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CBPP STATEMENT

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STATEMENT OF ROBERT GREENSTEIN ON 2011 MEDICARE TRUSTEES' REPORT

The new report from Medicare's trustees shows little change from last year's report in the long-run outlook for the program, while indicating that the program continues to face significant financing challenges. Partly because the trustees now foresee a modestly slower economic recovery that will reduce Medicare payroll tax revenues relative to earlier estimates, they estimate that Medicare's Hospital Insurance (HI) trust fund will become insolvent in 2024 — five years sooner than they projected last year.

Medicare spending overall is projected to grow at about the same rate as the trustees forecast previously. The trustees project that under current law, total Medicare spending will grow from 3.6 percent of gross domestic product (GDP) in 2010 to 5.6 percent of GDP in 2035 — nearly identical to what was estimated last year. Much of the projected increase in Medicare expenditures between now and 2035 stems from the aging of the baby boomers, the first of whom become eligible for Medicare this year.

Thanks to last year's health reform legislation (the Affordable Care Act, or ACA), Medicare's cost outlook remains less troubled than before that legislation's enactment. Over the next ten years, Medicare spending per beneficiary is projected to grow by 3.0 percent a year, well below both its average of 7.8 percent a year over the previous decade and also the projected rate of growth of private health care costs. Under the trustees' main projection, the HI program's 75-year shortfall is 0.79 percent of taxable payroll — up from last year's estimate of 0.66 percent of payroll, but much less than the 3.88 percent of payroll that the trustees estimated prior to the enactment of health reform.

If health reform were fully repealed, as the House of Representatives has voted to do, we estimate that HI's insolvency date would be moved up eight years, to 2016. We also estimate that eliminating only the ACA's provisions that increase HI trust fund revenues, as the budget plan that the House approved April 15 would do, would advance the date of insolvency by about three years.

The new projections emphasize the importance of successfully implementing the cost-control provisions of the Affordable Care Act. While history shows that most major Medicare savings measures have been implemented as scheduled, the Medicare actuary has raised strong concerns (including in today's trustees' report) that some of the ACA's savings provisions may not be sustainable. The actuary urges reliance instead on the "illustrative alternative" projection for Medicare, which assumes that only 60 percent of the ACA's Medicare savings will be achieved in the long run. Using this alternative projection would not affect the projected insolvency of the Hospital Insurance trust fund, which would still occur in 2024, but the 75-year shortfall in the fund would rise to 2.15 percent of payroll — about 2¾ times higher than the Trustees' official estimate (of 0.79 percent of payroll). This is still a dramatic improvement, however, over the trustees' estimate in 2009, *prior* to enactment of the Affordable Care Act, of a shortfall equal to 3.88 percent of payroll.

Despite the improvements made by the Affordable Care Act, Medicare continues to face significant long-term financial challenges, stemming from the aging of the population and the continued rise in health care costs, that contribute to the bleak federal fiscal outlook. It is essential that policymakers take further substantial steps to curb the growth of health costs throughout the U.S. health care system as we learn more about how to do so effectively in both public programs and private-sector health care, based in part on the Medicare research and pilot projects the ACA establishes to test new approaches to delivering health care in ways that can lower cost while maintaining or improving quality.

In the near term — before these efforts bear fruit— it will be difficult to achieve big additional reductions in Medicare expenditures without shifting substantial costs to beneficiaries or greatly reducing payments to providers, either of which would likely endanger access to care for low- and moderate-income beneficiaries. Extending the life of the HI trust fund will almost certainly require *both* increases in HI revenues *and* further reductions in projected Medicare expenditures.

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