Basics

Medicare was initiated in 1965 with two parts covering people age 65 and over for specified health care services. The two parts initially were Part A covering primarily hospital costs and Part B covering physician type services. Since then, Medicare has been expanded to cover disabled individuals under age 65 meeting a specific definition of disability and has been expanded to four parts: Parts A and B remain and still cover hospital and physician services although the definitions of what is coverage have generally been liberalized. Part D was added in the early 2000s to cover certain prescription drug costs. Part C was added prior to that and has since been amended on numerous occasions; it allows private insurance carriers under a special set of rules to provide coverage of A and B or A,B and D, more like that under age 65 medical coverage, for a predetermined payment by Medicare to that carrier. Additional premiums and benefits over that prescribed by Medicare may also be provided by the carrier.

Eligibility

For Medicare benefits to be available, individuals in their working years must work a specified amount of time or their spouse must be eligible.

Cost to Qualified Beneficiary

All incomes during working years are subject to a FICA tax, which has been increased at various points in time. Today it is 1.45% of income and the employer must match this amount; some additional taxes apply to those with higher incomes. This FICA tax is placed into a Medicare Trust Account and used only to pay Part A benefits. More than 99% of eligible individuals age 65 + participate in Part A. To receive Part B benefits individuals at the time of eligibility for benefits (age 65 or disabled status if earlier), a beneficiary must pay a monthly Part B premium. The standard monthly premium in 2014 was 121.80 per month, but people with higher incomes pay more. This premium is in general expected to pay only about 25% to 30% of costs. The remainder of costs are paid by general Federal revenues. Again nearly 99% of all people eligible participate in Part B. To receive Part D benefits individuals at the time of eligibility for benefits (consistent with that for Part B) must pay their premium for other coverage plus a monthly Part D premium that varies with income level. For those earning less than $85,000 in 2014, this premium is zero. For those individuals earning more than $214,000 annually, the monthly premium is $72.90. Intermediate amounts apply for incomes between these extremes; income ranges for couples are higher. Participation in Part D is much less than other parts of Medicare, as private individual supplemental policies, continuation of employer coverage at and after age 65, and Part C coverage often picks up prescription drug coverage to some degree.

Sustainability

Total expenditures under Medicare have increased dramatically over time and faster than revenues provided by taxes and premiums. A summary for selected years is shown below (National Health Expenditures by Source of Funds). Where expenditures have exceeded revenues, (always true on Parts B and D where applicable) general Federal revenues are used to cover these deficiencies. The annual gap in revenues and expenditures on Medicare today is close to $300 billion per year. The average annual increase in expenditures from 1970 to 2014 has been 10.5% per year while and the average increase in revenues has been 9.5% per year or only one point less, but that one per cent difference compounded off of a revenue
Sustainability (continued)

number starting at about 80% of expenditure has now produced a revenue value only slightly above 50% of expenditure. As a result, the level of the Medicare A Trust Fund (currently around $200 billion), including Medicare FICA taxes as revenue, expenditures under Part A including administrative costs, and interest income on the balance in the fund, has been declining somewhat in recent years. Each year the Medicare Trustees as appointed by Federal officials estimate the future ratio of revenues to expenditures under Part A in the next 10 years; in the prior year report through 2014 this ratio was estimated at 86%. The Trustees under best estimate projections in the most recently issued report through December 2015 show an insolvency date of 2028 for the Part A Trust Fund or only slightly more than this ten year window, and now simply state that revenues will not be adequate to cover costs.

Solvency and Debt

Various parties have estimated the unfunded liabilities under Part A and most estimates put the number in the vicinity of $10 trillion, but such a value can vary widely depending on assumptions made. The excess of future liabilities over future revenues (excluding general revenues) on Part B is much greater than for Part A as the Part B premiums are only intended to fund a portion of actual costs as noted above. But since general revenue makes up any shortfall in revenue, the Trust Fund for Part B in theory (around $70 billion) cannot go insolvent. The unfunded liability for Part B varies widely based on numerous assumptions. For Part D, most of the cost is again covered by general revenue, although the costs are much lower than for Part B. The Medicare Trustee Reports estimate unfunded liabilities using the general revenue for Parts B and D. In the 2015 report recently released, they show about $273 billion coming from general revenues with total expenditures at around $648 billion and total income a few billion less. The revenue also includes roughly 10 billion of interest on the Trust Funds.