



2015 Medicare/Social Security Trustees' Report Analysis

Prepared by Senate Republican Finance Committee Staff

Today the Social Security and Medicare Trustees issued their annual reports on the financial status of the two programs. Social Security and Medicare together accounted for 42% of federal program expenditures in fiscal year 2014. The following are the major highlights from the 2015 Trustees' reports:

Social Security:

Trustees Project Trust Fund Depletions...

- The combined Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds will be exhausted in 2034.
 - Absent structural changes to the programs, Social Security beneficiaries face benefit cuts of 21% or more beginning in 2034.
- The Disability Insurance (DI) Trust Fund by itself will be exhausted in the fourth quarter of 2016.
 - Absent structural changes to the DI program, disabled American workers face benefit cuts of 19% in 2016.
 - Chairman Hatch has been working with stakeholders, Ways and Means Committee Members, and colleagues in the Senate to examine the DI program and put forward measures to: modernize the program; orient it toward making it easier for beneficiaries to return to work, for those who are able and desire to work; and, eliminating fraud and waste in the program. Unfortunately, to date, the President has not engaged.

Trillions of Unfunded Liabilities, and Growing...

- The 75-year unfunded liabilities in Social Security total \$10.7 **trillion**, \$100 billion more than reported in last year's Trustees report; unfunded liabilities over the infinite horizon

in Social Security total \$25.8 *trillion*, \$900 billion more than reported in last year's Trustees report.

- Hundreds of billions of additional unfunded liabilities, which will have to be covered by younger workers and future generations, accumulate with each additional year of inaction over structural reforms to the Social Security system.

Medicare

Hospital Insurance Trust Fund Bankrupt in 2030...

- Medicare's Hospital Insurance (HI) or "Part A" Trust Fund ran a cash flow deficit of \$8.1 billion in 2014. Expenditures from the Part A trust fund exceeded annual income every year between 2008 and 2014. The Medicare Trustees estimate that the Part A trust fund will generate surpluses between 2015 and 2023 due to recently enacted legislation and an assumed continuation of the economic recovery. Specifically, the Medicare Part A trust fund income is expected to exceed expenditures by about \$2 billion in 2015. This surplus continues for the next 8 years – through 2023. Deficits are projected to return in 2024 and will continue until the Part A trust fund is officially bankrupt in 2030, at which time the Medicare program will no longer be able to pay full benefits for seniors.

Historical Levels of Taxation...

- The Supplementary Medical Insurance (SMI) or "Part B" trust fund pays for physician care, outpatient services, and prescription drugs. According to Medicare's actuaries, SMI spending is growing at a rapid rate. The Trustees report evaluates the long term implications of escalating SMI cost growth by comparing it to total Federal income taxes (personal and corporate) during the same fiscal year. The Trustees now predict that, if future federal taxes maintain their historical average level (relative to the national economy), then SMI general revenue financing in 2089 will represent 26 percent of total Federal income taxes.

IPAB Determination Triggered in 2017...

- The health care law created a 15-member Independent Payment Advisory Board (IPAB) charged with making recommendations to cut Medicare spending if and when the program's spending exceeds specified economic growth targets. Since 2013, the CMS Chief Actuary has been required to calculate both the projected and target growth rates. If the Chief Actuary determines that the projected Medicare per capita growth rate exceeds the per capita target growth rate in a given implementation year, then the Chief Actuary must set a savings target for that year. For determination year 2013 through 2015, target growth rates have not been exceeded.

- The Trustees now predict that Medicare’s per capita growth rate will exceed the per capita target growth rate in 2017 – five years earlier than projected in last year’s report. Legislation ([S. 141](#), the “Protecting Seniors Access to Medicare Act”) has been introduced in the Senate that would repeal this unelected, unaccountable IPAB board. The House of Representatives [approved](#) a companion measure, H.R. 1190, on June 23, 2015.

Massive Unfunded Obligations...

- Medicare Part A is financed by a 2.9 percent payroll tax that is split between employers and employees. The health care law (starting in 2013) mandated an additional 0.9 percent payroll tax on wages over \$200,000 for single filers and \$250,000 for married filers. There is no upper limit on earnings subject to the tax. Income deposited into the Part A trust fund is credited using interest-bearing government securities. Expenditures for medical services and administrative costs are recorded against the fund. Securities represent obligations the government has issued to itself. The Medicare Trustees estimate the Medicare Part A total unfunded obligation over 75 years is \$3.2 trillion. Using the Centers for Medicare and Medicaid Services (CMS) Actuary’s alternative [projection](#), which looks at Medicare’s financial footing using more realistic assumptions, the Part A unfunded obligation over 75 years climbs to \$7.9 trillion.
- Unlike the Medicare Part A trust fund which has a dedicated revenue stream (the HI payroll tax), Medicare Part B and Medicare Part D (prescription drug benefit) are funded by beneficiary premiums and general revenue. As a result, the Medicare Trustees estimate that the amount of taxes collected over the next 75 years that will be spent to pay for Medicare Part B and Part D services equals \$24.8 trillion.
- Assuming current law remains unchanged, the Trustees project Medicare’s 75 year total spending in excess of dedicated revenues is \$27.9 trillion. Again, using the CMS Actuary’s more realistic alternative scenario, that figure soars to \$36.8 trillion.

Unrealistic Assumptions...

- The Trustees continue to assume that President Obama’s health care law provider productivity payment cuts will occur as planned. These assumptions defy past experience. Because Congress acted this year to permanently replace the Medicare Sustainable Growth Rate or “SGR” and had previously overridden all scheduled Medicare physician payment reductions from 2003 through 2014, it is unlikely that lawmakers would also allow the health care law’s provider productivity adjustments to stand over the long term.
- The non-partisan CMS Chief Actuary, Paul Spitalnic, used both his statement of actuarial opinion and his alternative financial projection to issue multiple warnings:

- “Although early indications from some of the [ACA] alternative payment model demonstrations have been encouraging, there is a strong possibility that certain payment changes will not be viable in the long range. Specifically, the annual price updates for most categories of non-physician health services will be adjusted downward each year by the growth in economy-wide productivity. Sustaining these price reductions will be challenging for health care providers, as the best available evidence indicates that most providers cannot improve their productivity to this degree for a prolonged period given the labor-intensive nature of these services. Absent an unprecedented change in health care delivery systems and payment mechanisms, the prices paid by Medicare for most health services will fall increasingly short of the cost of providing such services. If this issue is not addressed by subsequent legislation, it is likely that access to, and quality of, physicians’ services would deteriorate over time for beneficiaries. Overriding the price updates specified in current law, as lawmakers repeatedly did in the case of physician payment rates under the SGR formula, would lead to substantially higher costs for Medicare in the long range than those projected in this report.”
- “Simulations that take into account the lower Medicare payment rates, other payment provisions, sequestration, changes to Medicare and Medicaid disproportionate share payments, and coverage expansions collectively suggest a deterioration of facility margins for hospitals, skilled nursing facilities, and home health agencies, particularly over the long run. By 2019, the simulations suggest that up to 5 percent more hospitals would experience negative total facility margins and that approximately 15 percent more would experience negative Medicare margins. Other factors, such as efforts to improve efficiency in lower-performing hospitals, could mitigate some of the impact of the ACA payment provisions, though there is a wide range of uncertainty regarding these types of behavioral changes. By 2040, simulations suggest that approximately half of hospitals, 70 percent of skilled nursing facilities, and 90 percent of home health agencies would have negative total facility margins, raising the possibility of access and quality-of-care issues for Medicare beneficiaries. A memorandum on these provider margin simulations is available on the CMS website. Over time, unless providers could alter their use of inputs to reduce their cost per service correspondingly, Medicare’s payments for health services would fall increasingly below providers’ costs. Providers could not sustain continuing negative margins and would have to withdraw from serving Medicare beneficiaries or (if total facility margins remained positive) shift substantial portions of Medicare costs to their non-Medicare, non-Medicaid payers. Under such circumstances, lawmakers might feel substantial pressure to override the productivity adjustments, much as they did to prevent reductions in physician payment rates while the SGR was in effect.”

- “Medicare costs as a percentage of GDP would continue to increase rapidly throughout the projection period absent the full economy-wide productivity adjustments, legislated physician payment rate updates, and IPAB effects. The illustrative projection reaches 6.1 percent of GDP in 2040 and 9.1 percent in 2089 – considerably higher than the 5.6 percent of GDP in 2040 and 6.0 percent of GDP in 2089 under current law.”