Medicare Trust Fund Requires a 25 Percent Increase in the Payroll Tax to Remain Solvent

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The Medicare Trustees released their annual report to Congress on the state of the Medicare Trust Funds yesterday. For many years now, the constant headline surrounding this report is how quickly Medicare is "going bankrupt". What these headlines are referring to is when the hospital insurance trust fund (Part A) will become insolvent and all benefits will have to be paid for with money simultaneously coming in. Medicare Part A is primarily funded through a 1.45 percent payroll tax charged to both employers and employees. Every year since 2003, expenditures for Part A have exceeded the revenue garnered from the payroll tax, requiring drawdowns from the trust fund that accumulated over the years when there was a surplus. The chart below shows that this trend is expected to continue for the foreseeable future, leading to insolvency, now projected to occur in 2028, two years earlier than last year's projection. The cash deficit from 2016-2025 is expected to total $582.5 billion. In order to cover the cost of the projected deficit, the payroll tax would have to be raised each year—to 1.66 percent this year and as high as 1.81 percent in 2025, a 25 percent increase from the current rate, shown by the green line in the chart below.