Medicare budget numbers: bad, worse, and confusing

By Editor Test *Tue, May 1, 2012*

Social Security and Medicare accounted for 36% of federal spending in fiscal 2011, say the program's trustees. Through the mid-2030s, population aging and lower-birth-rate generations entering the workforce will cause costs to grow faster than GDP.

The Trustees of the Social Security and Medicare trust funds have issued a message summarizing their 2012 Annual reports on the current and projected financial status of the two programs. *RIJ* reported on the Social Security Annual Report last week. This week, we are publishing the summary message issued by the trustees of the Medicare Health Insurance trust fund.

To summarize the summary:

- The projected date of HI Trust Fund exhaustion is 2024, the same date projected in last year's report, at which time dedicated revenues would be sufficient to pay 87% of HI costs.
- The trust fund has been paying out more than it has been taking in since 2008, and will do so in all future years.
- The share of HI expenditures that can be financed with HI dedicated revenues will decline slowly to 67% in 2045, and then rise slowly until it reaches 69% in 2086.
- The HI 75-year actuarial imbalance amounts to 36% of tax receipts or 26% of program cost.
- The Trustees assume an almost 31% reduction in Medicare payment rates for physician services will be implemented in 2013 as required by current law, which is also highly uncertain.
- For the sixth consecutive year, projected non-dedicated sources of revenues—primarily general revenues—are expected to continue to account for more than 45% of Medicare's outlays, a threshold breached for the first time in fiscal year 2010.

According to Medicare's statement:

> The Medicare HI Trust Fund faces depletion earlier than the combined Social Security Trust Funds, though not as soon as the Disability Insurance Trust Fund when separately considered. The projected HI Trust Fund's long-term actuarial imbalance is smaller than that of the combined Social Security Trust Funds under the assumptions employed in this report.
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> The Trustees project that Medicare costs (including both HI and Supplemental Medical Insurance expenditures) will grow substantially from approximately 3.7% of GDP in 2011 to 5.7% of GDP by 2035, and will increase gradually thereafter to about 6.7% of GDP by 2086. The projected 75-year actuarial deficit in the HI Trust Fund is 1.35% of taxable payroll, up from 0.79% projected in last year's report.
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> The HI fund again fails the test of short-range financial adequacy, as projected assets are already below one year's projected expenditures and are expected to continue declining. The fund also continues to fail the long-range test of close actuarial balance.

The Trustees project that the HI Trust Fund will pay out more in hospital benefits and other expenditures than it receives in income in all future years, as it has since 2008. The projected date of HI Trust Fund exhaustion is 2024, the same date projected in last year's report, at which time dedicated revenues would be sufficient to pay 87% of HI costs.

The Trustees project that the share of HI expenditures that can be financed with HI dedicated revenues will decline slowly to 67% in 2045, and then rise slowly until it reaches 69% in 2086. The HI 75-year actuarial imbalance amounts to 36% of tax receipts or 26% of program cost.

The worsening of HI long-term finances is principally due to the adoption of short-range assumptions and long-range cost projection methods recommended by the 2010-11 Medicare Technical Review Panel. Use of those methods increases the projected long-range annual growth rate for Medicare's costs by 0.3 percentage points. The new assumptions increased projected short-range costs, but those increases are about offset, temporarily, by a roughly 2% reduction in 2013-21 Medicare outlays required by the Budget Control Act of 2011.

The Trustees project that Part B of Supplementary Medical Insurance (SMI), which pays doctors' bills and other outpatient expenses, and Part D, which provides access to prescription drug coverage, will remain adequately financed into the indefinite future because current law automatically provides financing each year to meet the next year's expected costs.

However, the aging population and rising health care costs cause SMI projected costs to grow rapidly from 2.0% of GDP in 2011 to approximately 3.4% of GDP in 2035, and then more slowly to 4.0% of GDP by 2086.

General revenues will finance roughly three quarters of these costs, and premiums paid by beneficiaries almost all of the remaining quarter. SMI also receives a small amount of financing from special payments by States and from fees on manufacturers and importers of brand-name prescription drugs.

Projected Medicare costs over 75 years are substantially lower than they otherwise would be because of provisions in the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the "Affordable Care Act" or ACA).

Most of the ACA-related cost saving is attributable to a reduction in the annual payment updates for most Medicare services (other than physicians' services and drugs) by total economy multifactor productivity growth, which the Trustees project will average 1.1% per year. The report notes that sustaining these payment reductions indefinitely will require unprecedented efficiency-enhancing innovations in health care payment and delivery systems that are by no means certain.

In addition, the Trustees assume an almost 31% reduction in Medicare payment rates for physician services will be implemented in 2013 as required by current law, which is also highly uncertain.

The drawdown of Social Security and HI trust fund reserves and the general revenue transfers into

> SMI will result in mounting pressure on the Federal budget. In fact, pressure is already evident.
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> For the sixth consecutive year, the Social Security Act requires that the Trustees issue a "Medicare funding warning" because projected non-dedicated sources of revenues—primarily general revenues—are expected to continue to account for more than 45% of Medicare's outlays, a threshold breached for the first time in fiscal year 2010.

In their joint message, the Social Security and Medicare trustees added the following comments:

> The long-run actuarial deficits of the Social Security and Medicare programs worsened in 2012, though in each case for different reasons. The actuarial deficit in the Medicare Hospital Insurance program increased primarily because the Trustees incorporated recommendations of the 2010-11 Medicare Technical Panel that long-run health cost growth rate assumptions be somewhat increased.
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> The actuarial deficit in Social Security increased largely because of the incorporation of updated economic data and assumptions. Both Medicare and Social Security cannot sustain projected long-run program costs under currently scheduled financing, and legislative modifications are necessary to avoid disruptive consequences for beneficiaries and taxpayers.
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> Lawmakers should not delay addressing the long-run financial challenges facing Social Security and Medicare. If they take action sooner rather than later, more options and more time will be available to phase in changes so that the public has adequate time to prepare. Earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits.
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> Social Security and Medicare are the two largest federal programs, accounting for 36% of federal expenditures in fiscal year 2011. Both programs will experience cost growth substantially in excess of GDP growth in the coming decades due to aging of the population and, in the case of Medicare, growth in expenditures per beneficiary exceeding growth in per capita GDP.
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> Through the mid-2030s, population aging caused by the large baby-boom generation entering retirement and lower-birth-rate generations entering employment will be the largest single factor causing costs to grow more rapidly than GDP. Thereafter, the primary factors will be population aging caused by increasing longevity and health care cost growth somewhat more rapid than GDP growth.