

Congressional Brief: Medicare

While Social Security received considerably more attention in recent years, Medicare is actually a much larger problem. Medicare is growing at a faster rate and has an unfunded liability six times the size of Social Security. The program is on a spending path that is impossible to sustain. It must deal not only with the demographic pressures Social Security faces, but also the soaring cost of medical care.

Key Facts about Medicare

- Medicare faces the same demographic pressures as Social Security — a growing elderly population and a shrinking birthrate — but also must contend with the soaring cost of medical care.
- By 2020 the deficits in Medicare will claim more than one in every five federal income tax dollars.
- This means that in just 12 years the federal government will have to stop doing one in every five things it does today if taxes are to remain at their current level and promises to the elderly are kept.
- By 2030, the deficits in Medicare will claim one in every three general revenue dollars; by 2050, they will claim one in every two.

Future Costs

Most discussions of the future of Medicare assume the program will somehow get off of the current path. The Social Security and Medicare Trustees, for example, assume that the rate of growth of health care spending will gradually slow to match the rate of growth of

national income over the next 75 years. They do not say how this will happen. Yet even on this much rosier path, the future still looks bleak:

- The last Trustees report estimates the 75-year unfunded liability in Medicare at \$36.3 trillion.
- Looking indefinitely into the future, the unfunded liability is \$85.9 trillion — more than five times Social Security's unfunded liability, and five-and-a-half times the size of the entire economy.

Medicare's Structure: Parts A, B and D

- Medicare Part A pays for inpatient hospital care, skilled nursing, home health and hospice care; it is funded by a 2.9 percent payroll tax on wages and taxes collected on Social Security benefits.
- Medicare Part B mainly pays physicians' fees; taxpayers fund three-fourths of the cost through general federal revenues and the remaining one-fourth is paid in premiums by retirees.
- Medicare Part D is the newly-enacted prescription drug program; general revenues (that is, taxpayers) foot the bill for 86 percent of the cost and the rest is funded by seniors' premiums.

Medicare Spending

- Medicare Part A is already paying more in benefits than it receives in payroll tax revenues: Last year it ran a cash flow deficit of about \$6 billion.
 - Technically, Medicare is drawing down past surpluses credited to a special Trust Fund. This practice will continue until the Trust Fund is exhausted by 2017, at which time the program will only be able to pay what it collects in payroll taxes.
 - These are legal and accounting issues that stem from the political desire to finance benefits over time with payroll taxes. The real pocket-book issue is: What programs and entitlement benefits will the federal government have to cut or what taxes will it have to raise in order to fund the cash flow deficits that have already emerged and will continue to grow catastrophically for as far as the eye can see?
- Spending on Medicare-covered services totals more than \$15,500 per beneficiary; however, beneficiaries pay less than one-third of the costs.
 - Medicare will pay for about 72 percent of this total (about \$11,093) though beneficiaries will cover some of this amount through Part B and D premiums.
 - Of course, beneficiaries also purchase other services not covered by Medicare such as long term care and dental services that are not included in this calculation.

NCPA Policy Recommendations

- **Reform Medicare.** Overhaul the Medicare program by combining Medicare A, B & D, as well as individually-purchased Medigap plans, into a single plan with a single premium. Seniors should be able to choose from among competing plans in the private market with different features and options, just like nonseniors do today. In addition, encourage workers to save money today to fund future elderly health care benefits.
- **Help Seniors Save.** Allow Medicare-eligible seniors to open and make deposits to Health Savings Accounts (HSAs) to cover out-of-pocket health expenses; short of that, seniors should be able to turn IRA and 401(k) funds into Roth HSAs.