

**Medicare Trustees Report**

*May 12, 2009*

**“The real problem with our long-term deficit actually has to do with our entitlement obligations...The big problem is Medicare, which is unsustainable.”**

—President Obama, [Interview](#) with *Washington Post* editorial board, January 15, 2009

The Republican Conference has prepared the following summary of the annual Medicare trustees [report](#) on the state of the program’s financing.

**Insolvency Date:** The trustees project that the Medicare Hospital Insurance (Part A) Trust Fund will become insolvent by 2017—two years earlier than last year. This deterioration in the program’s financing is due largely to the economic slowdown, and a concurrent reduction in payroll tax revenues, during calendar year 2008.

**Funding Warning:** For the fourth straight year, the trustees have issued a general revenue funding warning, noting that general revenue spending on Medicare—that is, Medicare spending not funded by payroll taxes or beneficiary premiums and co-payments—is expected to exceed 45% of all Medicare spending within the next seven fiscal years. As a result, “trigger” provisions enacted as part of Title VIII of the Medicare Modernization Act require the President to submit, and Congress to consider, legislation remedying the funding warning on an expedited basis. Note that while the rules package for the 111<sup>th</sup> Congress turned off the expedited parliamentary procedures in the House, that action did not repeal the requirement on the President to submit Medicare reform legislation to the House and Senate.

**Unfunded Liabilities:** Medicare’s overall unfunded liabilities also increased when compared to last year’s report, using both the 75-year budget window and “infinite horizon” projections. Note however that while unfunded obligations for the government-run Parts A and B have increased in both dollar terms and as a percentage of economic GDP, projected liabilities for the privately-provided Part D prescription drug benefit continue to decline:

**Unfunded Obligation Projections for 75-Year Budget Window (2009-2083)**

	<b>2008 Trustees’ Report (in trillions of dollars)</b>	<b>2009 Trustees’ Report (in trillions of dollars)</b>
<b>Part A (Hospital Insurance)</b>	\$12.4 (1.6% of GDP)	\$13.4 (1.7% of GDP)
<b>Part B (Obligations less beneficiary premiums)</b>	\$15.7 (2.0% of GDP)	\$17.2 (2.2% of GDP)
<b>Part D (Obligations less beneficiary premiums and state “clawback” payments)</b>	\$7.9 (1.0% of GDP)	\$7.2 (0.9% of GDP)
<b>TOTAL</b>	\$36.0 (4.6% of GDP)	\$37.8 (4.8% of GDP)

## Unfunded Obligation Projections for Infinite Horizon

	2008 Trustees' Report (in trillions of dollars)	2009 Trustees' Report (in trillions of dollars)
<b>Part A (Hospital Insurance)</b>	\$34.4 (2.6% of GDP)	\$36.4 (2.8% of GDP)
<b>Part B (Obligations less beneficiary premiums)</b>	\$34.0 (2.6% of GDP)	\$37.0 (2.8% of GDP)
<b>Part D (Obligations less beneficiary premiums and state "clawback" payments)</b>	\$17.2 (1.3% of GDP)	\$15.5 (1.2% of GDP)
<b>TOTAL</b>	\$85.6 (6.5% of GDP)	\$88.9 (6.8% of GDP)

**Recent Events Not Included:** The economic "stimulus" legislation included more than \$30 billion in incentive payments to medical providers designed to encourage adoption of electronic health records. Some of these payments include incentives to hospitals provided through the Medicare Part A Trust Fund. Informal staff conversations with actuaries at the Centers for Medicare and Medicaid Services (CMS) indicate that this spending would accelerate the insolvency date of the Part A Trust Fund by about six months. However, as the "stimulus" passed during calendar year 2009, it is not reflected in the insolvency projections included in this year's report—thus the short-term funding problems facing the Part A Trust Fund are in reality more serious than even the trustees report indicates.

**Unfunded Obligations Understated:** In arriving at their long-term projections, the Medicare trustees may actually be underestimating the program's shortfalls, for two prime reasons. The Medicare trustees' report admits that the unfunded obligation projections "are understated as a result of the substantial reductions in physician payments that would be required under current law." One estimate found that reversing those current-law reductions would increase Medicare's 75-year unfunded obligations by as much as \$3 trillion.<sup>1</sup> Second, in arriving at their estimate of unfunded obligations, the Medicare trustees assume that cost growth will decline much more rapidly than the Congressional Budget Office predicts; using the CBO model, former Medicare public trustee Tom Saving obtained a 75-year estimate more than 25% greater than the official trustee's estimates (\$36 trillion vs. \$43.8 trillion in 2008).<sup>2</sup>

**Cost of Reform:** Two projections made in recent years have attempted to quantify the amount of revenue needed to fill Medicare's shortfall given its current course. In 2005, the Heritage Foundation projected that the Medicare payroll tax would need to nearly quintuple, increasing from 2.9% to 13.4%, where it would remain for 75 years—lowering real GDP by nearly \$200 billion per year, and reducing total employment by 2.3 million during the first decade of the tax increase alone.<sup>3</sup> Likewise, Tom Saving found that, were seniors' Medicare premiums used to fund the full share of the shortfall, these premiums would need to rise to between \$3,100-\$5,600 per month *in year 2008 dollars*.<sup>4</sup>

**Conclusion:** Given the dire long-term projections for the Medicare program—and this year's news that the near-term situation has deteriorated appreciably—many Members may agree with President Obama on the need to reform "unsustainable" entitlements. However, some Members may also believe that in the current discussion surrounding health reform, action to slow the growth of current entitlement programs should receive precedence over creating a new government-run health plan resulting in as many as 120 million Americans losing access to their current coverage.

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<sup>1</sup> J.D. Foster, "Medicare's Financial Woes: Bigger than Official Estimates," (Heritage Foundation Backgrounder #2174, September 2, 2008), [http://www.heritage.org/Research/Budget/upload/bg\\_2174.pdf](http://www.heritage.org/Research/Budget/upload/bg_2174.pdf), Footnote 10.

<sup>2</sup> Andrew Rettenmaier and Tom Saving, "Medicare's Future Burden: Trustees versus CBO Estimates," (College Station, TX, Private Enterprise Research Center, Texas A&M University), [http://www.heritage.org/research/HealthCare/upload/Medicares\\_Future\\_Burden.pdf](http://www.heritage.org/research/HealthCare/upload/Medicares_Future_Burden.pdf), pp. 16-17.

<sup>3</sup> Tracy Foertsch and Joe Antos, "The Economic and Fiscal Effects of Financing Medicare's Unfunded Liabilities," (Washington, DC, Heritage Foundation Center for Data Analysis Paper CDA05-06, October 11, 2005), [http://www.heritage.org/Research/HealthCare/upload/83702\\_1.pdf](http://www.heritage.org/Research/HealthCare/upload/83702_1.pdf), Table 1, p. 12.

<sup>4</sup> Rettenmaier and Saving, "Medicare's Future Burden," p. 8.