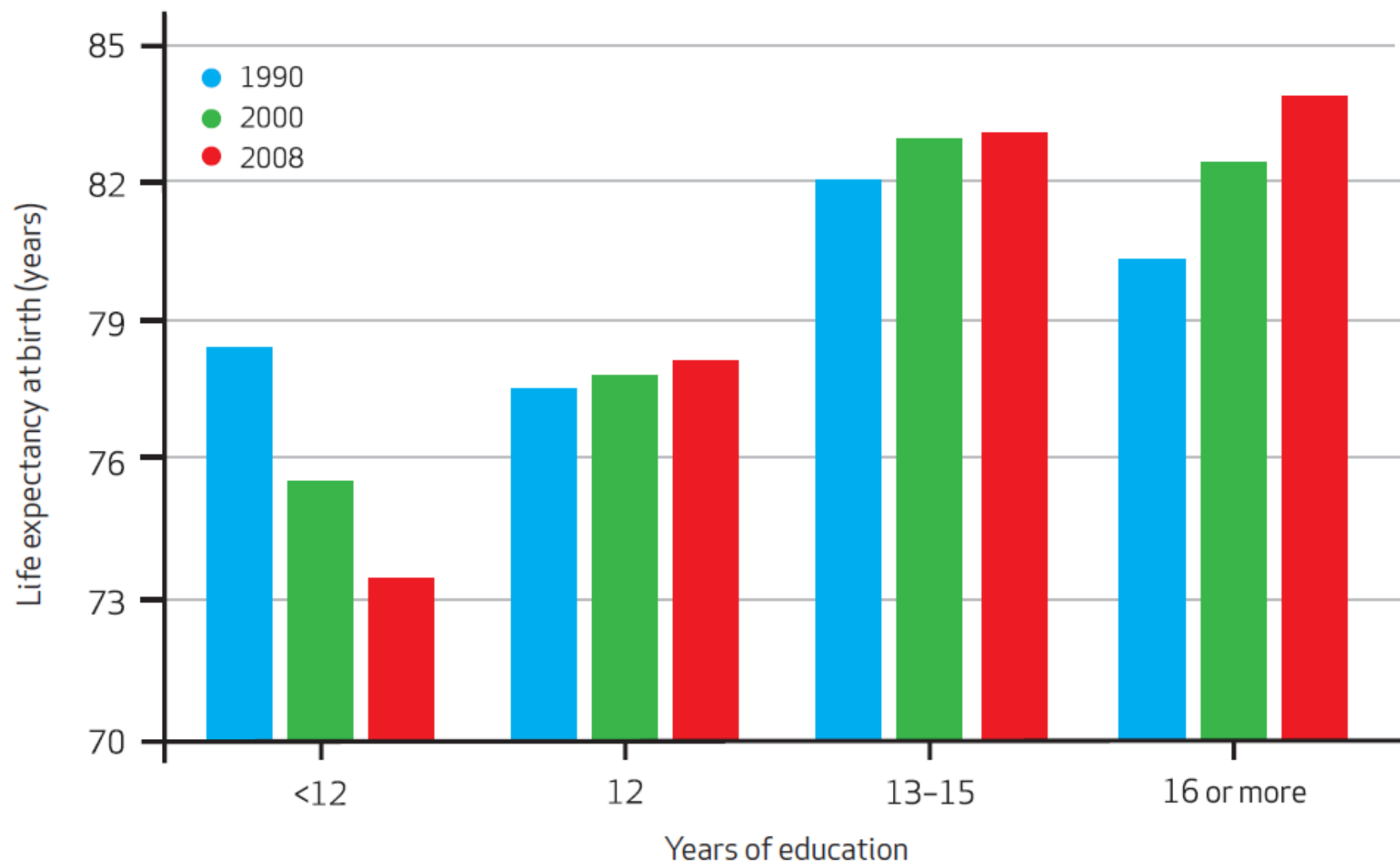
Change in Life Expectancy

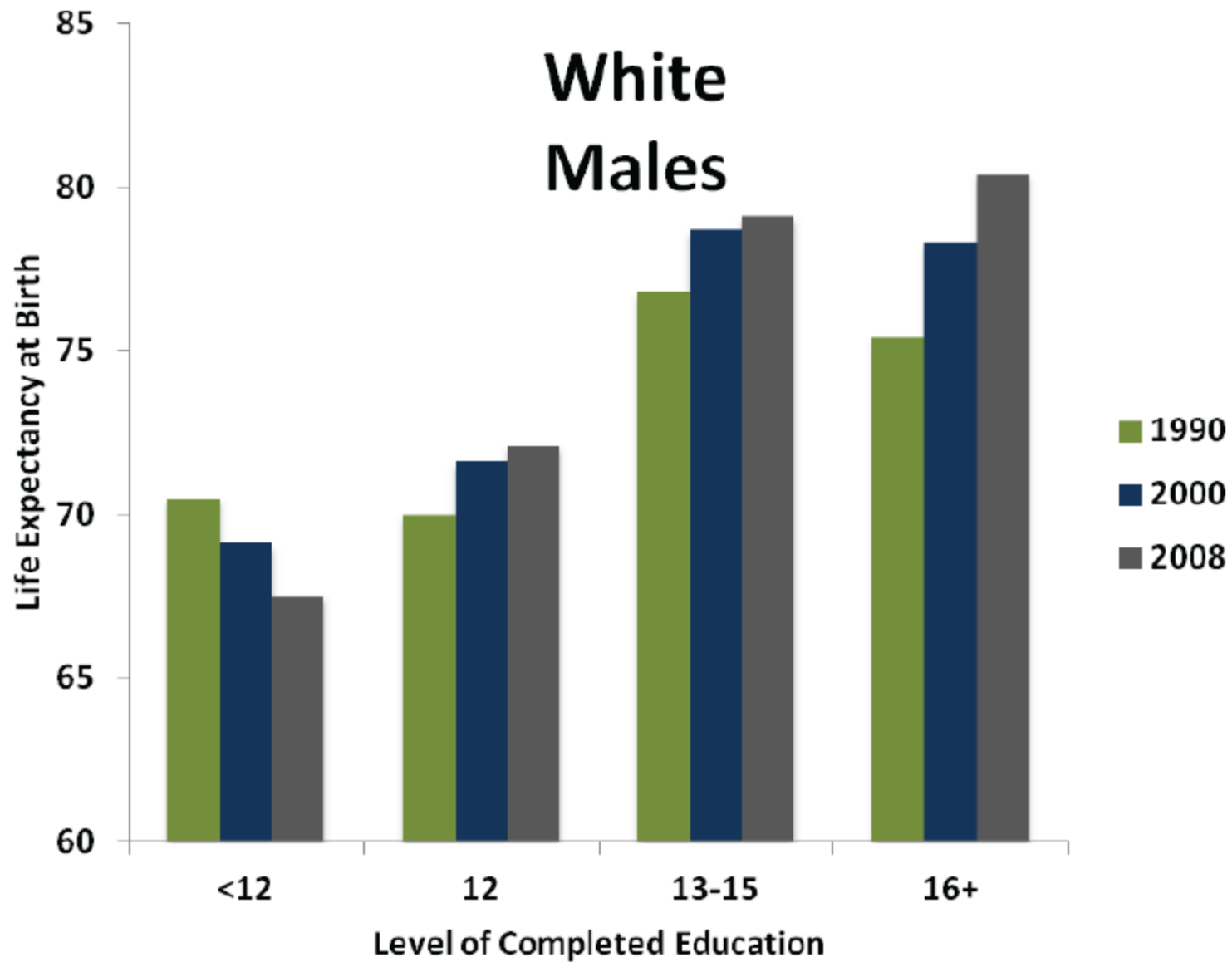
Change in average additional life expectancy (in years) at age 55, by income, between cohorts born in 1920 and 1940



Source: Barry Bosworth, Brookings Institution | WSJ.com

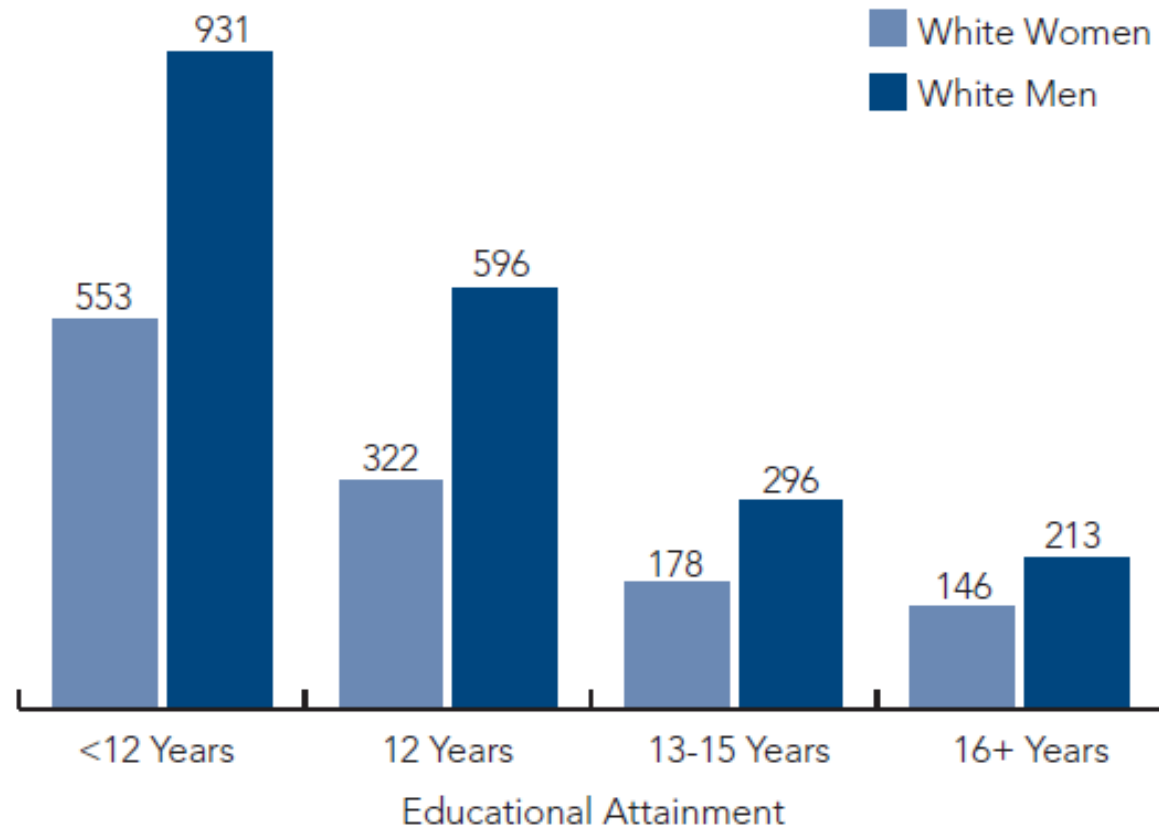
Life Expectancy At Birth, By Years Of Education At Age 25 For White Females, 1990-2008





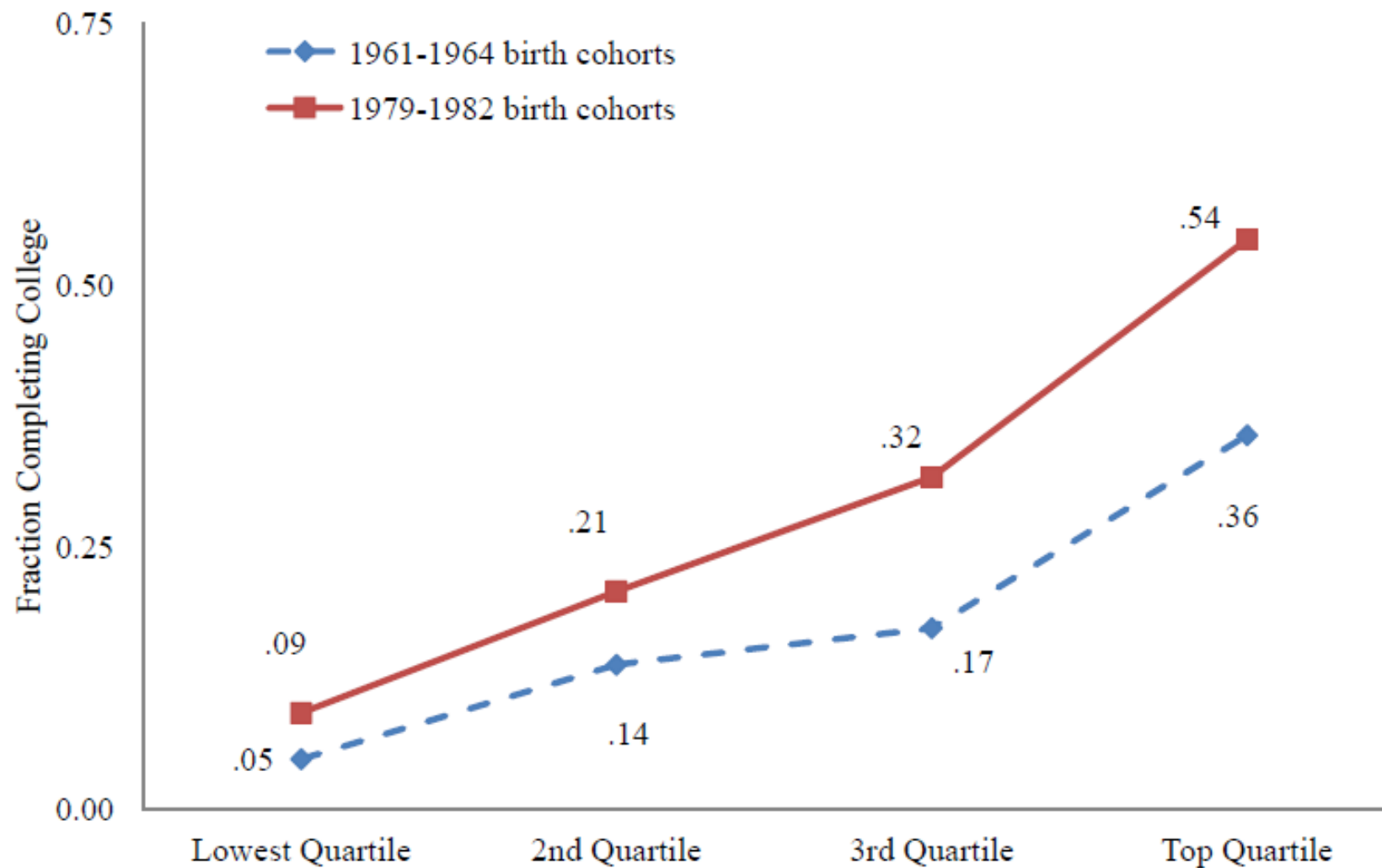
Mortality Rates for White Men and Women Ages 25-64 by Educational Attainment, 2001

Mortality Rate (per 100,000 population)



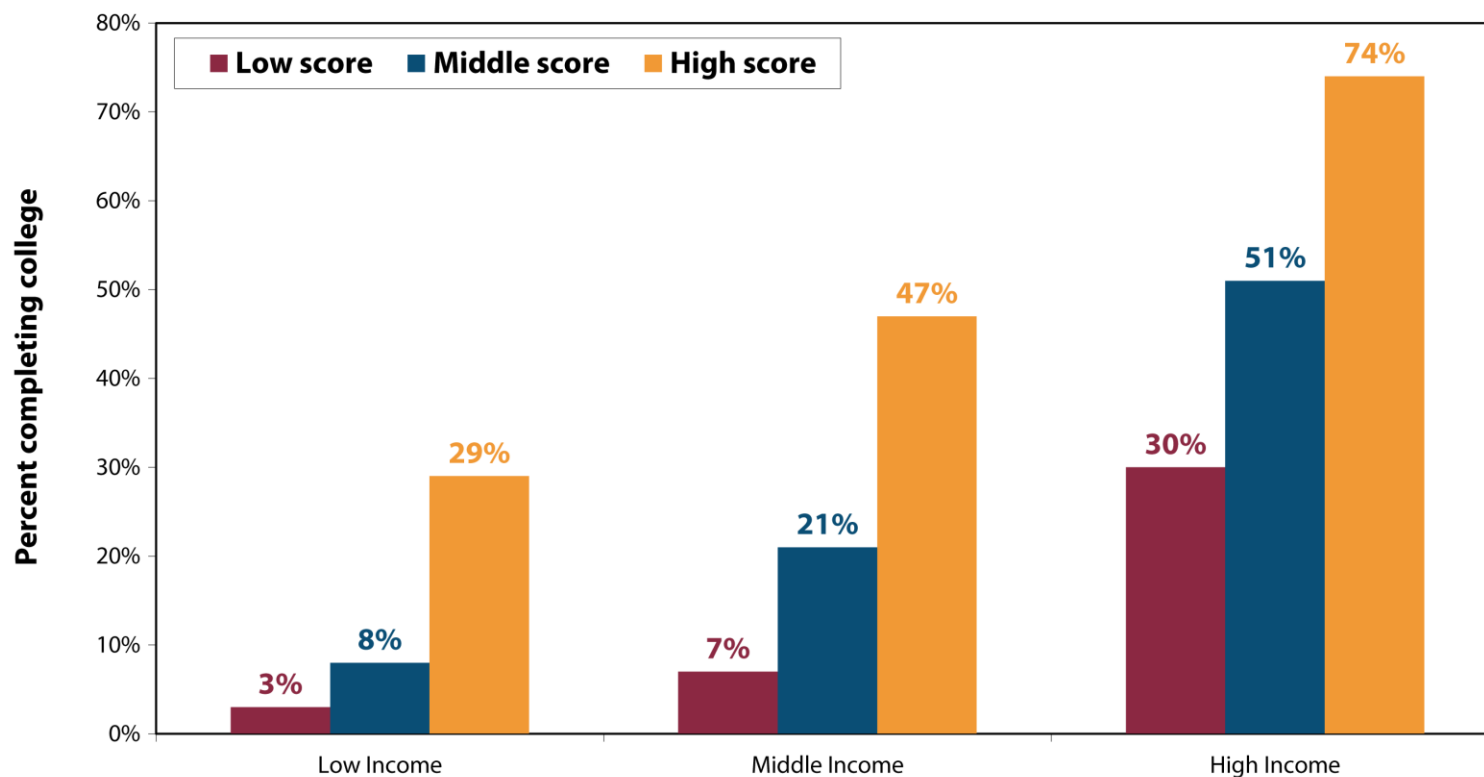
Source: Ahmedin Jemal et al., "Widening of Socioeconomic Inequalities in U.S. Death Rates, 1993-2001," *PLoS ONE* 3, issue 5 (2008): 1-8.

Figure 3: Fraction of Students Completing College, by Income Quartile and Year of Birth



Incomes matter more than test scores for college completion

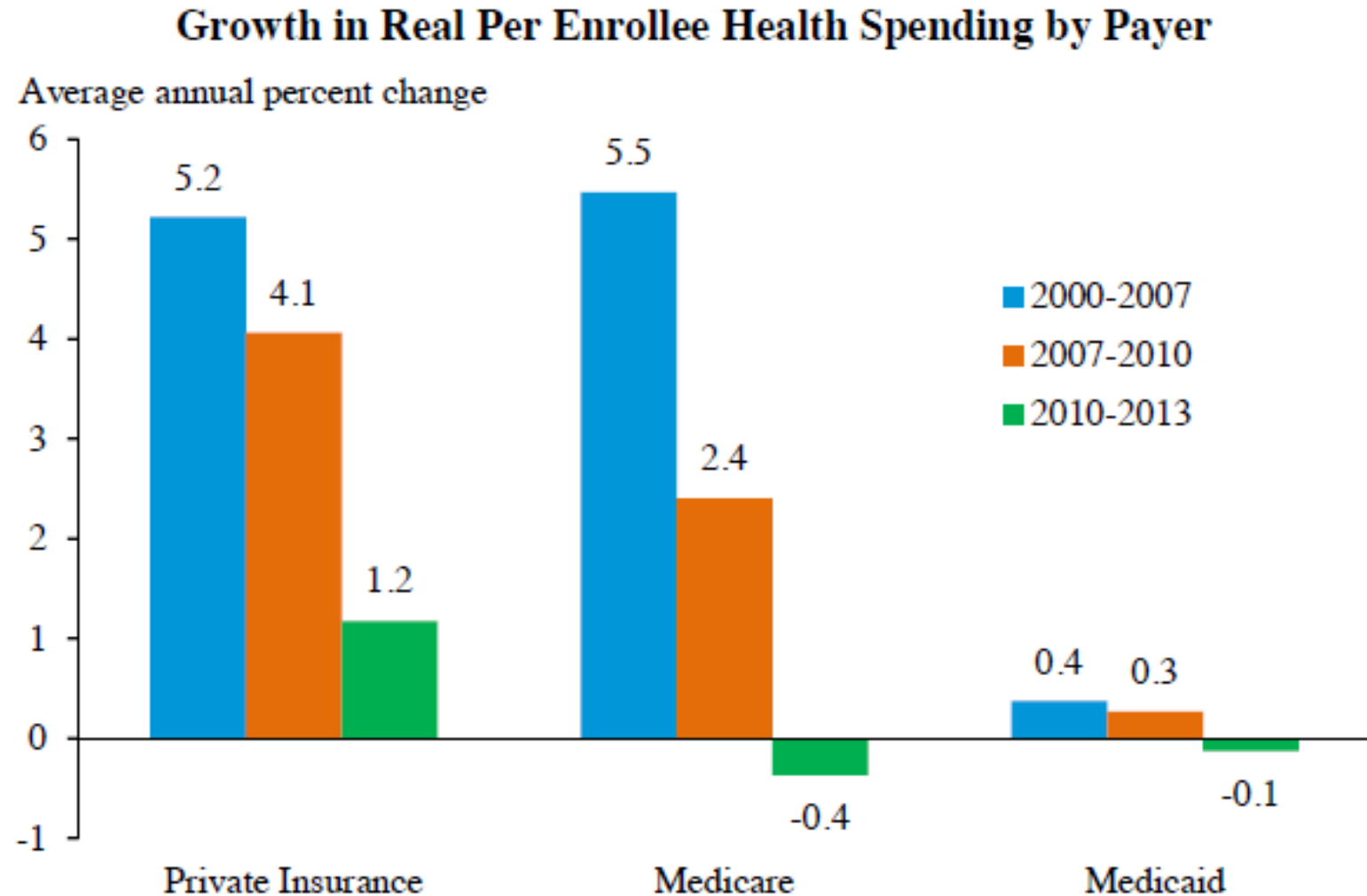
College completion by income status and 8th grade test scores



Note: Low income is defined as the bottom 25%, middle income is middle 50%, and high income is top 25%.

Source: Fox, M.A., B.A. Connolly, & T.D. Snyder . 2005. *Youth Indicators 2005: Trends in the Well-Being of American Youth*. Washington, D.C.: U.S. Department of Education, National Center for Education Statistics.

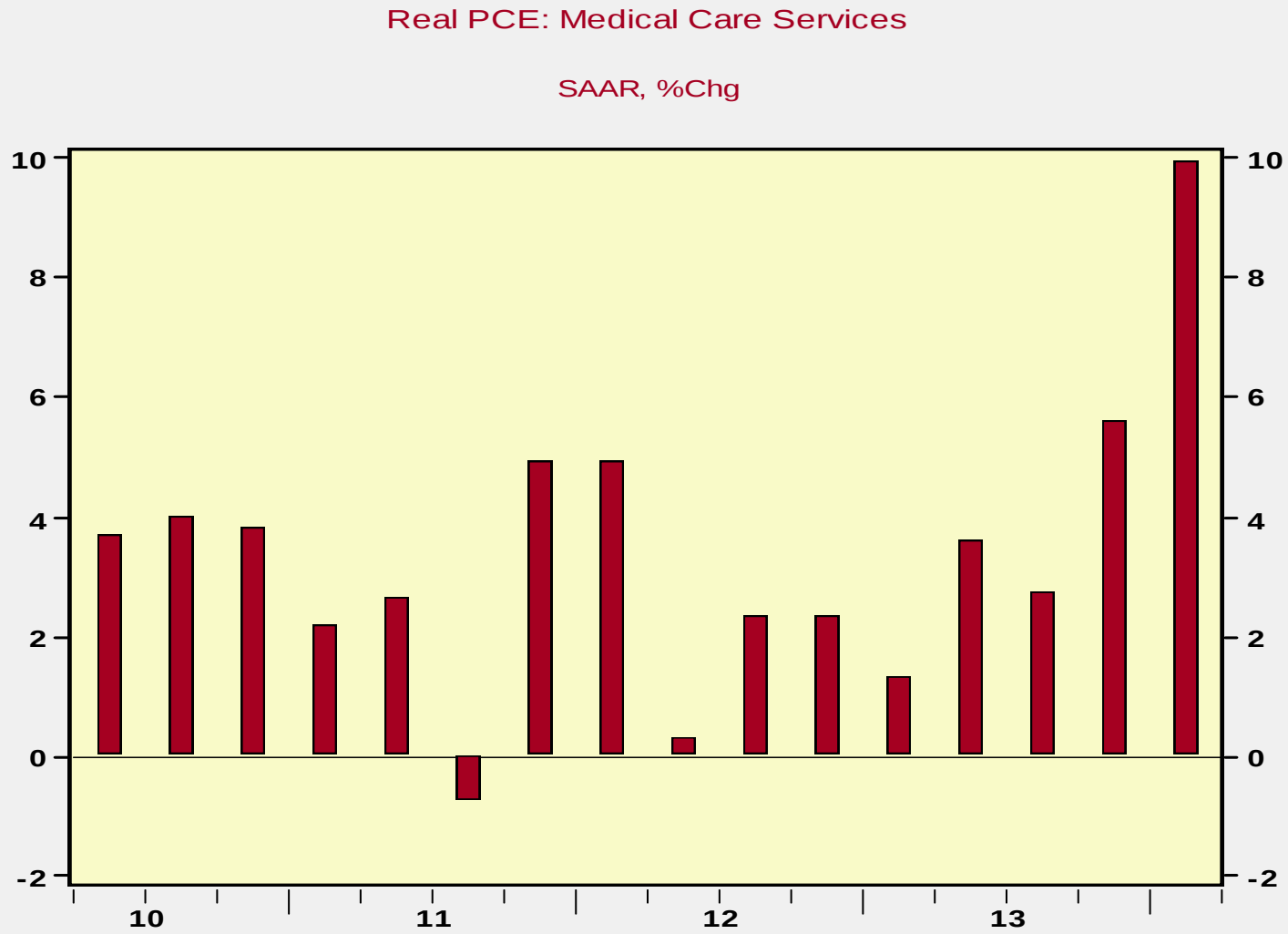
First, the backdrop....recent deceleration in health spending



Notes: Figures for 2013 are projections.

Source: Centers for Medicare and Medicaid Services; Bureau of Economic Analysis, National Income and Product Accounts; CEA calculations.

But is it over?



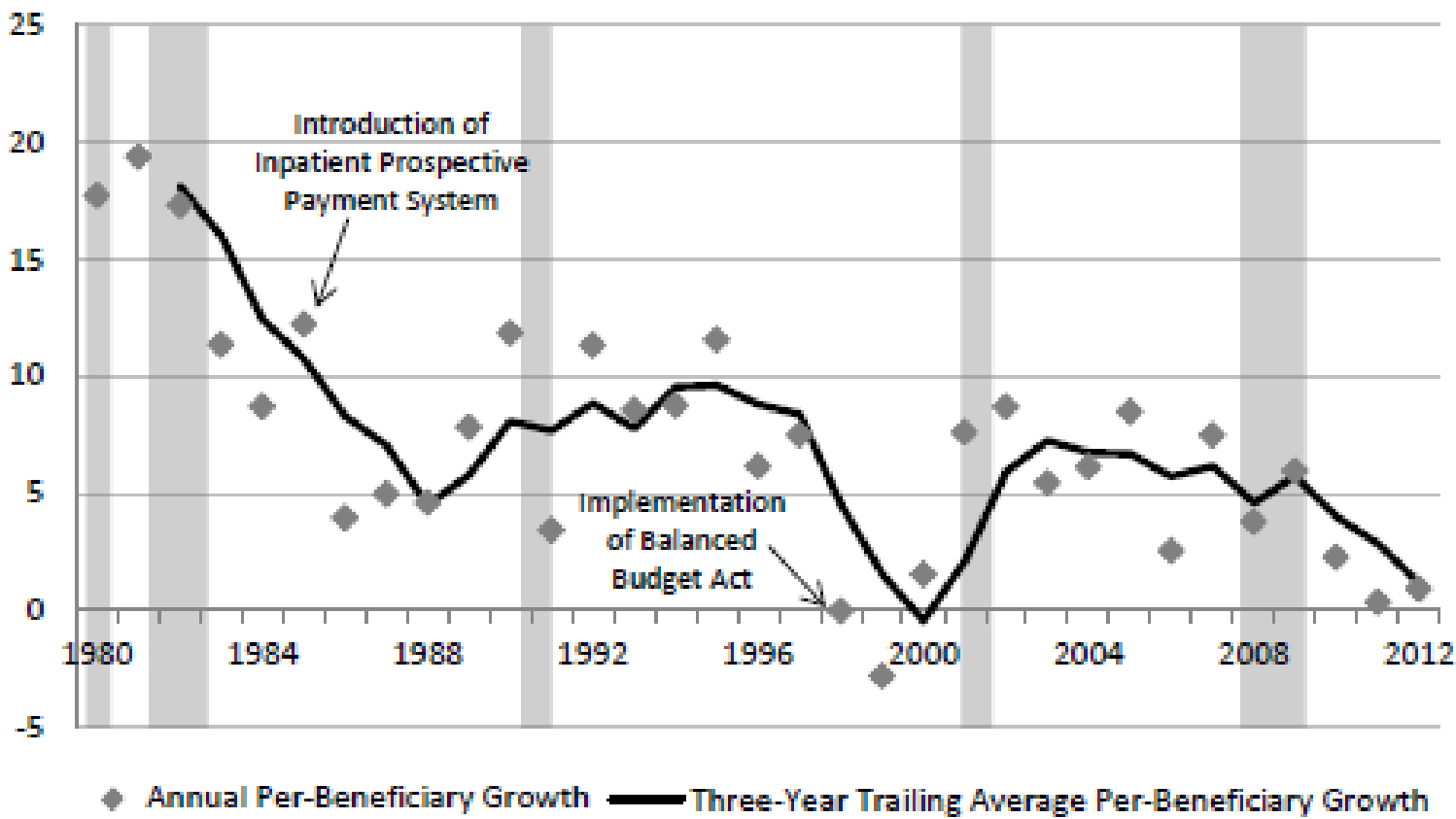
Source: Bureau of Economic Analysis /Haver Analytics

Monthly Budget Review, April 2014

Outlays, October–April (Billions of dollars)					
Major Program or Category	Actual, FY 2013	Preliminary, FY 2014	Estimated Change	Estimated Change With Adjustments for Timing Shifts ^a	
				Billions of Dollars	Percent
DoD—Military ^b	361	342	-19	-19	-5.3
Social Security Benefits	463	485	22	22	4.8
Medicare ^c	287	289	2	2	0.7
Medicaid	152	165	13	13	8.5
Unemployment Insurance	45	31	-14	-14	-31.3
Other Activities	<u>655</u>	<u>639</u>	<u>-17</u>	<u>-13</u>	-2.0
Subtotal	1,964	1,951	-13	-9	-0.5
Net Interest on the Public Debt	152	148	-4	-4	-2.9
Troubled Asset Relief Program	-10	-6	5	5	n.m.
Net Outlays for GSEs	<u>-15</u>	<u>-57</u>	<u>-42</u>	<u>-42</u>	n.m.
Total	2,091	2,036	-55	-51	-2.4

But haven't we seen this movie before?

Figure 1.
Annual Growth in Per-Beneficiary Spending in Parts A and B of Medicare, Fiscal Years 1980 to 2012
(Percent)



Source: Based on expenditure data provided by the Centers for Medicare and Medicaid Services, Office of the Actuary.

What's different this time

Table 1.

Contributions of Various Factors to Annual Growth in Per-Beneficiary Spending for the Elderly in Parts A and B of Medicare

(Percentage points)

	2000 to 2005	2007 to 2010	Difference
Overall Spending Growth	7.1	3.8	-3.2
Potential Contributors to the Slowdown			
Growth in average payment rate	2.7	2.5	-0.2
Growth in demand by beneficiaries			
Changes in the age and health status of beneficiaries ^a	0.0	-0.3	-0.3
Growth in the proportion of beneficiaries enrolled only in Part A ^b	-0.1	-0.3	-0.2
Growth in the use of prescription drugs	-0.5	-0.6	-0.1
The financial crisis and economic downturn	0.0	0.0	0.0
Changes in supplemental coverage ^c	*	*	*
Unexplained Contribution to Growth			-2.4

Changes in Projected Medicare and Medicaid Spending Between March 2010 and May 2013

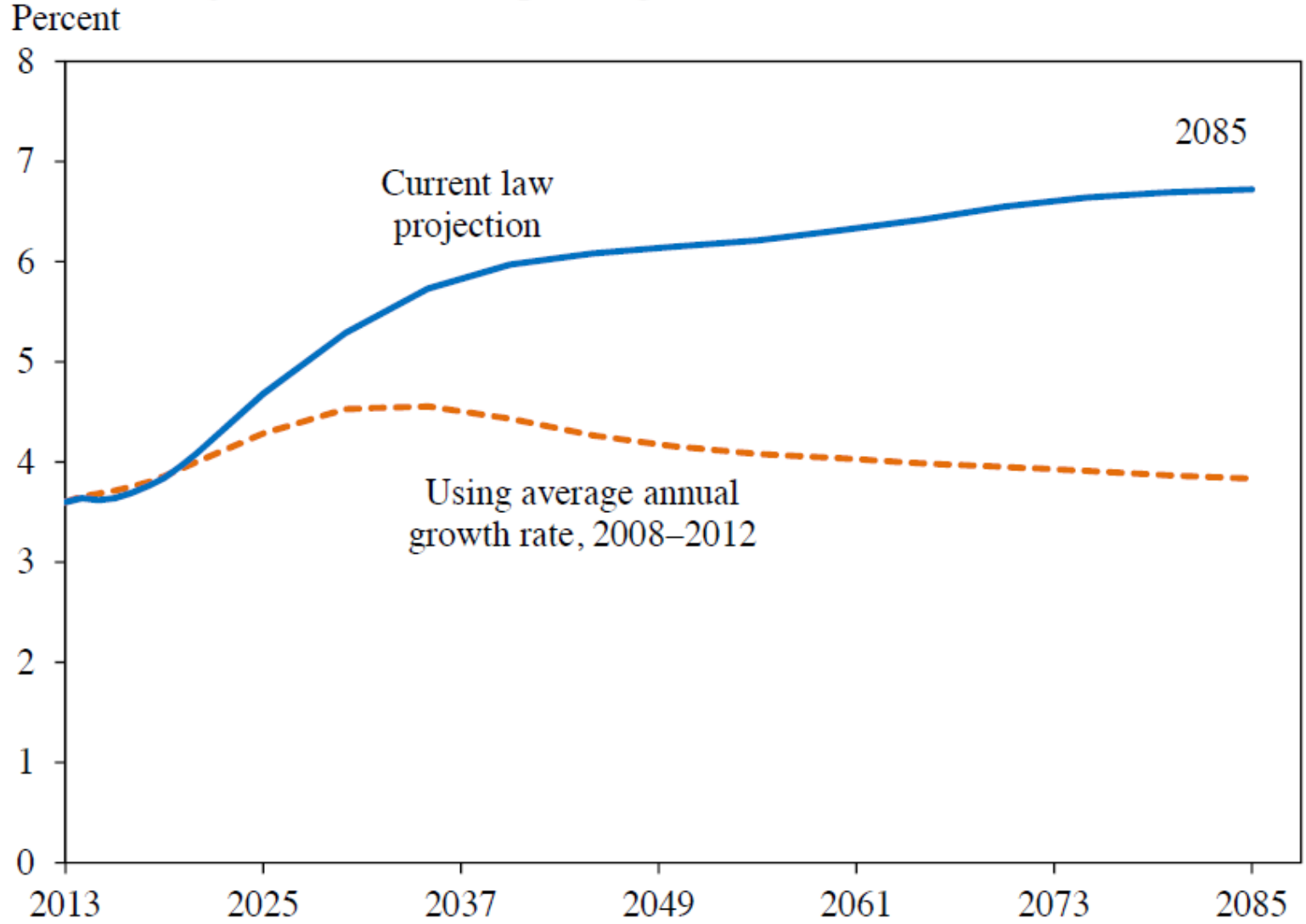
	Medicare ^a		Medicaid ^b	
	Technical Revisions (Billions of dollars)	Percent Change	Technical Revisions (Billions of dollars)	Percent Change
2010	-14	-3%	0	0%
2011	-26	-5%	-1	-1%
2012	-30	-6%	-11	-4%
2013	-45	-8%	-17	-6%
2014	-63	-10%	-32	-10%
2015	-69	-11%	-48	-13%
2016	-78	-11%	-53	-13%
2017	-91	-13%	-59	-13%
2018	-106	-14%	-63	-13%
2019	-125	-15%	-74	-15%
2020	-137	-15%	-85	-16%
Total				
2010-2020	-785	-11%	-445	-11%

a. Medicare spending is net of offsetting receipts.

b. The comparison for the Medicaid baseline is to August 2010, as the March 2010 baseline did not include the effects of the Affordable Care Act (ACA). Only minor changes were made in that August baseline beyond those related to the ACA.

What would happen if it continued?

Projected Medicare Spending as a Share of GDP, 2013–2085



Source: Medicare Trustees (2012); Social Security Trustees (2012); CEA calculations.