



CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org <http://www.cbpp.org>

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ADMINISTRATION MISREPRESENTS FINANCING OF MEDICARE TRUST FUND

by Robert Greenstein

In its zeal to claim there are no Medicare trust fund surpluses, the Administration's mid-session review misrepresents the facts about Medicare financing. The mid-session review states on page 13:

“There is a common misperception that there is a Medicare surplus and that Congress must take action to preserve its assets. There is no Medicare surplus. Any excess cash collected from the payroll tax that is not used to provide hospital insurance is used for other Medicare spending such as doctor bills, which are not fully covered by premiums paid by beneficiaries.”

This statement is false. The Medicare payroll tax is dedicated to the Medicare Hospital Insurance trust fund and solely to that trust fund. If more Medicare HI payroll tax revenue is collected in a year than is needed to cover Medicare Hospital Insurance costs that year, the Medicare HI trust fund loans the surplus revenue to the Treasury and receives Treasury bonds in return. These bonds can be used solely to finance Medicare hospital insurance. *None* of the surplus payroll tax revenue is transferred to the Medicare physicians' services program (Medicare Part B), which has its own, entirely separate financing structure.

If the federal budget outside the Social Security and Medicare Hospital Insurance trust funds is in balance, the Treasury uses the surplus Medicare Hospital Insurance revenue to pay down the debt. If the federal budget outside these trust funds is in deficit, the Treasury uses the surplus revenues to help fund general government operations. The money is not earmarked for Medicare physicians' services.

This is not simply a technical point. Faced with the fact that its tax cut and other proposals cannot fit within the surpluses available outside the Social Security and Medicare Hospital Insurance trust funds, the Administration has been misrepresenting the financing structure of Medicare throughout the year. The discussion in the mid-session review is the latest, and most egregious, of these misrepresentations.

(Since February, the Administration has been arguing that the Medicare physicians' services program is in deficit and that this deficit obliterates the surplus in the Medicare Hospital Insurance trust fund. Claiming that Medicare physicians' services is in deficit, however, is meaningless. This part of Medicare is not supposed to be financed by payroll taxes that cover its costs; it is supposed to be financed primarily by general revenue. Describing Medicare physicians' services as being in deficit is no more meaningful than describing the defense budget, education, health research, or farm programs as being in deficit. All of these parts of the budget are financed in whole or in part with general revenues, not payroll taxes. The simple fact is that Medicare Hospital Insurance has distinct and separate financing from Medicare physicians' services, has its own trust fund, is in surplus, and does not commingle its funds with Medicare physicians services.)