



Written by [Raven Clabough](#) on September 7, 2012

CBO: Health Care Spending to Surpass Discretionary Spending in 2016

Despite assertions by the Obama administration that the Affordable Care Act will save money, the Congressional Budget Office has determined that large increases in Medicare and Medicaid outlays as a result of ObamaCare will cause healthcare spending to skyrocket — surpassing discretionary spending by 2016. The Tax Foundation has called this a “truly unprecedented and scary” scenario.



CNS News reports,

The nonpartisan tax research group analyzed recent CBO projections of the budget for 2012 to 2022, finding that over the next decade Medicare spending will increase from \$550 billion to \$1.064 trillion, while Medicaid would more than double from \$253 billion to \$592 billion.

Additionally, new exchanges and subsidies created by the healthcare law will force mandatory healthcare expenditures to grow from \$25 billion to \$181 billion in 2022, the CBO projects.

[The Tax Foundation](#) observed,

In total, healthcare entitlement spending is due to more than double, from \$828 billion this year to \$1.837 trillion in 2022.

This means healthcare spending will overtake all discretionary spending in 2016 — Obama’s last year in office if reelected.

This would be truly unprecedented, and scary, since discretionary spending represents the basic functions of government, including defense, law enforcement, roads, etc.

In addition to the increased healthcare costs, defense and discretionary costs are scheduled to be cut in January 2013 because Congress failed to reach a budget deal last year, propelling healthcare costs ahead of discretionary spending.

Last year, the congressional super committee was unable to reach an agreement on where to make cuts in the budget, and so the Budget Control Act was passed in August of 2011. It includes an automatic \$1.2-trillion “cut” in defense and discretionary spending over the next 10 years.

While the spending cuts are scheduled to take effect automatically, the Bush era tax cuts are set to expire, as well as the reduction of two percentage points in the payroll tax for Social Security.

Some are predicting that the automatic spending cuts and the expiration of the Bush tax cuts will bring about a recession in 2013, [notes](#) the CBO, with real GDP declining by .5 percent between the last quarter of 2012 and the last quarter of 2013, and unemployment reaching nine percent by the second half of 2013.

The automatic spending cuts, if they remain in effect, expedite the moment that healthcare costs surpass discretionary spending. According to the Tax Foundation, without the automatic spending cuts,



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healthcare spending would have passed discretionary spending by 2019, rather than 2016.

“Discretionary spending is projected to decline relative to GDP throughout the next 10 years because of the caps on discretionary funding that stem from provisions of the Budget Control Act,” the CBO reported on Aug. 22 in [“An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022.”](#)

“By CBO’s estimate, discretionary spending will fall to 5.6 percent of GDP by 2022 — the lowest level in at least 50 years,” the report said.

By the year 2016, discretionary spending will be 6.2 percent of the GDP.

The Heritage Foundation confirms that total entitlement spending has already surpassed defense spending as a percentage of Gross Domestic Product. The foundation observes that the cost of Medicare, Medicaid, and Social Security increased to an estimated 9.7 percent of GDP, while defense spending decreased to 4.5 percent. That marks a major deviation from 1965, when defense spending was 7.4 percent of GDP, and entitlements were a mere 2.5 percent.

According to the Heritage Foundation:

Ever-increasing [entitlement](#) spending is putting pressure on key spending priorities, such as national defense, a core constitutional function of government. Defense spending has declined significantly over time, even when the wars in Iraq and Afghanistan are included, as spending on the three major [entitlements](#) — [Social Security](#), [Medicare](#), and [Medicaid](#) — has more than tripled.

Taxpayers will be feeling the effects of increased healthcare costs in 2013.

ObamaCare’s Medical Device Manufacturing Tax of 2.3 percent on medical device makers will increase the cost of medical devices such as prosthetic limbs, pacemakers, and stents.

Likewise, the High Medical Bills Tax will be another blow. Fox News [reports](#):

This onerous tax provision will hit Americans facing the highest out-of-pocket medical bills. Currently, Americans are allowed to deduct medical expenses on their 1040 form to the extent the costs exceed 7.5 percent of one’s adjusted gross income.

The new ObamaCare provision will raise that threshold to 10 percent, subjecting patients to a higher tax bill. This tax will hit pre-retirement seniors the hardest. Over the next ten years, affected Americans will pony up a minimum total of \$15 billion in taxes thanks to this provision.

ObamaCare will also be placing a \$2500 annual cap on Flexible Spending Accounts, which currently have no federal limit and are used to purchase a number of different things, from braces to contact lenses. Those who will be most impacted by the cap are families with special-needs children, as such families have been using FSA funds to pay for special-needs tuition.

The ObamaCare surtax on investment income will take the top capital gains rate to 23.8 percent and top dividend rate to 43.4 percent. According to Fox News, that tax will “take a minimum of \$123 billion out of taxpayer pockets over the next ten years.”

ObamaCare reduces deductible medical expenses in 2013, which require people to pay more out-of-pocket expenses.

And of course, there is the ObamaCare Medicare payroll tax increase that will cost taxpayers \$86 billion over the next decade.

In 2013, reductions in Medicare’s payment rates for physicians’ services are also scheduled to take



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effect.

In order for the federal government to ensure that ObamaCare taxes are collected, it will have to hire nearly 20,000 new IRS agents, paid for by the taxpayers.

The implementation of ObamaCare will mean that President Obama will break yet another one of his campaign promises: not to impose tax increases on the middle class.

And the CBO's finding is a significant one as it indicates the first time in the history of this country that the cost of healthcare will surpass discretionary spending.



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