



## Health Care, Medicare, and the Silver Tsunami

The rate of increase in health care expenditures (see Charts 1 and 2) as a share of the U.S. economy has essentially stalled, a development which is contrary to earlier concerns that the interaction of an increase in the silver tsunami (see Chart 3) with the fact that spending on health care increases with age (see Chart 4) would mean that the U.S. economy would become totally dominated by health care, i.e. that spending on health care as a percent of GDP would rise inexorably until it reached 100%.

Although health care spending is an increasing function of age, the reality is that the growth in outlays by persons aged 65 years old and over has decelerated. In the first decade of this century, spending increased at an annual rate of 4.8%. In the most recent decade, the average annual growth rate decelerated to 3.5%. The principal reason that the rate of increase slowed was the rapid deceleration in medical care prices (see Chart 5). Although medical care commodities (see Chart 6) played a role in the deceleration, the bulk of the improvement resulted from medical care services (see Chart 7). The improvement in medical care services reflected decelerations in professional services (see Chart 8) and hospital and related services (see Chart 9). The reduction in medical care inflation has substantially improved the long-run outlook for Medicare (see Chart 10). Projections made in 2009 made it appear that Medicare was a runaway train. The most recent projection is substantially better.

Chart 1

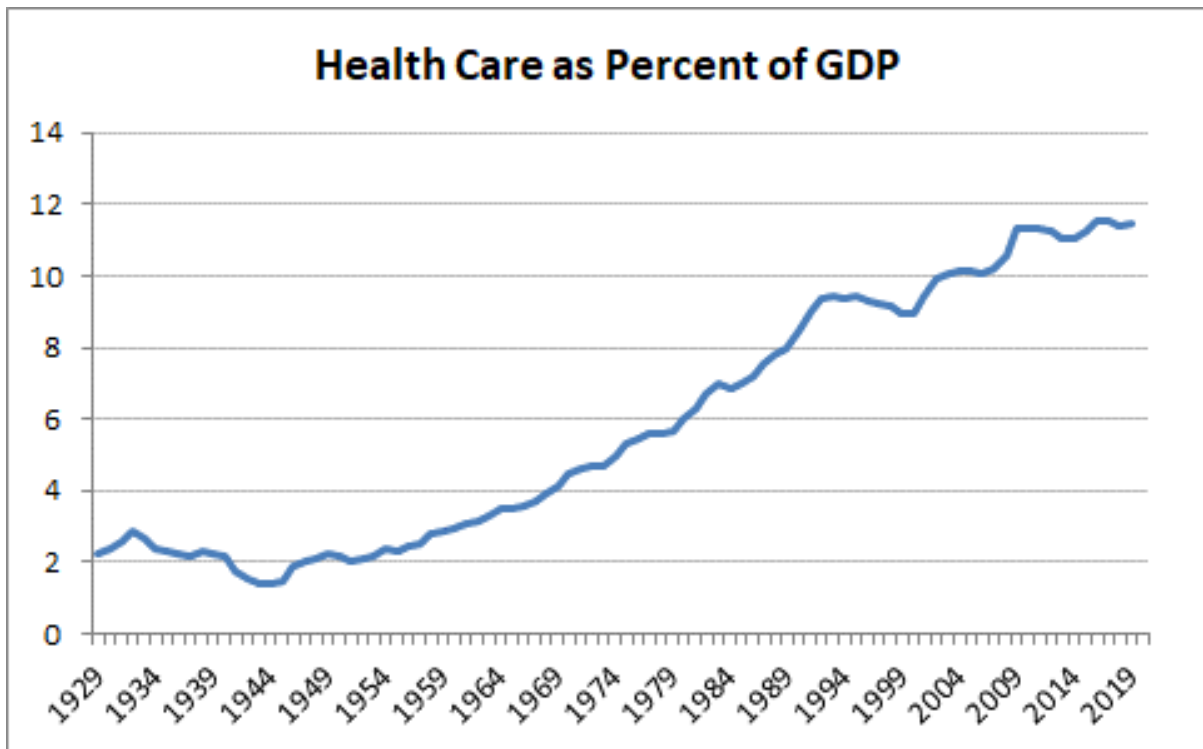


Chart 2

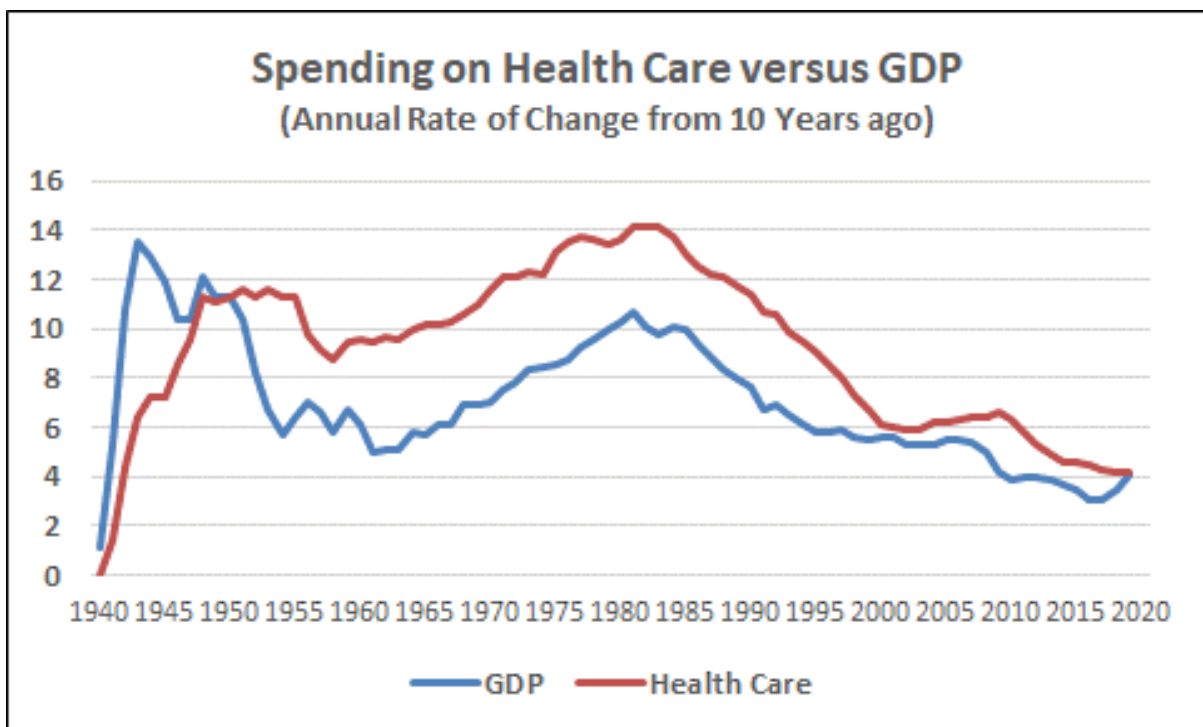


Chart 3

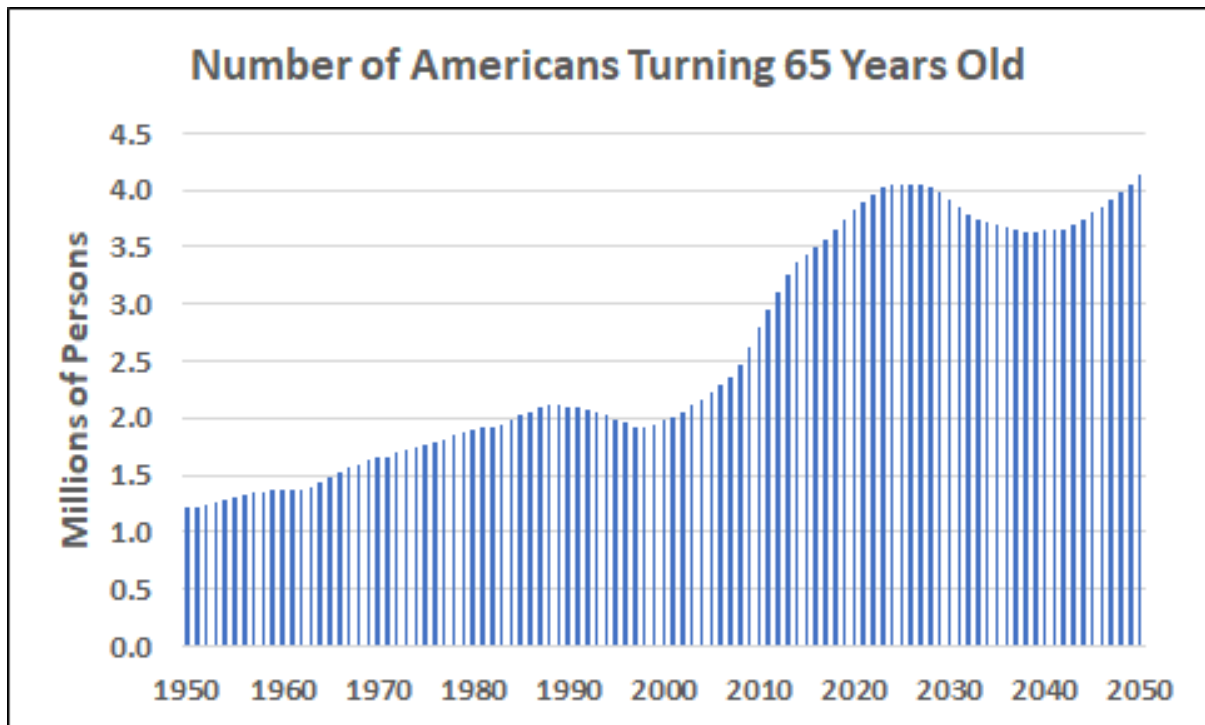


Chart 4

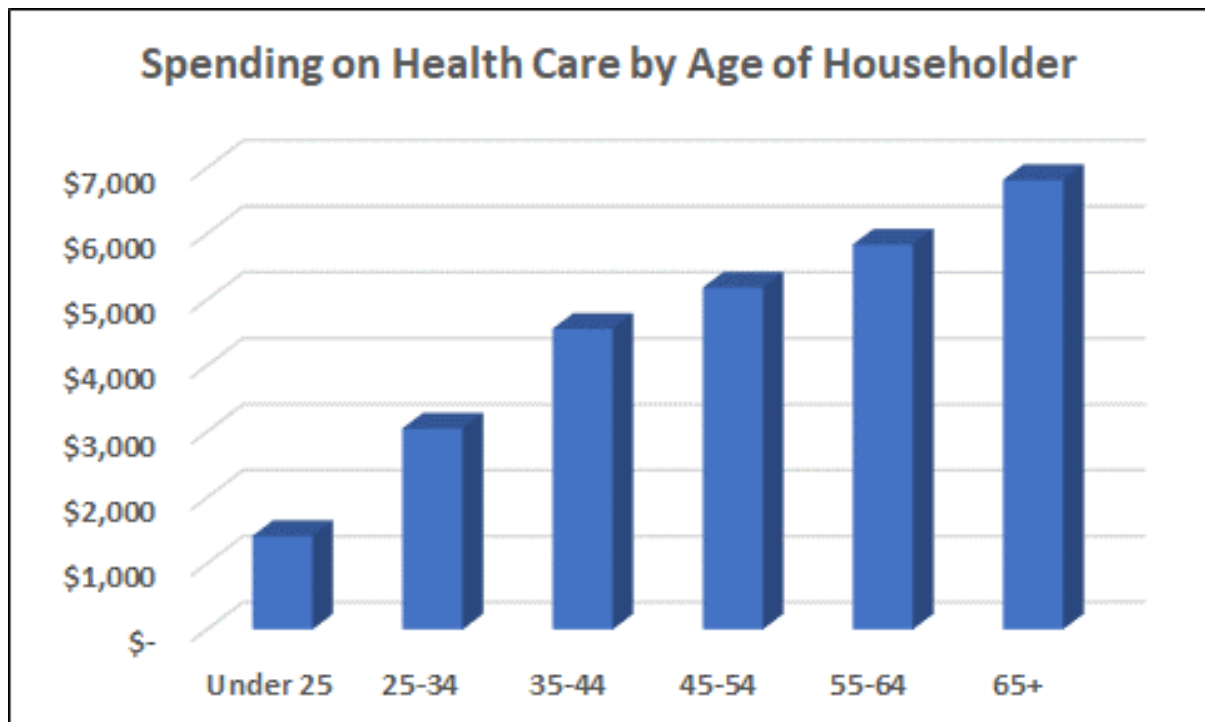


Chart 5

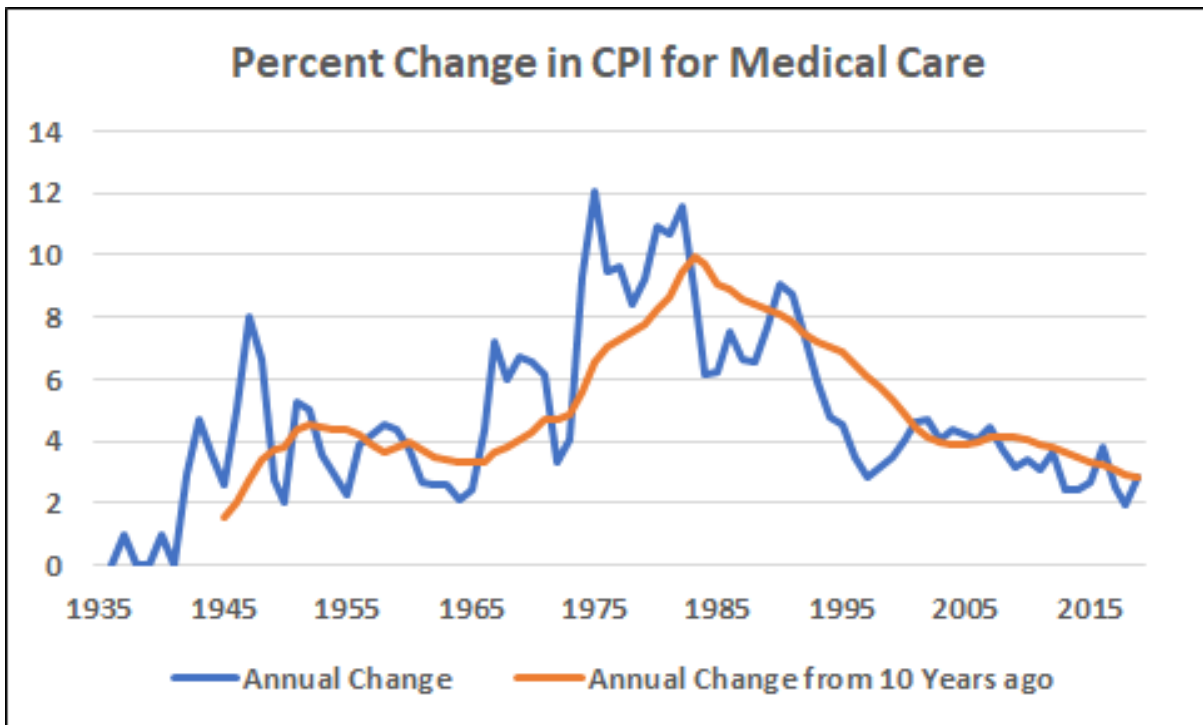


Chart 6

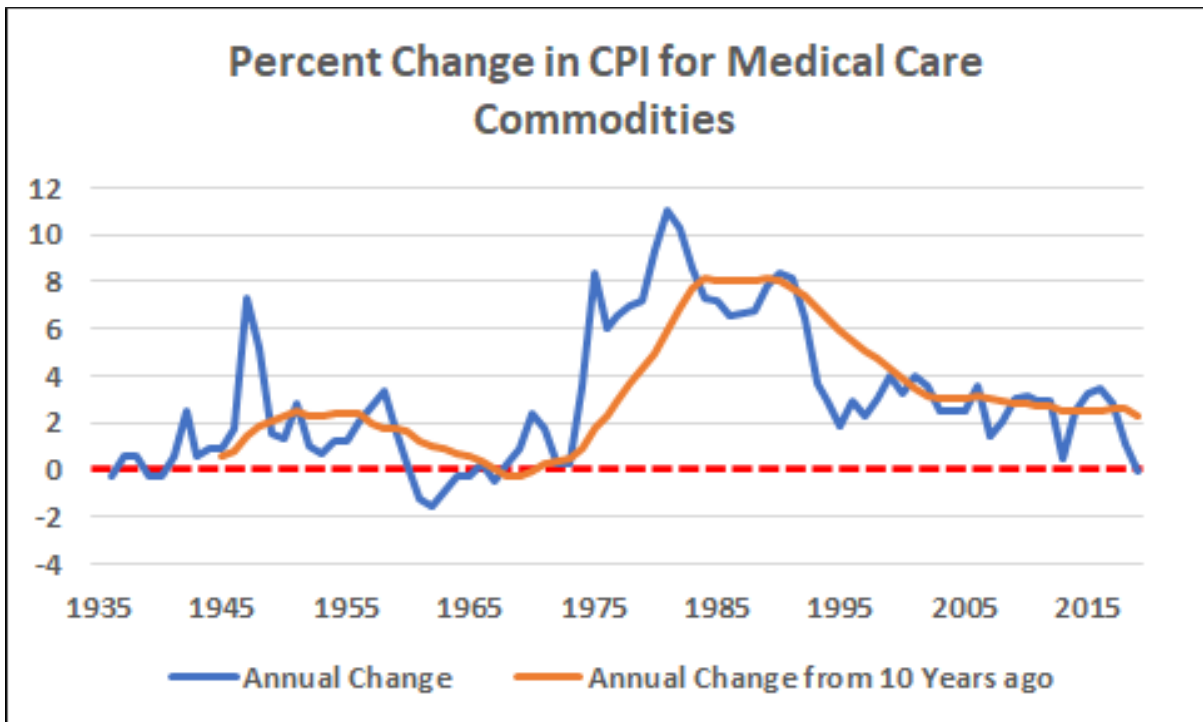


Chart 7

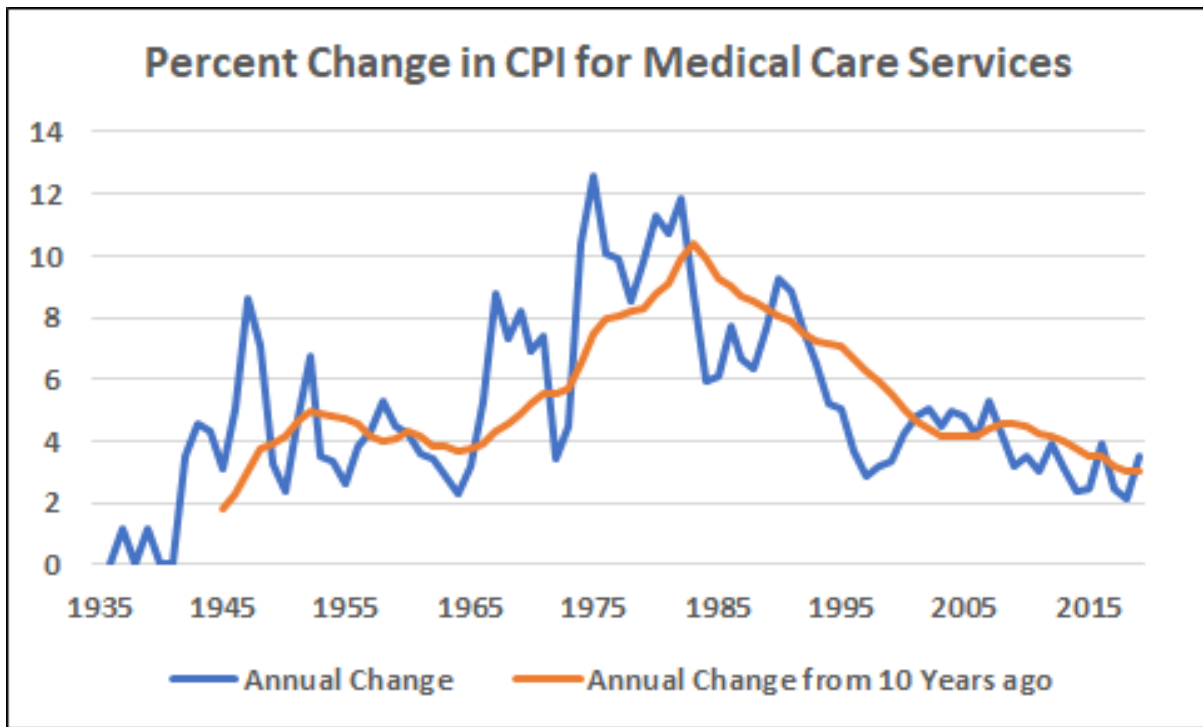


Chart 8

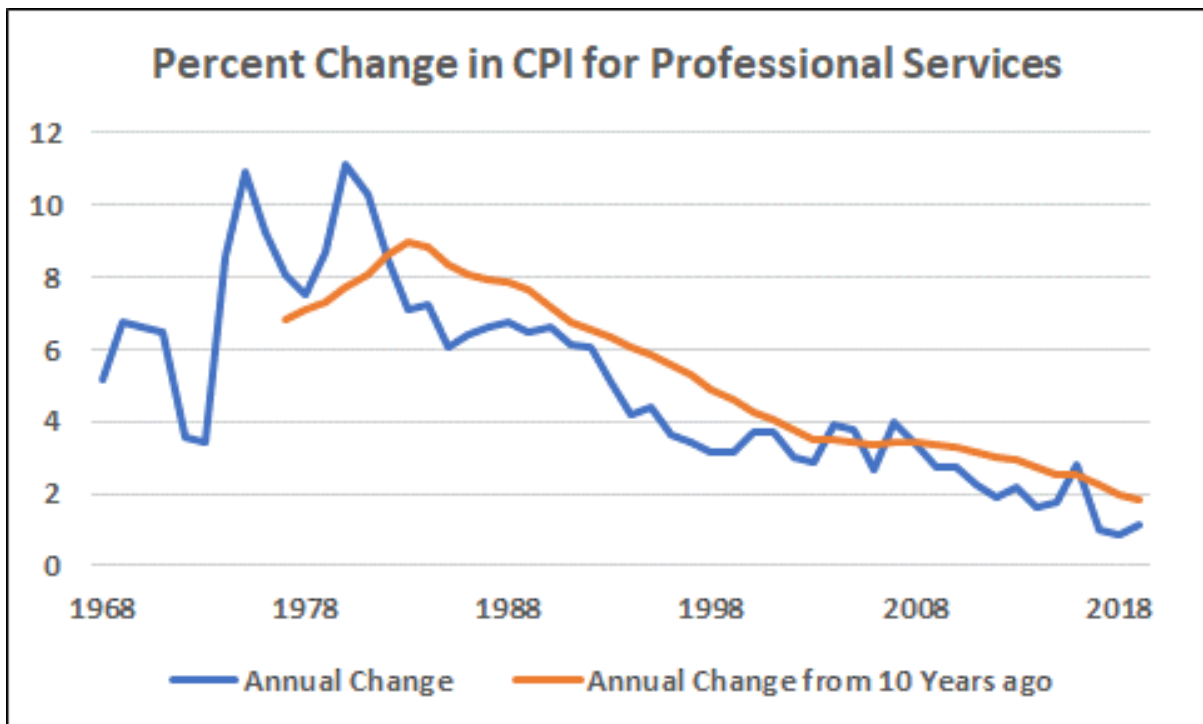


Chart 9

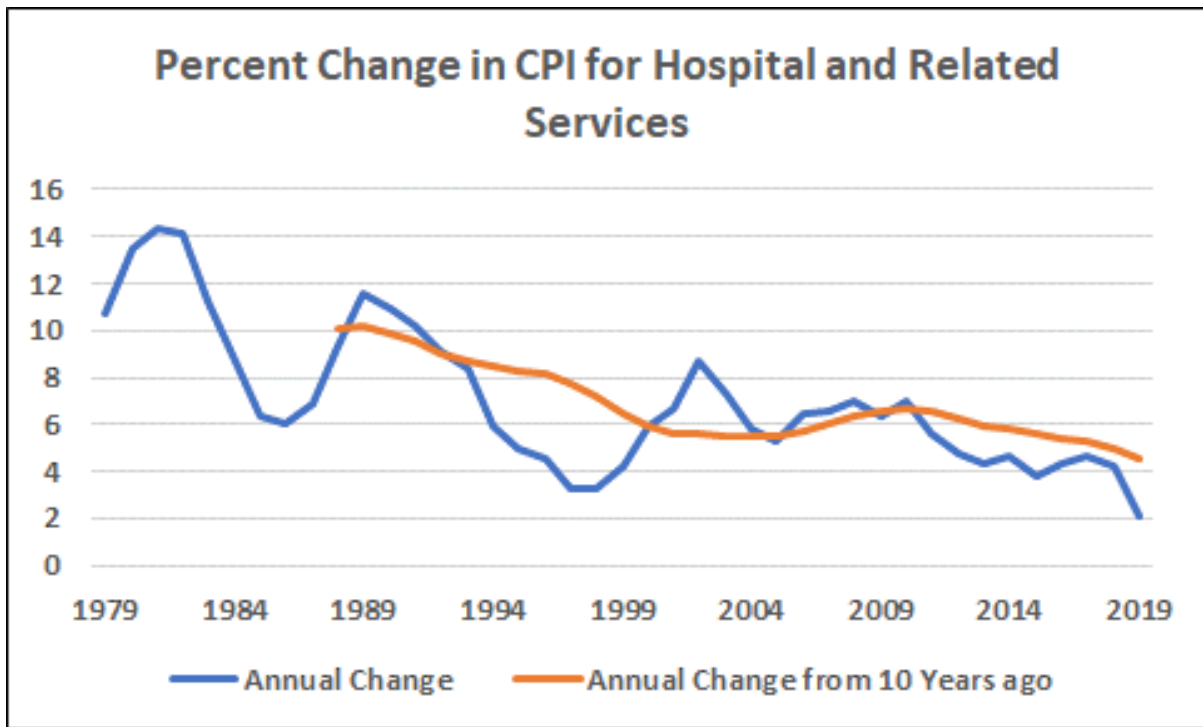


Chart 10

