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Medicare: History of Part A Trust Fund Insolvency Projections

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Summary

Medicare is the nation's health insurance program for persons age 65 and older and certain disabled persons. Medicare consists of four distinct parts: Part A (Hospital Insurance [HI]); Part B (Supplementary Medical Insurance [SMI]); Part C (Medicare Advantage [MA]); and Part D (the new prescription drug benefit added by the Medicare, Prescription Drug, and Modernization Act of 2003 [MMA]). The Part A program is financed primarily through payroll taxes levied on current workers and their employers; these are credited to the HI trust fund. The Part B program is financed through a combination of monthly premiums paid by current enrollees and general revenues. Income from these sources is credited to the SMI trust fund. Beneficiaries can choose to receive all their Medicare services through managed care plans under the MA program; payment is made on their behalf in appropriate parts from the HI and SMI trust funds. A separate account in the SMI trust fund accounts for the new Part D drug benefit; Part D is financed through general revenues and beneficiary premiums. The HI and SMI trust funds are overseen by a board of trustees that makes an annual report to Congress concerning their financial status.

Almost from its inception, the HI trust fund has faced a projected shortfall. The insolvency date has been postponed a number of times, primarily due to legislative changes which had the effect of restraining growth in program spending. The 2006 report projects that, under intermediate assumptions, the HI trust fund will become insolvent in 2018, two years earlier than projected in 2005. The revision reflects slightly higher costs and an upward revision in short-range assumptions about utilization of HI services. The 2006 projection is eight years earlier than that projected in 2003, prior to the enactment of MMA. That law added to HI costs, primarily through higher payments to rural hospitals and to private plans under the MA program. This report is a supplement to CRS Report RS20173, *Medicare: Financing the Part A Hospital Insurance Program*, by Jennifer O'Sullivan. That report discusses the findings from the 2006 trustees' report. Both reports will be updated upon receipt of the trustees' 2007 report.

Health Insurance (Part A) Trust Fund

Medicare consists of four distinct parts: Part A (Hospital Insurance [HI]); Part B (Supplementary Medical Insurance [SMI]); Part C (Medicare Advantage [MA]); and Part D (the new prescription drug benefit added by the Medicare, Prescription Drug, and Modernization Act of 2003 [MMA, P.L. 108-173]). The Part A program is financed primarily through payroll taxes levied on current workers and their employers; these are credited to the HI trust fund. The Part B program is financed through a combination of monthly premiums paid by current enrollees and general revenues. Financial operations for Part A are accounted for through the HI trust fund while those for Part B (and the new Part D) are accounted for through the SMI trust fund. Both funds are maintained by the Department of the Treasury.[1] Each fund is overseen by a board of trustees that reports annually to Congress concerning the funds' financial status.

Almost from its inception, the HI trust fund has faced a projected shortfall. When observers refer to the impending insolvency of Medicare they are actually referring to the pending insolvency of the HI trust fund. The SMI trust fund does not face exhaustion because of the way it is financed. However, the SMI trustees continue to voice concern about the rapid growth in program costs.

Part A Projections

The board of trustees projected insolvency for the HI fund beginning with the 1970 report (which was less than four years after the program went into effect). The insolvency date was postponed a number of times, primarily due to legislative changes which had the effect of restraining the growth in program spending. **(See Table 1)** The lower growth rates were achieved largely through reductions in payments to providers, primarily hospitals and physicians. Generally, these measures were part of larger budget reconciliation laws which attempted to restrain overall federal spending.

Efforts to curtail program spending intensified as Congress considered legislation to bring the entire federal budget into balance and culminated in the passage of the Balanced Budget Act of 1997 (BBA 97, P.L. 105-33). This legislation achieved significant savings in Medicare and extended the solvency of the Part A trust fund. A number of observers contended that the savings achieved through the enactment of BBA 97 were greater than intended at the time of enactment and had unintended consequences for health care providers. As a result of these concerns, Congress subsequently enacted two measures (the Balanced Budget Refinement Act of 1999 [BBRA 99, P.L. 106-113] and the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 [BIPA 2000, P.L. 106-554]). These measures were designed to restore some of the BBA 97 spending reductions.

In early 1997, the trustees had projected that the Part A fund would become insolvent in 2001. Following enactment of BBA 97, significant improvements were recorded in the short-term projections. The new projections reflected a number of factors including BBA 97 and strong economic growth which generated more revenues to the trust fund from

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[1] The trust funds are an accounting mechanism; there is no actual transfer of money into and out of the fund.

payroll taxes. Despite enactment of both BBRA 99 and BIPA 2000, which increased program spending, the 2001 and 2002 trustees' reports continued to delay the projected insolvency date. However, the 2003 report shifted direction again. Its projected insolvency date was 2026, four years earlier than the 2030 date projected in the 2002 report. The revision was due to lower than expected HI-taxable payroll and higher than expected hospital expenditures.

The 2004 report projected that, under intermediate assumptions, the HI trust fund would become insolvent in 2019, seven years earlier than projected in 2003. The revision of the projected insolvency date was due to a number of factors including slow wage growth (on which payroll taxes are based) and faster growth in inpatient hospital benefits. The enactment of MMA added significantly to HI costs, primarily through higher payments to rural hospitals and to private plans under the MA program.

The 2005 report projected that, under intermediate assumptions, the HI trust fund would become insolvent in 2020, one year later than projected in 2004. The revision reflected slightly higher income and slightly lower costs in 2004 than previously estimated.

2006 Projections

The 2006 report moves the insolvency date forward. Under the trustees' intermediate assumptions, the HI trust fund will become insolvent in 2018, two years earlier than projected in 2005. The revision reflects slightly higher costs and an upward revision in short-range assumptions about utilization of HI services. The 2006 projection is eight years earlier than that projected in 2003, prior to the enactment of MMA.

Table 1. Year in Which the Hospital Insurance Trust Fund Was Projected to Become Insolvent in Past Trustees' Reports

Year of trustees' report	Year of insolvency	Year of trustees' report	Year of insolvency	Year of trustees' report	Year of insolvency
1970	1972	**1983**	1990	**1995**	2002
1971	1973	**1984**	1991	**1996**	2001
1972	1976	**1985**	1998	**1997**	2001
1973	none indicated	**1986**	1996	**1998**	2008
1974	none indicated	**1986** amended	1998	**1999**	2015
1975	late 1990s	**1987**	2002	**2000**	2025
1976	early 1990s	**1988**	2005	**2001**	2029
1977	late 1980s	**1989**	— [a]	**2002**	2030
1978	1990	**1990**	2003	**2003**	2026
1979	1992	**1991**	2005	**2004**	2019
1980	1994	**1992**	2002	**2005**	2020
1981	1991	**1993**	1999	**2006**	2018
1982	1987	**1994**	2001		

Source: Intermediate projections of various HI trustees' reports, 1970-2003.

a. Contained no long-range projections.

What Would Happen If the Fund Became Insolvent?

Payments cannot be made from the HI fund unless there are sufficient monies credited to it. Neither the Social Security trust fund nor the Medicare trust fund has ever run out of money and there are no provisions in the Social Security Act governing what would happen in such an event. There is no authority in law for a general revenue funding of the shortfall. Of course, the fund would continue to have payroll taxes credited to it though these would be insufficient to pay all the pending claims.

Long-Range Financing Issues

The projected insolvency date is only one measure of the financial soundness of the Part A program. The 2006 trustees' report states that the fund fails to meet both the short and long-range tests for financial adequacy. For a further discussion of this issue, see CRS Report RS20173, *Medicare: Financing the Part A Hospital Insurance Program.* crsphpgw