



Trustees: Aging Population, Costs Worsen Medicare's Long-term Prognosis

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Trustees of the Medicare program today forecast increased financial troubles as a result of an aging population and rising health care costs, increasing the visibility of an issue that is already proving divisive in the 2012 presidential and Congressional campaigns.

"Both programs took a turn for the worse this year," trustee Charles Blahous III, a senior research fellow at George Mason University in Virginia, said of Medicare and Social Security.

Overall, the outlook for the Medicare program which covers nearly 50 million elderly and disabled people was only slightly worse than findings from last year. [Once again](#), trustees forecast that Medicare's hospital fund would begin to run out of money beginning in 2024, but many experts place little importance on the trustees' projection since the program's insolvency has been forecast from as little as two years away to as many as 28 years since 1970.

Today's report emphasized that Medicare costs in both the short term and long term would rise higher than previously reported, but that these costs would be offset by 2 percent cuts to the program agreed to in [last year's deficit reduction agreement](#), unless Congress passes an alternative cost-cutting plan.

"The reported long-term financial outlook has grown worse," said Robert Reischauer, a trustee and former Congressional Budget Office director, who recently stepped down as head of the Urban Institute.

This year, trustees said, the hospital fund will pay out \$38 billion more in benefits than it collects in taxes and premiums from seniors and the disabled.

The trustees stressed the need to look beyond the exhaustion date for Medicare to the toll health care costs are already taking. "A more immediate issue is the growing burden that the programs places on the federal budget well before exhaustion of the trust funds," the report said.

AARP Executive Vice President Nancy LeMond said the report "underscore[s] the need for an open, national conversation focused on strengthening retirement security for today's seniors and future generations."

In a politically charged campaign season, both sides attempted to use the report to their advantage.

Treasury Secretary Tim Geithner, who is the program's managing trustee, said the 2010 health care law had strengthened Medicare by beginning to rein in costs.

"One of the most important things we can do right now to preserve Medicare is to implement the Affordable Care Act fully and effectively," Geithner said. "Still, more needs to be done."

Hours before the release of the report, the Obama administration issued its own analysis, saying the health law would save over \$200 billion in Medicare spending through 2016 and that beneficiaries in the traditional, government-run program would save nearly \$60 billion through lower payments.

Those savings would come from ending extra payments to private health plans in Medicare, cracking down on fraud and "changing provider payment policies to reflect improvements in productivity," according to the report from the Centers for Medicare and Medicaid Services.

Tom Saving, professor of economics at Texas A&M University and a former trustee, and John Goodman, president of the National Center for Policy Analysis, a conservative think tank, painted a far less rosy scenario. The trustees must base their projections on current law, they said, but it is unrealistic to think that Congress will allow reductions to providers to stand in the long term, or that changes to reimbursements based on better performance and coordination of care will help much with costs.

"The financial picture will be worse than the trustees say," said Saving. The health care law reduces Medicare payments to hospitals and other medical providers. "For how many years can that happen before the pressure mounts to rescind them? These reimbursements are not sustainable, so eventually Congress will raise them," he said.

Moreover, the trustees based their findings on demonstration projects in the law, and Goodman says there is no solid evidence that they will save money. "All this about pay-for-performance and coordinated care and integrated care, none of it is working," said Goodman. "They are trying all this out, and there's no reason to believe there will be large savings here."

Medicare's Chief Actuary Richard S. Foster also said he was skeptical that some projected savings, from provider cuts to improved productivity, would materialize.

The program's two trustees who represent the public's interest urged Washington lawmakers to address Medicare's financial challenges soon to maximize options and allow ample time to phase in changes. "Earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits," said Reischauer and Blahous in a joint written statement.