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CBPP STATEMENT

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Statement of Paul Van De Water, Senior Fellow, on the 2013 Medicare Trustees' Report

Medicare has grown financially stronger in both the short and long term compared to last year, but it continues to face financing challenges in the long run, today's new report from its trustees shows. The projected date of insolvency for Medicare's Hospital Insurance (HI) trust fund is 2026 — two years later than projected last year. That's good news but not a big deal, since the projections of Medicare's financial health normally vary from one year to the next.

Health reform has significantly improved Medicare's financial outlook, boosting revenues and making the program more efficient by cutting unnecessary costs. The HI trust fund is now projected to remain solvent nine years longer than before the Affordable Care Act was enacted. Under the trustees' main projection, the HI program's 75-year shortfall is 1.11 percent of taxable payroll — down from last year's estimate of 1.35 percent of payroll and much less than the 3.88 percent of payroll that the trustees estimated before health reform.

The trustees' main projection is based on current law, which calls for substantial reductions in Medicare payments to physicians that Congress regularly stops from taking effect. The trustees' report estimates the HI 75-year shortfall at a somewhat higher level if Congress stops those cuts *without* offsetting the costs; in recent years, Congress has tended to offset the costs of such action (although not necessarily entirely from Medicare). The trustees' main projection also assumes full implementation of health reform's Medicare savings provisions.

The trustees project that Medicare spending overall will grow somewhat more slowly than they forecast in their previous report. The trustees project that under current law, total Medicare spending will grow from 3.6 percent of gross domestic product (GDP) in 2012 to 5.6 percent of GDP in 2035 — compared to last year's estimate of 5.7 percent. Much of the projected increase in Medicare expenditures between now and 2035 stems from the aging of the baby boomers, the first of whom became eligible for Medicare in 2011.

Over the next ten years, Medicare spending per beneficiary is projected to grow by 3.7 percent a year, well below its 2000-2010 average of 7.6 percent a year and below the projected rate of growth of private health care costs.

The projected insolvency of the HI trust fund doesn't mean that Medicare is "running out of money" or "going bankrupt," as is sometimes suggested. Even in 2026, when the trust fund is projected for exhaustion, incoming payroll taxes and other revenues will be sufficient to continue paying 87 percent of program costs. Moreover, 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.

The long-run shortfall in the Hospital Insurance program should also be put in context. The 75-year deficit of 1.11 percent of taxable payroll could be closed by increasing the Medicare payroll tax — now 1.45 percent each for employees and their employers — to 2.0 percent, or by enacting an equivalent combination of program cuts and tax increases.

The new projections emphasize the importance of successfully implementing the cost-control provisions of the Affordable Care Act. Although 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 have no effect on the projected year of HI insolvency, which would remain 2026, although the 75-year shortfall in the fund would rise to 2.17 percent of payroll — almost twice the trustees' official estimate, but still a dramatic improvement over the situation before health reform.

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 challenging long-term fiscal outlook. It is essential that policymakers take further substantial steps to curb the growth of 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. Those lessons will be based in part on the 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.

Until these efforts bear fruit, it will be difficult to achieve big additional reductions in Medicare expenditures. But we can generate some additional savings over the next ten years 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, restructuring Medicare's cost sharing and Medigap supplemental insurance (while protecting low- and moderate-income beneficiaries), and raising premiums for better-off beneficiaries.

Policymakers' key *fiscal policy* goal should be to stabilize the federal debt relative to the size of the economy. But it's 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 doesn't keep pace with the cost of health care — or by severely cutting Medicare or other programs that protect Americans with low and moderate incomes. Instead, we should pursue a balanced deficit-reduction approach that puts all parts of the budget on the table, including revenues.

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