Weekly Checkup

No Time to Part-A

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Last Friday, the **Treasury released the 2023 Medicare and Social Security Trustees reports**. Gordon Gray and I wrote a summary of those reports – spoiler alert, the news is mostly bad. **Medicare is still careening toward insolvency, of course, but this week I'd like to focus on the biggest surprise of year: Part A actually had a *surplus* of $53.9 billion in 2022.**

If you're as shocked as I was, that's understandable. Medicare has had a cash shortfall for every year of the program except 1966 and 1974, and in 2022 its shortfall exceeded $400 billion. By cash shortfall, I mean that the funding mechanisms currently in place are not enough to cover the costs of the programs, and so general revenues (practically speaking, deficit spending) are required to fund them. As a reminder, Part A is funded by a mixture of dedicated payroll taxes (the vast majority of its revenue) and benefits taxes with minor contributions from other sources. Parts B and D are financed mostly by general revenues and premiums.

So, how does the $53.9 billion Part A surplus happen when Medicare's other programs had such a significant cash shortfall? First, more people were working than expected, and that meant more taxable income. Second, and more interesting, spending for the program was below expectations, and for that there are three key reasons: COVID-19, Medicare Advantage, and outpatient surgeries. The COVID-19 factor is a morbid one: The sickest (and the most expensive) Medicare enrollees were far more likely to die of COVID-19, thus reducing some of the program's costs. Medicare Advantage, on a happier note, reduced Part A expenditures because dual-eligibles (beneficiaries on both Medicare and Medicaid) have been rapidly shifting over to Medicare Advantage in recent years, leading to less fee-for-service (FFS) spending in Part A. Finally, Medicare regulatory changes allowed for knee replacements (in 2018) and hip replacements (in 2020) to be done in outpatient settings, which shifted much of their spending to Part B. Because of all that, Part A's trust fund depletion date was moved back a whole three years, from 2028 to 2031.

But therein lies a big problem: Part A's depletion date was only moved back three years, and main reason why was that a lot of people died. No one wants to rely on mass casualty events to fix our fiscal issues. Fortunately, the surplus does point to two much better options: Medicare Advantage and changes to payment policy. Medicare Advantage has the, well, advantage of cheaper per-beneficiary costs over FFS Medicare, and given its continued steady growth in recent years, is clearly preferred by beneficiaries anyway. The harder task will be to change Medicare's payment policies. Medicare's decision to allow outpatient hip and knee replacement surgeries was long overdue – Part B is still paying for the surgeries, but they're much less expensive in an outpatient setting, and one wonders how many other services could be done in less expensive settings, including outside of hospitals entirely (which policy changes like site-neutral payments would help with).

Despite this year's Part A surplus, the picture for Medicare still remains bleak: The Part A trust fund will be depleted by 2031, Medicare as a whole represents 29 percent of the national debt, and so far the only reform proposed by President Biden has some serious math issues. Meanwhile, Congress continues to fight over which party wants to cut Medicare less. **With the looming 2031 deadline, and the massive automatic cuts to benefits that come with it, we're running out of road to kick this can down.**