The Financial Status of Medicare

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Chart 1—Medicare “solvency,” “budget impact,” and “sustainability”: Which concept is which?

Trust fund solvency: Is a fund’s income adequate to cover its expenditures?

Budget impact: Does Medicare increase or reduce the Federal Budget deficit?

Sustainability: Can the Medicare program fulfill its intended purposes in the long run, at a cost that the nation can afford?

These three concepts are often confused but are fundamentally different. Questions related to one concept cannot be answered by information from another.
Part A trust fund assets are projected to cover deficits until early 2024 under intermediate assumptions.

The Part B and D trust fund accounts are automatically in financial balance.
Chart 3—Medicare sources of income and expenditures
(As a percentage of GDP; 2012 Medicare Trustees Report)

- Historical
- Projected
- Total expenditures
- Part A deficit
- General revenue transfers
- Premiums
- Payroll taxes
- Taxes on SS benefits
- State transfers & drug fees
- Impact of Medicare on Federal Budget deficit
- Trust fund deficit

Chart showing the historical and projected sources of income and expenditures for Medicare from 1966 to 2076.
Chart 4—Total Medicare income less expenditures based on “trust fund” and “budget” perspectives (in billions)

Trust Fund

Budget
Chart 5—Comparison of relative Medicare, Medicaid, and PHI prices for inpatient hospital services under current law

Price as a percentage of PHI rates
Chart 6—Comparison of relative Medicare, Medicaid, and PHI prices for physician services under current law

Price as percentage of PHI rates

Past  Projected

Private health insurance (PHI)

Medicaid

Medicare

2000  2010  2020  2030  2040  2050  2060  2070  2080
Chart 7—Medicare expenditures under current law and illustrative alternative projections (as a percentage of GDP)
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Illustrative alternative to current law assumes:
Physician payment “SGR” formula is overridden in all years

NB: This is an illustration, not a recommendation
Illustrative alternative to current law assumes:
Physician payment “SGR” formula is overridden in all years
Productivity adjustments to other provider updates are phased down over 2020-2034
IPAB requirements are not implemented
NB: This is an illustration, not a recommendation
Chart 8—Possible methods of reducing Medicare expenditures
Part I

- Reduce waste & inefficiency
- Reduce fraud & abuse
- Emphasize preventive care
- Use electronic health records
- Pay for performance
- Reduce provider payment rates
- Increase beneficiary cost-sharing
- Increase age of eligibility

Slow growth rate?

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Chart 9—Possible methods of reducing Medicare expenditures
Part II

Slow growth rate?

- Manage care
- Introduce delivery, payment innovations
- Develop national practice standards
- Adopt new medical technology more prudently
- Increase competition
- Convert to “premium support” system
- Convert to “premium support” with limited updates
- Convert to “defined contribution” (global payment) system