Weekly Checkup

Crunching Numbers: Obscuring the Medicare Deficit

LAURA HOBBS | MAY 10, 2024

On Monday, the Social Security and Medicare Trustees released their 2024 reports for the two programs. In mildly good news, the report found a $12.2 billion surplus for Medicare Part A (under the Hospital Insurance trust fund) and projected short-term, modest savings, pushing back earlier projections of trust fund depletion until 2036. The terribly bad news is that these modest savings (which are tiny compared to total Medicare spending in the trillions over that timeframe) conceal the disastrous level of current deficit spending needed to sustain the Medicare program. **Let's dive into the sources of Medicare funding to understand how Medicare is financed, how the program came to be in deep financial distress, and why Congress must make critical reforms to the long-term financing of Medicare before it's too late.**

In 2023, Medicare Part A had a total revenue of $415.3 million, generated from $367.2 billion in payroll taxes, $5.7 billion in interest payments, $35 billion from taxation of benefits, $4.5 billion from premiums – most beneficiaries do not pay a premium under Medicare Part A – $1.2 billion in government payments, and $1.4 billion from other sources. In turn, Part A spent a total of $403.1 billion, leaving a small surplus of $12.2 billion. **According to the trustees, 2023 Medicare Part A savings were a result of three key policy factors: higher-than-expected payroll tax revenue, lower expenditures than previously projected, and policy changes on how medical education expenses are accounted for in Medicare Advantage rates starting in 2024. Yet this math is somewhat deceptive**, as under the chief actuary's alternative scenario (in which the calculation is based on the prospect that Medicare spending outpaces official projections), the funding gap "triples from 0.35 percent of payroll under current law to 1.17 percent," as noted by the Committee for a Responsible Federal Budget. Although a change in a single percentage point may seem small, these tiny increments reflect millions or billions of dollars in red ink. **Ultimately, Part A still faces insolvency in 12 years. It's a program that is far away from being on a track to sustainable long-term financing.**

Although Medicare Parts B and D generate most of their revenue from beneficiary premiums or direct government payments, they aren't in much better shape. **Even with Part B's total revenue of $480.9 billion – with $131.5 billion generated from premiums and $342.1 derived from government payments – it ran a deficit of $342.1 billion. Part D had a similar problem**, with total revenue of $128.4 billion but with a deficit of more than $90 billion. How bad is this problem? Think of it this way: **To cover Part B's deficit, the typical annual physician premium cost for seniors would need to rise from $2,096 to $7,545.60 – a 360 percent jump.** For Part D, seniors would need to pay 603 percent more for their prescription drug premiums, from $416.40 annually now to a whopping $2,508.48. Of course, this gaping fiscal wound in Parts B and D is disguised by their immense support from government funding, and it is widely understood that Parts B and D cannot become insolvent as a result of inadequate beneficiary premiums, given that they are mostly supported by general revenue. This fact misleads policymakers and the public on how deeply in the red these programs are.

Total Medicare spending exceeded $1 trillion in 2023. In the long term, **the current approach to Medicare financing is untenable without congressional action to either increase payroll taxes – this wouldn't really solve the problem, which is one of Medicare *spending* – or reduce benefits as the number of future workers (i.e., babies born) continues to decrease.** Neither approach is popular during an election year, or during any other year, apparently. Nevertheless, policymakers should not be distracted by headlines of temporary and minor Medicare surpluses and money shuffling techniques that hide the true cost of care. **Medicare is in dire fiscal straits, something obvious to anyone honest enough to give a hard look at the numbers – and that's a serious concern for all seniors, workers, and future retirees.**