# 2012 Medicare Trustees Report Key Findings

Today, the Medicare Trustees, which include five Obama Administration officials, issued a "**Medicare funding warning**" stating that the Medicare Hospital Insurance (HI) trust fund is expected to go bankrupt by 2024, the same year that was predicted in last year's Trustees report, meaning Congress has one less year to act before the HI trust fund goes bankrupt. The Trustees also highlighted a "**need for additional steps to address Medicare's remaining financial challenges**" saying such "**reforms should occur in the near future"** and **"Congress and the executive branch must work closely together with a sense of urgency"** to address the bankruptcy of the Medicare HI trust fund and unsustainable Medicare spending generally. Additional key findings include:

**<u>Medicare has significant financial problems</u>**

- The Trustees state that the HI trust fund "is not adequately financed over the next 10 years" as its "expenditures have exceeded income" since 2008. Simply stated, the trust fund continues to spend more on health care than it's collecting through the Medicare payroll tax. As a result, "$27.7 billion in trust fund assets were redeemed to cover the shortfall" last year.

- The HI trust fund has not met the Trustees test of short-range financial adequacy since 2003. In order to address the HI trust fund's long-range financial imbalance, Congress would have to immediately increase the Medicare payroll tax by 47 percent or cut benefits by 26 percent, or a combination of the two. This tax increase climbs to 84 percent and the cuts climb to 39 percent under the more likely spending scenario described by the Trustees.

- Medicare's unfunded liabilities total $27.1 trillion under the current law baseline, a number that is significantly understated given that it assumes Congress allows cuts to physician payment rates and unsustainable cuts prescribed by the Democrats' health care law to take effect.

- If Congress does what the Trustees expect and reverses cuts called for by the Democrats' health care law and prevents cuts to Medicare physician payment rates, Medicare spending would grow from 3.7 percent of Gross Domestic Product (GDP) in 2011 to roughly 10.4% of GDP in 2086. The Trustees state, "Growth of this magnitude, if realized, would substantially increase the strain on the nation's workers, the economy, Medicare beneficiaries, and the federal budget."

- For the seventh consecutive report, the Medicare Trustees issued a "Medicare funding warning" because taxpayer-financing of Medicare is becoming "excessive."

**<u>Medicare's solvency is actually worse than Trustees projections would lead one to believe</u>**

- In his Statement of Actuarial Opinion within the Trustees Report, the Chief Medicare Actuary states that the Medicare program is far worse off financially than the Trustee Report would indicate, stating that "the financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations."

- For the third year in a row, Obama Administration officials and other Medicare Trustees admit that the "long-term viability" of policies contained in the Democrats' health care overhaul are "debatable."

- The Medicare Trustees caution the cuts in the Democrats' health care law may not be sustainable and could jeopardize beneficiary access to care. The Trustees predict that "After 25, 50, and 75 years, for example, the prices paid to HI providers under current law would be 24 percent, 42 percent, and 56 percent lower than under the prior law." As a result, "lawmakers would probably override" these cuts.

**<u>Seniors' access to care threatened because of Democrats' health care overhaul</u>**

- The Chief Medicare Actuary, in his analysis at the end of the Trustees Report, predict cuts to hospitals, skilled nursing facilities, home health agencies, hospice, ambulatory surgical centers, diagnostic laboratories, and others resulting from the Democrats health care law would leave Medicare reimbursement rates "considerably below" current Medicaid reimbursement levels "which have already led to access problems for Medicaid enrollees." As a result, he predicts "Congress would have to intervene to prevent the withdrawal of providers from the Medicare market and the **severe problems with beneficiary access to care** that would result."

- In fact, the Trustees state that under the Democrats' health care law, "Medicare 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 increase what they charge those with private health insurance for their services.

    - It is important to note that the Medicare Trustees are currently comprised of five Obama Administration officials, including Secretary of Health and Human Services Kathleen Sebelius and Centers for Medicare and Medicaid Services Acting Administrator, Marilyn Tavenner. This is the third year in a row Obama Administration officials have gone on the record predicting seniors could have difficulty accessing care as a result of the Democrats' health law.

**Millions of seniors to lose their Medicare health plan**

- As a result of the cuts in the Democrats' health care law, enrollment in Medicare Advantage health plans will be significantly lower than would otherwise be the case. The Trustees confirm that 4.5 million fewer seniors will enroll in Medicare Advantage because of cuts in the Democrats' health care overhaul law.

- The report confirms that there will be substantial and marked decline in employer-sponsored retiree drug coverage. In 2010, 19 percent of seniors participating in Part D did so through a retiree plan that received a federal subsidy that was also tax deductible. The Democrats' health care overhaul law eliminates the deduction, and as a result the Trustees find participation will "decline quickly" with only 2 percent of Part D enrollees still receiving coverage through the program by 2016.

    - This means that the Medicare Trustees expect 1.7 million seniors to lose their current retiree prescription drug coverage this year alone, and a total of 5.9 million seniors to lose their retiree prescription drug coverage by 2016. An additional 1.7 million seniors who would have otherwise have received an offer of retiree prescription drug coverage in the future will not have this option leaving a total of 7.6 million seniors will no longer have access to retiree drug coverage by 2016 as a result of the Democrats' health care overhaul law.

- The Trustees continue to report that Part D costs are over 40 percent less than expected because actual spending on drugs has decreased, plans obtaining better rebates than expected from drug manufacturers (e.g. competition is working), and a greater utilization of generic drugs.