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
www.cbpp.org

CBPP STATEMENT

For Immediate Release:
Tuesday, August 5, 2010

Contact:
Michelle Bazie, 202-408-1080, bazie@cbpp.org

STATEMENT BY ROBERT GREENSTEIN, EXECUTIVE DIRECTOR

Trustees' Report on Medicare Shows Benefits of Health Reform, Underscores Need for Further Efforts to Slow Health Costs System-Wide

The new Medicare trustees report clearly demonstrates that the Affordable Care Act (or ACA, the recently enacted health reform legislation) has strengthened the financing of the Medicare program. It also shows that slowing the growth of health care costs will require substantial additional efforts.

The trustees now project that Medicare's Hospital Insurance (HI) trust fund will remain solvent through 2029 — an improvement of 12 years compared to last year's projection. The improvement reflects the efficiency savings and additional revenues enacted in the ACA. Even under a more pessimistic scenario under which not all of these savings are sustained, the trustees project that the HI trust fund will remain solvent through 2028.

The health reform law thus aids Medicare in two ways. As the trustees' report shows, it strengthens the program's finances. It also improves Medicare's coverage of preventive services, gradually closes the "donut hole" for prescription drugs, and reduces the premiums that beneficiaries will have to pay for Supplementary Medical Insurance (Medicare Part B).

The trustees also report that as a result of the health reform law, half to four-fifths of Medicare HI's long-term shortfall has been closed, depending on the extent to which the ACA's savings are realized. Under the trustees' main projection, the program's 75-year shortfall has shrunk from 3.88 percent of taxable payroll (total earnings subject to Medicare payroll taxes) in last year's trustees' report to 0.66 percent in this year's report. And even under the trustees' "illustrative alternative" projection, which assumes that only 60 percent of the ACA's savings are achieved in the long run (the scenario that Medicare actuary Richard Foster prefers), half of the long-term shortfall has been closed by this one piece of legislation.

As the trustees observe, the new projections emphasize "the importance of making every effort to make sure that ACA is successfully implemented." The health reform legislation takes important steps to begin restructuring the health care payment and delivery systems to move away from paying providers for more visits or procedures and toward rewarding effective, high-value health care. It also includes an excise tax on high-cost insurance plans that promises to help slow the growth of private health care costs. In addition to faithfully implementing these provisions, further very large steps will need to be taken to curb the growth of health costs system-wide as we learn more (partly from the research and pilot projects that the ACA requires) about how to do so effectively.

Some critics of the health reform law continue to assert that its Medicare savings have somehow been "double counted." This claim is without merit. The Congressional Budget Office has estimated that the ACA will reduce the federal deficit by $143 billion over the 2010-2019 period and by approximately $1.3 trillion in the 2020-2029 decade. Today's trustees report confirms that health reform has extended the life of the HI trust fund by more than a decade. Both of these results flow automatically from the nature of the federal budget and the Medicare trust funds and the normal, longstanding accounting rules that apply to them. No double-counting occurs.

Deficit-reduction legislation has been accounted for in exactly the same way in previous Congresses under both political parties. For example, both the Balanced Budget Act of 1997 and the Deficit Reduction Act of 2005 (both of which were passed by Republican Congresses) included Medicare savings that reduced the federal deficit and improved the solvency of Medicare's HI trust fund. No claims of double-counting were raised when these bills were enacted. Similarly, the Social Security Amendments of 1983 reduced the budget deficit at the same time as they improved the solvency of the Social Security trust funds.

# # #

.