



AMERICAN ACADEMY of ACTUARIES

Statement Regarding 2001 Medicare Trustees Report

April 26, 2001

The 2001 Annual Reports of the Board of Trustees of the Federal Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds were issued on March 19, 2001. Together, these programs 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 American Academy of Actuaries 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 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 ultimately, the funds will have insufficient funds to pay benefits. These concerns need to be addressed before the funds face an insolvency problem.

The Academy makes the following comments related to the Trustees Reports:

- **Medicare still faces long-term financial problems.** Although Medicare's near-term financial condition has improved since last year's report, the hospital insurance fund still has long-range financial problems. The HI report indicates that HI expenditures will exceed tax income into the fund in 2016. By 2029, when the HI trust fund assets are projected to be depleted, tax revenue would cover only 68 percent of program costs. The SMI trust fund is expected to remain solvent, but only because its financing is set to meet projected future costs.
- **Medicare expenditures will continue to increase rapidly as a percentage of GDP.** Due to the rising number of beneficiaries and increases in both the use and cost of health care per beneficiary, Medicare costs will consume greater shares of total national spending. In 2000, Medicare spending amounted to 2.2 percent of GDP. By 2075, spending relative to GDP will nearly quadruple to 8.5 percent.
- **Congress is considering changes to Medicare that would increase financial pressures on the trust funds.** A number of legislative proposals have been introduced to provide prescription drug coverage for Medicare beneficiaries. These proposals to add an additional benefit will increase Medicare's cost trends and may further threaten the solvency of the trust funds.
- **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 understood that they are informed estimates intended to provide a range of possible results.

A recent Academy monograph discusses how several Medicare reform measures could address long-term financing problems. *Evaluating the Fiscal Soundness of Medicare* concludes that promising options to improve Medicare's financial condition include increased cost sharing by beneficiaries and increased use of managed care and competitive bidding; less promising options include lowering payments to providers, increasing the eligibility age for Medicare, and requiring employer plans to cover retirees.

Failure to act now to address the financial problems of Medicare would make it harder to maintain the program's fiscal stability and necessitate more extreme financial reforms later. The Academy is ready to provide the analysis and technical expertise of our member health actuaries in responding to any issues regarding the future of the Medicare system.

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