



Medicare's Long-Term Sustainability Challenge

Medicare plays a vital role in providing health care benefits to seniors and adults with permanent disabilities – more than 59 million Americans in 2018. But the federal government program faces long-term solvency issues, and its major trust fund will be depleted in 2026. The Affordable Care Act (ACA), enacted in 2010, included provisions designed to reduce costs and improve quality, but additional steps still must be taken to ensure Medicare's long-term sustainability.

Medicare's trust funds

Medicare programs are operated through two funds: the Hospital Insurance (HI) Trust Fund, which mainly pays for inpa-

tient hospital costs, and the Supplementary Medical Insurance (SMI) Trust Fund that finances physician services, outpatient care, and the Part D prescription drug program. The HI trust fund, which receives income primarily from payroll taxes, had surplus assets of \$200 billion at the end of 2018. The SMI trust fund receives funding from general revenues as well as beneficiary premiums, but general revenues make up about three quarters of its revenue.

Currently, trust fund revenues, including interest income, covers Medicare's total expenditures. But a growing number of retirees coupled with increases in health care spending per beneficiary will cause Medicare's costs to rise faster than its revenues, and the assets built up in the HI fund will be depleted by 2026, according to the Medicare Trustees' latest report.

HI trust fund shortfall

The Medicare Trustees project that the HI trust fund's assets will run out in 2026 and, at that point, annual payroll taxes only will cover 89 percent of the program's costs. Bringing the trust fund back into balance will require cuts in program spending, increased funding, or some combination of the two.

SMI spending to pressure government, household budgets

Medicare beneficiary premiums and general tax revenues fund the SMI trust fund, which is expected to remain solvent because the contribution amounts are set

MEDICARE AT A GLANCE IN 2018

Beneficiaries:

- 51.2 million seniors
- 8.8 million younger adults with permanent disabilities

Expenditures:

\$741 billion

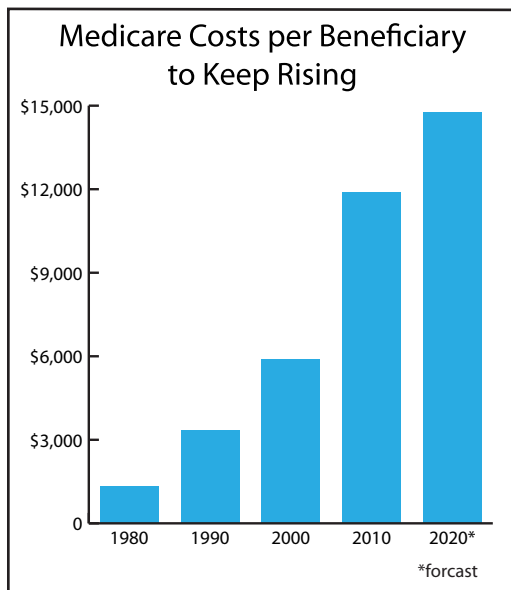
Income:

- \$746 billion from payroll and income taxes
- \$9.8 billion in interest earnings

Total fund assets:

\$305 billion

Projected HI Trust Fund depletion date: 2026



Source: 2019 Medicare Trustees Report

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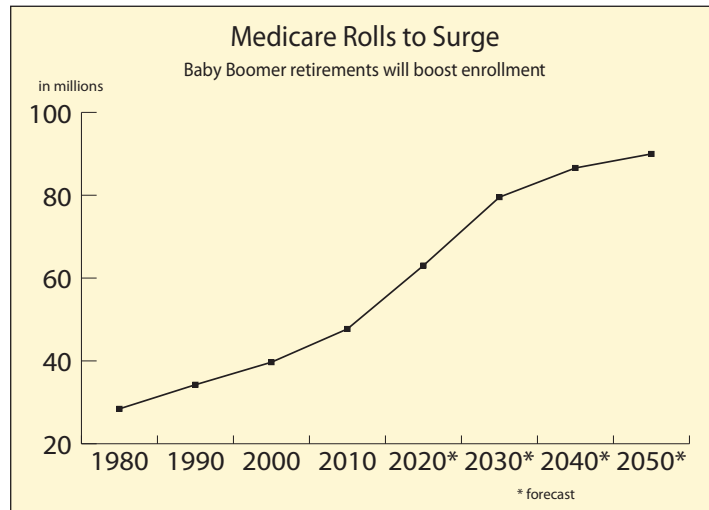
annually. But increased beneficiary premiums (and cost-sharing) are projected to make up increasing shares of Social Security benefits, thus putting pressure on beneficiary household budgets. In addition, increasing general revenue contributions will place additional pressure on the federal budget.

Medicare costs grow faster than GDP

A key issue is whether Medicare costs, which are growing at a faster rate than the overall economy, are sustainable over time. In 2018, Medicare comprised 3.7 percent of the Gross Domestic Product (GDP), a measure of the entire U.S. economy. By 2093, Medicare will take up 6.5 percent of GDP, which essentially means a lower level of funding would be available for all other goods and services.

Conclusion

More needs to be done to put Medicare on a strong financial footing. By addressing Medicare's long-term solvency and sustainability challenges now, more gradual changes could be made sooner, giving beneficiaries and taxpayers more time to adjust. If Congress and the administration



Source: 2019 Medicare Trustees Report

delay action, larger benefit cuts or tax increases for Medicare would be required.

In addition, policymakers should begin to immediately pursue approaches that would sustain and extend the recent slowdown in health cost growth. 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.

Additional Resources from the American Academy of Actuaries

Making Issues Count: Medicare (2018)

<https://www.election2018.actuary.org/medicare>

Medicare's Financial Condition: Beyond Actuarial Balance (2019)

https://www.actuary.org/sites/default/files/2019-04/Medicare_Trustees_Report_042419_1.pdf

Medicare at 50: Is It Sustainable for 50 More Years? (2015)

http://www.actuary.org/files/Medicareat50_Sustainability_0715.pdf

Medicare at 50: Medicare Advantage Plans (2015)

<http://www.actuary.org/files/Medicare@50.AdvantagePlans.pdf>

Medicare at 50: Does It Meet the Needs of the Beneficiaries (2015)

http://www.actuary.org/files/Medicareat50_Benefits_0715.pdf

Medicare at 50: Who Are the Beneficiaries? (2015)

http://www.actuary.org/files/Medicareat50_Beneficiaries_0715.pdf

A Guide to Analyzing Medicare Premium Support (February 2013):

http://actuary.org/files/Issue_Guide_Medicare_Premium_021113.pdf

Fact Sheet: Medicare Shared Savings Program and the Pioneer ACO Program (December 2012):

http://actuary.org/files/ACO_Fact_Sheet_FINAL_121912.pdf

An Actuarial Perspective on Accountable Care Organizations (December 2012):

http://actuary.org/files/ACO_IB_UPDATE_Final_121912.pdf

Revising Medicare's Fee-For-Service Benefit Structure (March 2012):

http://actuary.org/files/Medicare_FFS_Design_Issue_Brief_03_07_12_final.pdf