



Advising the Congress on Medicare issues

Medicare: How big is the financing problem?

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The views expressed in this presentation are my own
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Medicare Payment Advisory Commission

- Independent, nonpartisan, Congressional support agency
- Advise the Congress on issues affecting the Medicare program
- 17 Commissioners selected for expertise in financing and delivery of health care services
- Appointed by Comptroller General for 3-year terms (subject to renewal)
- Public meetings to discuss policy issues and formulate recommendations to the Congress

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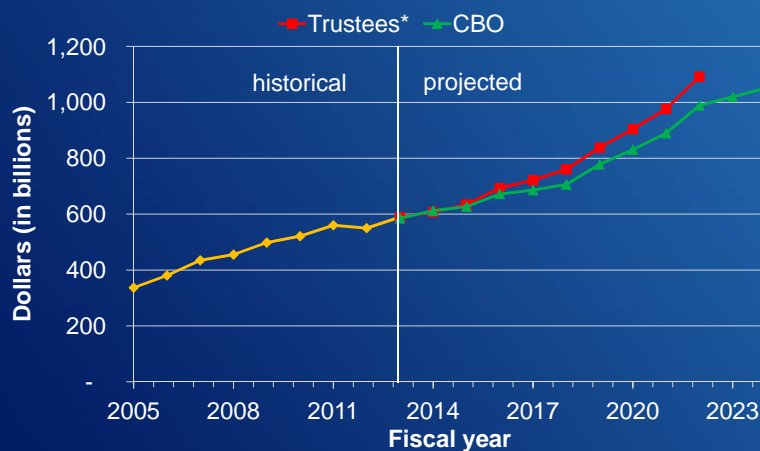
Assessing Medicare's financing challenge

- Medicare expenditures over time
 - In dollars
 - As a share of the overall economy (GDP)
 - As a share of total federal spending
- Solvency of the Medicare trust funds

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Trustees and CBO project Medicare spending to exceed a trillion dollars by the early part of the next decade



Note: Trustees projection will be updated with release of 2014 annual report of the Boards of Trustees of the Medicare Trust Funds.

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Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds. CBO April 2014 baseline.

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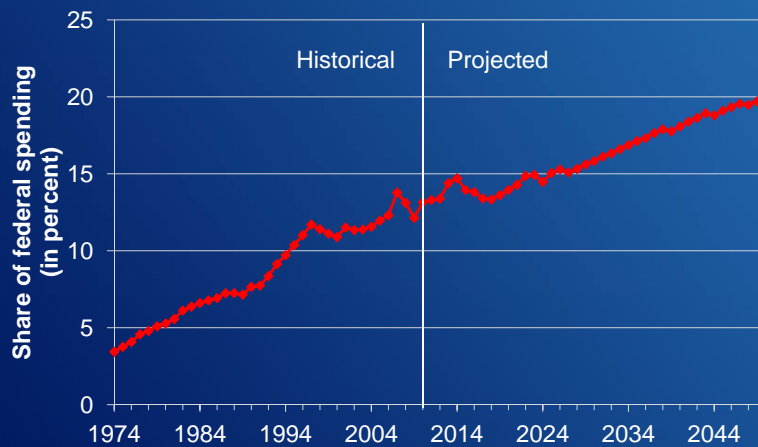
Medicare spending consumes an ever increasing share of GDP (1974 – 2050)



MEIPAC Note: GDP (Gross domestic product). Source: Congressional Budget Office's July 2014 report *The 2014 Long-Term Budget Outlook*.

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Medicare spending comprises an ever increasing share of federal spending (1974 – 2050)



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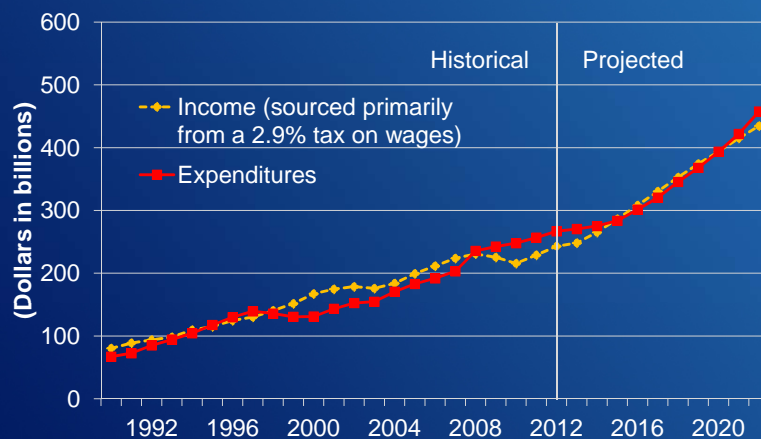
The Medicare Trust Funds

- The Hospital Insurance (HI) Trust Fund
 - Part A – helps pay for inpatient hospital stays
 - Financed by payroll tax
- The Supplementary Medical Insurance (SMI) Trust Fund
 - Part B – helps pay for physician services
 - Part D – helps pay for Rx drug coverage
 - Financed by general revenues and premiums

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The HI (Part A)Trust Fund has run a deficit since 2008

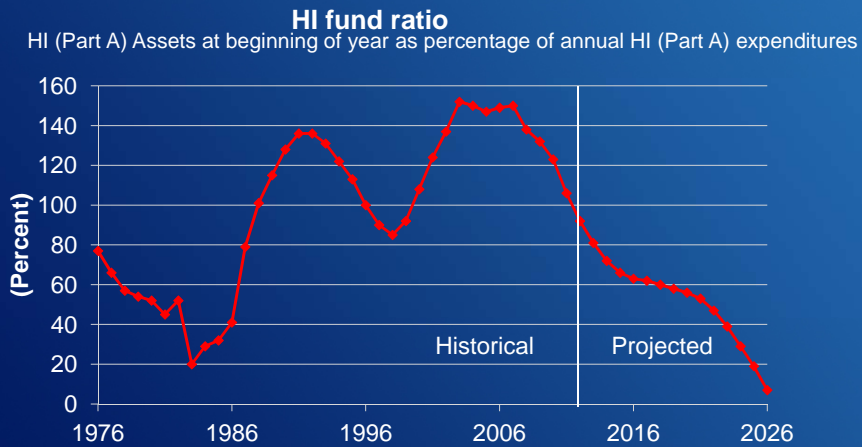


Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds.

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The HI (Part A) Trust Fund is projected to become exhausted in 2026



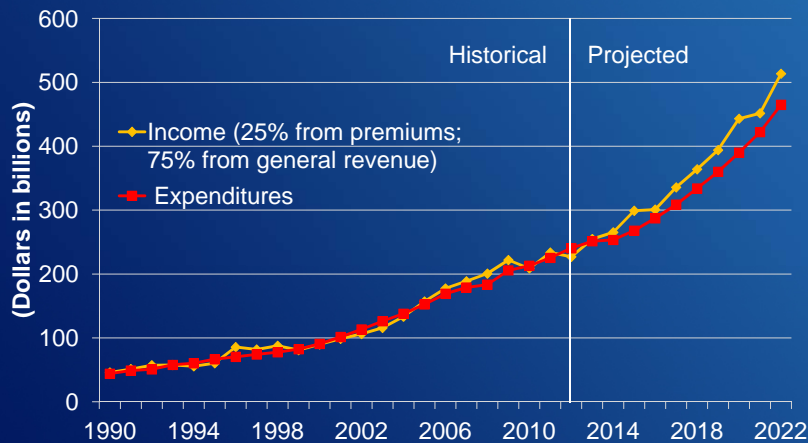
Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds.

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SMI Part B is structured to balance (Income equals expenditures)

Premiums and general revenue income are reset each year to cover expenditures



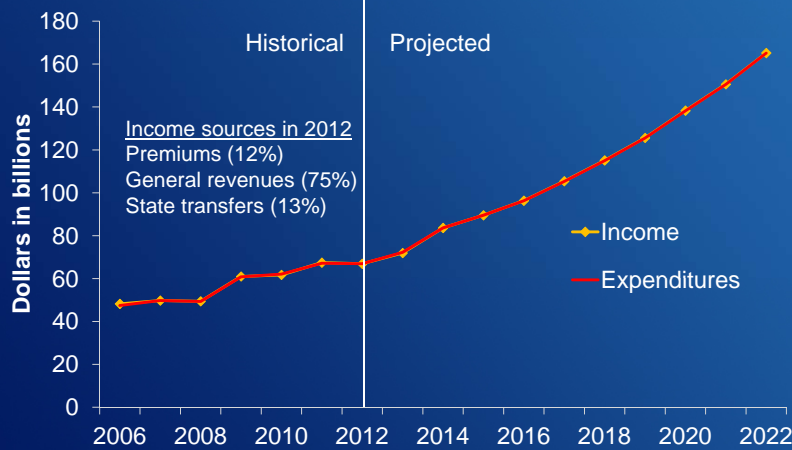
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Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds.

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SMI Part D is structured to balance (Income equals expenditures)

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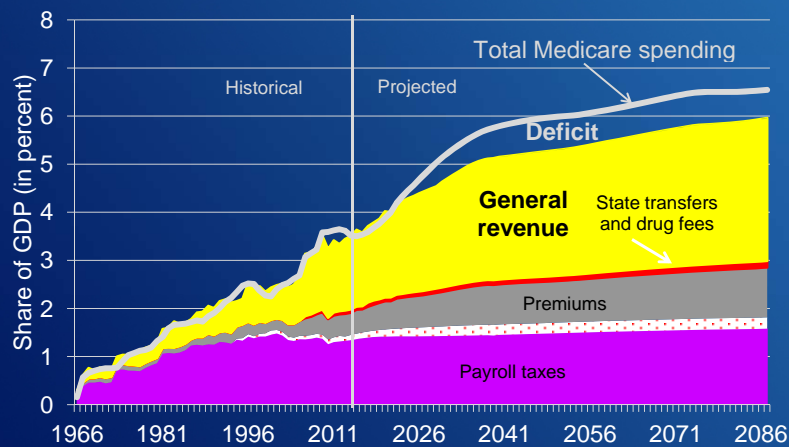


Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds.

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Putting all the parts together - general revenues finance a growing share of Medicare expenditures



Note: GDP (Gross domestic product).

Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds.

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Components of expenditures and income

- Expenditures
 - Enrollment
 - Spending per beneficiary
- Income (major sources)
 - General revenues
 - Premiums
 - Payroll tax
 - Payroll tax rate (2.9%)
 - Size of the workforce
 - Aggregate wages

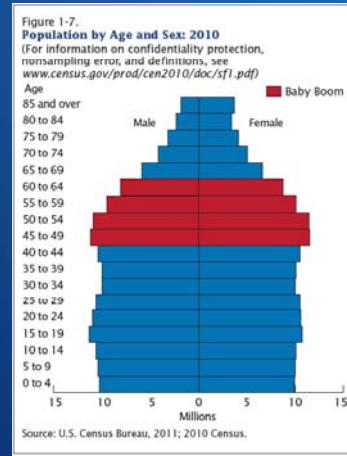
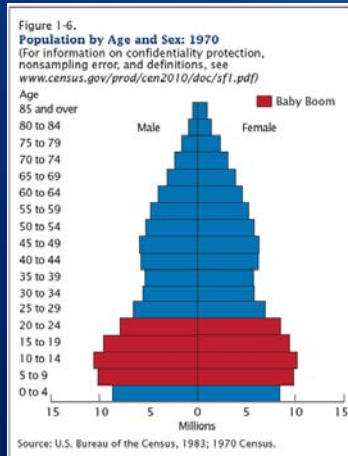
Reset each year to cover SMI (Parts B and D) expenditures

Medicare spending growth has slowed but still exceeds growth in GDP

		Average annual growth rates			
		Spending per beneficiary		Spending minus GDP	
	Time period	Enrollment	beneficiary	Spending	minus GDP
historical	1970-1980	3.4%	13.4%	17.3%	7.0%
historical	1980-1990	1.9%	9.6%	11.7%	4.0%
historical	1990-2000	1.5%	5.6%	7.2%	1.6%
historical	2000-2010	1.9%	7.0%	9.0%	5.1%
historical	2010-2012	3.0%	1.7%	4.8%	0.6%
CBO projection	2014-2023	3.0%	2.6%	5.7%	1.2%
Trustees projection*	2014-2023	2.9%	4.5%	7.5%	3.0%

Note: Trustees projection will be updated with release of 2014 annual report of the Boards of Trustees of the Medicare Trust Funds. Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds. CBO April 2014 baseline.

The U.S. population is getting older

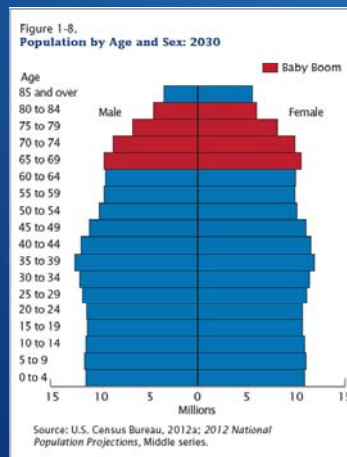


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The baby boom generation ages into Medicare

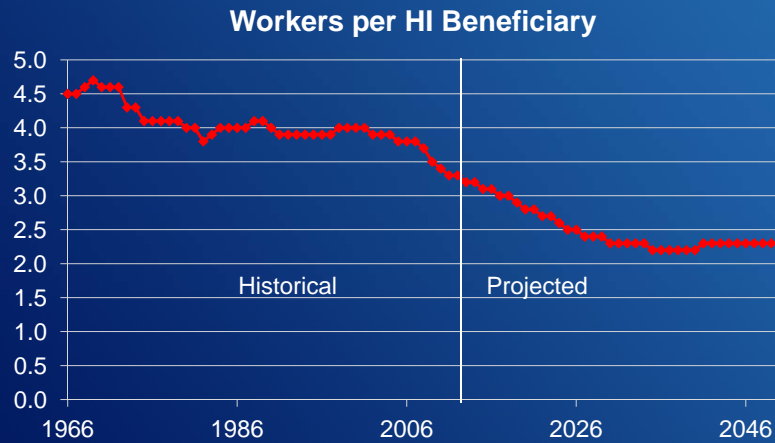
- On the spending side – increasing the number of Medicare beneficiaries
- On the income side – fewer workers per beneficiary paying taxes



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Workers per HI beneficiary declining from 4.5 at program's inception to 3.2 in 2013 to 2.3 by 2030



Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds.

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How much will it take to close the long-term funding gap in the HI (Part A) trust fund?

- To balance the HI (Part A) Trust Fund over the next 75 years
 - Increase the payroll tax from 2.9% to 4.01%
 - Or reduce HI (Part A) spending by 22%
 - Or some combination of the two

Source: 2013 annual report of the Boards of Trustees of the Medicare Trust Funds.

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More generally for Medicare spending overall

- To maintain Medicare spending at its current share of GDP (3%)
 - From now through 2030 (when baby boomers have all aged into Medicare)
 - Medicare spending projected to grow at 5.9% per year, on average
 - GDP projected to grow at 4.4% per year, on average
 - To maintain Medicare spending at 3% of GDP, its growth rate would need to be reduced by 1.6% per year, on average

MECPAC Source: Congressional Budget Office's July 2014 report *The 2014 Long-Term Budget Outlook*.

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