

MEDICARE FACT SHEET

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Contact: CMS Office of Media Relations
(202) 690-6145

Medicare Trustees Report Shows Substantial Improvement in Financial Status as Result of Affordable Care Act

TRUST FUND SECURITY

Part A

In their annual report, the Medicare Board of Trustees today announced that the financial outlook for both the major trust funds supporting Medicare has been substantially improved as a result of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010. The Trustees report that Medicare's Hospital Insurance (HI) Trust Fund is now projected to remain solvent until 2029, 12 years longer than reported last year. In addition, the HI long-range actuarial deficit has been reduced to 0.66 percent of taxable payroll, which is one-sixth of its projected amount prior to the Affordable Care Act. Although HI costs are estimated to continue to exceed trust fund income for the next few years, as they have since 2008, the savings under the new health reform act are expected to result in fund surpluses during 2014-2022.

Part B

Projected costs for the Part B account in the Supplementary Medical Insurance (SMI) Trust Fund are also much lower as a result of the Affordable Care Act. Part B spending currently approximates 1.5 percent of Gross Domestic Product (GDP). Last year's Trustees report projected that would increase to 4.5 percent by the end of the 75 year projection period. However, now, under current law, it is projected to reach only 2.5 percent of GDP by the end of the Trustees' 75-year projection period – a substantial reduction. Part B is automatically in financial balance because beneficiary premiums and general revenue financing are reset each year to match the expected costs of the program for the following year. The Trustees state that actual Part B costs are very likely to exceed the current law projections because Congress is expected to continue to override an existing provision in the Medicare law that would require substantial reductions in Medicare payments to physicians over the next 3 years. Under the current "sustainable growth rate" (SGR) formula, physician payment rates would have to be reduced by about 23 percent on Dec. 1, 2010, a further 6.5 percent on Jan. 1, 2011, and 2.9 percent on Jan. 1, 2012.

Part D

Part D, the Medicare prescription drug program, is also in financial balance as a result of annual updating of enrollee premiums and federal payment rates. Projected costs are slightly lower overall than in last year's report, reflecting lower-than-expected costs in 2008-2009, which were partially offset by higher benefits from phasing out the coverage gap.

Sources of savings

The Trustees note that the largest amount of projected savings under the Affordable Care Act comes from lower annual increases in the prices Medicare pays for services by hospitals, skilled nursing facilities, home health agencies, and most other providers. Payment increases will be reduced by the increase in "multifactor" productivity for the economy overall, which is about 1.1 percent per year.

Other provisions in the Affordable Care Act reduce Medicare costs through lower payments to private Medicare Advantage health plans. The additional contribution of 0.9 percent of earnings above \$200,000 for single taxpayers or \$250,000 for married couples filing joint returns which directly benefits the Medicare Hospital Insurance Trust Fund also aids in improving Medicare's financial outlook. Because the earnings thresholds are not indexed, an increasing proportion of workers will be affected by the additional HI payroll tax over time.

Dedicated Revenues

As required by the 2003 Medicare Modernization Act, the Trustees compare overall projected Medicare expenditures with the program's "dedicated revenues"—principally HI payroll taxes, certain income taxes on Social Security benefits, beneficiary premiums, and special State payments to Part D. The portion of program costs financed by general revenues (rather than by "dedicated revenues") is projected to exceed 45 percent in 2010. This result leads to a determination of "excess general revenue Medicare funding" for the fifth consecutive year. Because this determination has been made in two consecutive Trustees Reports, a "Medicare funding warning" is again triggered. The funding warning indicates that the level of federal general revenues required to finance Medicare is an important concern, but it does not signify that program benefits cannot be paid.

Short and Long Term

The changes in the Affordable Care Act bring the HI trust fund much closer to financial balance in both the short range and the long range. However, additional policy initiatives are needed to ensure that the HI Trust Fund meets the Trustees' test of short-range financial adequacy or the test of long-range actuarial balance. The Trustees reported that the time gained by postponing the depletion of the HI trust fund should be used to determine effective solutions to the remaining long-range HI financial imbalance. We believe that solutions can and must be found to ensure the financial integrity of HI and to reduce the rate of growth in Medicare costs, building on the strong measures enacted as part of the Affordable Care Act.

The Medicare Trustees are Treasury Secretary and Managing Trustee Timothy F. Geithner, Health and Human Services Secretary Kathleen Sebelius, Labor Secretary Hilda L. Solis, and Social Security Commissioner Michael J. Astrue. Two other members are public representatives who are appointed by the President, subject to confirmation by the Senate. Currently, these positions are vacant, and the President's nominees await Senate confirmation hearings. CMS Administrator Donald M. Berwick, M.D., is designated as Secretary of the Board.

The report is available at: <http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2010.pdf> .