Concerned Actuaries

"Everyone is entitled to his own opinion, but not his own facts."
Daniel Patrick Moynihan, U.S. Senator, NY, 1977-2001

FACTS THE PUBLIC SHOULD KNOW ABOUT MEDICARE

Basics

Medicare was initiated in 1965 to cover specified health care services for people age 65 and older. The program initially included Part A intended to cover primarily hospital costs and Part B dedicated to covering physician type services. In the decades since 1965 Congress has made significant changes to Medicare, including: 1) expanding Medicare to cover disabled individuals under age 65 meeting a specific definition of disability; 2) enhancing the available benefits available under Part A and Part B by expanding the definitions of what is covered; 3) adding a Part C allowing private insurance carriers operating under a special set of rules to provide coverage of A and B or A,B and D, more like under age 65 medical coverage for a predetermined payment by Medicare to that carrier; and 4) adding a Part D to cover certain prescription drug costs.

Eligibility

Medicare Part A benefits are available to individuals who in their working years worked a specified amount of time or whose spouses are eligible. *More than 99% of individuals age 65+ are eligible to participate in Part A.*

Medicare Part B and Part D benefits become available to individuals at age 65 (or earlier with disabled status). *Nearly 99% of all people eligible participate in Part B. 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.*

Cost to Qualified Beneficiary

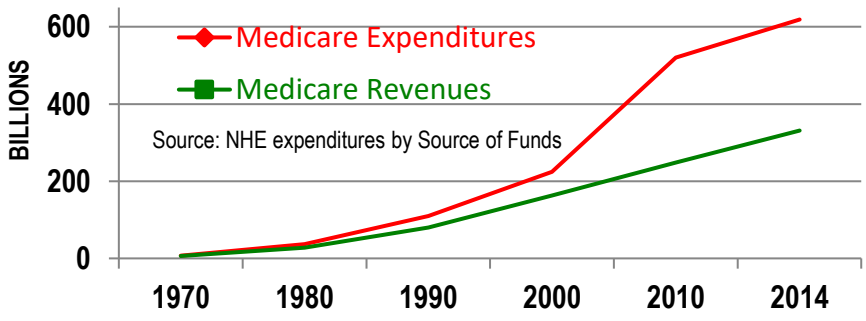
PART A — **All incomes during the beneficiary's working years are subject to a FICA tax, which has been increased at various points in time. Today it is 1.45% of income and the employer must match this amount; some additional taxes apply to those with higher incomes. This FICA tax is placed into a Medicare Trust Account and used only to pay Part A benefits.**

PART B — **Beneficiaries 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.**

PART D — **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.**

Sustainability

Expenditures and Revenues



Total Expenditures under Medicare have increased dramatically over time and faster than revenues provided by taxes and premiums. 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 number starting at about 80% of expenditure has now produced a revenue value only slightly above 50% of expenditure.

FACTS THE PUBLIC SHOULD KNOW ABOUT MEDICARE

Sustainability (continued)

Solvency and Debt

The level of the Medicare A Trust Fund (currently around $200 billion), reflect 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; currently this ratio is estimated at 86%. The Trustees under best estimate projections show an insolvency date of 2030 for the Part A Trust Fund. 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.

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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, but most estimates show at least $30 trillion shortfall if not much more.

For Part D, the excess of future liabilities over future revenue is much lower, but in most cases is still trillions of dollars.

In summary then, the excess of estimated liabilities over available revenues is currently estimated to be at least $40 trillion by most everyone if not much more.

MEDICARE CHALLENGES ON THE HORIZON

Payers to Beneficiaries Ratios

The excess of estimated liabilities over available revenues has been growing almost every year. One reason is that the ratio of the number of people working to those age 65 + or disabled has been decreasing; this number was above 4 to 1 in 1970 but today it is less than 3 to 1 and continuing to decline. In addition, the Medicare program has never increased the average age of eligibility for aged benefits beyond age 65, despite the fact that average life expectancy has increased by more than 8 years since the advent of Medicare. And this Increase in life expectancy has been higher percentage wise (roughly 5 years) for people age 65 plus.

Benefits Promised

Other factors have contributed to the escalating problems found under Medicare, including expanding eligibility, the form of coverage provided, rules relating to providers, etc.. While taxes and additional revenues have increased over time, most recently as part of ACA with higher taxes and premiums for those with higher incomes, these increases have not been able to keep pace with expenditure growth and promises of future benefits in general. These factors and related issues are not addressed here.

Impact on Health Care System

Medicare has also had a profound impact on the health care system. Some of these influences can be argued to be a positive, such as providing money for treatment and discovery of remedies for illness that might otherwise not be available. Others can be argued to be a negative, such as the low reimbursement rates paid to providers under Medicare as compared to private markets (at or below 70% today) which have allegedly resulted in cost shifting to private markets and issues with affordability. Likewise, these issues are not addressed here.

Relationship to the Economy and National Debt

A final consideration in the analysis of Medicare is its overall relationship to the economy and overall debt of the United States. Currently, the overall Federal debt is more than 18 trillion while the aggregation of Medicare and other trust funds is around 5 trillion, resulting in a net deficit in excess of 13 trillion. So while the Medicare and other Trust Funds take credit for interest on their balances, arguably they could be charged interest for a prorated portion of the 13 plus trillion deficit they have in part created instead of receiving interest on their balances. Such issues make an overall fair evaluation of Medicare still more difficult, but again such issues are not addressed here.