



AMERICAN ACADEMY *of* ACTUARIES

April 27, 1999

The Honorable Dennis Hastert
Speaker of the House of Representatives
Washington, DC 20515

The Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

Re: 1999 Medicare Trustees Report

Dear Sirs:

The American Academy of Actuaries (Academy) submits these comments on the 1999 Annual Report of the Board of Trustees of the federal Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds which was issued on March 30, 1999. These two funds make up the Medicare benefit system for the elderly and for certain disabled Americans. The Trustees Report, as in the past, is an exemplary document. The Academy values the role that members of the actuarial profession have provided in preparing the report and educating the public regarding the financial status of the Medicare system.

The Academy would make the following key points regarding the Trustees Report:

- **Medicare still faces long-term financial problems.** There continue to be long-range financial problems with the hospital insurance fund even under the best estimate economic and demographic assumptions. The reports indicates that starting in 2015, the HI Trust Fund will not take in enough money to pay full benefits. In addition, while the SMI Trust Fund is expected to remain solvent because financing is adjusted each year to reflect projected future costs, the payments from the fund for medical provider bills and other outpatient costs continue to rise faster than the economy as a whole. It may be necessary to cut benefits, raise premiums or increase the contributions from the federal budget in order to maintain the solvency of the trust funds.
- **Future demographic and economic trends which threaten the solvency of Medicare have not been reduced.** The improvements in fund solvency outlined in this year's report are due largely to the continued strength of the U.S. economy. However, the fundamental demographic changes that are expected to cause financial problems for

- Medicare have not changed. The HI fund cost rate will continue to increase because: (a) it is expected that there will be fewer workers to support the fund through payroll taxes in the near future; (b) the increased utilization of medical services by beneficiaries because of improvements in health care and the growth in the number of beneficiaries; and (c) the continued rise of health care costs. The projected increase in utilization of medical services and the rise in medical costs may also result in rapid growth in government contributions to the SMI Trust Fund in the future.
- **The long-term financial stability of the Trust Funds should be addressed.** The HI Trust Fund is expected to remain solvent until at least 2015, which is seven years longer than projected in last year's report. However, the expenditures from the HI fund are expected to equal income into the fund as early as 2006, and costs are projected to exceed income after that point. Early action to address the financial stability of Medicare would give beneficiaries, employers and the government time to adjust to any changes. A delay may limit the options for reform and could make such changes more difficult.
- **The groundwork has been laid for possible changes to improve the financial viability of the Medicare system.** The Bipartisan Commission on the Future of Medicare undertook extensive discussions on how to deal with the financial problems facing Medicare. Although the Medicare Commission was unable to come to any final agreement on a possible solution, Congress should not let this opportunity pass without a serious discussion, this year, on how to deal with the long-range financial solvency of Medicare.

The information presented in the Trustees Report indicates that without fundamental changes, the Medicare trust funds will face increasing financial pressures over the next decade and the funds will ultimately have insufficient funds to pay benefits. Those concerns need to be addressed before the funds face an insolvency problem. The Academy is ready to provide the technical expertise of our member health actuaries in responding to any issues regarding the future of the Medicare system.

If you have any questions, please feel free to contact Tom Wilder, Director of Public Policy at the Academy.

Sincerely,

James J. Murphy, FSA, MAAA
Vice President, Health

cc: Members of Congress
Social Security and Medicare Board of Trustees