

AMERICAN ACTION FORUM

MEMORANDUM

To: Interested Parties
FR: Douglas Holtz-Eakin and Michael Ramlet
RE: What you should know about today's Medicare Trustees Report

Earlier today Treasury Secretary Tim Geithner released the 2012 Medicare Trustees Report. This annual rite of spring delivered yet another reminder to the American public that Medicare is undeniably going bankrupt.

Today's report estimated that the Medicare Hospital Insurance Trust Fund will be bankrupt by 2024.

While the bankruptcy projection may snag the headlines, there are 3 key budgetary numbers that shouldn't go unnoticed:

Medicare's Annual Cash Shortfall in 2011

\$285 Billion

- In 2011, Medicare spent \$549.1 billion on medical services for America's seniors but only collected \$264.1 billion in payroll taxes and monthly premiums.
- **Trustees have now issued a funding warning for 7 straight years**

Medicare's Cumulative Cash Shortfall Since 1965

\$2.95 Trillion

- Medicare has had a cash shortfall every year since its creation except two: 1966 and 1974.
- **The Medicare Trustees report covers these cash shortfalls by "borrowing" unrelated tax revenues from other programs.**

Medicare's True Contribution to the National Debt

28.4%

- America's fiscal trajectory is unsustainable and Medicare is the primary source of red ink driving this trajectory.
- The cash shortfall is responsible for over one-fourth of the federal debt accumulated since 2001.

Continuing with the Medicare status quo is unacceptable. Balancing Medicare's annual cash shortfalls under the existing system would prove devastating to seniors and require:

31% Increase

Annual Payroll Tax Increase Needed to Balance Medicare Part A

- In 2011, Medicare Part A (hospitals) cash deficit was \$61 billion
- To balance, payroll taxes would increase from 1.45% to 1.90%

\$3,499 Increase

Annual Premium Increase Needed to Balance Medicare Part B

- In 2011, Medicare Part B (physicians) cash deficit was \$168 billion
- To balance, seniors' premiums for physicians would need increase by 392% meaning the annual physician premium cost to seniors would rise from \$1,198 to \$4,697 – an increase of \$3499.

\$3,250 Increase

Annual Premium Increase Needed to Balance Medicare Part D

- In 2011, the Part D (drugs) cash deficit was over \$59 billion.
- To balance, seniors' premiums for prescription drugs would need to increase by 871% meaning the annual drug premium cost to seniors would rise from \$372 to \$3,250 – an increase of \$3250.