The Medicare Trust Fund – Impact of Avoiding Insolvency

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HEALTHCARE REGULATORY ROUND-UP

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Background: Medicare Financing

Health Care Expenditures

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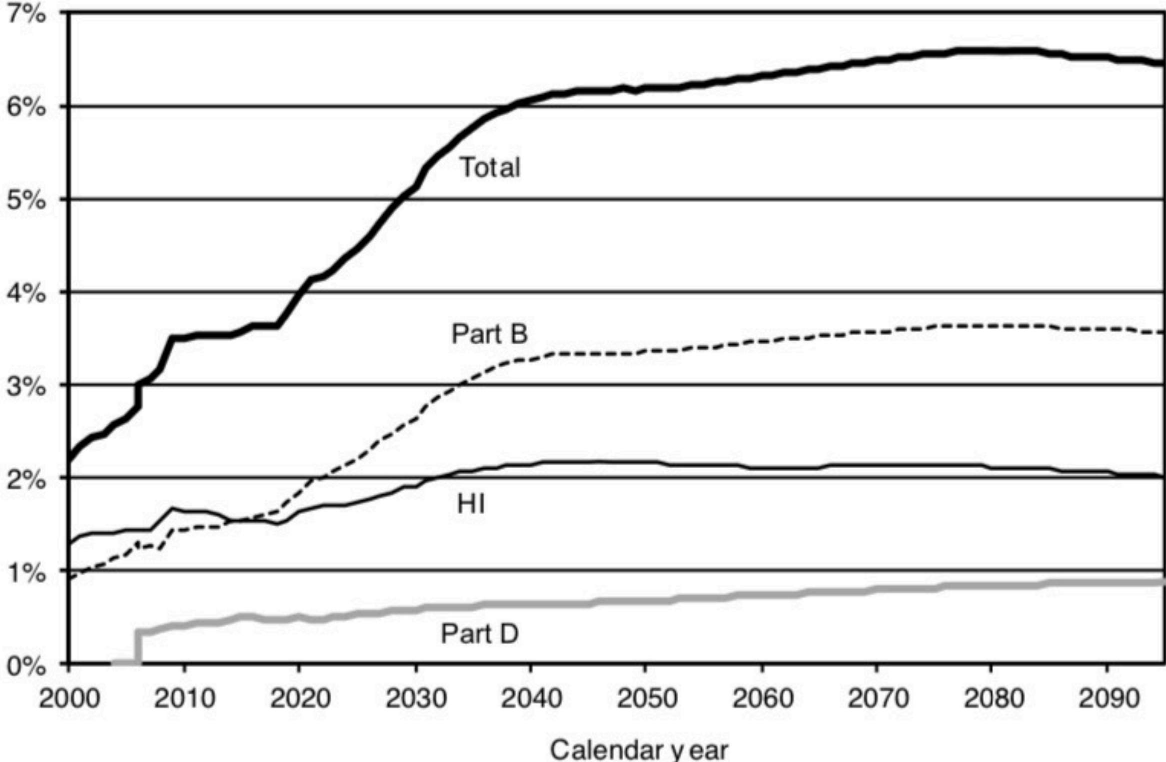
- National health expenditures
  - $3.8 trillion in 2019
    - $11,582 per person
  - Growing at average annual rate of 4.6 percent
  - 17.7 percent in 2019 of the Gross Domestic Product (GDP)
  - Projected to grow 19.7 percent by 2028

IMPACT OF COVID-19

- ***Source: CMS NHE Fact Sheet, 2019***

Spending as Percent of GDP

Figure II.D1.—Medicare Expenditures as a Percentage of the Gross Domestic Product



Note: Percentages are affected by economic cycles.

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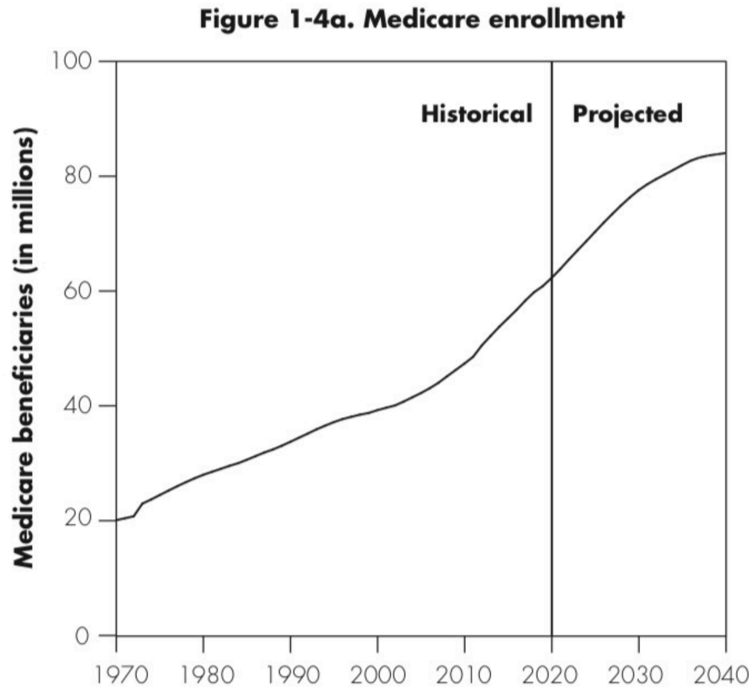
How Is Medicare Financed?

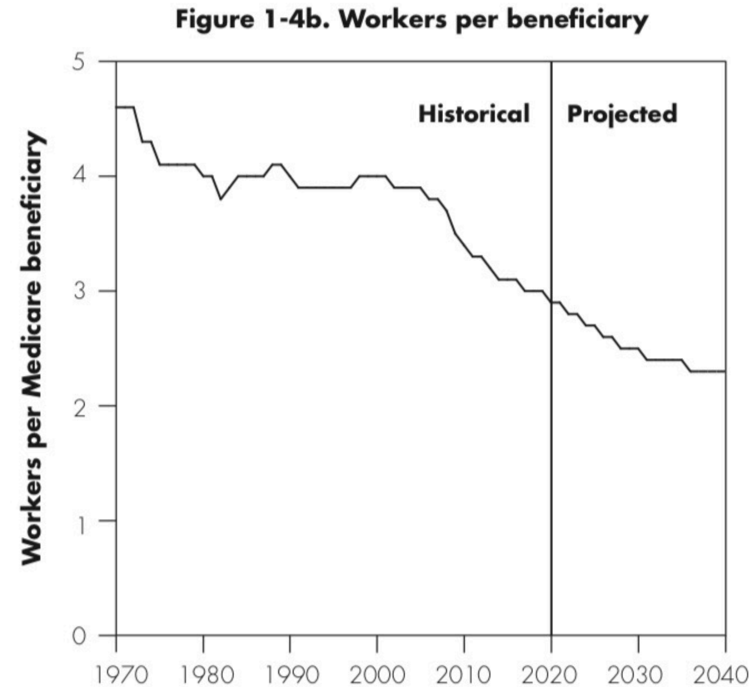
- Part A: Hospital Insurance
  - 1.45% payroll tax on both employer and employee
- Part B: Supplemental Medical Insurance
  - Beneficiary premium
    - Required to cover 25% of total Part B spending
    - Increased beginning in 2007 for higher income levels
  - General revenues
- Part C: Medicare Advantage
  - Not separately financed
- Part D: Prescription Drug Benefit
  - Beneficiary premium
  - General revenues

Workers per Beneficiary

FIGURE 1–4

Medicare enrollment is rising while number of workers per beneficiary is declining





Note: "Beneficiaries" referenced in these graphs are beneficiaries enrolled in Medicare Part A (including beneficiaries in Medicare Advantage). Part A is financed by Medicare's Hospital Insurance Trust Fund. The potential effects of the coronavirus pandemic are not included in these projections.

Impacts on Spending

- Increased number of beneficiaries
  - Averages over 2% per year
- Growth in volume and intensity of services
  - Averages 2.6% per year

Spending Varies with Age

FIGURE 1–5

Spending per elderly beneficiary varied by age, 2017

Ages 65 to 74 — $9,314

Ages 75 to 84 — $13,194

Ages 85 or older — $15,959

0 5,000 10,000 15,000 20,000

Spending per elderly beneficiary

Note: Includes beneficiaries in traditional Medicare and Medicare Advantage dwelling in the community and in institutions. Spending per beneficiary for non-elderly enrollees (who are eligible for Medicare due to end-stage renal disease or disability) was $15,879 (not shown above).

Spending Projections

FIGURE 1–2

Medicare Trustees and CBO project Medicare spending to nearly double over the next decade

Dollars (in billions): 0, 200, 400, 600, 800, 1000, 1200, 1400, 1600, 1800

Historical | Projected

Trustees
CBO

2005, 2010, 2015, 2020, 2025

Fiscal year

Note: CBO (Congressional Budget Office). Figure shows spending per fiscal year (as opposed to calendar year). The potential effects of the coronavirus pandemic are not reflected in these projections. At the time these projections were developed, a statutorily required sequestration was scheduled to increase in size in 2029 (growing from the current 2 percent reduction to benefit payments to a 4 percent reduction for the period from April 1, 2029, through September 30,

Forecast: The Supplemental Medical Insurance Trust Fund (Part B)

SMI Solvency Projections 2021

- Adequately financed over the next decade and beyond
  - Premiums paid by enrollees plus government funding
  - Reset annually
    - Does not require Congressional approval
- Part B costs have averaged annual growth rate of 8.5 percent over the last five years
  - Compared to GDP growth of 2.8 percent
  - Growth expected to average 7.2 percent over next five years (GDP = 5.3 percent)
- Higher spending results in increased general revenue funding and higher beneficiary premiums

Part B Premium to Expense

Figure III.C2.—Premium Income as a Percentage of Part B Expenditures

60%
50%
40%
30%
20%
10%
0%

Historical
Estimated

1970 1980 1990 2000 2010 2020 2030

Calendar y ear

Proposals Impacting Providers

Outpatient site neutral

- Non-grandfathered off-campus
- On campus clinics

340B drug program

- Modify payment rate
- User fee
- Revise distribution methodology

Reduce bad debt reimbursement from 65% to 25%

Reduce payment to critical access hospitals

- From 101% of cost to 100% of cost

Forecast: The Hospital Insurance Trust Fund (Part A)

Current Status

Assets in the Medicare Hospital Insurance Trust Fund are Gradually Being Depleted

	Beginning of year HI trust fund asset balance	HI spending	HI revenues	End of year HI trust fund asset balance
2019	$200	$328	$323	$195
2020	$195	$351	$342	$185
2021	$185	$372	$356	$170
2022	$170	$396	$373	$146
2023	$146	$422	$390	$114
2024	$114	$449	$408	$73
2025	$73	$477	$427	$23
2026	$23	$506	$451	−$31

NOTE: HI is Hospital Insurance. Amounts in billions.
SOURCE: KFF analysis of data from the 2020 Annual Report of the Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Trust Funds, April 2020.

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Insolvency: The Past & the Future

Year	Value
1990	13
1991	14
1992	10
1993	6
1994	7
1995	7
1996	5
1997	4
1998	10
1999	16
2000	25
2001	28
2002	28
2003	23
2004	15
2005	15
2006	12
2007	12
2008	11
2009	8
2010	19
2011	13
2012	12
2013	13
2014	16
2015	15
2016	12
2017	12
2018	8
2019	7
2020	6
2021	5

2021 Trustee's Report

The projected trust fund depletion date is 2026, the same as estimated in last year's report. HI income is projected to be lower than last year's estimates due to lower payroll taxes. HI expenditures are projected to be lower than last year's estimates because of lower projected provider payment updates and certain methodological improvements…

Insolvency

PYA

- Solvent today due to surpluses from prior years
  - Already spending more than collected
- Projection (2021) to maintain solvency for another 25 years –
  - Increase payroll tax from 2.9% to 3.7%
  - Decrease Part A spending by $70 billion (18%)

Insolvency: Past Responses

BBA

ACA

Year	Value
1990	13
1991	14
1992	10
1993	6
1994	7
1995	7
1996	5
1997	4
1998	10
1999	16
2000	25
2001	28
2002	28
2003	23
2004	15
2005	15
2006	12
2007	12
2008	11
2009	8
2010	19
2011	13
2012	12
2013	13
2014	16
2015	15
2016	12
2017	12
2018	8
2019	7
2020	6
2021	5

Proposals Impacting Providers

Medical Education

- Move GME and IME to national pool

Remove Disproportionate Share from IPPS

- Index to inflation

Reduce Bad Debt Reimbursement from 65% to 25%

Post-Acute Care

- Reduce payments for post-acute care services
- Unified post-acute care payment system
- Shifting more payment for home health from Part A to Part B

Critical Access Hospitals

- Eliminate program
- Reduce payment from 101% of cost to 100% of cost
- Reduce swing bed program reimbursement

Eliminate Sole Community Hospital Program

Medicare Advantage

- MedPAC: impact of MA plans on federal spending
  - Part of 2021-2022 workplan
  - Issue of plan profits
  - Need to revise MA payment methodology
    - Recent OIG report on suspicious payments to MA plans

Impact of Medicare Advantage

Cumulative growth since 2014 (in percent)

30
25
20
15
10
5
0

Private insurance, in network, excluding prescription drugs
FFS Medicare, excluding prescription drugs

24%
10%

2014 2015 2016 2017 2018

Note: FFS (fee-for-service). The figure shows cumulative growth since 2014. It reflects payments to providers from health insurers and patients (i.e., cost sharing) but not payments from other sources (e.g., worker's compensation or auto insurance). Spending on retail prescription drugs is not available for the privately insured, so it is excluded from both lines in this graph. Spending on out-of-network services for the privately insured is not available for that group and thus is not included in this graph. The figure reflects spending for individuals with full-year insurance coverage (including individuals with $0 of health care spending). "Private insurance" reflects spending for individuals ages 18 to 64 in fully insured and self-insured plans (i.e., employer self-funded plans) contributed by national and regional plans and third-party administrators nationwide; it includes claims from individual and group plans as well as marketplace plans and Medicare Advantage plans for non-elderly disabled individuals.

What's Going On in Washington?

- Passage of Bipartisan Infrastructure Bill (no significant healthcare provisions)
- Government shutdown on December 3 following expiration of September 30 continuing resolution
- Debt ceiling expected to be reached in early December
- Statutory PAYGO
  - 2021 scorecard still includes American Rescue Plan (not exempted from PAYGO)
  - Impact estimated at 4% across-the-board reduction for non-exempted mandatory spending programs (in addition to resumption of Budget Control Act's 2% reduction on 1/1/22)

Build Back Better

PYA

- $1.75 trillion social spending reconciliation framework
  - 4-year enhanced ACA Marketplace cost-sharing reduction for low-income individuals who do not qualify for government sponsored insurance (non-expansion states)
  - 3-year $10 billion health insurance affordability fund for states to lower patients' out-of-pocket costs or to establish a state reinsurance program
  - $7 billion to support core public health infrastructure activities; $1 billion for health center capital grants
  - Medicaid investments in Home and Community-Based Services
  - Medicare Part B coverage for hearing aids
  - Exclude from the residency slot cap any residents who participated in Rural and Underserved Pathway to Practice Training Programs

Healthcare Regulatory Round-up

PYA

- **Thursday, November 18 (11 am EST)**
  - Top 10 Highlights of the 2022 Medicare Physician Fee Schedule Final Rule
- **Wednesday, December 8 (11 am EST)**
  - Top 10 Highlights of the 2022 OPPS and ASC Payment Final Rule

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