

# Medicare: How Big is the Financing Problem?

National Academy of Social Insurance  
“Demystifying Medicare: 2013 Summer Academy”  
July 24, 2013

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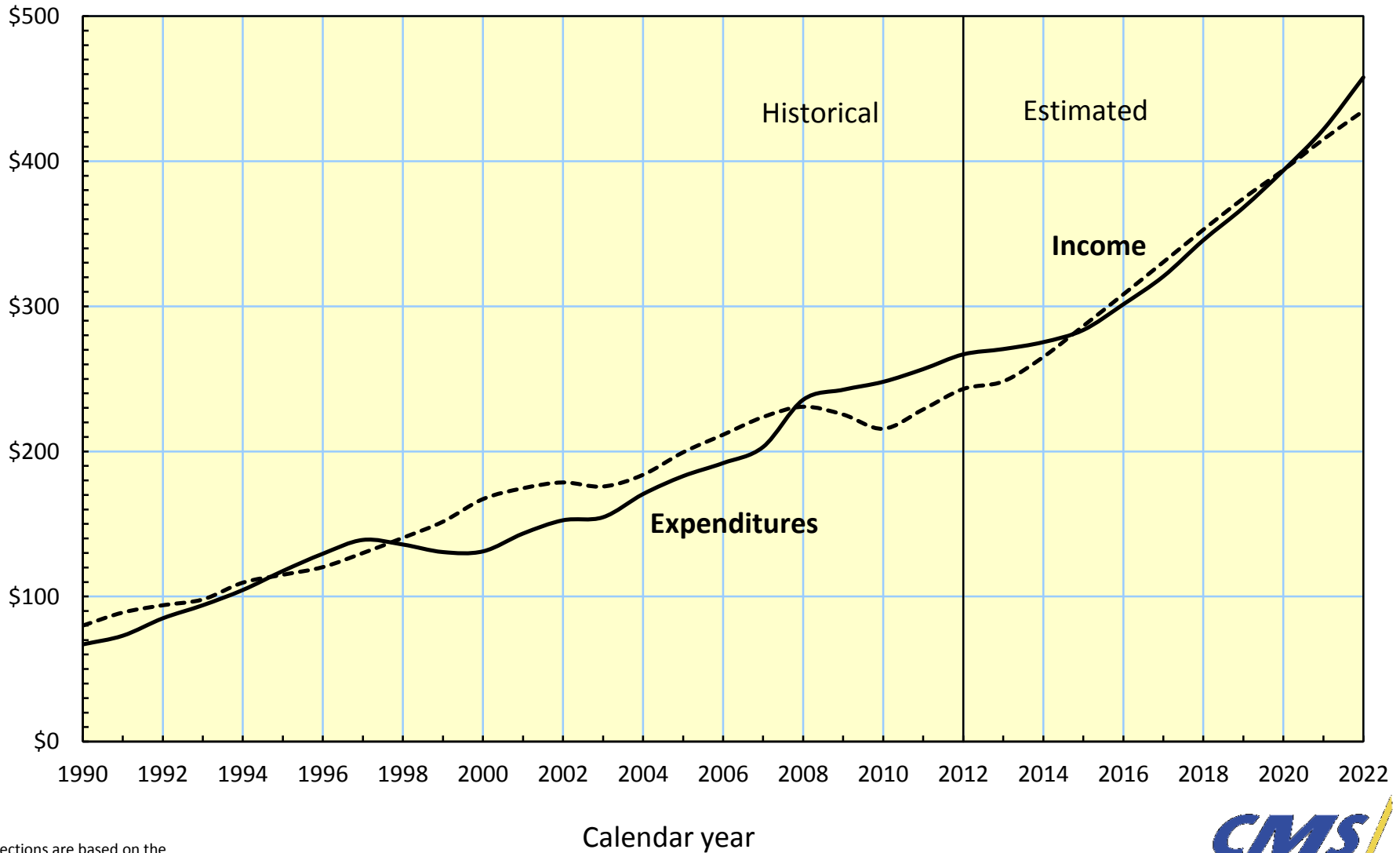
# Agenda

- 2013 Trustees Report Short-Range Financial Outlook for Medicare
  - HI, SMI Part B, SMI Part D
  - Adequacy measures
- 2013 Trustees Report Long-Range Financial Outlook for Medicare
  - HI and actuarial balance
  - Cost Growth Methods
  - Current Law vs. Alternative Scenarios

# Short-Range Financial Status Measures

- Part A:
  - Advisable to Maintain One Year Balance
  - Trust Fund Exhaustion Date
  - Short Range test of financial adequacy
- Part B: Contingency Reserve 15-20%
- Part D: No Contingency Margin
- Total Medicare
  - Medicare Funding Warning (45% rule)
  - Independent Medicare Advisory Board Determination

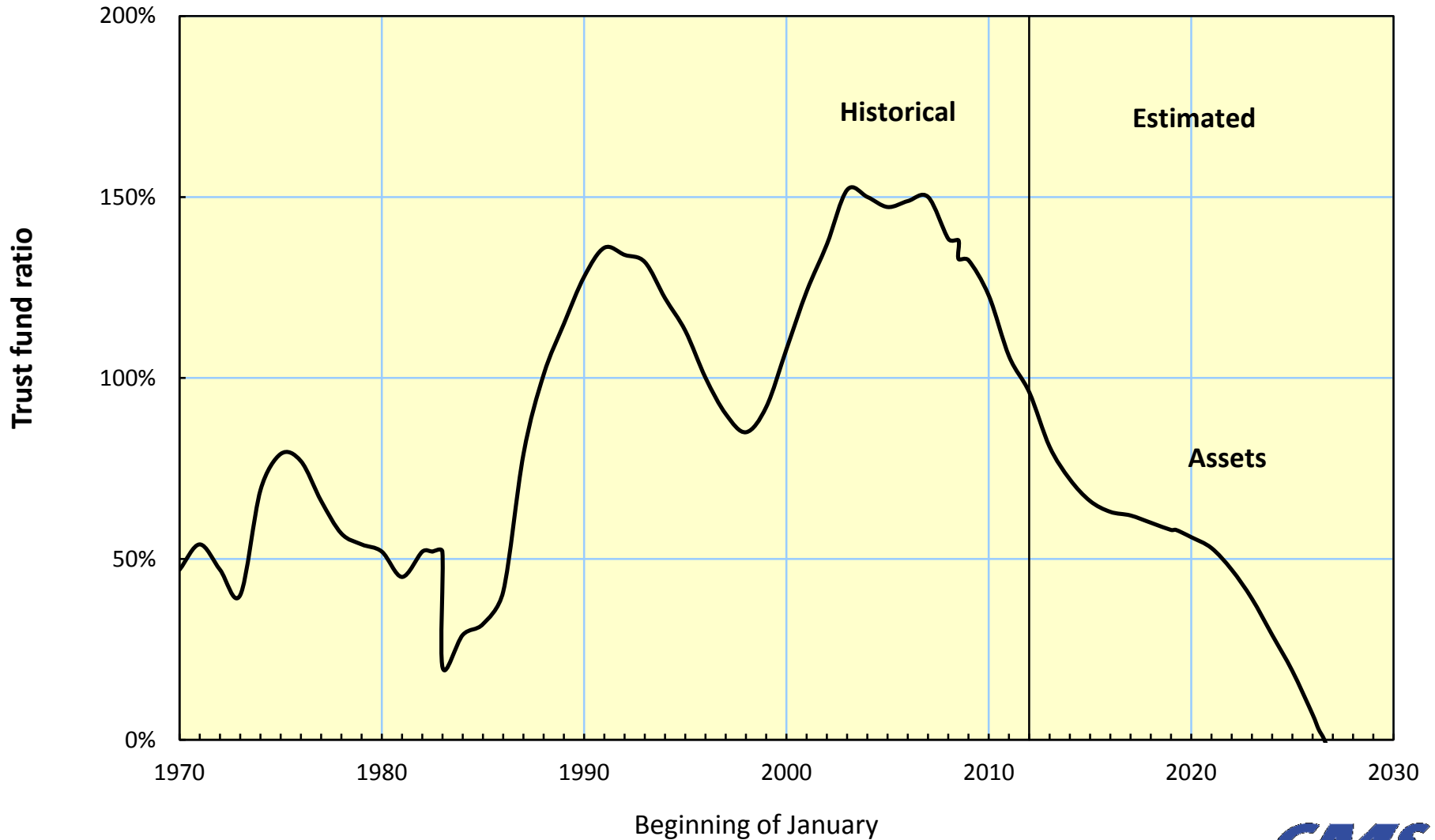
# HI Income and Expenditures (In billions)



Projections are based on the intermediate assumptions from the 2013 Trustees Report.

# HI fund ratio

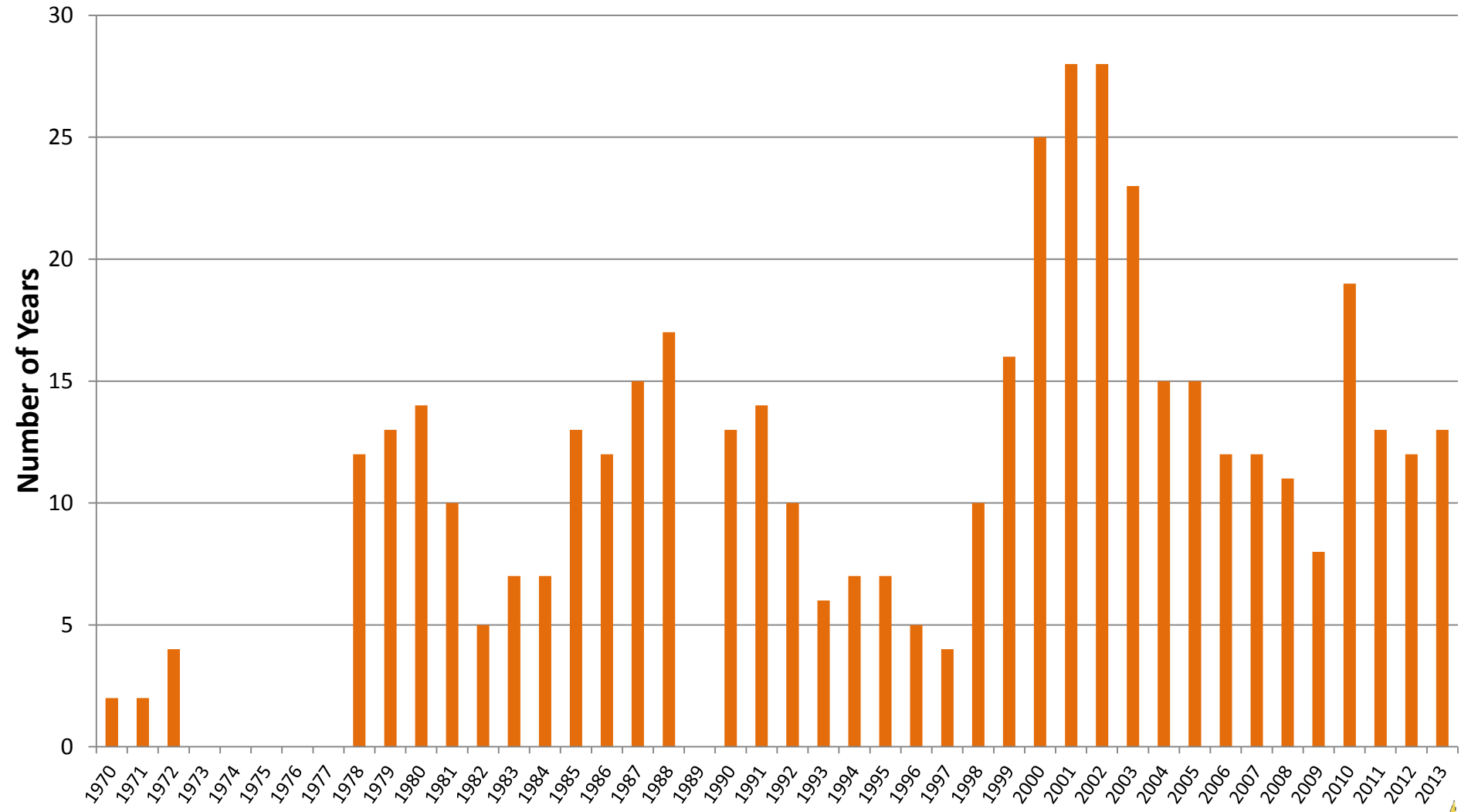
(Assets at beginning of year as percentage of annual expenditures)



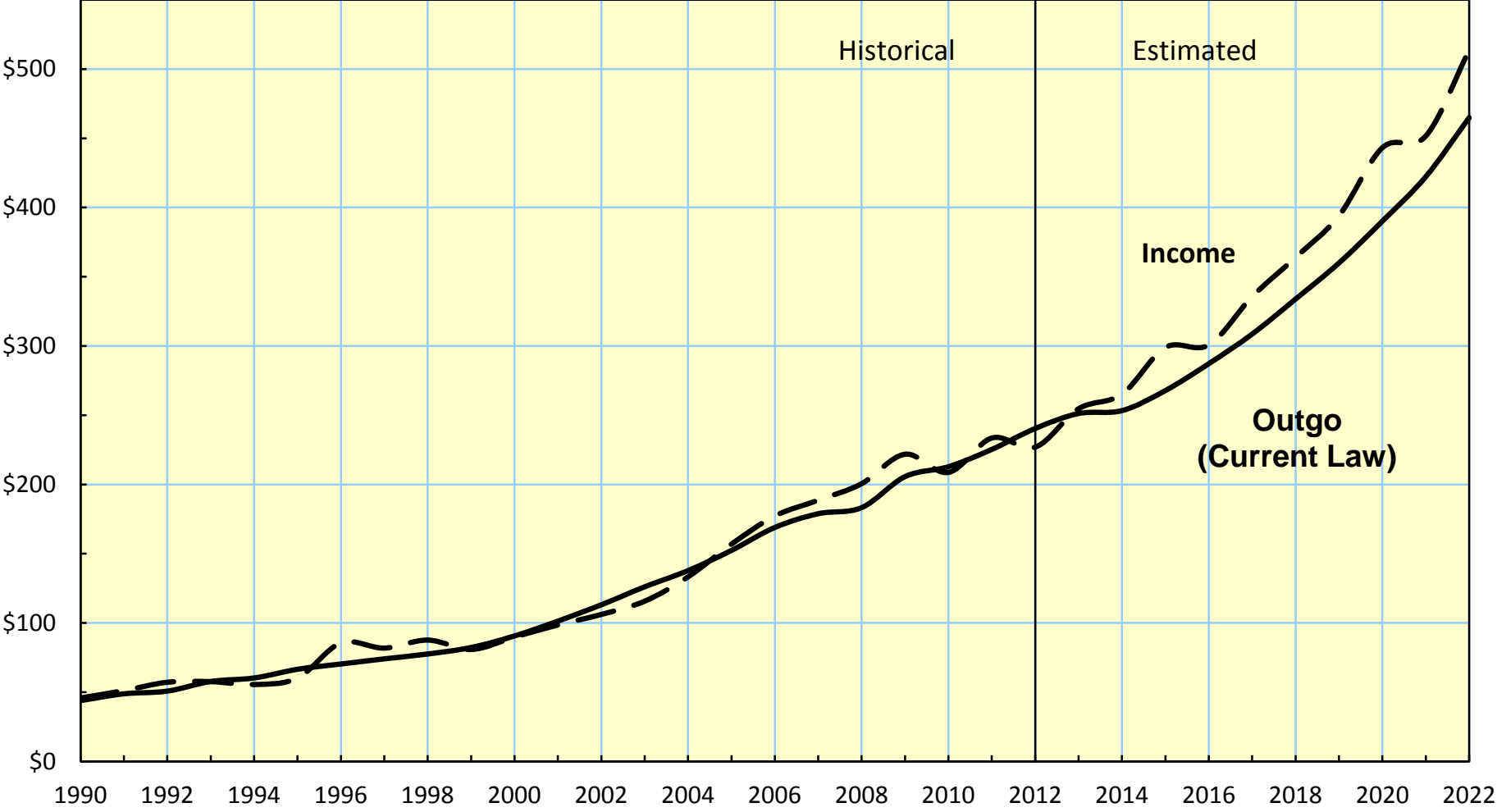
Projections are based on the intermediate assumptions from the 2013 Trustees Report.



# Projected Number of Years to HI Insolvency



# SMI Part B income and outgo (In billions)

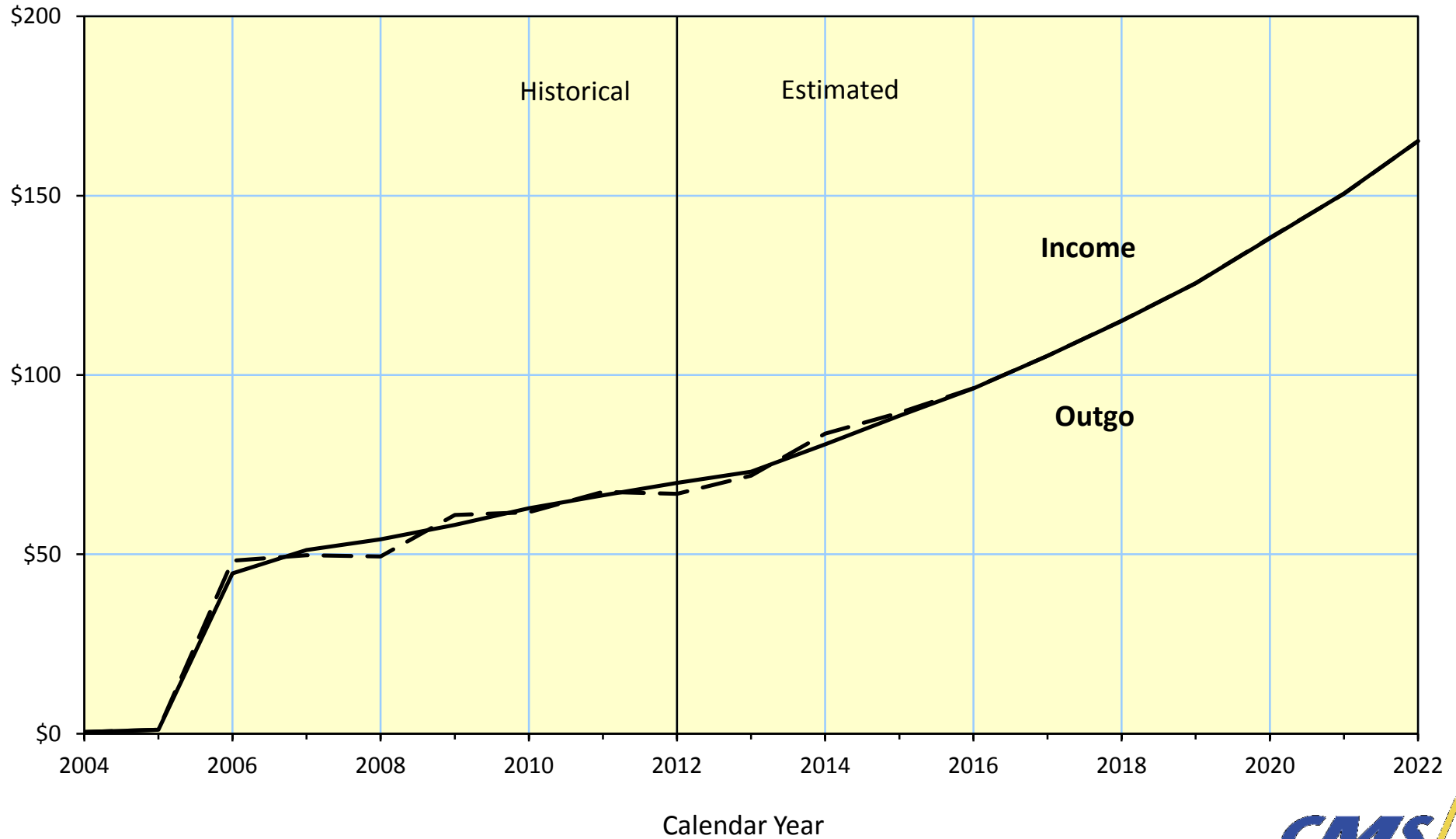


Projections are based on the intermediate assumptions from the 2013 Trustees Report.



Calendar year

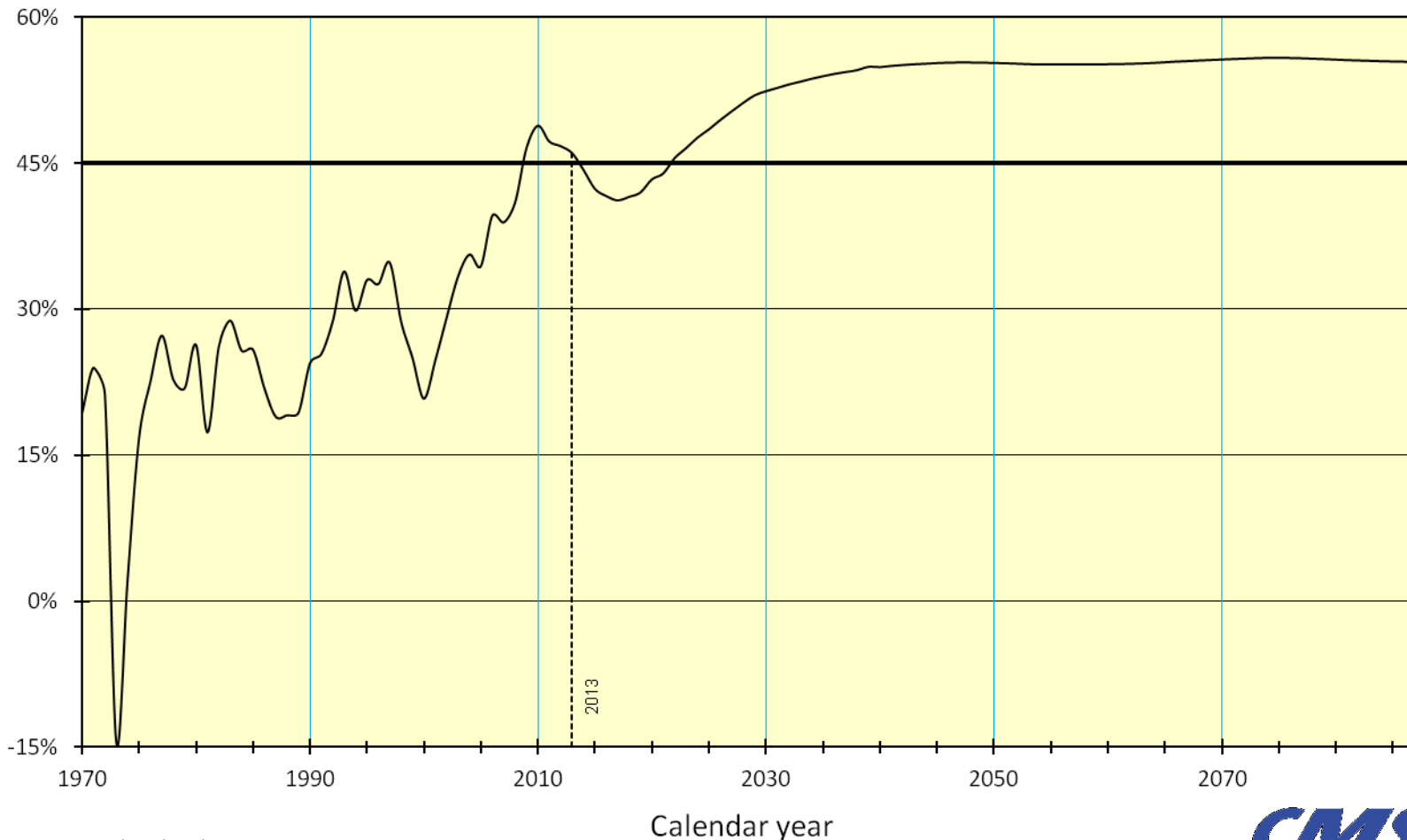
# SMI Part D income and outgo (In billions)



Projections are based on the intermediate assumptions from the 2013 Trustees Report.



# Medicare Funding Warning: Projected Difference between Total Medicare Outlays and Dedicated Financing Sources, as a Percentage of Total Outlays



Projections are based on the intermediate assumptions from the 2013 Trustees Report.



# Independent Payment Advisory Board

- Determinations of the projected and target growth rates made by the Chief Actuary beginning 2013.
- If determined that projected Medicare per capita growth rate exceeds the per capita target growth rate in the implementation year, the Chief Actuary establishes savings target.
- Rates of growth for Medicare spending and the target calculated as the 5-year average of 2 prior years, current year, and 2 following years.

## Key Rates of Growth for IPAB Determination

	Medicare per capita	CPI	CPI-M	GDP per capita	NHE per capita	IPAB Determination	
						Medicare	Target
2011	2.2%	3.6%	3.0%	3.2%	3.1%		
2012	1.1%	2.1%	3.8%	3.4%	3.4%		
2013	-0.4%	1.8%	3.6%	3.3%	2.9%	1.46%	3.04%
2014	2.7%	2.2%	3.9%	4.3%	6.4%	1.74%	3.06%
2015	1.8%	2.4%	4.1%	5.2%	4.7%	2.33%	3.17%
2016	3.6%	2.5%	4.2%	5.2%	5.3%	3.38%	3.36%
2017	4.1%	2.7%	4.4%	4.8%	5.0%	3.72%	3.48%
2018	4.8%	2.8%	4.5%	4.5%	5.2%	4.31%	5.48%
2019	4.4%	2.8%	4.5%	4.1%	5.5%	4.50%	5.20%
2020	4.7%	2.8%	4.5%	3.8%	5.8%	4.92%	4.97%
2021	4.8%	2.8%	4.5%	3.7%	5.7%	5.04%	4.81%
2022	6.2%	2.8%	4.5%	3.7%	5.7%	5.20%	4.75%

Projections are based on the intermediate assumptions from the 2013 Trustees Report.

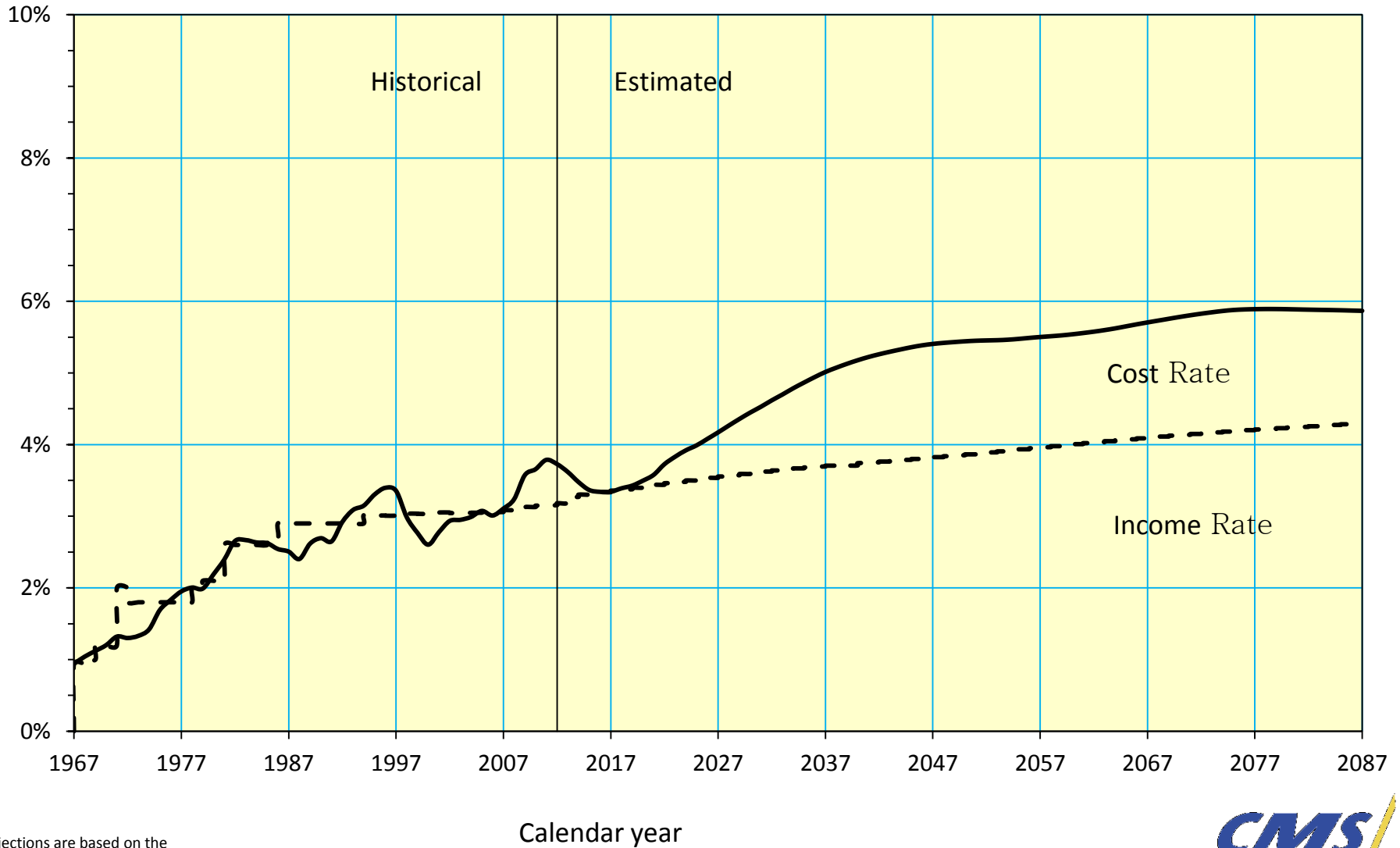


# Long-Range Financial Status Measures

- Part A:
  - Actuarial Balance
- Total Medicare
  - Independent Medicare Advisory Board Determination

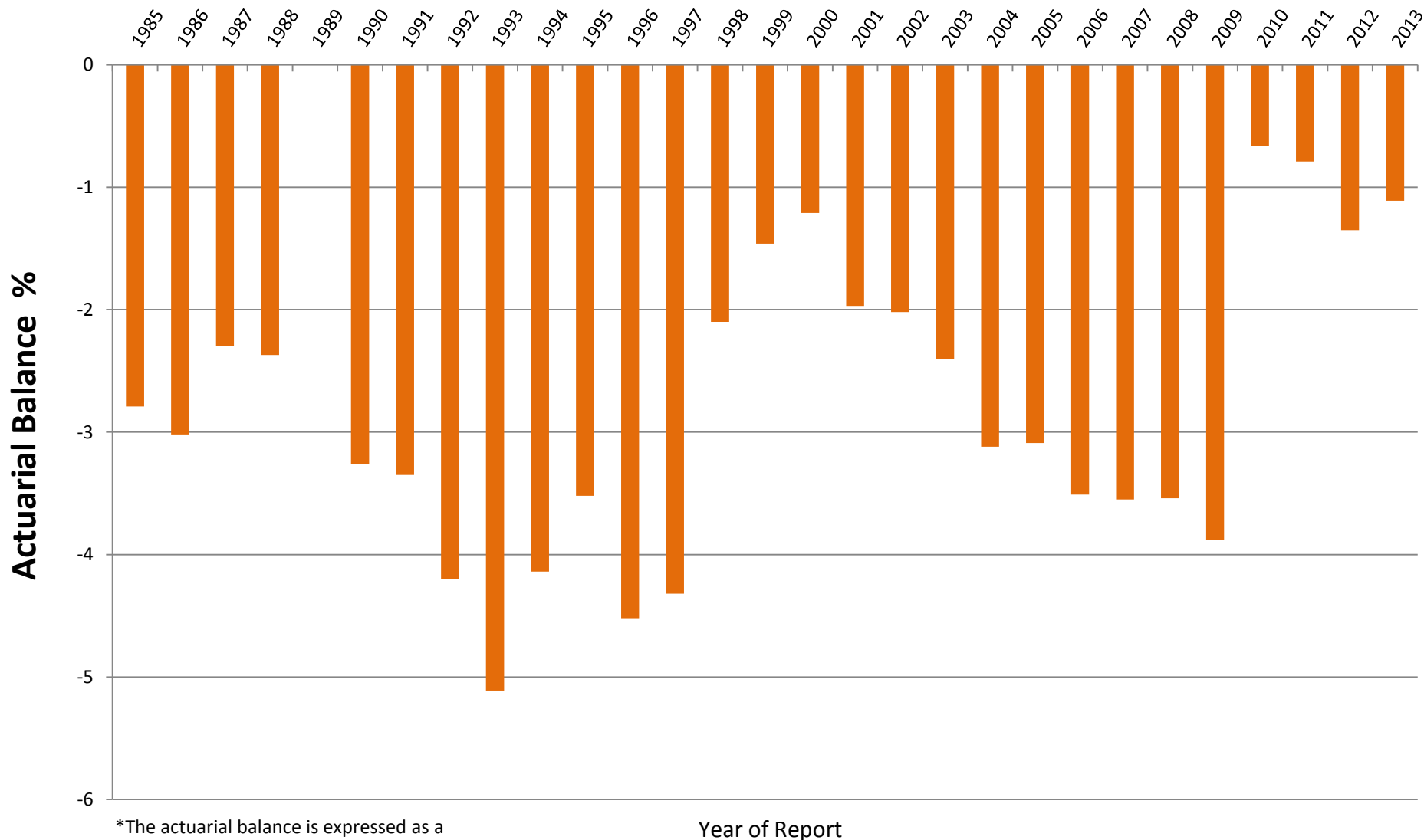
# Long-range HI income and cost rates

## Current Law



Projections are based on the intermediate assumptions from the 2013 Trustees Report.

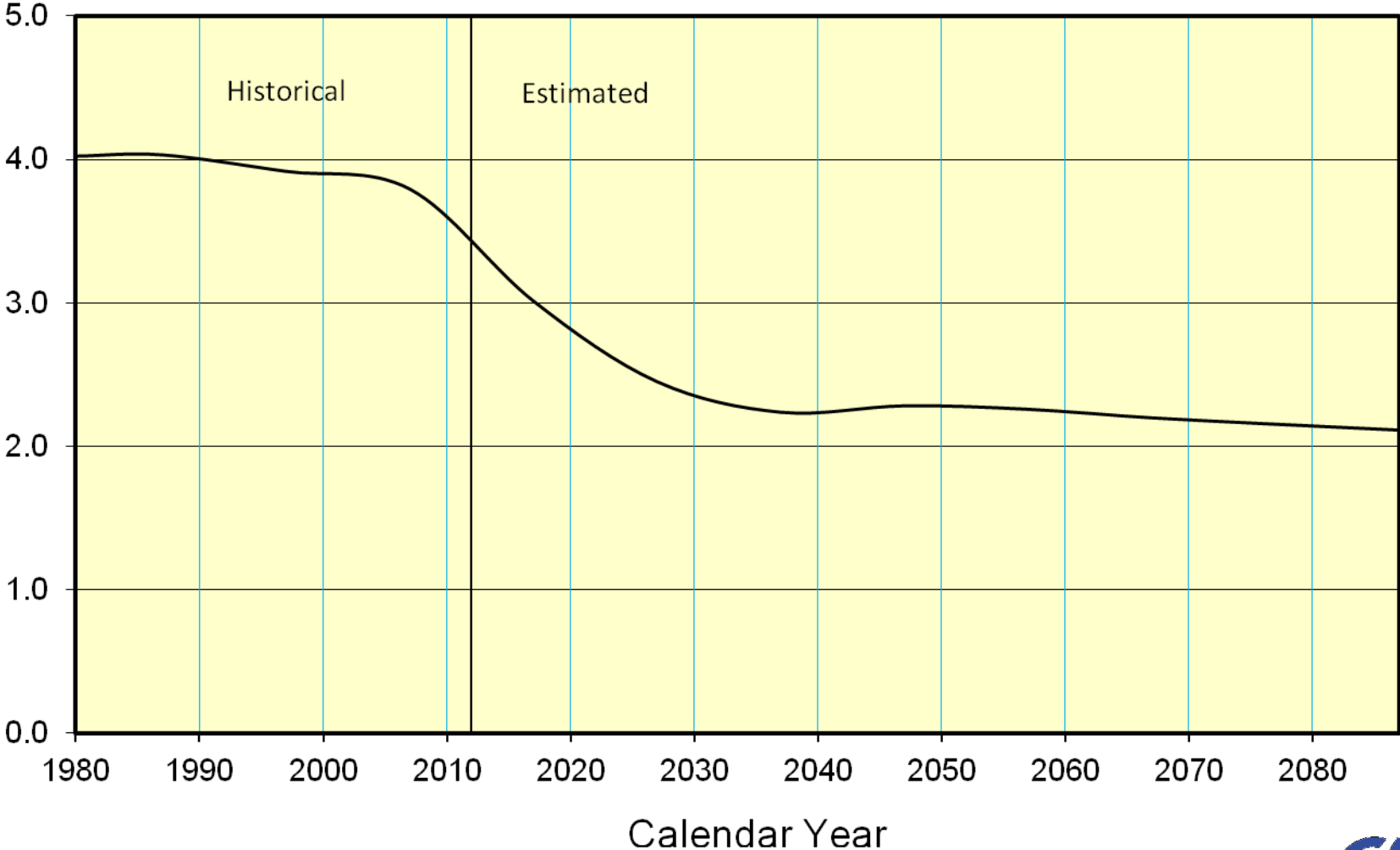
# Actuarial Balance\*



\*The actuarial balance is expressed as a percentage of taxable payroll under the intermediate assumptions as reported in each report. In each case, the actuarial balance is for a 75-year projection period beginning with the year of the report



# Workers per HI Beneficiary



# How Is Long-Run Cost Growth Determined?

Years 1-10: Detailed actuarial projections by service

Years 11-24: Linear transition to Year 25 growth rates by Part (A, B, and D)

Years 25-75: Growth in Parts A, B, and D determined by:

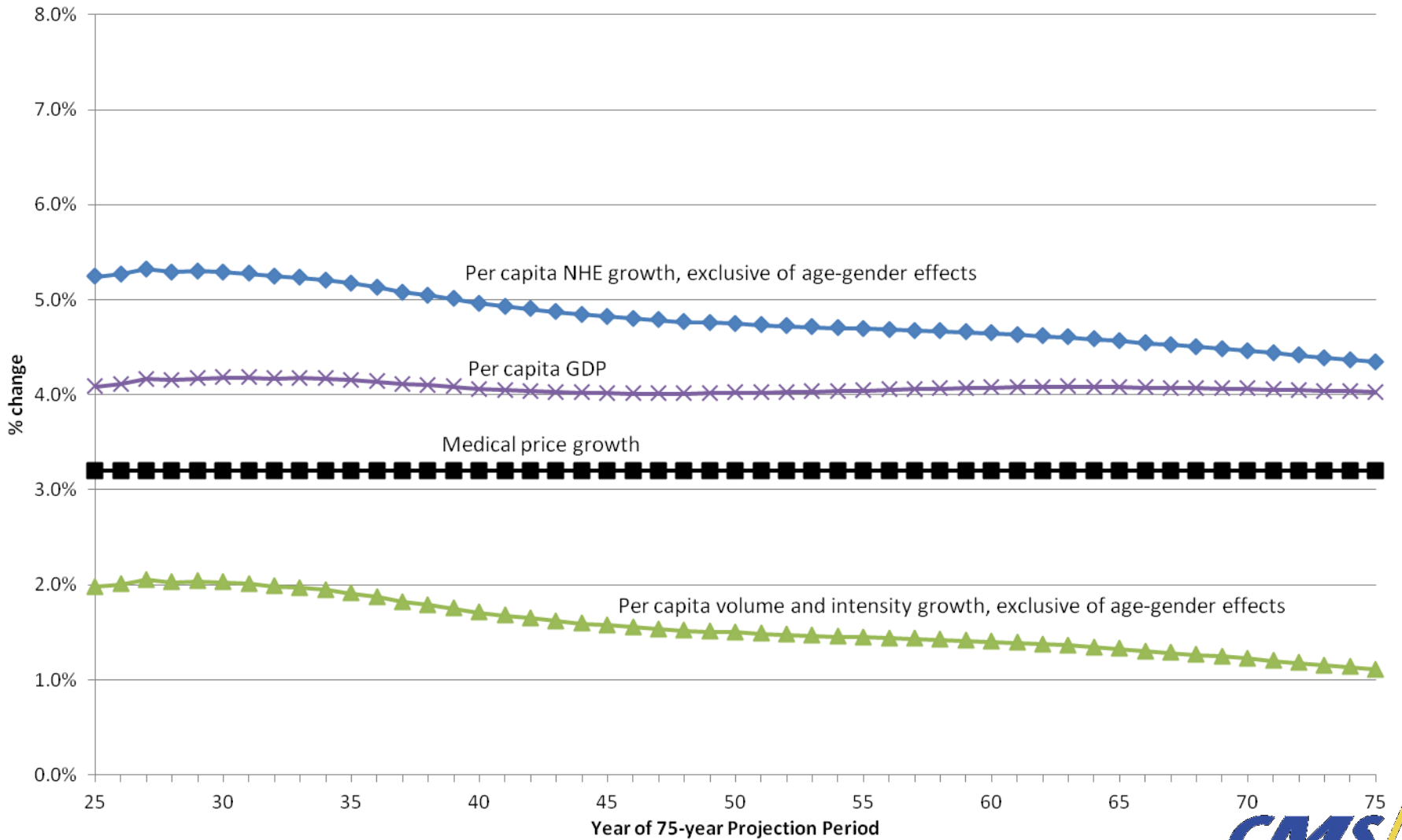
- Enrollment
- Age-Gender composition
- Excess Cost Growth (cost growth less GDP growth)

Factors Model for **National Health Expenditures**:

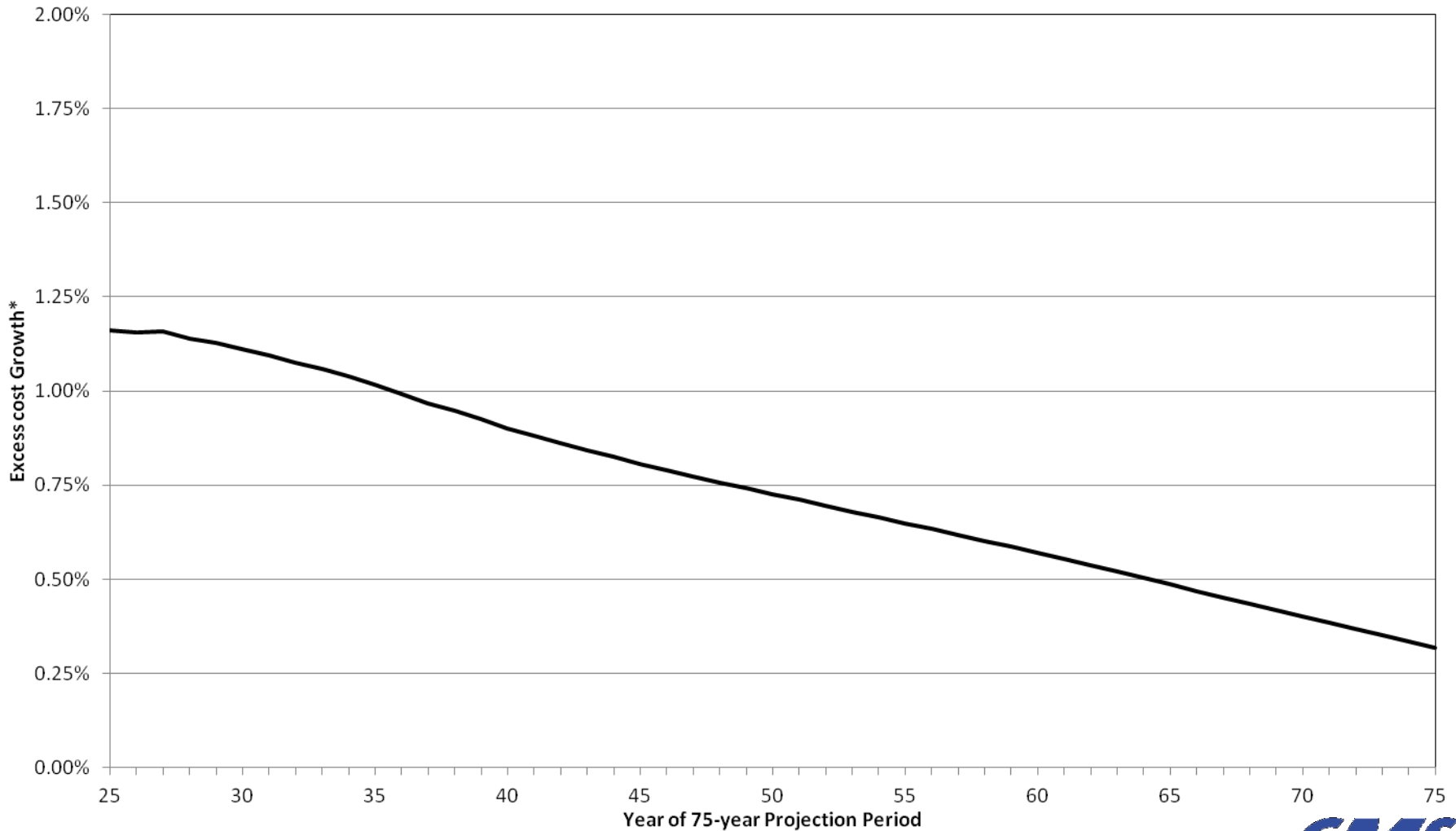
- Income growth; income elasticity
- Medical price growth; medical price elasticity
- Change in insurance coverage; insurance elasticity



# Long-Range National Health Expenditure NHE Growth Factors



# NHE Excess Cost Growth



\*Reflects per beneficiary NHE spending (age-gender adjusted) growth in excess of per capita GDP growth



## Average Long-Run Growth Rates – Current Law

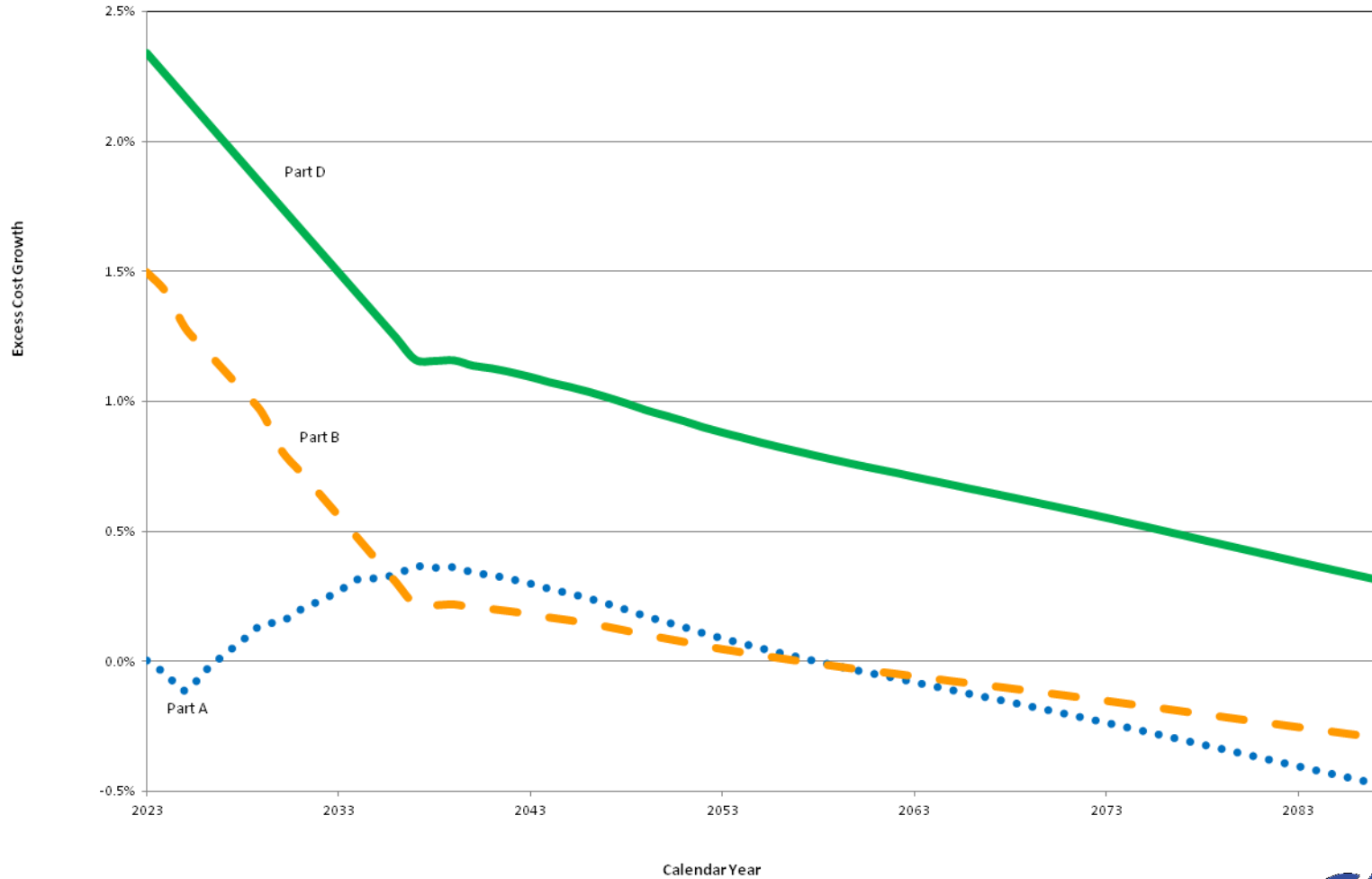
Factor	NHE	Medicare				
		A & B updated by market baskets	B updated by CPI	B updated by SGR	D	Total
Price	3.2%	2.5%	1.7%		3.2%	
V&I	1.9%	1.8%	1.8%		1.9%	
Total	5.1%	4.3%	3.5%	4.1%	5.1%	4.3%
GDP	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Excess Cost Growth	GDP+1.0	GDP+0.2	GDP-0.6	GDP+0.0	GDP+1.0	GDP+0.2

\*Based on present value average of year-by-year growth rates.

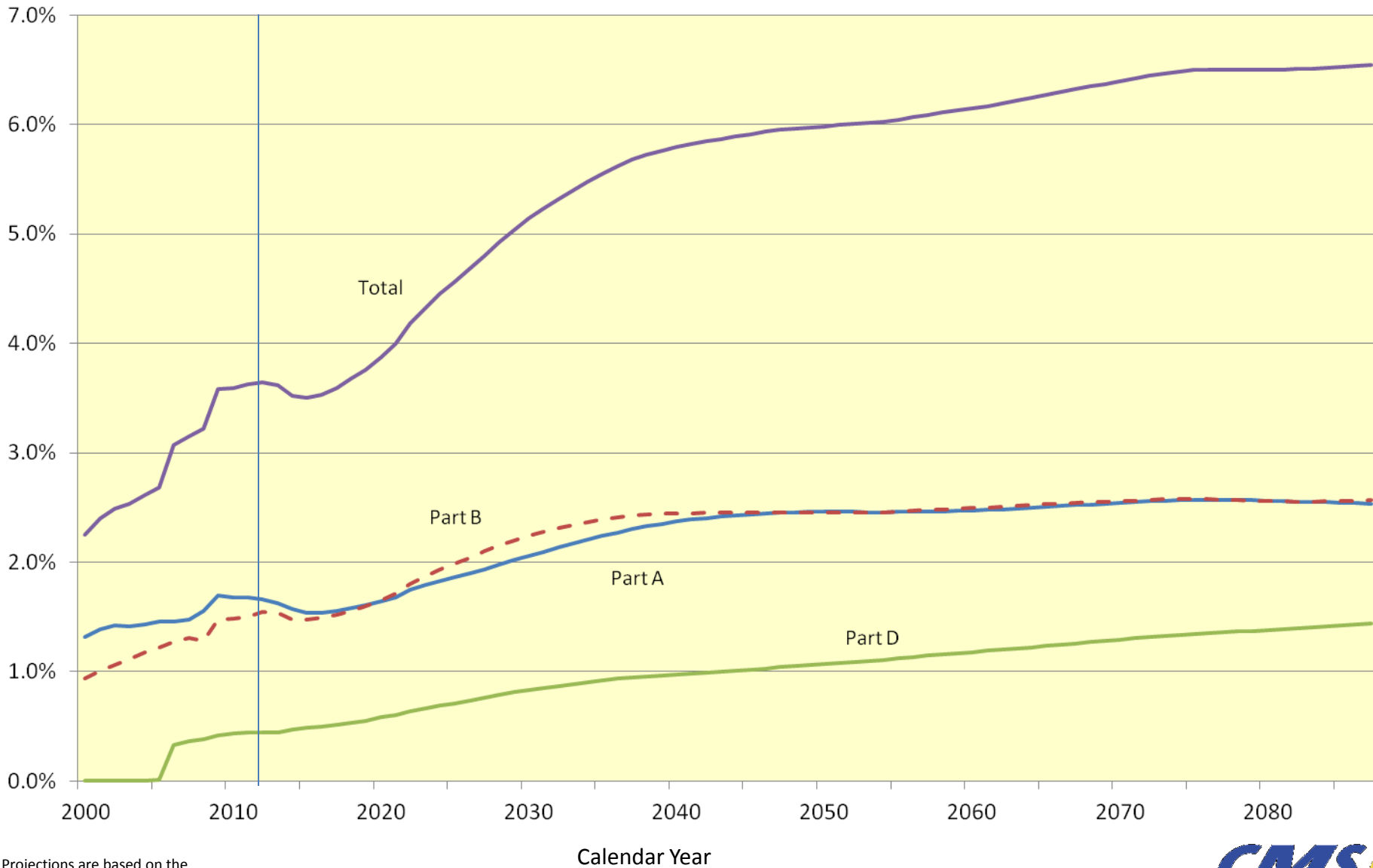
Projections are based on the intermediate assumptions from the 2013 Trustees Report.



# Medicare Excess Cost Growth, current law



# Medicare Expenditures as a Percentage of the Gross Domestic Product



Projections are based on the intermediate assumptions from the 2013 Trustees Report.

# Alternatives to Current Law

- SGR
- ACA Productivity Adjustments
- IPAB

## Average Long-Run Growth Rates – Alternative Scenario

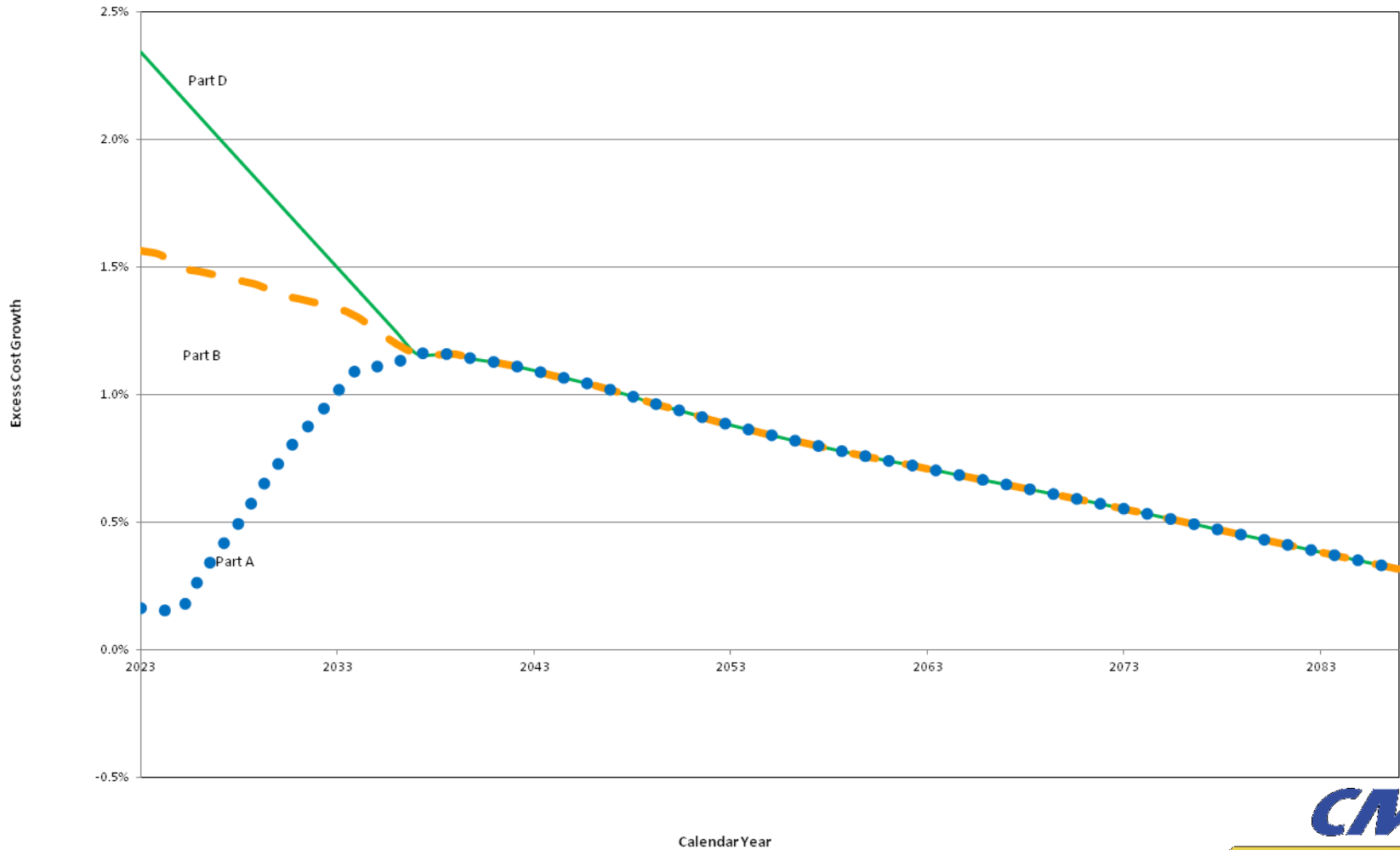
Factor	NHE	Medicare				
		A & B updated by market baskets	B updated by CPI	B updated by SGR	D	Total
Price	3.2%	3.2%	3.2%		3.2%	
V&I	1.9%	1.9%	1.9%		1.9%	
Total	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
GDP	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Excess Cost Growth	GDP+1.0	GDP+1.0	GDP+1.0	GDP+1.0	GDP+1.0	GDP+1.0

\*Based on present value average of year-by-year growth rates.

Projections are based on the intermediate assumptions from the 2013 Trustees Report.

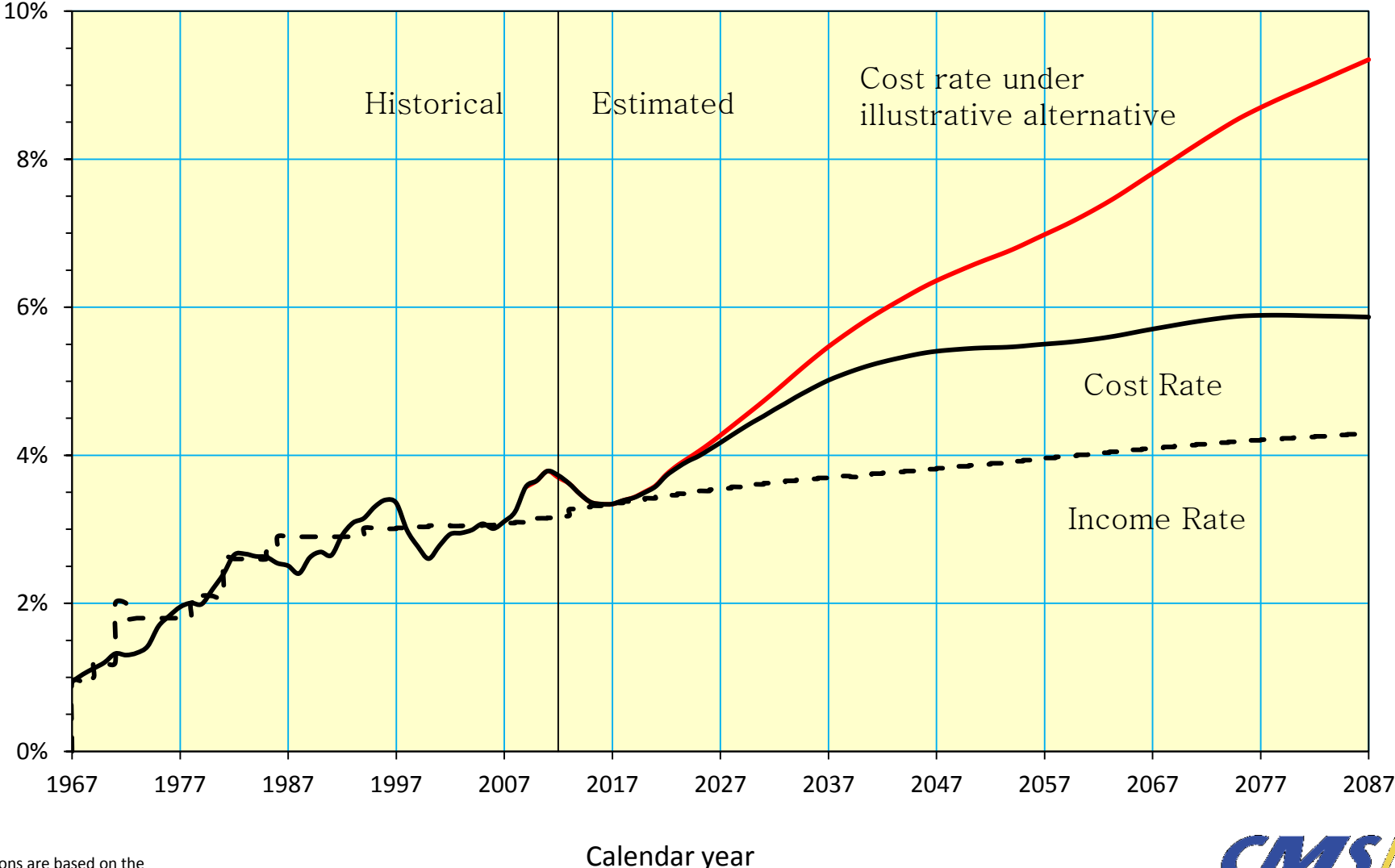


# Medicare Excess Cost Growth, alternative scenario





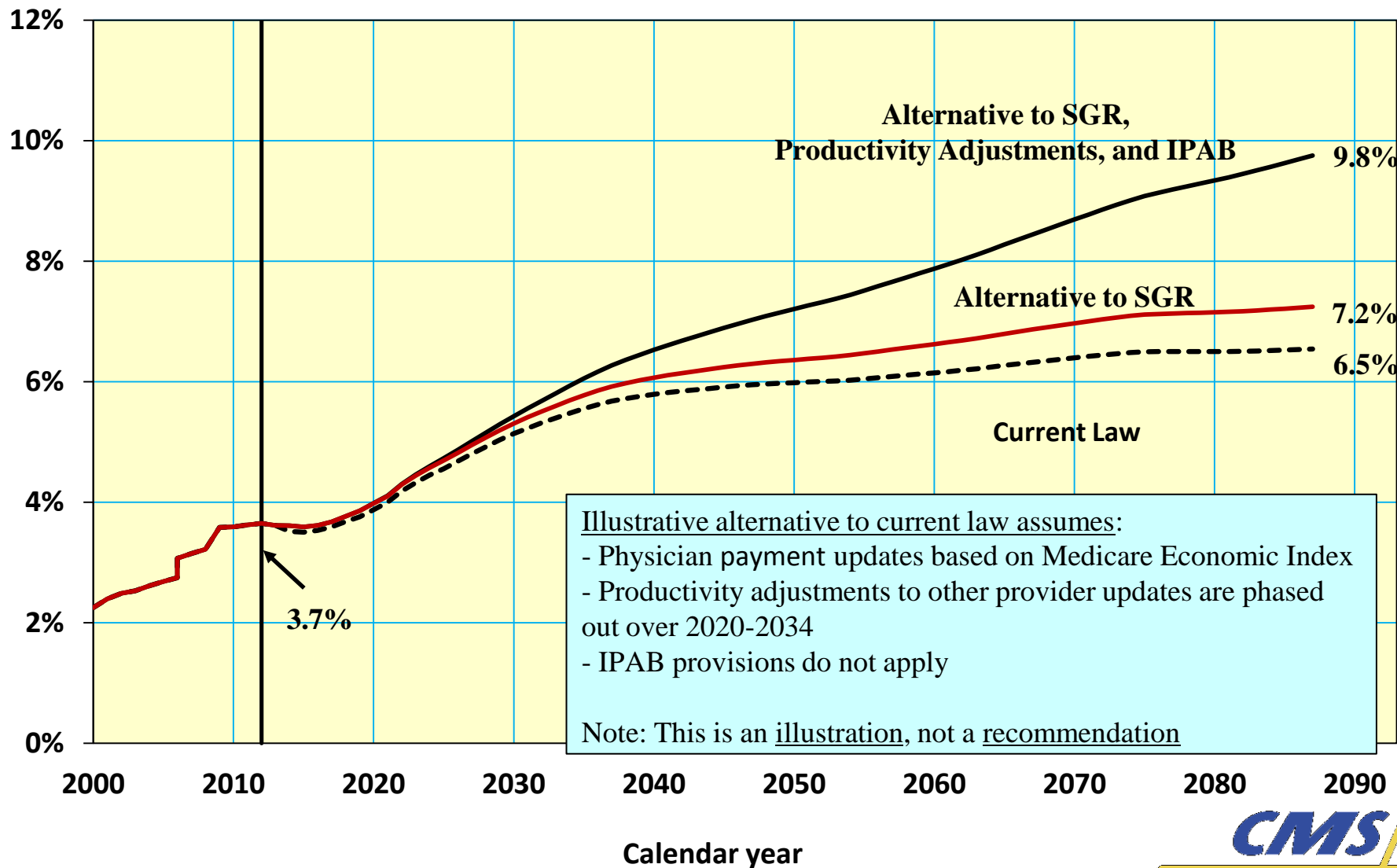
# Long-range HI income and cost rates, current law and illustrative alternative



Projections are based on the intermediate assumptions from the 2013 Trustees Report.



# Medicare expenditures as a percentage of GDP under current law and illustrative alternative projections



Illustrative alternative to current law assumes:

- Physician payment updates based on Medicare Economic Index
- Productivity adjustments to other provider updates are phased out over 2020-2034
- IPAB provisions do not apply

Note: This is an illustration, not a recommendation



Note: Projections are based on the intermediate assumptions from the 2013 Trustees Report.

# Conclusions



# Thank You

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