

Medicare @50

JULY 2015

ADDITIONAL RESOURCES

MEDICARE AT 50:

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

MEDICARE AT 50:

DOES IT MEET THE NEEDS OF THE BENEFICIARIES?
http://actuary.org/files/Medicareat50_Benefits_0715.pdf

MEDICARE'S FINANCIAL CONDITION:

BEYOND ACTUARIAL BALANCE
http://actuary.org/files/MedicareTrustees_Final_07_24_15.pdf

ESSENTIAL ELEMENTS

MEDICARE'S LONG-TERM SUSTAINABILITY CHALLENGE
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MEDICARE AT 50

Is It Sustainable for 50 More Years?

Medicare turns 50 this year. Prior to its enactment in 1965 as part of President Lyndon Johnson's Great Society initiative, many elderly Americans had inadequate health insurance coverage or no coverage at all. In some cases they had to choose between skipping needed medical care or taking on a financial burden they could not afford. Since then, Medicare has played a vital role in providing health care benefits to nearly all Americans age 65 and older. Subsequent eligibility changes have extended Medicare coverage to certain individuals under age 65 who, because of medical or physical impairments, are also vulnerable to lacking coverage—those with end-stage renal disease (ESRD) and those with permanent disabilities.¹ In total, nearly 54 million Americans had Medicare coverage in 2014.

But is the program sustainable for 50 more years? In other words, are the demands it places on beneficiaries, providers, plans, and taxpayers manageable enough that the program is unlikely to be discontinued or curtailed? Will all significant stakeholders accept its balance between benefits and costs—and how those costs have been spread?

¹ Individuals with disabilities become eligible for Medicare after receiving Social Security disability benefits for two years. Individuals with amyotrophic lateral sclerosis (ALS) are eligible upon diagnosis without meeting the two-year waiting period.

According to these criteria, Medicare faces long-term sustainability challenges. As the baby boomer population ages into the program over the next few decades, Medicare enrollment will grow dramatically and the number of workers per enrollee will shrink. Benefit payments are expected to exceed payroll taxes, threatening solvency of one of its major trust funds. And Medicare will make up increasing shares of federal government and household spending, meaning decreasing shares will be available for other needs. The Affordable Care Act, enacted in 2010, includes provisions designed to reduce Medicare's costs and improve its quality, but additional steps must be taken to ensure the program's long-term sustainability.

MEDICARE'S TRUST FUNDS

Medicare programs are financed through two funds: the Hospital Insurance (HI) trust fund, which mainly pays for inpatient hospital and post-acute care services, 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 receives income primarily from dedicated payroll taxes. The SMI trust fund receives about three-quarters of its funding from general tax revenues and about one-quarter from beneficiary premiums.

MEDICARE TRUSTEES REPORT

The trustees of the two Medicare trust funds issue a formal status report each year. It includes projections of future revenues, expenses, and trust fund balances. The report is prepared with input from the Office of the Actuary of the Centers for Medicare and Medicaid Services (CMS). It also includes a formal statement of actuarial opinion by the CMS Chief Actuary. This statement of actuarial opinion provides an assessment of the reasonableness and appropriateness of the report's methods and assumptions.

ABOUT THIS SERIES

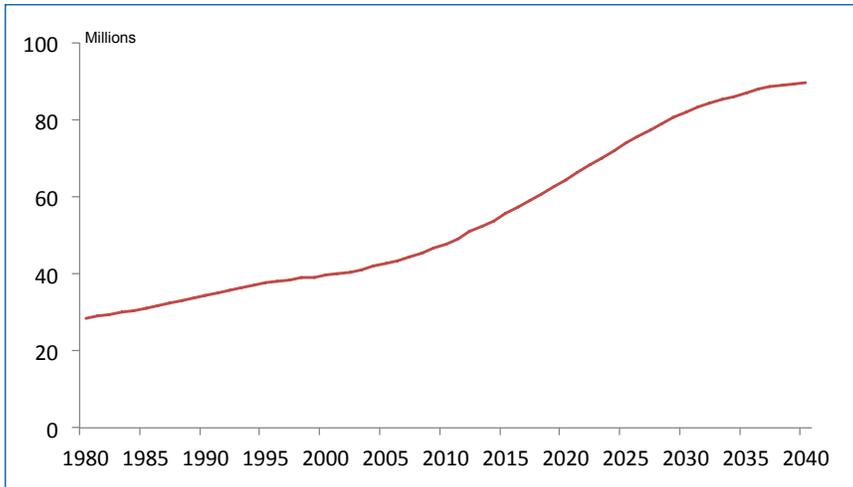
In the *Medicare at 50* series, the American Academy of Actuaries explores various aspects of the Medicare program and potential implications for future policymaking. Together, these papers provide a comprehensive overview of the current status of the Medicare program and of issues that should be considered when making future changes.

GROWING ENROLLMENT AND PER-BENEFICIARY SPENDING

Currently, trust fund revenues are about equal to Medicare’s total expenditures, but spending is projected to outpace revenues over time, due primarily to two factors. First, increasing longevity and the retirement of the baby

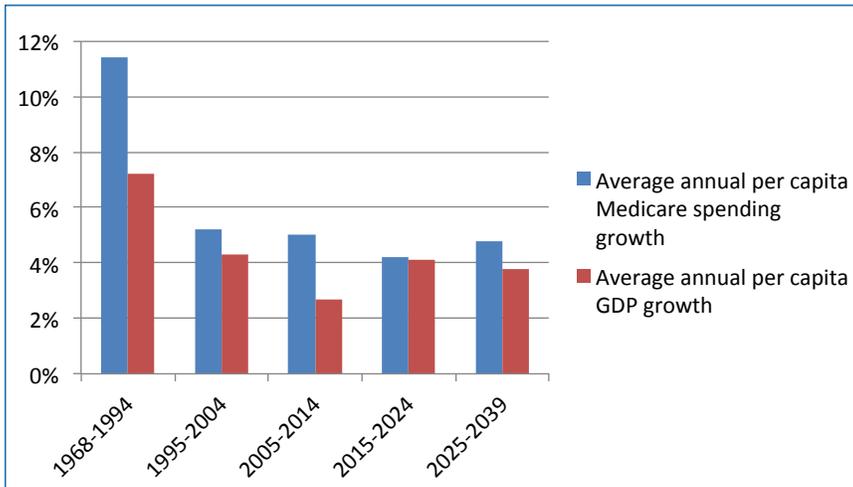
boomers will dramatically increase the number of Medicare beneficiaries over the next decades. Second, although health spending growth has slowed in recent years, in the longer term, per capita beneficiary spending is expected to increase faster than economic growth, further contributing to Medicare spending increases.

MEDICARE ENROLLMENT WILL SOAR AS BABY BOOMERS RETIRE



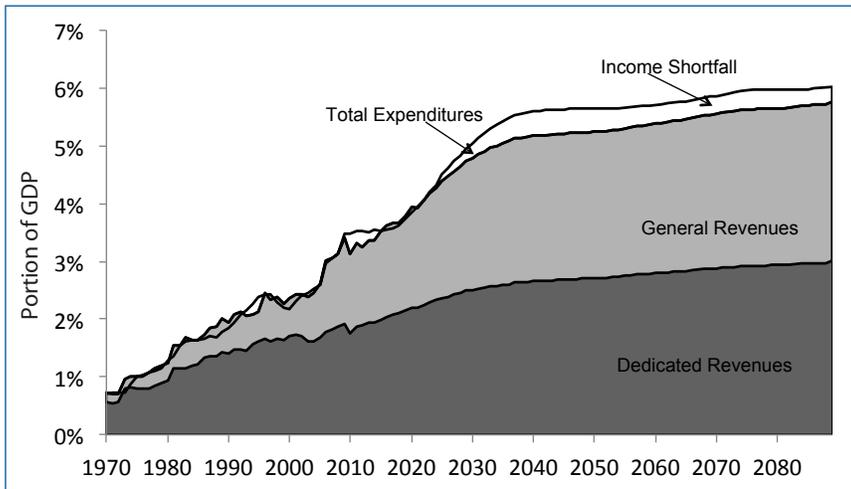
SOURCE: 2015 Medicare Trustees Report

PER-BENEFICIARY MEDICARE SPENDING HAS SLOWED, BUT WILL EXCEED PER CAPITA GDP GROWTH IN THE LONGER TERM



SOURCE: American Academy of Actuaries calculations based on the 2015 Medicare Trustees Report

MEDICARE INCOME WILL FALL SHORT OF EXPENDITURES



SOURCE: 2015 Medicare Trustees Report

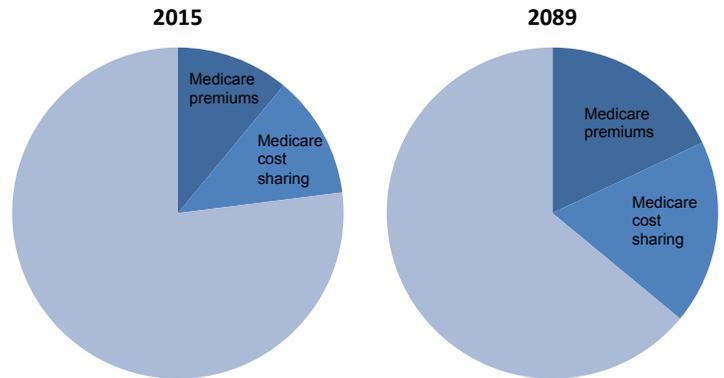
HI TRUST FUND SHORTFALL

As a result of expenditures increasing faster than revenues, the assets built up in the HI fund are projected to be depleted by 2030, according to the Medicare Trustees’ latest report. At that point, annual payroll taxes will cover only 86 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 reset annually to meet expenditures. But beneficiary premiums and cost sharing are increasing faster than Social Security benefits. In other words, they are taking up increasing shares of Social Security benefits, thus putting pressure on beneficiary household

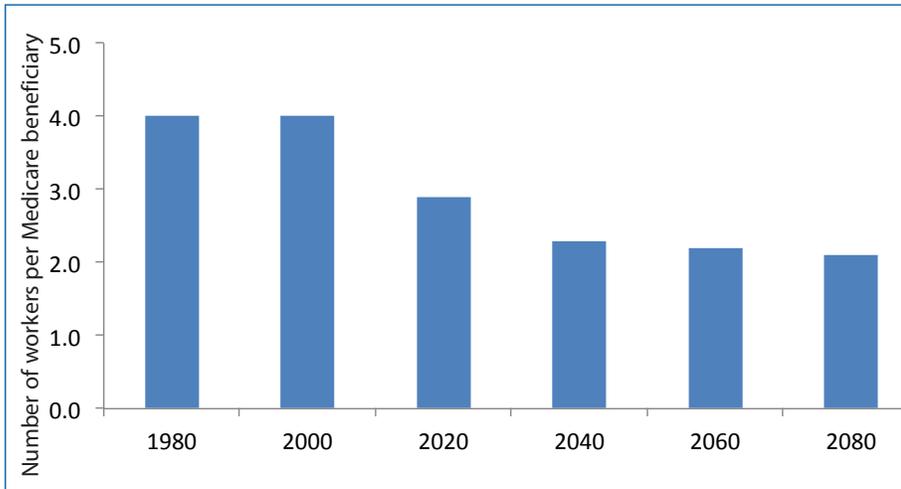
MEDICARE PREMIUMS AND COST SHARING IS INCREASING SHARE OF THE AVERAGE SOCIAL SECURITY BENEFIT



NOTE: Reflects premiums and cost sharing for Parts B and D, but not for Part A.
SOURCE: 2015 Medicare Trustees Report

budgets. In addition, increasing general revenue contributions place additional pressure on the federal budget, potentially lowering the funds available for other national priorities or increasing the pressure to raise additional revenues.

THE NUMBER OF WORKERS PER MEDICARE BENEFICIARY IS SHRINKING



SOURCE: 2015 Medicare Trustees Report

FEWER WORKERS PER BENEFICIARY

Working-age adults fund Medicare, through payroll taxes and income taxes. However, growth in the retiree population coupled with lower fertility rates is causing the ratio of workers to Medicare beneficiaries to shrink. Fewer workers will be paying into the system to support the growing number of retirees. In 1980 there were four workers for every Medicare beneficiary; by 2040 that ratio is expected to fall to about two workers for every beneficiary.

MORE NEEDED TO IMPROVE LONG-TERM SUSTAINABILITY

For the past 50 years, the Medicare program has helped provide access to health care for the nation's retiree population. More needs to be done, however, to ensure the program is sustainable for the next 50 years.

Policymakers should pursue approaches that would sustain and extend the recent slowdown in health care 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. Payment and delivery system reforms likely won't go far enough, however, to assure Medicare's long-term sustainability. Tough choices regarding benefit coverage, provider and plan payments, and taxpayer funding could be required.

By addressing Medicare's long-term solvency and sustainability challenges now, more gradual changes could be made sooner, giving beneficiaries, providers, and taxpayers more time to adjust. If Congress and the administration delay action, larger benefit cuts or tax increases for Medicare would be required.