

*America's Health Insurance Plans *
*Memorandum *

*TO: * Member Plan Presidents and CEOs
*FROM: * Karen Ignagni
*DATE: * August 5, 2010

*RE: Medicaid FMAP / Medicare and Social Security Trustees' Reports / Editorial on MLR Requirements *

We are writing with an update on the Medicaid FMAP legislation and the 2010 annual reports of the Medicare and Social Security Board of Trustees.

*Medicaid FMAP *

By a vote of 61 to 39, the Senate today approved legislation, H.R. 1586, containing a six-month, phased-down extension of the enhanced Medicaid FMAP. This is the same bill we discussed in yesterday's update. It will increase federal matching funds for state Medicaid programs by an estimated \$16 billion. The House will return briefly from recess next Tuesday, August 10, to vote on H.R. 1586, and President Obama will sign the bill into law soon thereafter.

*Trustees' Reports *

The Medicare and Social Security Board of Trustees today issued its 2010 annual reports on the financial health of the Medicare Hospital Insurance (HI) Trust Fund, the Social Security Disability Insurance (DI) Trust Fund, and the Social Security Old-Age and Survivors Insurance (OASI) Trust Fund. The reports contain three separate sets of projections based on low-cost assumptions, intermediate assumptions, and high-cost assumptions about future economic and demographic conditions. The following projections are based on intermediate assumptions:

* _The Medicare HI Trust Fund_ is projected to exhaust its reserves in 2029 – twelve years later than the trustees projected in their 2009 annual report. While the trustees state that the financial outlook for the Medicare program is “substantially improved” by the enactment of health reform, they also emphasize that “there is a strong likelihood that certain of these changes will not be viable in the long range” and they allude to the impact of further congressional action to override scheduled reductions in physician fees.

The report includes a statement by CMS Chief Actuary Richard Foster, who states that “the financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range (as a result of the unsustainable reductions in physician payment rates) or the long range (because of the strong likelihood that the statutory reductions in price updates for most categories of Medicare provider services will not be viable).” In addition, the report notes that while the “Patient Protection and Affordable Care Act” (PPACA) has introduced Medicare program changes designed to reduce costs, increase revenues, expand benefits, and encourage

development of new systems of health care delivery, additional steps are needed to address the remaining financial challenges.

* _The Social Security DI Trust Fund_ is projected to exhaust its reserves in 2018. SSDI program expenditures began to exceed total program income (including interest) in 2009, and the program has started to draw on its reserves to pay benefits. The report states that "some action will be needed in the next few years" to maintain the solvency of the SSDI program.

* _The Social Security OASI Trust Fund_, which supports Social Security retirement benefits, is projected to generate annual surpluses through 2012 and exhaust its reserves in 2040.

* _The combined Social Security OASDI Trust Funds_ could be brought into actuarial balance over the next 75 years by immediately increasing the payroll tax by 1.84 percentage points, by immediately reducing benefits by 12 percent, or by transferring \$5.4 trillion in present value dollars from general revenues to the Trust Funds – or by adopting some combination of these approaches.

The full text of the trustees' reports can be found at the following links: Medicare report <<http://www.cms.gov/ReportsTrustFunds/downloads/tr2010.pdf>> and Social Security report <<http://www.socialsecurity.gov/OACT/TR/2010/tr10.pdf>>.

*Editorial on MLR Requirements *

We also want to share with you a link to an editorial

<http://online.wsj.com/article/SB10001424052748704026204575266472609370944.html?mod=WSJ_Opinion_LEADTop>

in today's/ Wall Street Journal/ that raises concerns about the medical loss ratio (MLR) requirements of PPACA.