



# POLICY FUTURES ▶

## Medicare Is Not “Bankrupt”

### Health Reform Has Improved Program’s Financing

REPORT | UPDATED JULY 24, 2017 | BY PAUL N. VAN DE WATER

Claims by some policymakers that the Medicare program is nearing “bankruptcy” are highly misleading. Although Medicare faces financing challenges, the program is not on the verge of bankruptcy or ceasing to operate. Such charges represent misunderstanding (or misrepresentation) of Medicare’s finances.

**The 2017 report of Medicare’s trustees finds that Medicare’s Hospital Insurance (HI) trust fund will remain solvent – that is, able to pay 100 percent of the costs of the hospital insurance coverage that Medicare provides – through 2029.** Even in 2029, when the HI trust fund is projected to be depleted, incoming payroll taxes and other revenue will still be sufficient to pay 88 percent of Medicare hospital insurance costs.<sup>[1]</sup> The share of costs covered by dedicated revenues will decline slowly to 81 percent in 2041 and then rise gradually to 88 percent in 2091. This shortfall will need to be closed through raising revenues, slowing the growth in costs, or most likely both. But the Medicare hospital insurance program will not run out of all financial resources and cease to operate after 2029, as the “bankruptcy” term may suggest.

**The 2029 date does not apply to Medicare coverage for physician and outpatient costs or to the Medicare prescription drug benefit; these parts of Medicare do not face insolvency and cannot run short of funds.** These parts of Medicare are financed through the program’s Supplementary Medical Insurance (SMI) trust fund, which consists of two separate accounts – one for Medicare Part B, which pays for physician and other outpatient health services, and one for Part D, which pays for outpatient prescription drugs. Premiums for Part B and Part D are set each year at levels that cover about 25 percent of costs; general revenues pay the remaining 75 percent of costs.<sup>[2]</sup> The trustees’ report does not project that these parts of Medicare will become insolvent at any point – because they can’t. The SMI trust fund always has sufficient financing to cover Part B and Part D costs, because the beneficiary premiums and general revenue contributions are specifically set at levels to assure this is the case. SMI cannot go “bankrupt.”

**Health reform, along with other factors, has significantly improved Medicare’s financial outlook, boosting revenues and making the program more efficient.** The HI trust fund is

FIGURE 1

now projected to remain solvent 11 years longer than before the Affordable Care Act (ACA) was enacted. And the HI program’s projected 75-year shortfall of 0.64 percent of taxable payroll is much less than the 3.88 percent of payroll that the trustees estimated before health reform. (See Figure 1.) This means that Congress could close the projected funding gap by raising the Medicare payroll tax — now 1.45 percent each for employers and employees — to about 1.8 percent, or by enacting an equivalent mix of program cuts and tax increases.

The trustees’ projections incorporate the physician payment mechanism and other provisions of the Medicare Access and CHIP Reauthorization Act (MACRA), enacted in April 2015. They also assume that the ACA’s cost-control provisions, including the productivity adjustments to Medicare payment rates and the Independent Payment Advisory Board, will be successfully implemented. The recent, continuing slowdown in health care cost growth and the trustees’ latest projections offer encouraging signs that these savings are achievable, if challenging.

Along with directly reducing Medicare costs, the ACA and MACRA payment changes — and payment reforms in the private sector — may encourage structural changes in the health care delivery system that will generate further savings. The trustees note that, in their projections, they do not assume such additional reductions in health care spending.

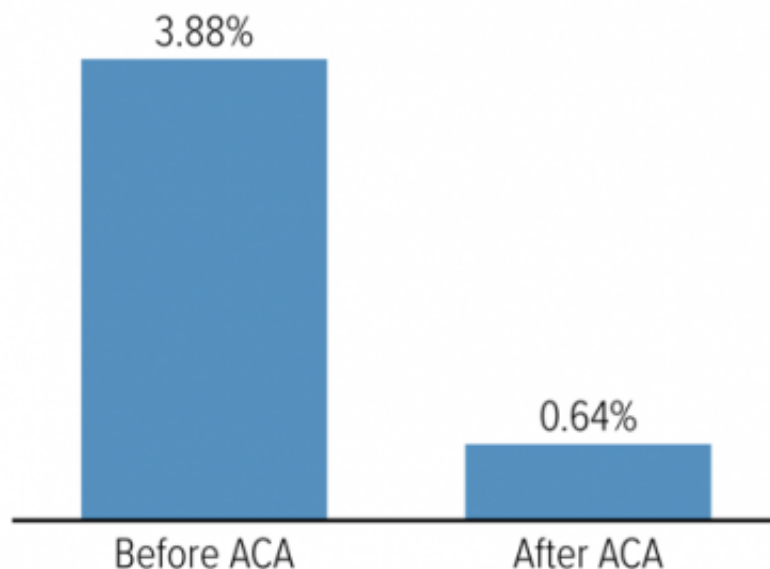
The trustees’ finding that health reform has improved Medicare’s financial status is consistent with the Congressional Budget Office’s estimate that health reform will reduce federal budget deficits — modestly in its first ten years, but substantially in the following decade.<sup>[3]</sup> Medicare is a part of the federal budget. Therefore, spending cuts or tax increases that reduce projected deficits in Medicare also help reduce projected deficits in the overall budget. Consequently, contrary to some claims, no “double-counting” is involved.<sup>[4]</sup>

**The trustees’ latest projections are broadly in line with those that the trustees have issued for some time.**

Since 1970, changes in the law, the economy, and other factors have brought the projected year of Medicare

## Affordable Care Act (ACA) Significantly Improved Medicare’s Finances

75-year shortfall in Hospital Insurance trust fund  
as a percent of taxable payroll



Note: Taxable payroll = payroll subject to the Medicare tax.

Source: 2009 and 2017 annual reports of the boards of trustees of the Medicare trust funds

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FIGURE 2

HI insolvency as close as two years away or pushed it as far as 28 years into the future.<sup>[5]</sup> The latest projection falls well within that spectrum.

Trustees’ reports have been projecting impending insolvency for four decades, but Medicare has always paid the benefits owed because Presidents and Congresses have taken steps to keep spending and resources in balance in the near term. In contrast to Social Security, which has had no major changes in law since 1983, the rapid evolution of the health care system has required frequent adjustments to Medicare, a pattern that is certain to continue.

**Despite the improvements the ACA makes, Medicare continues to pose long-term budgetary challenges, stemming from the aging of the population and the continued rise in costs throughout the U.S. health care system.** Total Medicare spending is projected to grow from 3.6 percent of gross domestic product (GDP) today to 5.6 percent in 2040.

Medicare has been the leader in reforming the health care payment system to improve efficiency and has outperformed private health insurance in holding down the growth of health costs. Since 1987, Medicare spending per enrollee has grown by 5.6 percent a year, on average, compared with 6.9 percent for private health insurance.<sup>[6]</sup> (See Figure 2.)

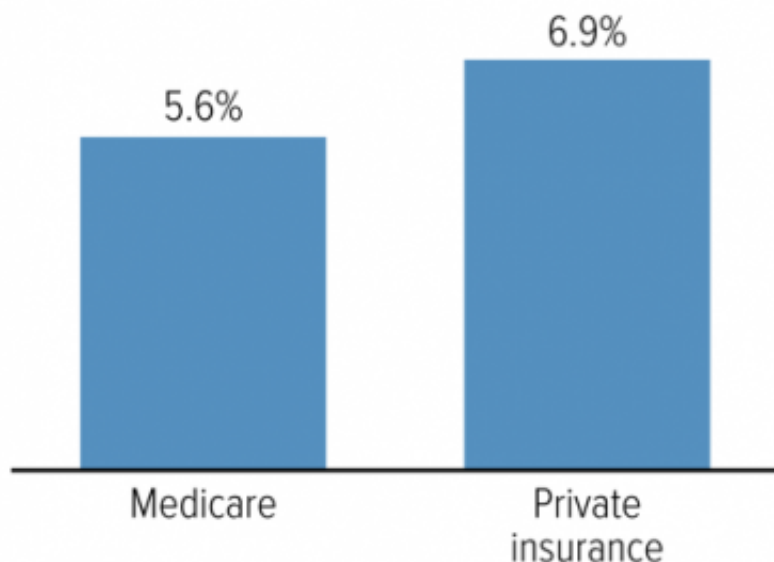
Health reform envisions that Medicare will continue to lead the way in efforts to slow health care costs while improving the quality of care. The research and pilot projects that the ACA establishes should yield important lessons. Until these efforts bear fruit, it will be difficult to achieve big additional reductions in Medicare expenditures.

**Some additional savings can be achieved over the next ten years, however, while preserving Medicare’s guarantee of health coverage and without raising the eligibility age or otherwise shifting costs to vulnerable beneficiaries.** Possible measures include ending Medicare’s overpayments to pharmaceutical companies for drugs prescribed to low-income beneficiaries, increasing funding for actions to prevent and detect fraudulent and wasteful Medicare spending, further reducing overpayments to Medicare Advantage plans, and ensuring efficient payments to other health care providers.

A key fiscal policy goal is to stabilize the federal debt relative to the size of the economy. But it is neither necessary nor desirable to accomplish this by radically restructuring Medicare — such as through “premium support” proposals that would convert it to vouchers whose purchasing power fails to keep pace with the cost of health care — or by shifting more health care costs to Medicare beneficiaries, as the House Republican budget plan would do.<sup>[7]</sup> Policymakers and the American public should not be driven into

## Medicare Spending per Beneficiary Has Grown More Slowly Than Private Insurance

Average annual growth rate per enrollee, 1987-2015



Source: Centers for Medicare & Medicaid Services, National Health Expenditure Tables, December 2016, Table 21

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adopting such proposals by misleading claims that Medicare is on the verge of “bankruptcy” or is “unsustainable.” Instead, we should pursue a balanced deficit-reduction approach that puts all parts of the budget on the table, including revenues.

#### TOPICS:

Federal Budget, Long-Term Fiscal Challenges, Budget Outlook, Health, Health Care, Health Reform, Medicare

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## End Notes

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[1] Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2017 Annual Report*, July 13, 2017, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2017.pdf>.

[2] Upper-income beneficiaries pay higher, income-related premiums. Low-income beneficiaries receive premium subsidies.

[3] Congressional Budget Office, *Budgetary and Economic Effects of Repealing the Affordable Care Act*, June 19, 2015, [http://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50252-Effects\\_of\\_ACA\\_Repeal.pdf](http://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50252-Effects_of_ACA_Repeal.pdf).

[4] Paul N. Van de Water, “Yes, Health Reform Strengthens Medicare and Reduces the Deficit,” *Health Affairs Blog*, April 20, 2012, <http://healthaffairs.org/blog/2012/04/20/yes-health-reform-strengthens-medicare-and-reduces-the-deficit/>.

[5] Patricia A. Davis, *Medicare: Insolvency Projections*, Congressional Research Service, July 3, 2013, <https://www.fas.org/sgp/crs/misc/RS20946.pdf>.

[6] Centers for Medicare & Medicaid Services, *National Health Expenditure Tables*, December 2016, Table 21, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>.

[7] Paul N. Van de Water, “House Budget Cuts, Restructures Medicare,” Center on Budget and Policy Priorities, July 21, 2017, <https://www.cbpp.org/blog/house-budget-cuts-restructures-medicare>.