



Health Care Spending and the Federal Budget

Health care is the largest category of spending in the federal budget with costs growing rapidly. The federal government spent **\$1.6 trillion** on major federal health care programs in 2024, **one-quarter** of all federal spending, or **5.6 percent** of GDP. Health spending is projected to rise to **\$2.8 trillion** (6.4 percent of GDP) by 2035 and **\$7.2 trillion** (8.1 percent of GDP) by 2055.

The **Medicare** program – which, net of offsetting receipts like premiums, totaled **\$865 billion** in 2024 – provides health insurance to seniors and individuals with disabilities. The Medicare Hospital Insurance (HI) trust fund, which funds Part A hospital benefits, is funded with a payroll tax and is projected to be **insolvent by 2036**, leading to an **11 percent cut in payments**. Other parts of Medicare are financed from general revenue and premiums, with costs rising rapidly. Over half of beneficiaries are in private Medicare Advantage (MA) plans, funded by the federal government but administered through private insurers. Total Medicare costs were less than 2 percent of GDP in 2000, 3.0 percent in 2024, and are projected to reach 3.7 percent of GDP by 2035.

The **Medicaid** program – for which the federal government spent **\$618 billion** in 2024 – is a joint federal-state program that provides health insurance to those with lower incomes. The federal government generally funds 50 to 83 percent of costs for the blind, disabled, and very poor, and it pays 90 percent or more for those made eligible under the Affordable Care Act (ACA). Federal Medicaid costs were 2.1 percent in 2024, up from 1.2 percent of GDP in 2000.

The federal government also spent **\$122 billion** in 2024 on **ACA subsidies**, which help cover premiums – on a sliding scale basis – for those who purchase insurance on the individual market. These subsidies were temporarily made more generous from 2021 through 2025 and are scheduled to revert to 2020 levels thereafter. The federal government spent an additional **\$19 billion** on the **Children’s Health Insurance Program (CHIP)**. These programs cost a combined 0.5 percent of GDP in 2024, up from 0.1 percent in 2014.

The federal government also subsidizes health care through the tax code, with the tax exclusion for employer-provided health care losing an estimated **\$384 billion** of revenue in 2024.

Numerous options exist to lower federal health spending and restore Medicare solvency, including reforms that would lower costs for beneficiaries and taxpayers. Learn more at <https://www.crfb.org/issue-area/health-care>.