Issue Brief

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KEY POINT

- Medicare hospital insurance will remain solvent until 2028 — two years earlier than last year's report.

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MISSOURI HOSPITAL ASSOCIATION

CMS Releases 2016 Annual Medicare Trustees Report

The Centers for Medicare & Medicaid Services has issued the 2016 Annual Medicare Trustees Report. The Trustees project that the trust fund that finances the Medicare hospital insurance program will remain solvent until 2028 — two years earlier than last year's report. Under this year's projection, the trust fund will remain solvent 11 years longer than the Trustees projected in 2009, before the passage of the Affordable Care Act.

A copy of the report is available at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/index.html?redirect=/ReportsTrustFunds.

COMMENT

This is a 267-Page report. Many of the assumptions are predicated on existing law, and, no doubt, many changes will likely take place in the years ahead. Therefore, these projections are only a best guess estimate as to what may happen.

OVERVIEW

In 2015, Medicare covered 55.3 million people — 46.3 million age 65 and older, and 9 million disabled. Almost 32 percent of these beneficiaries have chosen to enroll in Part C private health plans that contract with Medicare to provide Part A and Part B health services. Total expenditures in 2015 were $647.6 billion, and total income was $644.4 billion, which included $633.9 billion in non-interest income and $10.5 billion in interest earnings. Assets held in special issue U.S. Treasury securities decreased by $3.2 billion to $263.2 billion.

The Trustees have determined that the fund is not adequately financed throughout the next 10 years. Hospital insurance tax income and expenditures are projected to be lower than last year's estimates, mostly because of lower CPI assumptions. The impact on expenditures is mitigated by lower productivity increases.

The SMI trust fund is adequately financed throughout the next 10 years and beyond because premium income and general revenue income for Parts B and D are reset each year to cover expected costs and ensure a reserve for Part B contingencies. A h*old-harmless provision* restricts Part B premium increases for most beneficiaries in 2016; however, the Bipartisan Budget Act of 2015 requires a transfer of funds from the general fund to cover the premium income that is lost in 2016 as a result of the provision. In 2017, there may be a substantial increase in the Part B premium rate for some beneficiaries.

continued

Analysis provided for MHA by Larry Goldberg, Goldberg Consulting

Part B and Part D costs have averaged annual growth of 5.6 percent and 7.7 percent, respectively, throughout the last five years, as compared to growth of 3.7 percent for GDP. Under current law, the Trustees project an average annual Part B growth rate of 6.9 percent throughout the next five years; for Part D, the estimated average annual increase in expenditures for these five years is 10.6 percent. The projected average annual rate of growth for the U.S. economy is 5 percent during this period, significantly slower than for Part B and Part D.

The Trustees say that the financial projections in this report indicate a need for substantial steps to address Medicare's remaining financial challenges. Consideration of further reforms should occur in the near future. The sooner solutions are enacted, the more flexible and gradual they can be. Moreover, the early introduction of reforms increases the time available for affected individuals and organizations — including health care providers, beneficiaries, and taxpayers — to adjust their expectations and behavior. The Trustees recommend that Congress and the executive branch work closely together with a sense of urgency to address the depletion of the hospital insurance trust fund and the projected growth in hospital insurance (Part A) and SMI (Parts B and D) expenditures.

COMMENT

The Trustees made a similar recommendation in last year's report that Congress work soon to make needed reforms. Unfortunately, it seems Congress has been unable to do such and the outlook for such is not favorable. Congress seems to work best in crisis mode, and the Medicare crisis is more than 10 years away.

IPAB

The ACA requires the Independent Payment Advisory Board to submit proposals to the President the year following a determination that the projected rate of growth in Medicare spending per beneficiary exceeds a target growth rate.

For 2015 through 2019, the threshold rate of growth in Medicare spending per beneficiary is the average of the increases in the Consumer Price Index for all items and in the CPI-medical care. As a result of the other savings provisions incorporated into current law, the Trustees estimate that the IPAB provision will reduce Medicare growth rates for the first time in 2019, and by only 0.2 percent in that year. In addition, the Trustees project that rates will be reduced by similar small amounts in 2024, 2026, 2028 and 2030. The IPAB is not triggered beyond 2030 in current law, mostly due to the assumptions about long-range health care cost growth, which is lower than GDP growth.