National Academy of Social Insurance
2014 Summer Academy
Demystifying Medicare

Panel II: How big is the financing problem?

July 23, 2015

Jack Ebeler

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

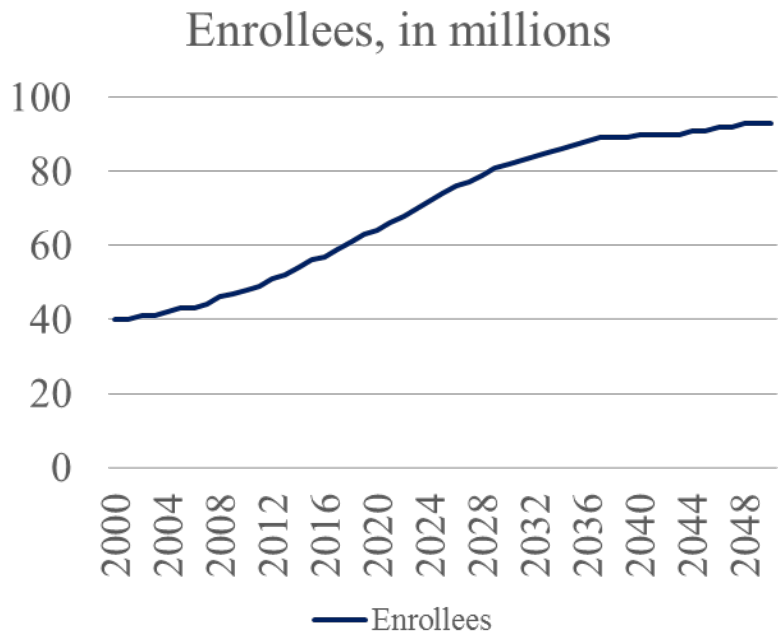
- Spending in dollars
- Spending as a share of:
  - Federal budget
  - Gross Domestic Product (GDP)
  - Taxable payroll (in case of classic social insurance such as Part A of Medicare)
- Sources and adequacy of financing
- Contributors to spending growth (enrollment, inflation, technology, utilization …..)
- Broader measures – spending compared with total health spending, wages, personal income

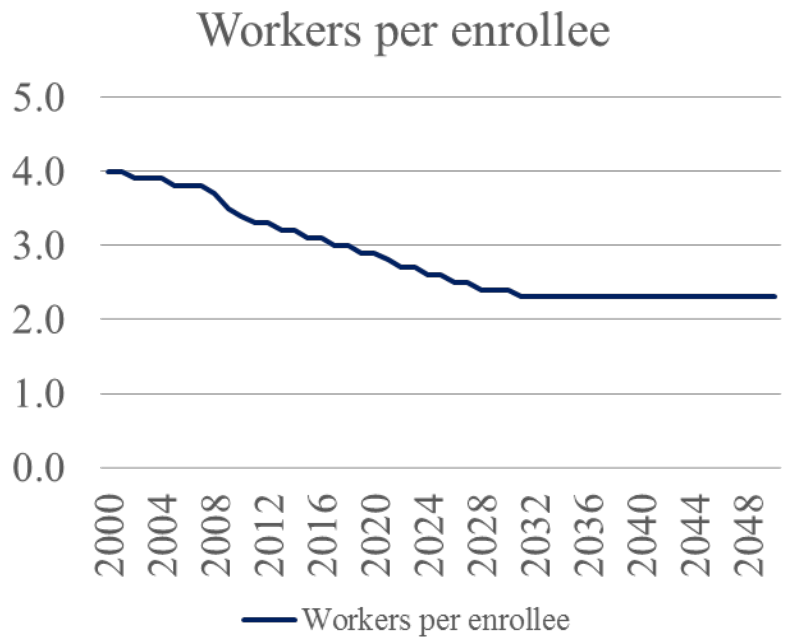
Beneficiaries and spending per beneficiary

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



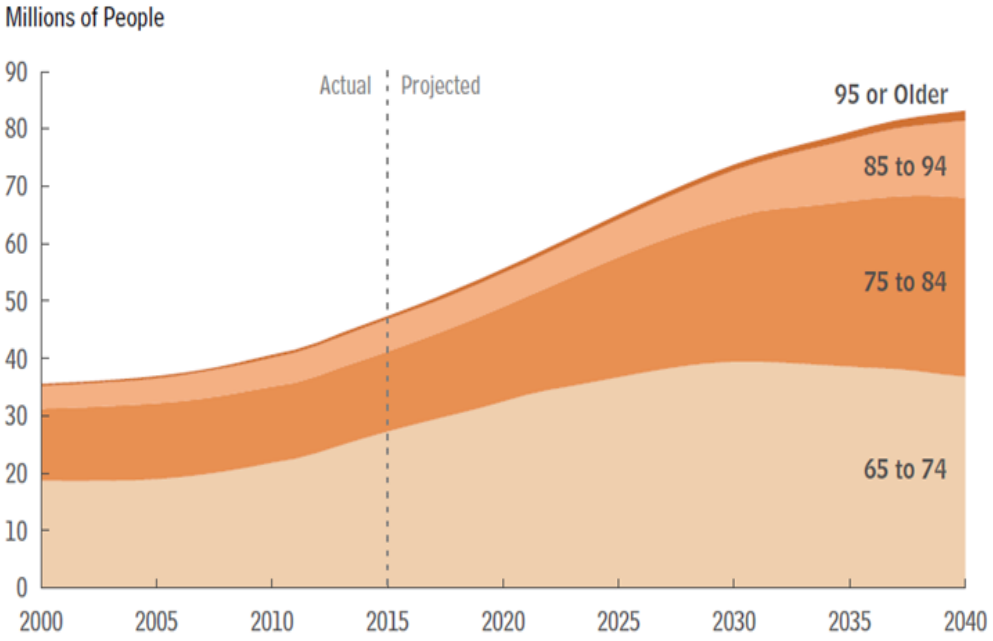


Medicare Trustees Report, 2015

The number of enrollees is projected to increase substantially, and as those enrollees age their needs and costs increase

Figure 2-3.

Number of People Age 65 or Older, by Age Group

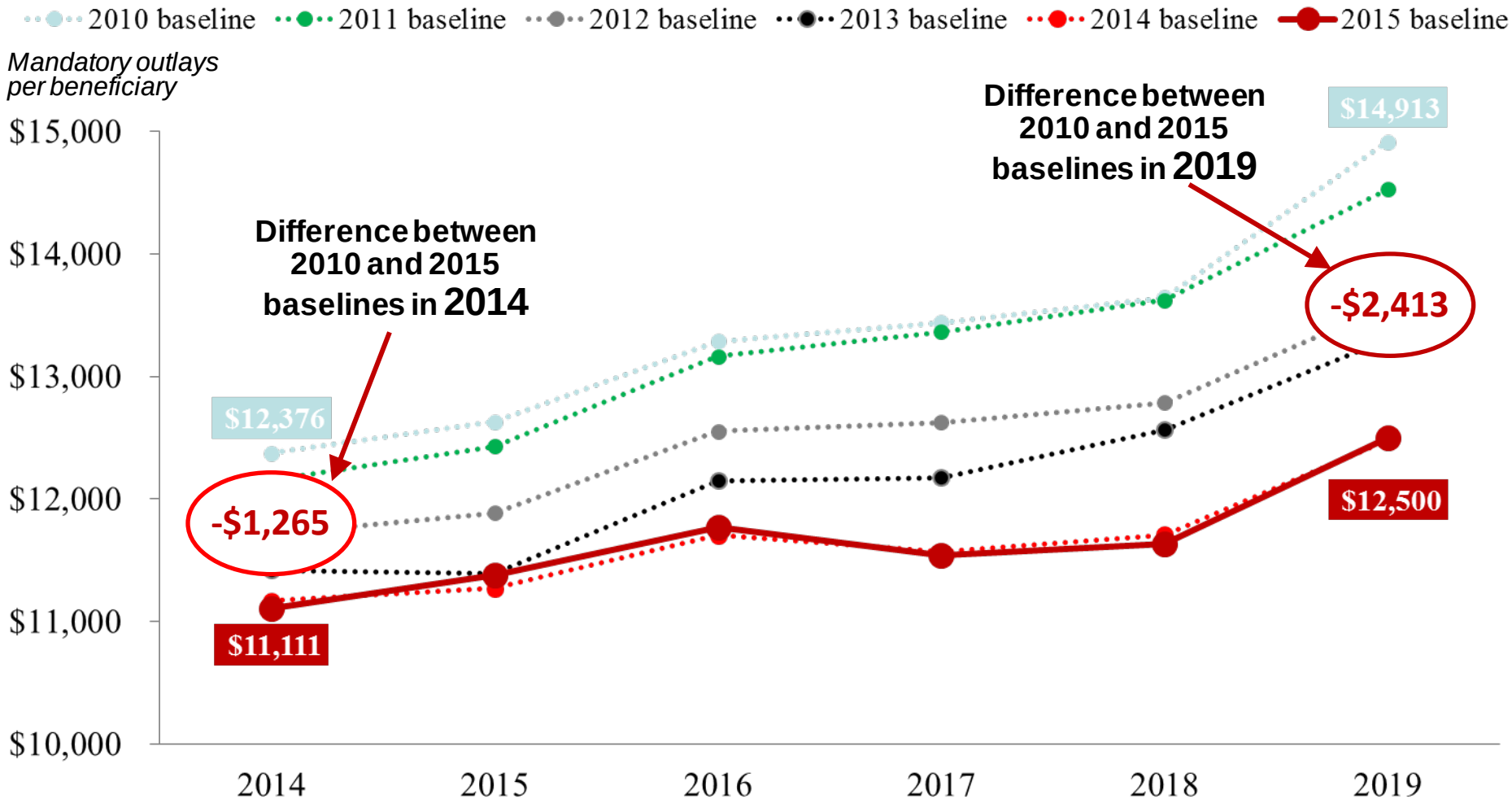


Per-person spending for Parts A and B of Medicare climbs with age: The program's average spending for an 85-year-old is more than twice that for a 66-year-old. Thus, average Medicare costs will rise as the number of people who are significantly older than 65 increases.

Source: Congressional Budget Office.

MedPAC Chart Book

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



SOURCE: Kaiser Family Foundation analysis of mandatory Medicare outlays and Medicare enrollment data from CBO Medicare baseline projections, 2010-2015.

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

Average annual "excess cost growth"		
Time Period	Medicare	Total health costs
1975-2013	1.9%	1.8%
1980-2013	1.6%	1.6%
1985-2013	1.4%	1.4%
1990-2013	1.2%	1.1%

- 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

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

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.

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

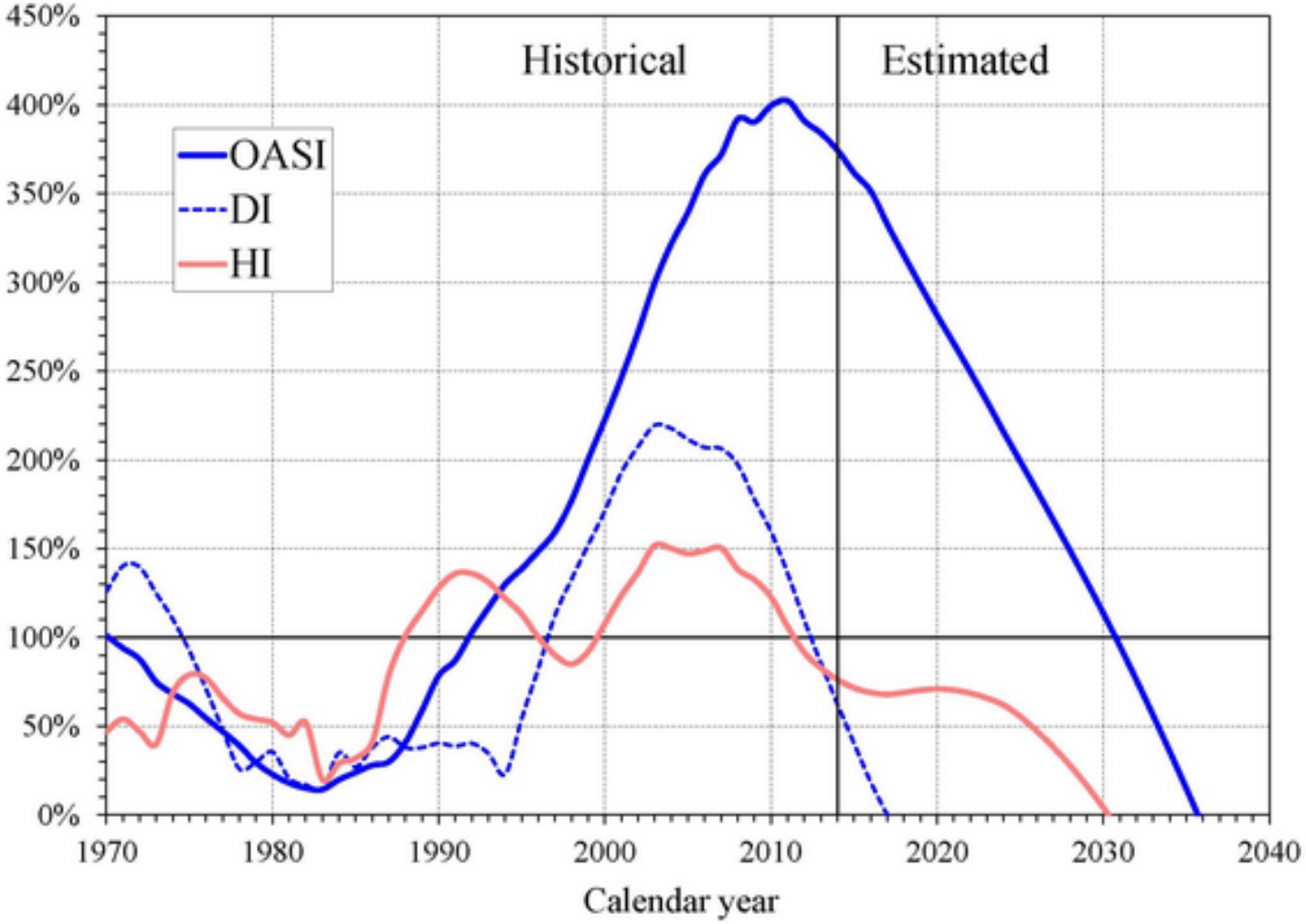
- Annual Report – Trustees are the Secretaries of Treasury (Managing Trustee), HHS and Labor; Commissioner of Social Security; two public Trustees; Administrator of CMS (Secretary of Board of Trustees)
- "Intermediate," "low-cost," and "high-cost" projections – track "intermediate"
- Chief Actuary of 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

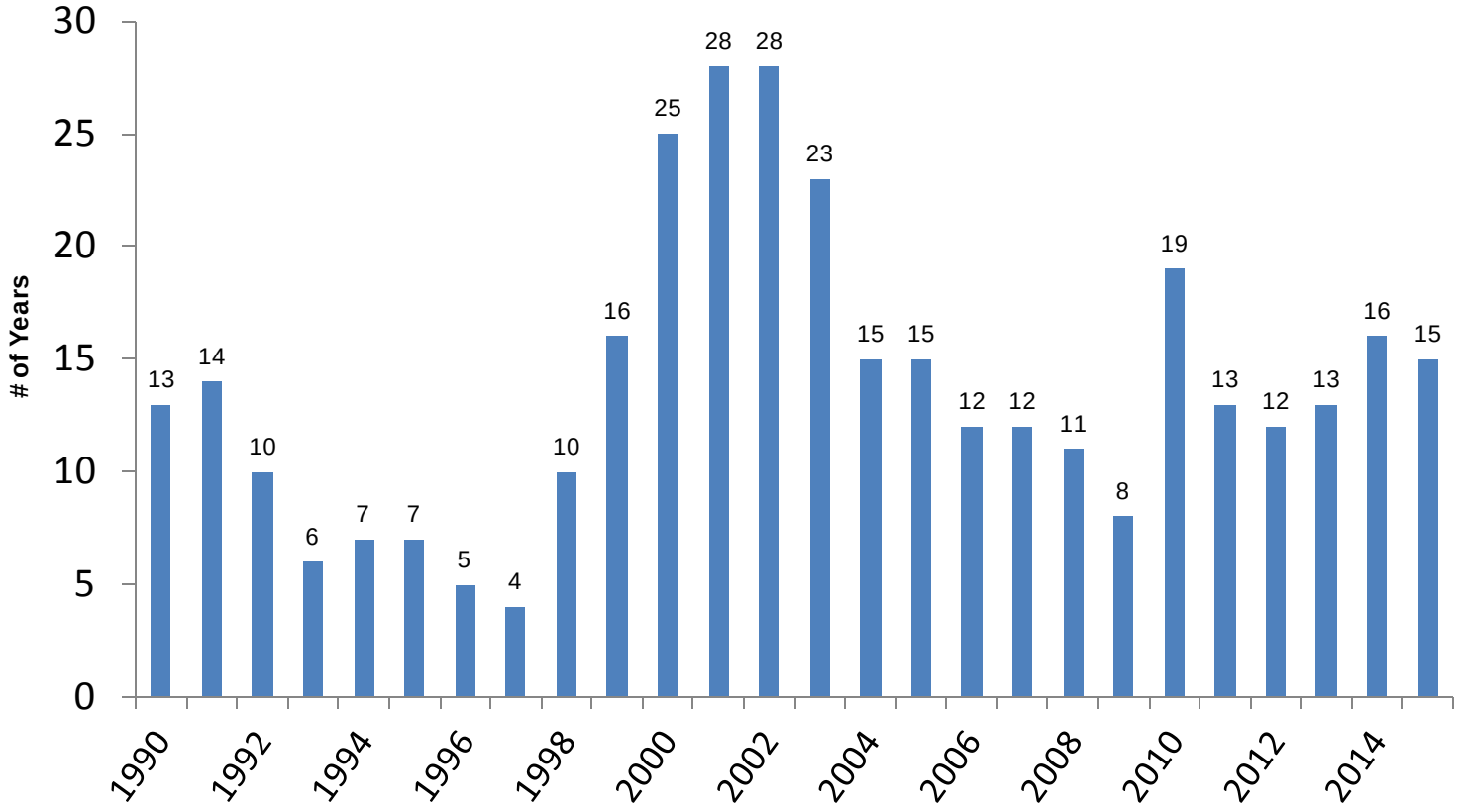
Chart E—OASI, DI, and HI Trust Fund Ratios

[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



Actuarial balance in Medicare Part A Trust Fund: 2015 report – Intermediate Estimate - change since last year

Medicare Part A, Actuarial Balances as % of Taxable Payroll, 2015			
	Projection years		
	25	50	75
Income	3.62%	3.73%	3.84%
Cost	4.07%	4.37%	4.52%
Actuarial balance	-0.45%	-0.64%	-0.68%

Source: 2015 Annual Report of the Board of Trustees of the Medicare Trust Funds

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.

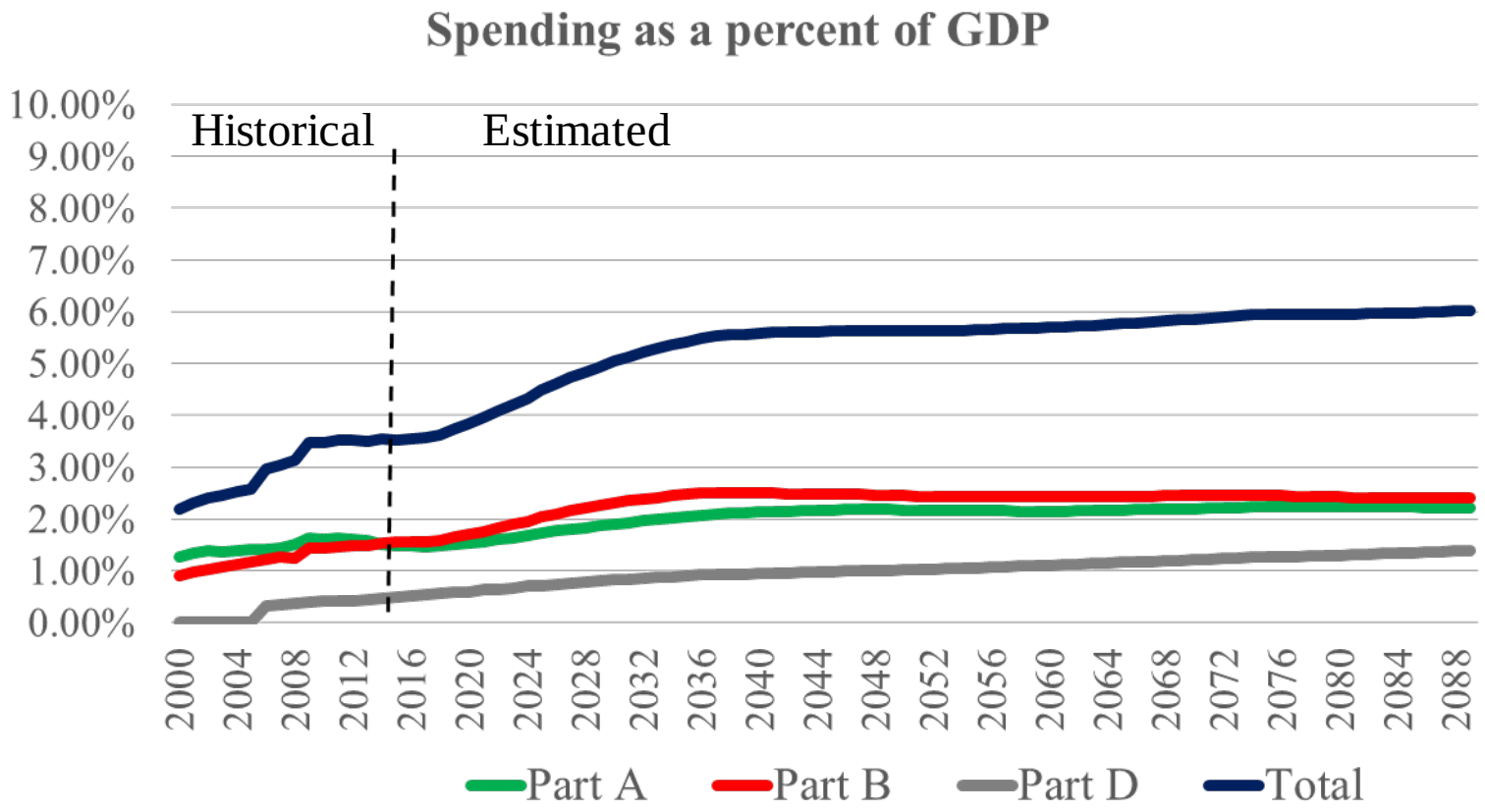
Actuarial balance in Medicare Part A Trust Fund: 2015 report compared with 2014– Intermediate Estimate

Medicare Part A, Actuarial Balances as % of Taxable Payroll, 2015			
	Projection years		
	25	50	75
Income	3.62%	3.73%	3.84%
Cost	4.07%	4.37%	4.52%
Actuarial balance	-0.45%	-0.64%	-0.68%
2014 Report	-0.42%	-0.75%	-0.87%

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.

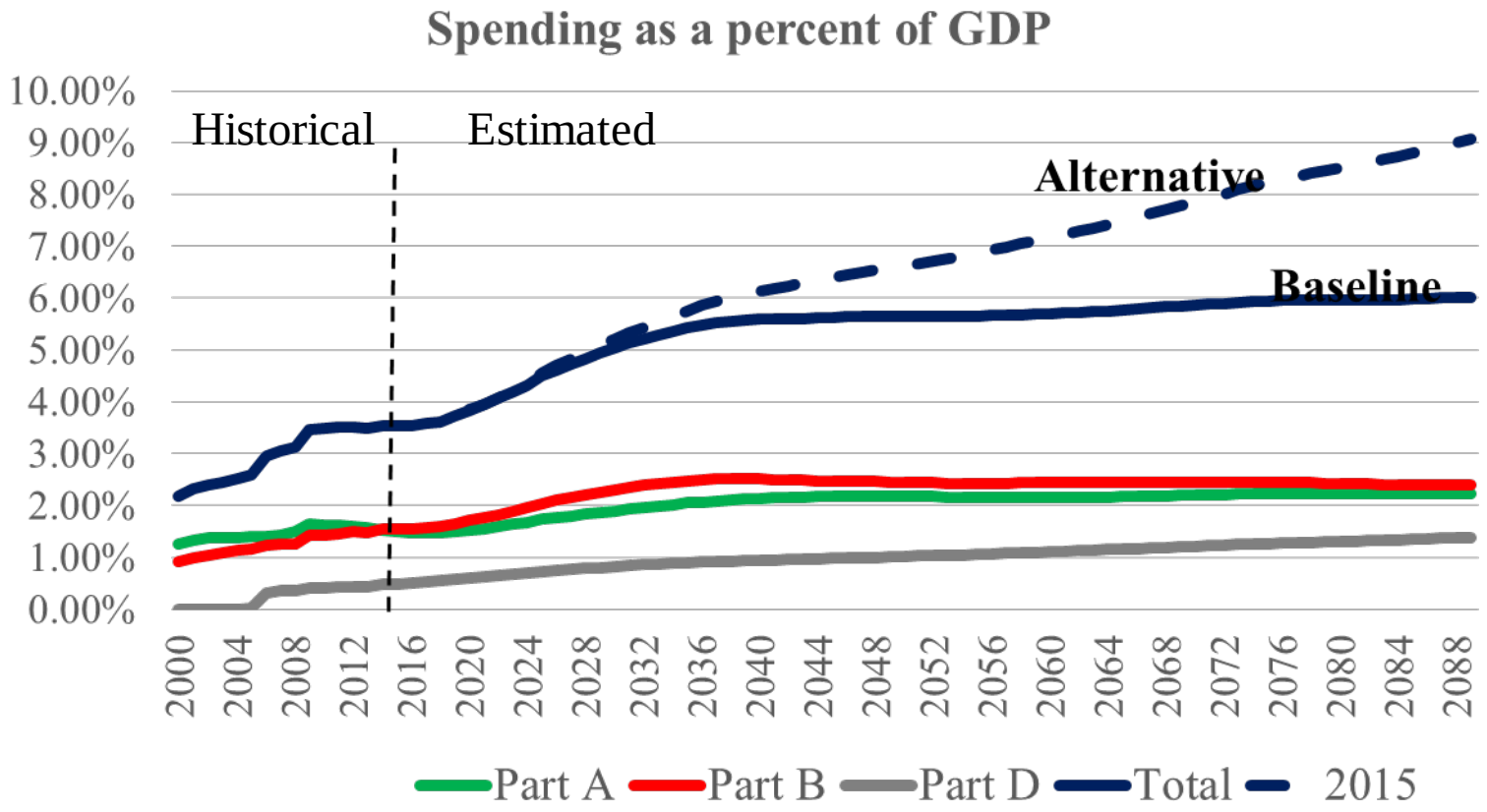
Source: 2015 Annual Report of the Board of Trustees of the Medicare Trust Funds

History and projections, spending on Parts A, B, D and total, as a percent of GDP, baseline, current law



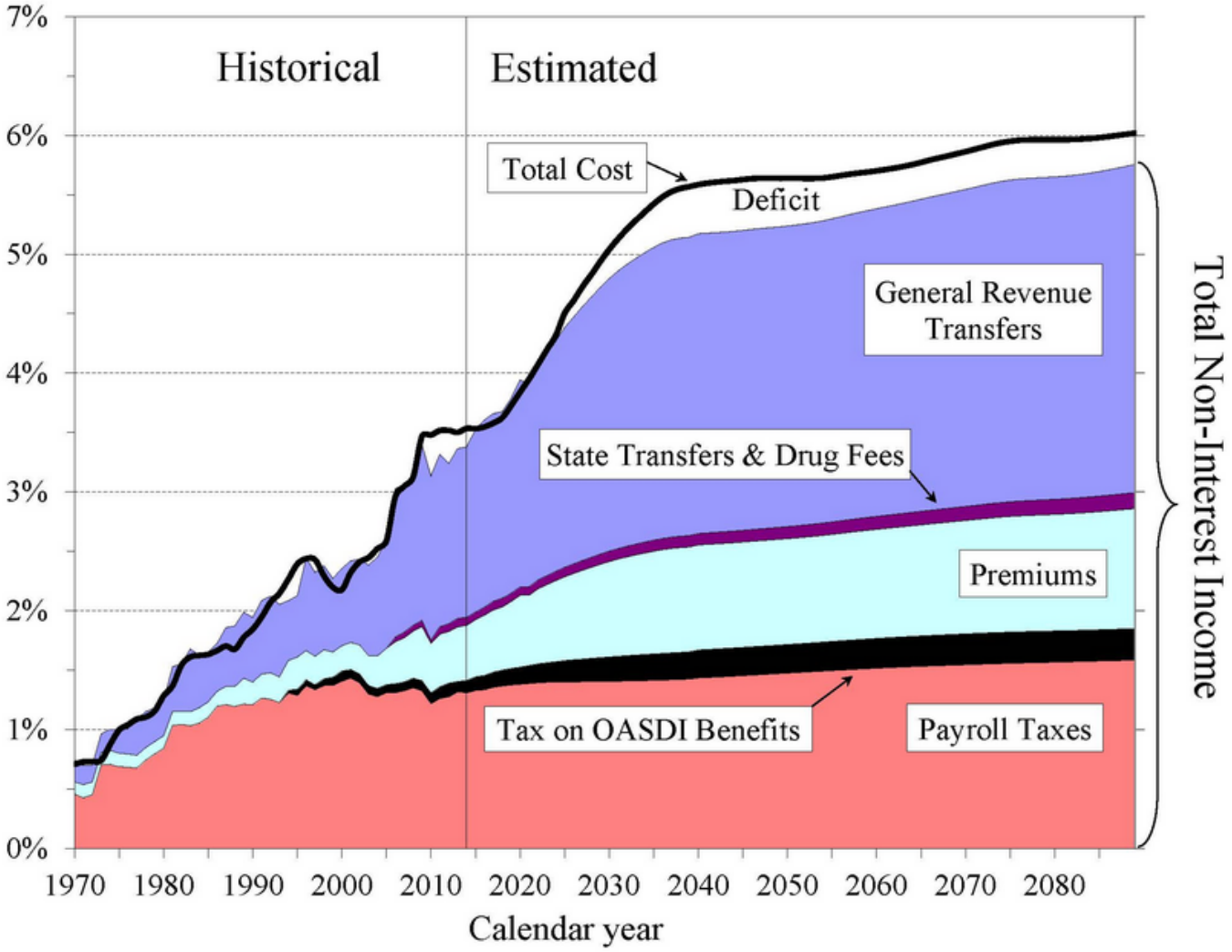
Medicare Trustees Report, 2015

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



Medicare Trustees Report, 2015

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



Thank you

Jack Ebeler

202-669-5444

JackEbeler@outlook.com