Key Findings of 2016 Medicare Trustees Report

The annual Medicare Trustees report primarily examines two components of the Medicare program. First, the report examines the Hospital Insurance (HI) Trust Fund, otherwise known as Medicare Part A, which helps pay for hospital, home health following hospital stays, skilled nursing facility, and hospice care for the aged and disabled. Second, the report examines the Supplementary Medical Insurance (SMI) Trust Fund, which consists of Medicare Part B and Part D.

Here are some key quotes and findings from the Trustees' 2016 report issued on June 22, 2016.

HI Trust Fund Could Be Insolvent In Just 6 Years

- "There is substantial uncertainty in the economic, demographic, and health care projection factors for HI trust fund expenditures and revenues. Accordingly, the date of HI trust fund depletion could differ substantially in either direction from the 2028 intermediate estimate. Under the low-cost assumptions, trust fund assets would increase throughout the entire projection period. **Under the high-cost assumptions, however, asset depletion would occur in 2022**."

HI Trust Fund "Is Not Adequately Financed" And Insolvency is Approaching Sooner

- "The estimated depletion date for the HI trust fund is 2028, 2 years earlier than in last year's report. As in past years, the Trustees have determined that **the fund is not adequately financed over the next 10 years**. HI tax income and expenditures are projected to be lower than last year's estimates, mostly due to lower CPI assumptions. The impact on expenditures is mitigated by lower productivity increases."

HI Trust Fund Fails Financial Adequacy and Actuarial Balance Tests

- "The Trustees project that HI tax income and other dedicated revenues will fall short of HI expenditures in most future years. **The HI trust fund does not meet either the Trustees' test of short-range financial adequacy or their test of long-range close actuarial balance**."

As "Medicare Still Faces a Substantial Financial Shortfall," Trustees Call for Legislation "Sooner Rather Than Later" to Protect "Beneficiaries, Providers, and Taxpayers"

- "Notwithstanding recent favorable developments, current-law projections indicate that **Medicare still faces a substantial financial shortfall that will need to be addressed with further legislation**. Such legislation should be enacted sooner rather than later to minimize the impact on beneficiaries, providers, and taxpayers."

Congress and Administration Should Work Together "With Sense of Urgency" to Save Medicare

- "The Trustees recommend that **Congress and the executive branch work closely together with a sense of urgency to address the depletion of the HI trust fund** and the projected growth in HI (Part A) and SMI (Parts B and D) expenditures."

Spending for Physician Services and Drug Coverage Will Grow Much Faster Than the Economy for the Near Term

- "Under current law, the Trustees project an average annual Part B growth rate of 6.9 percent over the next 5 years; for Part D, the estimated average annual increase in expenditures for these 5 years is 10.6 percent. The projected average annual rate of growth for the U.S. economy is 5.0 percent during this period, significantly slower than for Part B and Part D."

Obamacare Made More Than 160 Changes to the Medicare Program

- "The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, introduced large policy changes and additional projection uncertainty. This legislation, referred to collectively as the Affordable Care Act or **ACA, contains roughly 165 provisions affecting the Medicare program** by reducing costs, increasing revenues, improving benefits, combating fraud and abuse, and initiating a major program of research and development to identify alternative provider payment mechanisms, health care delivery systems, and other changes intended to improve the quality of health care and reduce costs."

If Health Sector Does Not Innovate and Improve, Obamacare's Cuts Would Reduce "Availability and Quality" of Care for Seniors

- "The Board assumes that the various cost-reduction measures—the most important of which are the reductions in the annual payment rate updates for most categories of Medicare providers by the growth in economy-wide private nonfarm business multifactor productivity—will occur as the ACA requires. The Trustees believe that this outcome is achievable if health care providers are able to realize productivity improvements at a faster rate than experienced historically. However, **if the health sector cannot transition to more efficient models of care delivery and achieve productivity increases commensurate with economy-wide productivity**, and if the provider reimbursement rates paid by commercial insurers continue to follow the same negotiated process used to date, then **the availability and quality of health care received by Medicare beneficiaries would, under current law, fall over time** compared to that received by those with private health insurance."

Repealing Obamacare's Medicare Cuts *Without Replacing Them With Reforms* Would Yield Higher Spending Which "Would Substantially Increase the Strain" on Workers, Economy, Seniors

- "If the reduced price increases for physicians and other health services under Medicare are not sustained and do not take full effect in the long range as in the illustrative alternative projection, then **Medicare spending would instead represent roughly 9.1 percent of GDP in 2090**. Growth under any of these scenarios, **if realized, would substantially increase the strain on the nation's workers, the economy, Medicare beneficiaries, and the Federal budget**."

Facing Headwinds from Obamacare Changes, Medicare Advantage Enrollment Will Increase Slightly

- "By 2019, the Trustees estimate that **roughly 34 percent of eligible Medicare beneficiaries will be enrolled in private Part C health plan**s. The Trustees expect modest increases in private plan penetration rates between 2020 and 2025, with the estimated proportion of beneficiaries in such plans ultimately stabilizing at about 35 percent."

Future Medicare Spending "Adds Significantly to the Federal Budget Pressures" and Places "A Growing Burden On Beneficiaries"

- "The Trustees expect growth in SMI Part B and Part D premiums and general fund transfers to continue to outpace GDP growth and HI payroll tax growth in the future. This phenomenon occurs primarily because SMI revenue increases at the same rate as expenditures, whereas HI revenue does not.…**Growth in general revenue financing as a share of GDP adds significantly to the Federal budget pressures. SMI premiums will also grow in proportion to general revenue transfers, placing a growing burden on beneficiaries**."