



AMERICAN ACADEMY of ACTUARIES

News Release

Medicare's Financial Future in Jeopardy

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Washington, D.C. – The federal government recently reported that Medicare's financial status has deteriorated considerably in the last year. An issue brief by the American Academy of Actuaries, *Medicare's Financial Condition: Beyond Actuarial Balance*, highlights not only the oft-cited Medicare trust fund insolvency dates, but also examines more closely Medicare's demand on the federal budget and the economy as a whole. *"The Medicare program continues to face serious financial problems into the future and will create increasing demands on the federal budget and strains on the U.S. economy,"* said Cori Uccello, Academy Senior Health Fellow.

The 2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance (HI) and Federal Supplementary Medical Insurance (SMI) Trust Funds, which was released on March 23, states that the HI trust fund will run out of money by 2019, seven years earlier than previously predicted. The sooner than expected depletion of trust fund assets is a result of higher hospital expenditures, lower payroll taxes, and increased payments to rural hospitals and private health plans enacted under the new Medicare legislation.

Medicare also will place increasing demands on the federal budget, as payroll taxes cover decreasing shares of Medicare spending and general tax revenues are projected to comprise increasing shares. Moreover, it is unclear whether the economy can sustain Medicare spending in the long run. In 2003, total Medicare spending was 2.6 percent of the Gross National Product (GDP). This share likely will increase to 3.4 percent in 2006, largely due to the addition of the new prescription drug benefit. This is expected to rise to 7 percent of the GDP in 2030 and even higher thereafter. Increased spending for Medicare, especially in conjunction with Social Security, will place increasing strains on the U.S. economy and may crowd out funds for other federal programs. It is unclear whether the nation will be willing to make these tradeoffs in the future.

The Medicare Steering Committee of the American Academy of Actuaries recommends that lawmakers implement changes to address Medicare's short- and long-term financial problems. The sooner such corrective actions measures are taken, the less onerous they will need to be.

A .pdf of *Medicare's Financial Condition: Beyond Actuarial Balance* can be found on the Academy's website at www.actuary.org.

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The American Academy of Actuaries is the nonpartisan public policy organization for the U.S. actuarial profession. The Academy provides independent analysis to elected officials and regulators, maintains professional standards for all actuaries, and communicates the value of actuarial work to the news media and public.

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