



Statement Regarding 2002 Medicare Trustees Report

April 2002

The 2002 Annual Report of the Board of Trustees of the Federal Hospital Insurance (HI) and Federal Supplementary Medical Insurance (SMI) Trust Funds was issued on March 26, 2002. Together, these programs 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 American Academy of Actuaries 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 Trustees Report indicates that without fundamental changes, Medicare will face increasing financial pressures. Ultimately, the trust funds will be insufficient to pay benefits. Failure to act now to address the financial problems of Medicare will make it harder to maintain the program's fiscal stability and necessitate more extreme financial reforms later.

The Academy makes the following comments related to the Trustees Reports:

- **Medicare still faces long-term financial problems.** Although Medicare's financial condition has improved since last year's report, the HI fund still has long-range financial problems. Under the intermediate assumptions, HI expenditures will exceed tax income to the fund in 2016. By 2030, when the HI trust fund assets are projected to be depleted, tax revenue would cover only 68 percent of program costs. The SMI trust fund is expected to remain solvent, but only because its financing is set to meet projected future costs. Since SMI costs are growing faster than HI costs, general revenues will finance increasing shares of total Medicare spending over time.
- **Medicare expenditures will continue to increase rapidly as a percentage of GDP.** Due to the rising number of beneficiaries and increases in both the use and cost of health care per beneficiary, Medicare costs will consume greater shares of total national spending. In 2001, Medicare spending amounted to 2.5 percent of GDP. By 2076, spending relative to GDP will nearly quadruple to 8.6 percent.
- **Congress is considering changes to Medicare that would increase financial pressures on the trust funds.** A number of legislative proposals have been introduced to provide prescription drug coverage for Medicare beneficiaries. These proposals to add an additional benefit will increase Medicare's cost trends and may further threaten the solvency of the trust funds.
- **Trust fund projections and their changes from year-to-year should be kept in perspective.** While the trust fund projections in the Trustees Reports are an essential tool for policy-makers and planners, it should be understood that they are informed estimates intended to provide a range of possible results.

The Academy is ready to provide the analysis and technical expertise of our member health actuaries in responding to any issues regarding the future of the Medicare system. Recent Academy issue briefs discuss *How is Medicare Financed?* and *What is the Role of the Medicare Actuary?* In addition, an Academy monograph outlines how several Medicare reform measures could address long-term financing problems. *Evaluating the Fiscal Soundness of Medicare* concludes that promising options to improve Medicare's financial condition include increased cost sharing by beneficiaries and increased use of managed care and competitive bidding; less promising options include lowering payments to providers, increasing the eligibility age for Medicare, and requiring employer plans to cover retirees. These and other Academy publications are available at www.actuary.org.

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