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Why We Must Reform Medicare

Medicare is comprised of two parts: Hospital Insurance (HI), which is Part A; and Supplemental Medical Insurance (SMI), which is Part B. HI is collected through payroll taxes and SMI is a combination of beneficiary premiums and general revenue.

- HI and SMI expenditures as a percentage of Gross Domestic Product (GDP) are projected to increase rapidly, from 2.6 percent currently to 5.3 percent by 2035 and then to 9.3 percent by 2077 (meaning that **1 of every 10 dollars** in the economy will go to Medicare).
- According to the Trustees, total Medicare expenditures amounted to $265.7 billion in 2002 and are expected to increase in future years at a faster pace than either workers' earnings or the economy overall.
- The sharp increase reflects continuing growth in the utilization of services provided per beneficiary and the impact of a large increase in beneficiaries starting in about 2010 as the 1945-65 baby boom generation turns 65.
- By 2023, under current law, general revenue transfers would constitute the largest single source of income to the Medicare program. According to the Trustees, this would place a large burden on the federal budget.
- Between 2003-2012, the HI account will run a surplus. **But in 2012 – only nine years away – HI will not bring in enough money to cover its expenses.** At this point, money will have to be raised by cashing in Treasury securities. This means that the Federal government will transfer money from general revenues to pay for Medicare.
- The sale of Treasury securities to fund **the HI account will be exhausted by 2026 – four years earlier than estimated in the 2002 Trustees report.**
- **The Trustees recommend an immediate increase in the payroll tax to 5.3 percent or a 5.3 percent cut in expenditures, or an immediate 42 percent cut in benefits, in order to keep the HI account sustainable for the long run.**
- For SMI (Part B), transfers from the general fund of the Treasury represent the largest source of income, covering roughly 75 percent of program costs. Beneficiaries pay monthly premiums that finance 25 percent of costs.
- Over the next 10 years, the average annual increase in SMI benefit payments (expenditures) is estimated to be 7.1 percent, compared to a growth rate of 5.3 percent for GDP. SMI outlays were 1.1 percent of GDP in 2002 and are projected to grow to 4.2 percent by 2077.
- In sum, the outlook for SMI is also grave:
  1. **12.4 percent would have to be withheld from Social Security benefits to match program growth over the next 20 years. In contrast, in 2002 about 6.8 percent of Social Security benefits were withheld from beneficiaries to pay their Part B premiums.**
  2. Part B general revenues totaled 7.8 percent of personal and corporate income taxes collected in 2002. By 2077, Part B general revenue financing would represent 32 percent of total income taxes.