

Congressional Brief: Medicare

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

Key Facts about Medicare

Medicare Spending.

For over a decade, Congress has struggled with an inadequate formula to calculate Medicare payments to physicians. The formula results in an amount too low to ensure physicians will continue to see Medicare beneficiaries. The Medicare Access and CHIP Reauthorization Act (MACRA) signed into law by President Obama April 16, 2015, is a poor doc fix for two major reasons.

- Less than four percent of its spending is offset by cuts to other government spending, resulting in an estimated \$141 billion increase in cumulative budget deficits over 10 years, and \$500 billion over 20 years.
- MACRA significantly increases federal control of the practice of medicine. Doctors will face increasing requirements to comply with federal regulation in order to get paid. These will likely include greater reliance on government-certified Electronic Health Records, which have already proven to frustrate doctors and do nothing to benefit patient care.

Congress should find offsets to pay for the \$141 billion in MACRA spending that is not funded.

Most discussions of the future of Medicare assume the program will somehow get off of the current spending path, precisely because it is impossible. 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:

- Estimates in the Trustees report put the 75-year unfunded liability in Medicare at up to \$35 trillion.
- Looking indefinitely into the future, the unfunded liability is \$43 trillion — twice the size of Social Security's unfunded liability, and nearly three 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 prescription drug program; general revenues (that is, taxpayers) foot the bill for 75 percent of the cost and the rest is funded by seniors' premiums.
- Medicare Part A is already paying more in benefits than it receives in payroll tax revenues, and it ran a cash flow deficit of about \$15 billion in 2013.
 - Technically, Medicare is drawing down past surpluses credited to a special Trust Fund, which will be exhausted by 2030, at which time the program will only be able to pay what it collects in payroll taxes.
 - There are legal and accounting issues that stem from the political desire to finance benefits over time with payroll taxes. The real pocketbook 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?

- Total spending in 2013 on Medicare-covered services totals about \$583 billion (over \$11,910 per beneficiary); however, the beneficiaries pay only about 13 percent of the costs in premiums (\$76.4 billion).
 - Medicare will pay for about 75 percent of this total, though beneficiaries will cover some of this amount through Part B and D premiums.
 - In 2013 premiums and cost sharing for Part B and Part D together accounted for one-quarter of the average Social Security benefit (premiums and cost sharing are about evenly split).

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 Parts A, B & D with the Medigap plans individuals purchase from private insurers to fill the gaps in Medicare coverage, 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.
- **Help Workers Save.** In addition, encourage workers to save money today to fund future elderly health care benefits through Health Savings Accounts (HSAs) and savings plans.
- **Help Seniors Save.** Allow Medicare-eligible seniors to open and make deposits to 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.