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CBPP STATEMENT

For Immediate Release:
Wednesday, July 22, 2015

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Van de Water: Medicare Trustees See Little Change in Outlook

Paul N. Van de Water, a CBPP Senior Fellow and Director of Policy Futures, released the following statement on the 2015 Medicare trustees' report:

The outlook for Medicare's finances has changed little since last year, and the program continues to face financing challenges in the long run, today's report from its trustees shows. Total Medicare spending is projected to grow from 3.5 percent of gross domestic product (GDP) in 2014 to 5.4 percent in 2035 — slightly higher than last year's estimate of 5.2 percent. The estimated 75-year shortfall in the program's Hospital Insurance (HI) trust fund is 0.68 percent of taxable payroll, down from 0.87 percent last year. The projected date of HI trust fund insolvency remains 2030.

Health reform has contributed significantly to Medicare's improved financial outlook, boosting revenues and making the program more efficient. The HI trust fund is now projected to remain solvent 13 years longer than before the Affordable Care Act (ACA) was enacted. At 0.68 percent of taxable payroll, the HI program's 75-year shortfall is far below the 3.88 percent that the trustees estimated before health reform.

The trustees' projections incorporate the new physician payment mechanism and other provisions of the Medicare Access and CHIP Reauthorization Act (MACRA), enacted in April. They also assume that the ACA's cost-control provisions, including the productivity adjustments to payment rates and the Independent Payment Advisory Board (IPAB), will be successfully implemented. According to these projections, the first determination that Medicare growth will exceed the target that triggers IPAB to recommend ways to slow health care cost growth will be made in 2017, although projected growth exceeds the target by only about 0.1 percentage point.

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 projected HI trust fund insolvency doesn't mean that Medicare is "running out of money" or "going bankrupt," as critics sometimes suggest. Even in 2030, when the trust fund is projected for exhaustion, incoming payroll taxes and other revenues will cover 86 percent of program costs. Moreover, trustees' reports have projected 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.

We also should put the HI trust fund's long-run shortfall in context. Policymakers could close the 75-year deficit of 0.68 percent of taxable payroll by raising the Medicare payroll tax — now 1.45 percent each for employees and their employers — to 1.8 percent, or by enacting an equivalent combination of program cuts and tax increases.

Despite the ACA's contributions to its improved financial health, 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. Policymakers must 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 that the ACA establishes to test new approaches to delivering health care in ways that can lower costs while maintaining or improving quality.

Until these efforts bear fruit, policymakers will find it difficult to achieve big additional reductions in Medicare spending. 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 steps 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.

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