NCHA Financial Feature

NCHA North Carolina Healthcare Association

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2018 Medicare Trustee Report Released; Part A Would Be Depleted in 2026

The Boards of Trustees of the Federal Hospital Insurance (HI) (Medicare Part A) and the Federal Supplementary Medical Insurance (SMI) (Medicare Part B) Trust Funds have issued their 2018 Annual Report. The Social Security Act requires that the Board, among other duties, report annually to the Congress on the financial and actuarial status of the HI and SMI trust funds. The 2018 report, the 53rd that the Board has submitted, is available online at https://go.cms.gov/2JottiO.

In 2017, Medicare covered 58.4 million people: 49.5 million aged 65 and older, and 8.9 million disabled. Over 34 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 2017 were $710.2 billion, and total income was $705.1 billion, which consisted of $694.3 billion in non-interest income and $9.8 billion in interest earnings. Assets held in special issue U.S. Treasury securities decreased by $5.0 billion to $289.6 billion.

The estimated depletion date for the HI trust fund is 2026, 3 years earlier than in last year's report. HI income exceeded expenditures by $2.8 billion. The Trustees project deficits in all future years until the trust fund becomes depleted in 2026.

The SMI trust fund is expected to be adequately financed over 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. The Part B premium for 2018 is $134.00, the same as for 2017. However, a hold-harmless provision limited the premium increase in 2016 and 2017 for about 70 percent of enrollees. These Part B enrollees saw an increase in their Part B premium from about $109 in 2017, on average, to about $130, on average, in 2018.

The Trustees are issuing a determination of projected excess general revenue Medicare funding in this report because the difference between Medicare's total outlays and its dedicated financing sources is projected to exceed 45 percent of outlays within 7 years. Since this is the second consecutive such finding, the law specifies that a Medicare funding warning is triggered and that the President must submit to Congress proposed legislation to respond to the warning within 15 days after the submission of the Fiscal Year 2020 Budget. Congress is then required to consider the legislation on an expedited basis.

Such funding warnings were previously made in each of the 2007 through 2013 reports.

Comment

Congress has in many cases, "kicked the can down the road" rather the dealing with the long-term financial status of the program. As noted above, current law would require Congress to act in 2020, which will probably be a more difficult issue in that 2020 is also a Presidential election year.

The Report is 260 pages. Much is devoted to assumptions between now and 2092.

Part A (HI)10-Year Actuarial Estimates (2018-2027)

In 2016 and 2017, there was a fund surplus amounting to $5.4 billion and $2.8 billion, respectively. Deficits are projected to return beginning in 2018 and to persist for the remainder of the projection period.

Estimated Operations of the HI Trust Fund under Intermediate Assumptions, Calendar Years 2017-2027
[Dollar amounts in billions]

Calendar year	Total income[1]	Total expenditures	Change in fund	Fund at year end	Ratio of assets to expenditures[2]
2017[3]	$299.4	$296.5	$2.8	$202.0	67%
2018	305.5	310.7	−5.2	196.8	65
2019	325.0	328.2	−3.1	193.6	60
2020	343.4	348.5	−5.1	188.5	56
2021	362.7	372.7	−10.1	178.4	51
2022	382.3	400.7	−18.4	160.0	45
2023	402.3	429.8	−27.5	132.6	37
2024	423.5	459.5	−36.1	96.5	29
2025	444.8	490.8	−46.0	50.5	20
2026[4]	470.8	522.7	−51.9	−1.4	10
2027[4]	497.5	554.8	−57.3	−58.7	[5]

1 Includes interest income.
2 Ratio of assets in the fund at the beginning of the year to expenditures during the year.
3 Figures for 2017 represent actual experience.
4 Estimates for 2026 and 2027 are hypothetical since the HI trust fund would be depleted in those years.
5 Trust fund reserves would be depleted at the beginning of this year.
Note: Totals do not necessarily equal the sums of rounded components.

The short-range financial outlook for the HI trust fund has deteriorated as compared to the projections in last year's annual report. This result is largely due to (i) lower income from payroll taxes attributable to lowered wages for 2017 and lower levels of projected GDP, (ii) lower income from the taxation of Social Security benefits as a result of legislation, (iii) higher expenditures in 2017, (iv) legislation that raised hospital expenditures, and (v) higher Medicare Advantage (MA) payments attributable to higher risk scores for beneficiaries enrolled in MA plans.

Part B (SMI)10-Year Actuarial Estimates (2018-2027)

For Part B, expenditures grew at an average annual rate of 5.5 percent over the past 5 years, exceeding GDP growth by 1.8 percentage points annually, on average. Estimated Part B cost increases average about 8.2 percent for the 5-year period 2018 to 2022, faster than the GDP growth rate of 4.7 percent for the same 5-year period.

Estimated Operations of the SMI Trust Fund under Intermediate Assumptions, Calendar Years 2017-2027

[Dollar amounts in billions]

Calendar year	Total income[1]	Total expenditures	Change in fund	Fund at year end
Part B account:				
2017[2]	$305.6	$313.7	-$8.1	$79.9
2018	358.2	339.9	13.4	93.3
2019	373.6	366.5	7.1	100.3
2020	416.7[3]	394.7	22.0	122.3
2021	423.7[3]	429.4	-5.6	116.7
2022	475.0	465.8	9.1	125.8
2023	515.3	505.3	10.0	135.9
2024	560.0	549.6	10.5	146.3
2025	605.7	595.7	10.0	156.3
2026	671.6[3]	637.8	33.8	190.1
2027	680.9[3]	685.3	-4.4	185.8
Part D Account				
2017[2]	100.2	100.0	0.2	7.8
2018	93.8	94.5	-0.7	7.1
2019	104.2	103.7	0.5	7.6
2020	114.5[3]	113.7	0.7	8.3
2021	123.9[3]	123.2	0.7	9.1
2022	134.9	134.1	0.8	9.9
2023	146.0	145.2	0.8	10.7
2024	158.0	157.2	0.9	11.6
2025	168.6	167.8	0.8	12.4
2026	182.3[3]	181.3	1.0	13.4
2027	196.4[3]	195.3	1.1	14.5
Total SMI				
2017[2]	405.7	413.6	-7.9	87.7
2018	447.0	434.3	12.7	100.4
2019	477.7	470.2	7.6	107.9
2020	531.2[3]	508.5	22.7	130.7
2021	547.6[3]	552.5	-4.9	125.8
2022	609.9	599.9	9.9	135.7
2023	661.3	650.5	10.9	146.6
2024	718.0	706.7	11.3	157.9
2025	774.4	763.6	10.8	168.7
2026	853.9[3]	819.1	34.8	203.5
2027	877.3[3]	880.6	-3.3	200.2

1 Includes interest income.
2 Figures for 2017 represent actual experience.
3 Section 708 of the Social Security Act modifies the provisions for the payment of Social Security benefits when the regularly designated day falls on a Saturday, Sunday, or legal public holiday. Payment of those benefits normally due January 3, 2021 is expected to occur on December 31, 2020. Consequently, the Part B and Part D premiums withheld from these benefits and the associated Part B general revenue contributions are expected to be added to the respective Part B (about $14.2 billion) or Part D (about $0.3 billion) account on December 31, 2020. Similarly, the payment date for those benefits normally due January 3, 2027 will be December 31, 2026. Accordingly, an estimated $22.8 billion will be added to the Part B account, and an estimated $0.5 billion will be added to the Part D account, on December 31, 2026.

Comment

The Trustees do point out that Congress needs to act to keep the program solvent and the sooner it does so the better. There are just so many ways to accomplish such. The major items include raising payroll taxes, raising the eligibility age for Medicare, and of course, limiting rates of increases to providers. Each has its own pros and cons.

Our Washington liaison, Larry Goldberg of Larry Goldberg Consulting, has provided us with this summary and comments. For questions, please contact Jeff Weegar, NCHA, at 919-677-4231, jweegar@ncha.org or Ronnie Cook, NCHA, at 919-677-4225, rcook@ncha.org.

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