The Daily Dish

# Medicare Insolvency

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If one looks at the White House Fact Sheet regarding the president's budget, the headline blares: "Extending Medicare Solvency by 25 Years or More." Clearly the goal is to send the message that the president has got this Medicare thing under control and we can all relax.

Don't.

Medicare consists of four parts. Part A is the original Medicare and covers inpatient medical care, i.e., hospital stays. Part B covers outpatient care, i.e., doctors' office visits. Part C is Medicare Advantage, a comprehensive insurance policy that covers all care and resembles those provided by employers. Part D is the Medicare drug program, or insurance against the cost of outpatient prescription drugs.

Part A was modeled on Social Security and features a payroll tax for employers and employees of 1.45 percent each, a Hospital Insurance (HI) trust fund into which tax receipts are deposited, and reimbursements out of the trust fund to hospitals and providers. Part A was the only part of Medicare that was originally designed to be financially self-sufficient (i.e., payroll taxes equal to or exceeding reimbursements). The remainder – parts B, C, and D – is configured so that premium payments cover roughly 25 percent of the costs and the remaining 75 percent is drawn from general revenues at the U.S. Treasury. As a whole, Medicare was always going to need help (transfers from the Treasury), but with rising health care costs it is now a financial cripple and bleeding red ink.

It turns out that Part A spending is exceeding payroll tax revenue and the HI trust fund will soon run out of money. As detailed by Jackson Hammond in his review of the health proposals in the president's budget, the much-ballyhooed "Medicare Solvency for 25 Years for More" applies only to Part A. The remaining parts are headed for budgetary Armageddon and the administration is not lifting a finger to prevent it.

And the "reform" to Part A is nothing to write home about. It does nothing to the cost of hospital care that would allow the current tax rate to cover reimbursements. It does nothing to the payroll tax, either. One would conclude that if you don't change what is going into the HI trust fund, or change what is coming out, then you cannot change the future of the HI trust fund. So, what is the trick?

The Affordable Care Act created the Medicare surtax at a rate of 3.8 percent on net investment income tax (NII). Ironically, it has never been deposited in the HI trust fund (but was available to be borrowed from the Treasury by B, C, and D). The NII has always been bad tax policy as it has its own base and rate that are not coordinated with the income tax. The administration is proposing to raise the rate to 5.0 percent, expand the NII to cover some of the active earnings from sole-proprietorships, partnerships, and other pass-through entities, and dedicate the funds to the trust fund. Since over one-half of business income is taxed through pass-through entities, this is simply a large tax increase on small businesses. Far from being a responsible entitlement reform, it is an undisciplined and damaging money grab.

Medicare desperately needs real reforms, real solvency, and not the feckless messaging that is the president’s budget.