



# AMERICAN ACADEMY *of* ACTUARIES

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April 4, 2000

The Honorable Dennis Hastert  
Speaker of the House of Representatives  
Washington, DC 20515

The Honorable Albert Gore, Jr.  
President of the Senate  
Washington, DC 20510

RE: 2000 Medicare Trustees Report

Dear Sirs:

The American Academy of Actuaries (Academy) submits these comments on the 2000 Annual Reports of the Board of Trustees of the Federal Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds that were issued on March 30, 2000.<sup>1</sup> These two funds make up the Medicare benefit system for the elderly and for certain disabled Americans. The Trustees Reports, as in the past, are exemplary documents. The Academy values the role that members of the actuarial profession have provided in preparing the two reports and educating the public regarding the financial status of the Medicare system.

The Academy would make the following key points regarding the Trustees Reports:

- **Medicare still faces long-term financial problems.** There continue to be long-range financial problems with the hospital insurance fund even under the best estimate economic and demographic assumptions. The HI report indicates that starting in 2023, the HI Trust Fund will not take in enough money to pay full benefits. In fact, expenditures out of the fund are expected to exceed income into the fund as early as 2015.

In addition, while the SMI Trust Fund is expected to remain solvent because financing is adjusted each year to reflect projected future costs, the payments from the fund for medical provider bills and other outpatient costs continue to rise faster than the economy as a whole. It may be necessary to cut benefits, raise premiums or increase the contributions from the federal budget in order to maintain the solvency of the trust funds.

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[1 The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.](#)

- **Future demographic and economic trends that threaten the solvency of Medicare have not been reduced.** The improvements in fund solvency outlined in the 2000 reports are due largely to the continued strength of the U.S. economy. However, the fundamental demographic and economic changes that are expected to cause financial problems for Medicare have not changed. The HI fund cost rate will continue to increase because it is expected that there will be fewer workers to support the fund through payroll taxes in the near future. Both the HI and SMI trust funds will also be affected by the growth in the number of beneficiaries and the continued rise of health care costs.
- **Congress is anticipating changes to Medicare that may increase financial pressures on the trust funds.** A number of legislative proposals have been introduced to provide prescription drug coverage for Medicare beneficiaries that could increase the medical cost trends of the trust funds. Congress is also considering various plans for overall “reform” of Medicare that could significantly impact the financial condition of the program.
- **Trust Fund Projections and their changes from year-to-year should be kept in perspective.** While the trust fund projections in the trustees reports are an essential tool for policy makers and planners, it should be clearly understood that they are only informed estimates, as evidenced by the significant changes in the projections from year to year.
- **The groundwork has been laid for possible changes to improve the financial viability of the Medicare system.** The Bipartisan Commission on the Future of Medicare undertook extensive discussions on how to deal with the financial problems facing Medicare. Although the Medicare Commission was unable to come to any final agreement on a possible solution, Congress should not let this opportunity pass without a serious discussion, this year, on how to deal with the long-range financial solvency of Medicare.

The information presented in the Trustees Report indicates that without fundamental changes, the Medicare trust funds will face increasing financial pressures over the next decade and the funds will ultimately have insufficient funds to pay benefits. Those concerns need to be addressed before the funds face an insolvency problem.

Early action to address the financial stability of Medicare would give beneficiaries, employers and the government time to adjust to any changes. A delay in acting to address these issues may limit the options for reform and could make such changes more difficult to implement. The Academy is ready to provide the technical expertise of our member health actuaries in responding to any issues regarding the future of the Medicare system.

If you have any questions, please feel free to contact Tom Wilder, Director of Public Policy at the Academy.

Sincerely,

James J. Murphy, FSA, MAAA  
Vice President, Health

cc: Members of Congress  
Social Security and Medicare Board of Trustees