National Academy of Social Insurance
2014 Summer Academy
Demystifying Medicare

Panel II: How big is the financing problem?

July 23, 2015
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Summary

• Overview: different metrics for assessing spending projections over multiple decades

• Congressional Budget Office (CBO) projections

• Centers for Medicare & Medicaid Services, Office of the Actuary (OACT): Annual Report of the Board of Trustees of Medicare Trust Funds (Yesterday)
Overview of metrics used in looking at projections for Medicare

- Spending in dollars
- Spending as a share of:
  - Federal budget
  - Gross Domestic Product (GDP)
  - Taxable payroll (in case of classic social insurance such as Part A of Medicare)
- Sources and adequacy of financing
- Contributors to spending growth (enrollment, inflation, technology, utilization …..)
- Broader measures – spending compared with total health spending, wages, personal income
Long term projections for Medicare are basically functions of three types of indicators:
• Broad economic factors driving growth in GDP
• Changes in the number of program enrollees.
• The increase in Medicare costs per beneficiary compared with the growth in the GDP— which is typically expressed as “excess cost growth.”
Enrollment increases from 56 million today to 82 million by 2050 – as the workers per enrollee decline from more than 4 to 2.3

Medicare Trustees Report, 2015
The number of enrollees is projected to increase substantially, and as those enrollees age their needs and costs increase.
KFF - Spending per person - Medicare spending was more than $1,200 lower per beneficiary in 2014 than was projected in 2010, and is expected to be $2,400 lower in 2019.

<table>
<thead>
<tr>
<th>Mandatory outlays per beneficiary</th>
<th>2010 baseline</th>
<th>2011 baseline</th>
<th>2012 baseline</th>
<th>2013 baseline</th>
<th>2014 baseline</th>
<th>2015 baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference between 2010 and 2015 baselines in 2014</td>
<td>$12,376</td>
<td>$12,651</td>
<td>$12,921</td>
<td>$13,186</td>
<td>$13,441</td>
<td>$13,697</td>
</tr>
<tr>
<td>Difference between 2010 and 2015 baselines in 2019</td>
<td>$14,913</td>
<td>$15,173</td>
<td>$15,433</td>
<td>$15,693</td>
<td>$15,953</td>
<td>$16,213</td>
</tr>
</tbody>
</table>

Modeling question – how to project that future “excess cost growth” when recent trends conflict with longer term trends?

- CBO sets out the following “excess cost growth” patterns from 1970-2013

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Medicare</th>
<th>Total health costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-2013</td>
<td>1.9%</td>
<td>1.8%</td>
</tr>
<tr>
<td>1980-2013</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>1985-2013</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>1990-2013</td>
<td>1.2%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

- CBO assumes average of 0.4% for 10 years, phasing up to 1.4 percent (the 1985-2013 average) by 2040
### CBO: Federal health spending and total federal spending as a share of GDP

CBO long-term (25-year) outlook projects federal revenues and spending as a share of the GDP.

Note: health and Medicare growth – and deficit increase – even with unrealistic “crowd-out” of other spending.

<table>
<thead>
<tr>
<th>Federal spending, revenue as % GDP</th>
<th>2015</th>
<th>2025</th>
<th>2040</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>17.7</td>
<td>18.3</td>
<td>19.4</td>
</tr>
<tr>
<td><strong>Spending</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>4.9</td>
<td>5.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Mand. health programs*</td>
<td>5.2</td>
<td>6.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Medicare - gross</td>
<td>3.5</td>
<td>4.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Offsetting receipts</td>
<td>(0.4)</td>
<td>(0.8)</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Medicare net</td>
<td>3.1</td>
<td>3.6</td>
<td>5.5</td>
</tr>
<tr>
<td>All other</td>
<td>9.1</td>
<td>7.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Interest</td>
<td>1.3</td>
<td>3.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Total Spending</td>
<td>20.5</td>
<td>22.2</td>
<td>25.3</td>
</tr>
<tr>
<td><strong>Deficit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-2.7</td>
<td>-3.8</td>
<td>-5.9</td>
</tr>
</tbody>
</table>

CBO, Long-Term Budget Outlook, June, 2015. Major health program item includes Medicare “net”. CBO also now projects deficit with “macroeconomic feedback”, which it estimates at 6.7% of GDP in 2040.
Medicare Trustees’ Report

• Annual Report – Trustees are the Secretaries of Treasury (Managing Trustee), HHS and Labor; Commissioner of Social Security; two public Trustees; Administrator of CMS (Secretary of Board of Trustees)

• “Intermediate,” “low-cost,” and “high-cost” projections – track “intermediate”

• Chief Actuary of CMS signs “Statement of Actuarial Opinion” as the final item in report – and can include views about underlying assumptions, and caveats.
The Medicare Trust Funds

- **Hospital Insurance Trust Fund (Part A)**
  - Payroll tax of 1.45% for employers and for employees
  - Additional 0.9% on earnings above certain thresholds
  - Dedicated portion of tax on Social Security benefits
  - Classic trust fund: can be “out-of-balance” if dedicated revenues do not cover costs

- **Supplementary Medical Insurance Trust Fund**
  - Separate accounts for Parts B and D
  - Financed by individual premiums and general revenues
  - Automatically “in balance” given general revenue component: spending = revenues
Chart E—OASI, DI, and HI Trust Fund Ratios
[Asset reserves as a percentage of annual cost]
HI solvency projections have varied over the years

Figure 1. Projected Years of Solvency for HI Trust Fund, 1990-2015
The actuarial balance is relevant only for Medicare Part A (Hospital Insurance). The Trustees provides estimates of over 25, 50 and 75 years.

The balances indicate the change, in revenues and/or spending, that would be necessary today and sustained, to achieve balance over that time period.
The Trustees projections of the actuarial balance over the 50 and 75 year time horizon improved since last year – by 0.11 percent of payroll over 50 years and 0.19 percent over 75 years, which they attribute largely to changed assumptions about and spending growth.

Source: 2015 Annual Report of the Board of Trustees of the Medicare Trust Funds
History and projections, spending on Parts A, B, D and total, as a percent of GDP, baseline, current law

Medicare Trustees Report, 2015
History and projections, current law baseline, compared with alternative in which Congress adjusts some current law payment constraints

Spending as a percent of GDP

Historical

Estimated

Alternative

Baseline

Part A

Part B

Part D

Total

2015

Medicare Trustees Report, 2015
Chart C—Medicare Cost and Non-Interest Income by Source as a Percentage of GDP

- History
- Estimated
- Total Cost
- Deficit
- General Revenue Transfers
- State Transfers & Drug Fees
- Premiums
- Tax on OASDI Benefits
- Payroll Taxes

Calendar year:
- 1970
- 1980
- 1990
- 2000
- 2010
- 2020
- 2030
- 2040
- 2050
- 2060
- 2070
- 2080

Total Non-Interest Income
Thank you

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