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June 1, 2017

Chairman Pat Tiberi
U.S. House, Subcommittee on Health
Committee on Ways & Means
1102 Longworth House Office Building
Washington, DC 20515

Ranking Member Sander Levin
U.S. House, Subcommittee on Health
Committee on Ways & Means
1139E Longworth House Office Building
Washington, DC 20515

Re: Hearing on Preserving and Strengthening Medicare

Dear Chairman Tiberi and Ranking Member Levin:

On behalf of the Medicare Subcommittee of the American Academy of Actuaries,[1] I appreciate the opportunity to comment on the unique actuarial issues pertaining to the Medicare program's future. Our mission is to serve the public by providing policymakers with independent and objective advice on the actuarial aspects of important public policy questions. As the U.S. House Ways and Means Subcommittee on Health looks to preserve and strengthen Medicare, our subcommittee would like to offer our comments on the sustainability of the program.

Medicare plays a vital role in providing health care benefits to over 55 million Americans,[2] including nearly all Americans age 65 and older and certain Americans with long lasting disabilities such as end-stage renal disease (ESRD). But Medicare's future sustainability is threatened by long-term financing challenges. According to current projections, Medicare's Hospital Insurance (HI) Trust Fund is expected to be depleted by 2028.[3] This problem is both urgent and growing. If Congress were to act today, adequately financing it would require an increase in standard payroll taxes and/or reduction in expenditures. In addition, increases in costs to Medicare's Supplementary Medical Insurance (SMI) trust fund, which covers physician and outpatient services (Part B) and the Part D prescription drug program, put pressure on beneficiary household budgets and the federal budget. Moreover, a greater share of the economy will be devoted to Medicare over time. The longer we wait, the larger the tax increases or spending reductions will have to be.

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[1] The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

[2] 2016 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, pg. 7.

[3] Ibid.

**Growing Enrollment and Per-Beneficiary Spending Are Increasing the Pressures on Medicare**

Currently, Medicare revenues are about equal to Medicare's total expenditures, but spending is projected to outpace revenues over time, due primarily to two factors. First, the retirement of the baby boomers will dramatically increase the number of Medicare beneficiaries over the next few decades. Second, although health spending growth has slowed in recent years, Medicare still faces a long-term pattern of rising health care costs. Per capita beneficiary spending is expected to continue to increase faster than GDP and payroll tax income over the long term, further contributing to Medicare funding challenges. Working-age adults fund Medicare through payroll taxes and income taxes. However, growth in the retiree population coupled with lower fertility rates is causing the ratio of workers to Medicare beneficiaries to shrink. Fewer workers will be paying into the system to support the growing number of retirees. In 1980, there were four workers for every Medicare beneficiary; by 2040 that ratio is expected to fall to about two workers for every beneficiary. Efforts that are successful in reducing medical spending growth could help to mitigate the HI Trust Fund shortfall and thereby lessen the need for dramatic increases projected in the tax and premium burdens of Parts B and D.

**HI Trust Fund Shortfall**

As noted earlier, as a result of expenditures increasing faster than revenues, the assets built up in the HI fund are projected to be depleted by 2028. At that point, annual payroll taxes will cover only 87 percent of the program's costs. Bringing the trust fund back into balance would mean an immediate 25 percent increase in payroll taxes or an immediate 16 percent reduction in expenditures—or some lesser combination of the two. Delaying action would require more severe changes. In addition, the depletion date would be sooner and required corrective actions larger if the downward adjustments to payment updates to reflect productivity improvements that are required by law cannot be sustained and are overridden by Congress. Similarly, delaying corrective actions would result in the need for more severe changes.

**Increasing Supplementary Medical Insurance (SMI) Costs Pressure Government, Household Budgets**

Medicare beneficiary premiums and general tax revenues fund the SMI Trust Fund. This fund is only expected to remain solvent because the contribution amounts are reset annually to meet expenditures. But increasing general revenue contributions take a growing share of the federal budget, lowering the funds available for other national priorities. Rising costs are not just a problem for taxpayers – they have a direct impact on beneficiaries. Beneficiary premiums and cost sharing are increasing faster than Social Security benefits, taking an increasing bite out of Social Security benefits and putting pressure on household budgets.

**A Greater Share of the Economy Will Be Devoted to Medicare Over Time**

A broader issue related to Medicare's financial condition is whether the economy can sustain Medicare spending in the long run. One way to gauge the future sustainability of the Medicare program is to examine the share of GDP that will be consumed by Medicare. Because Medicare spending is expected to continue growing faster than GDP, greater shares of the economy will be devoted to Medicare over time, meaning smaller shares of the economy will be available for other priorities. According to the 2016 Medicare Trustees report, Medicare expenditures as a percentage of GDP will grow from 3.6 percent of GDP in 2015 to 6.0 percent of GDP in 2090.

This share would grow even faster if downward adjustments to payment updates due to productivity adjustments are overridden.

**Action Needed Now to Assure Long-term Sustainability**

For more than 50 years, the Medicare program has helped provide access to health care for the nation's retiree population. But the current financing structure is not adequate to sustain in the long term. Policymakers should act now to ensure that Medicare is financially sustainable for future generations.

Approaches that would sustain and extend the recent slowdown in health care cost growth are likely to cause the least financial pain for policyholders and beneficiaries. Potential options include medical care delivery system reforms that focus on better patient care coordination and financial incentives that reward the high value of care provided rather than high volume of care. Payment and delivery system reforms likely won't go far enough, however, to assure Medicare's long-term sustainability. Tough choices regarding benefit coverage, provider and plan payments, and taxpayer funding will be required. By addressing Medicare's long-term solvency and sustainability challenges now, more gradual changes could be made sooner, giving beneficiaries, providers, and taxpayers more time to adjust. If Congress and the administration delay action, larger benefit cuts or tax increases for Medicare will be required.

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We appreciate the opportunity to provide these comments. If you have any questions or would like to discuss further, please contact David Linn, senior health policy analyst, at linn@actuary.org or 202-785-6931.

Sincerely,

Michael J. Thompson, MAAA, FSA
Chairperson, Medicare Subcommittee
American Academy of Actuaries