A Medicare Trustee's Commentary on Medicare's Outlook in 2013

This document summarizes observations from Chuck Blahous, a Public Trustee for Social Security and Medicare. All non-bolded content is a direct quote from an article he published which is available online at: http://goo.gl/zgPxS

- **Focusing on the Hospital Insurance Trust Fund solvency provides an incomplete picture.** Medicare's HI trust fund, which finances hospital, home health following hospital stays, skilled nursing facility and hospice care services, is only one piece of a larger Medicare program and indeed represents less than half of total program costs. Medicare's Supplementary Medical Insurance (SMI) trust fund has even greater expenditures and includes Medicare Parts B (physician, outpatient hospital, and general home health services) and D (prescription drug coverage). In 2012, HI expenditures totaled roughly $267 billion and SMI expenditures $307 billion. Financial strains in SMI are manifested not in projected insolvency but as rising pressure on the general federal budget.

- **Medicare's coming crisis is predictable: the Trustees warned Congress for the 7th year in a row.** Because of the general budget implications of rising Medicare costs, the trustees are required to report whenever there is "excess general revenue Medicare funding," defined as whenever the difference between total costs and dedicated (mostly tax and premium) revenues exceeds 45 percent of total program costs. This year we found such an excess again in 2013 and issued our seventh consecutive Medicare funding warning.

- **The main driver of Medicare spending in the immediate future is there increased numbers of beneficiaries. (Policy observation: Increasing the age of eligibility could be an important policy to adopt to help reduce the growth of Medicare outlays.)** The principal driver of Medicare cost growth for the next two decades is its rising number of beneficiaries. There is also a tendency for public discussions of Medicare's financing problems to focus on general health care cost inflation. But a far more important factor in the near term is the sheer number of beneficiaries coming onto the Medicare rolls as the baby boomers head into retirement. Under current law the swelling beneficiary population will cause Medicare expenditures to rise dramatically through the mid-2030s. Only after then does general health cost inflation become the relatively more important factor. Overall, the principal driver of most projected Medicare cost growth relative to GDP is demographic. We will not get a handle on rising Medicare costs unless we are willing to address the growth in the number of beneficiaries drawing benefits from it.

- **Medicare spending will be higher than it looks now. (For example, the Trustees do not account for the now annual "doc fix" where Congress intervenes to prevent a significant reduction to Medicare's physician reimbursements under the "Sustainable Growth Rate."** Medicare costs are nearly certain to be higher than our current projections. Like other federal scorekeepers, the trustees are required to project program operations under current law regardless of whether most people assume that current law will be sustained.

- **Very small changes in assumptions would move insolvency date closer.** HI finances are basically balanced on a knife's edge and even a slight change in cost growth assumptions can cause the projected depletion date to move by a few years. If our projected HI cost growth rates are understated just a little bit, its trust fund's projected depletion date would move closer. If our projections are low by just half a percentage point per year, the HI fund would be depleted in 2024. If we're low by one point per year, depletion would occur in 2022. Accordingly, no one should interpret small changes in the HI depletion date as signifying a substantial change in the Medicare financing outlook.

- **The recent "slowdown" in Medicare spending does not improve Medicare's long-term funding problem.** There is no reason to believe that the recent reported slowdown in health care cost growth will improve the long-term picture significantly relative to current projections. Even before the 2010 passage of the ACA, we were assuming that health care cost growth would eventually slow down.

- **Medicare spending projections are more challenging compared to Social Security, because Medicare is a cash-in-benefit-out system.** Overall, Medicare financial projections are subject to greater uncertainty than Social Security's due to the difficulty of projecting health cost inflation. For a variety of reasons including expected legislative actions, actual Medicare costs are likely to be higher than currently projected.