CALL TO ACTION

Actuaries Urge Comprehensive Medicare Reform

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AMERICAN ACADEMY of ACTUARIES

Medicare faces serious financial challenges that require comprehensive reforms to the program now to avoid the need for even more drastic actions in the future. The American Academy of Actuaries applauds President Obama's pledge to address these challenges and continues to urge the President and the Congress to act to restore the long-term solvency and financial sustainability of Medicare.

To ensure the financial viability of the program for current retirees as well as future generations, any comprehensive reform must seek to achieve the following goals:

Medicare Solvency, as defined by the Medicare Trustees

- Medicare's Hospital Insurance (HI) trust fund meets the short-range test of financial adequacy. In general, that means that for each of the next 10 years, projected trust fund assets must be large enough to cover projected expenditures.
- The HI trust fund meets the long-range test of actuarial balance. In general, that means that for each of the next 75 years, HI projected revenues exceed projected expenditures.

Medicare Sustainability

- Medicare's growing demand on the federal budget is brought under control by reducing the growth in the general revenue contributions to Medicare, measured as a percentage of total federal revenues.
- Overall Medicare spending is brought under control by reducing the growth in Medicare spending, measured as a percentage of GDP.

Medicare Faces Serious Financial Challenges

Medicare plays a critically important role in ensuring access to health care among Americans age 65 and older and certain younger adults with permanent disabilities. Unfortunately, Medicare's future is threatened by large and imminent financial challenges that are not yet being addressed. Of most immediate concern is the impending insolvency of the program's Hospital Insurance (HI) trust fund, which covers inpatient hospital services and is funded by dedicated payroll taxes. HI's payroll tax revenues will fall below its spending this year. By 2017, two years earlier than previously projected, when the trust funds assets are depleted, payroll tax revenue is projected to cover only 81 percent of HI benefit costs, and even less thereafter. The value of the HI deficit, or the difference between income and outgo, over the next 75 years is projected to total $14 trillion in today's dollars, or about three times the size of the Social Security deficit.

But program solvency is not the only concern. Increasing health care spending will cause Medicare to consume ever-growing shares of the federal budget and the economy as a whole, threatening the program's long-term sustainability. In 2008, total Medicare spending was 3.2 percent of the nation's

For More Information

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Medicare's Financial Condition: Beyond Actuarial Balance (May 2009)
http://www.actuary.org/pdf/medicare/trustees_09.pdf

Medicare Reform Options (June 2007)
http://www.actuary.org/pdf/medicare/options_june07.pdf

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economy and about one out of every six federal revenue dollars was used for Medicare. It is projected that by 2050, Medicare's share of the economy will have nearly tripled. And if total federal revenues remain at their current share of the economy, Medicare could consume nearly one out of every two federal revenue dollars.

It is important to recognize that the problem of rising health care spending in the Medicare program reflects spending growth in the U.S. health system as a whole. Therefore, unless spending in the health system as a whole is addressed, implementing options to control Medicare spending may have limited long-term effectiveness. Medicare proposals should focus on options that control overall spending, rather than simply shifting costs from the government to another payer. In addition, attempts to rein in spending should include not only one-time improvements that will help address short-term goals, but also options that permanently reduce spending growth to address long-term goals.

There is no perfect solution to Medicare's financial problems; each option has its drawbacks. Most likely, any viable solution will involve a combination of options and require taxpayers, Medicare beneficiaries, and the health care industry to share the burden. Politically unpopular spending cuts and revenue increases will be necessary, but given the imminence of Medicare's funding shortfalls, our nation must begin the process of restoring Medicare's financial soundness. It is critical that President Obama and the new Congress work now to achieve consensus on those decisions. Deferring action will only ensure that the changes necessary are more extreme and likely more burdensome to future generations.

Although financial soundness is not the only issue that must be considered when reforming Medicare, it is vital to the future of the program. To be considered successful, any meaningful reform must address the serious financial challenges facing the program.

The Academy is committed to continuing its thought leadership in this area and stands ready to assist policymakers in their efforts to address Medicare's short-term and long-term financial challenges. For more information, please contact Craig Hanna, Director of Public Policy, at hanna@actuary.org or 202-223-8196.

The American Academy of Actuaries is a professional association with over 16,000 members, whose mission is to assist public policymakers by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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