From: Jacobs, Chris (RPC)
Sent: Monday, May 16, 2011 7:29 AM
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Subject: News and Notes on the Medicare Trustees Report

A few more thoughts from Friday afternoon's release of the Medicare trustees report. (As an FYI, Medicare actuary Rick Foster will be presenting on the trustees report at an AEI event beginning at 9:15, which will be broadcast live on C-SPAN3.) It's worth reiterating some of the indicators of the poor state of the program's finances, and how badly the prolonged economic slowdown has affected Medicare's solvency:

- ***Medicare's cash flow deficit of more than $32 billion is the largest ever***, both in absolute dollar terms and in percentage of taxable payroll. As a reminder, the Medicare program is projected to run deficits as far as the eye can see – the only thing keeping the Part A program operating at this point are the paper IOUs in the trust fund, the redemption of which adds to the federal deficit.
- The five-year acceleration of the trust fund's insolvency date (i.e., the date on which the paper IOUs finally run out) from 2029 to 2024 is the second sharpest annual decline in Medicare's solvency.
- The Part A Trust Fund has failed even the short-term test of solvency every year since 2003 – this is the eighth straight year the Part A Trust Fund has failed the trustees' short-term test.

Keep in mind also that even this poor outlook for the Medicare program is bolstered by two key elements of the health care law. First, the productivity adjustments that the Medicare actuary and others believe cannot be sustained over long periods. The actuary has once again compiled an alternative scenario illustrating the program's financial state if those reductions cannot be sustained. (That report will be found here, although it's not expected to be posted online until the middle of the week.)

Second, Medicare's finances are also being bolstered by the extension of the health care law's "high-income" tax – which is NOT indexed for inflation – to more and more individuals over time. Last year's report found that *the "high-income" tax will affect only 3 percent of taxpayers in 2013 (when it takes effect), but a whopping 79 percent of taxpayers by 2080*. (In other words, by 2080 nearly four in five Americans will be "high-income." Such is progress…) When Democrats talk about raising taxes to reduce the deficit, keep in mind that they have already raised taxes in a way that will harm middle-class families over time – and that tax increase was used not to reduce the deficit but to pay for new and unsustainable entitlements.

On a separate note, the trustees report once again also confirmed that millions of Americans will NOT be able to keep their current coverage thanks to the health care law. The report confirmed last year's projection that enrollment in employer-sponsored retiree drug plans will drop from 6.8 million last year to a mere 800,000 by 2016 – a drop of nearly 90%. This rapid decrease in enrollment occurs thanks to provisions in the law that raise taxes on employers who continue to offer retiree drug coverage. In addition, the report confirms that millions of seniors will lose their current Medicare Advantage plans. However, thanks to the recent waiver announced by the

Administration, *enrollment in Medicare Advantage will not begin falling until 2013 – i.e., after the President has completed his re-election campaign*.

A final important point raised in the trustees report, and by the Medicare actuary: **Most seniors' Social Security COLAs in 2012 are projected to be entirely consumed by the rise in Medicare Part B premiums**. As a reminder, low inflation (coupled with a comparatively high COLA in 2009) meant that Social Security beneficiaries did not receive a COLA in 2010 or 2011. A "hold harmless" provision in law means that Medicare premiums cannot rise more than the amount of the Social Security COLA – therefore most seniors did not face an increase in Part B premiums the past two years. (New entrants to Medicare, high-income beneficiaries facing means-tested premiums, and dual eligibles whose premiums are paid by state Medicaid programs were the exceptions.) However, the effects of the "hold harmless" the past two years means that seniors whose Medicare premiums did not rise in 2010 and 2011 will face larger-than-usual increases in the Part B premium for 2012 – and that fact, coupled with a comparatively small (0.6%) projected Social Security COLA, means that about half of all Social Security beneficiaries (or about 70% of the 75% who were "held harmless" in 2010 and 2011) will not receive a net increase in Social Security benefits once their Part B premiums are deducted. (These unofficial projections may change somewhat in the next few months, but I wanted to make sure staff were aware for constituency outreach purposes.)

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