

# Medicare Trust Fund Basics

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# Medicare benefits and financing structure

	<b>Hospital Insurance (HI)</b>	<b>Supplementary Medical Insurance (SMI)</b>
<b>Benefits</b>	Inpatient hospital and post-acute care (Part A)	Physician and outpatient care (Part B)  Prescription drugs (Part D)
<b>Financing</b>	Payroll taxes	Beneficiary premiums and general tax revenues



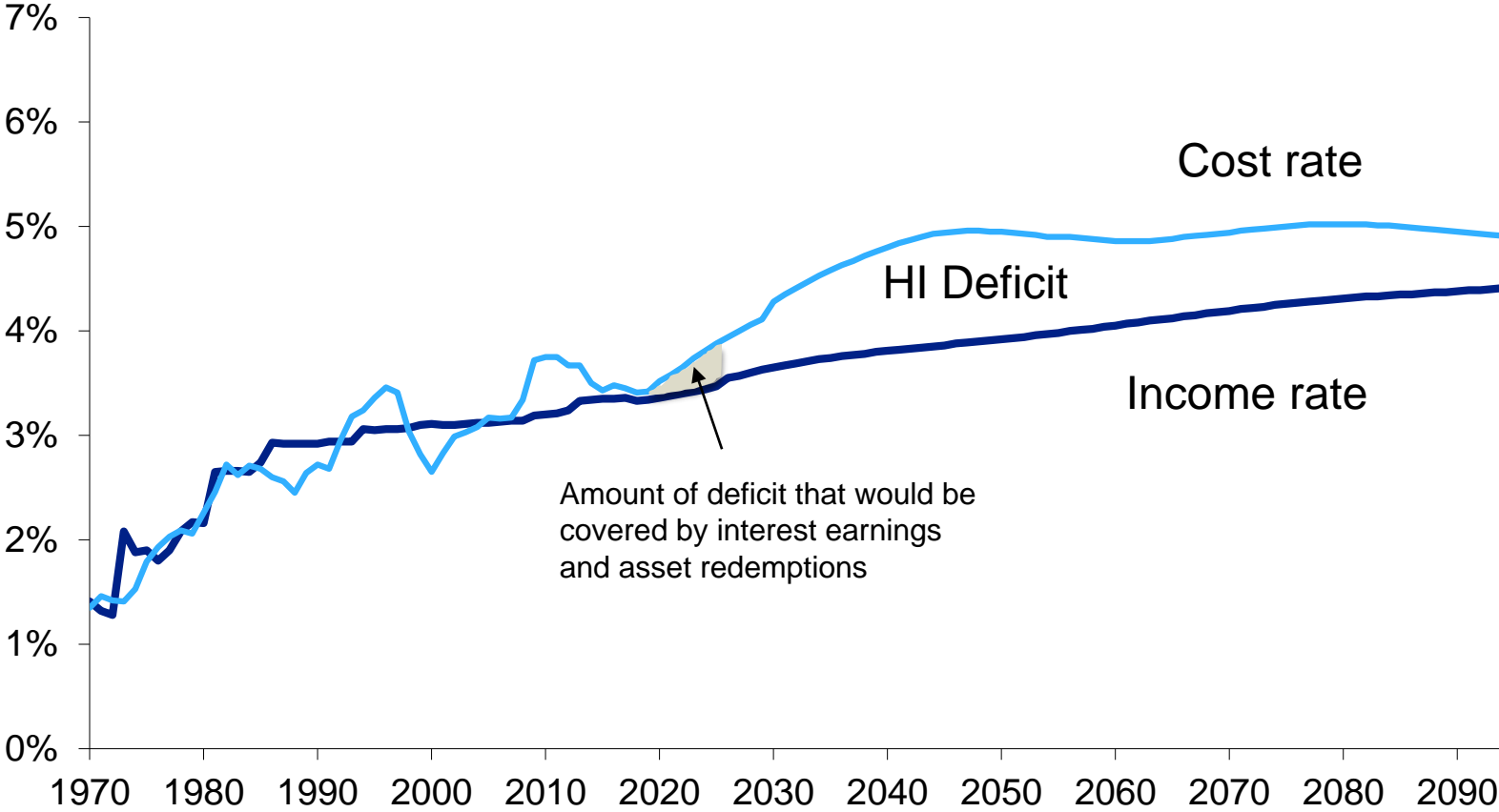
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# HI costs projected to continue exceeding non-interest income this year and thereafter

HI non-interest income and costs as a % of taxable payroll



Source: 2020 Medicare Trustees Report



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# HI trust fund depletion date is fast approaching

- Recent depletion date projections from CBO and the Medicare Trustees range from 2024 to 2026
- In the short term, projections are sensitive to assumptions regarding COVID-19 effects
  - ▣ Short-term reductions in benefit costs due to deferred care; rebound as utilization returns
  - ▣ Payroll tax revenue reductions due to economic downturn
- Bottom line—the depletion date is coming soon



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# Implications of HI trust fund depletion

- HI revenues will cover 90% of expected expenditures in 2026
- HI deficit over the next 75 years = 0.76% of taxable payroll
- Eliminating 75-year deficit would require:
  - ▣ Immediate 26% increase in payroll taxes, or
  - ▣ Immediate 16% reduction in expenditures, or
  - ▣ Some combination
- Cumulative shortfall over the next 10 years is approximately \$500 billion

Sources: 2020 Medicare Trustees Report; CBO (Feb 2021)



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# Assessing Medicare's financial status goes beyond focus on HI depletion date

- The SMI trust fund will remain solvent, but only because its financing is reset each year to meet projected future costs
- Projected increases in SMI expenditures will require significant increases in beneficiary premiums and general revenue contributions



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# Medicare's sustainability challenges go beyond solvency

- Does the program meet the needs of the beneficiaries?
  - ▣ Benefit coverage
  - ▣ Out-of-pocket costs
  - ▣ Racial and ethnic disparities
- Policies should aim to ensure that Medicare beneficiaries have access to high-quality health care that is affordable both to them and to the nation as a whole



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