

OFFICE OF THE ACTUARY

The Financial Status of Medicare

June 23, 2016



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CMS Chief Actuary



CMS

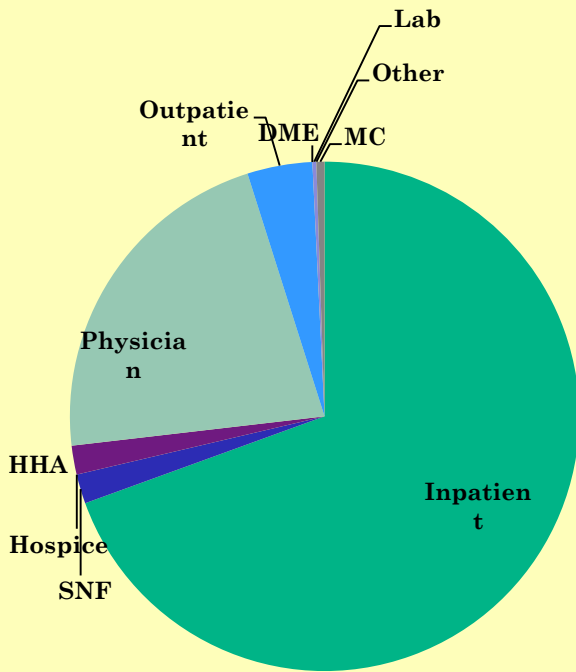
CENTERS for MEDICARE & MEDICAID SERVICES

Agenda

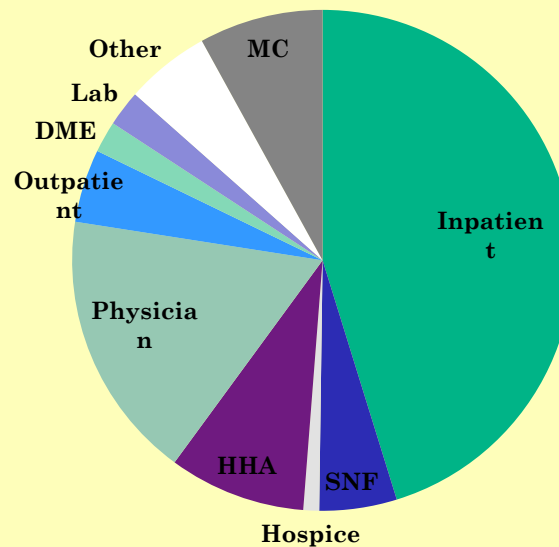
- **Current snapshot and evolution of the program**
- **Formal evaluation of the financial status of the program**
- **Are we one year closer to IPAB cuts?**
- **2017 Part B premium**

Medicare Spending by Category

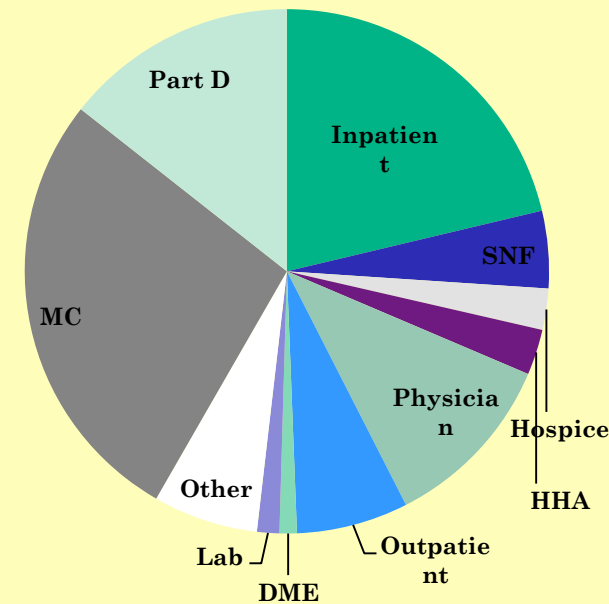
1975



1995



2015



**Total Benefits = \$15.6B
(0.92% of GDP)**

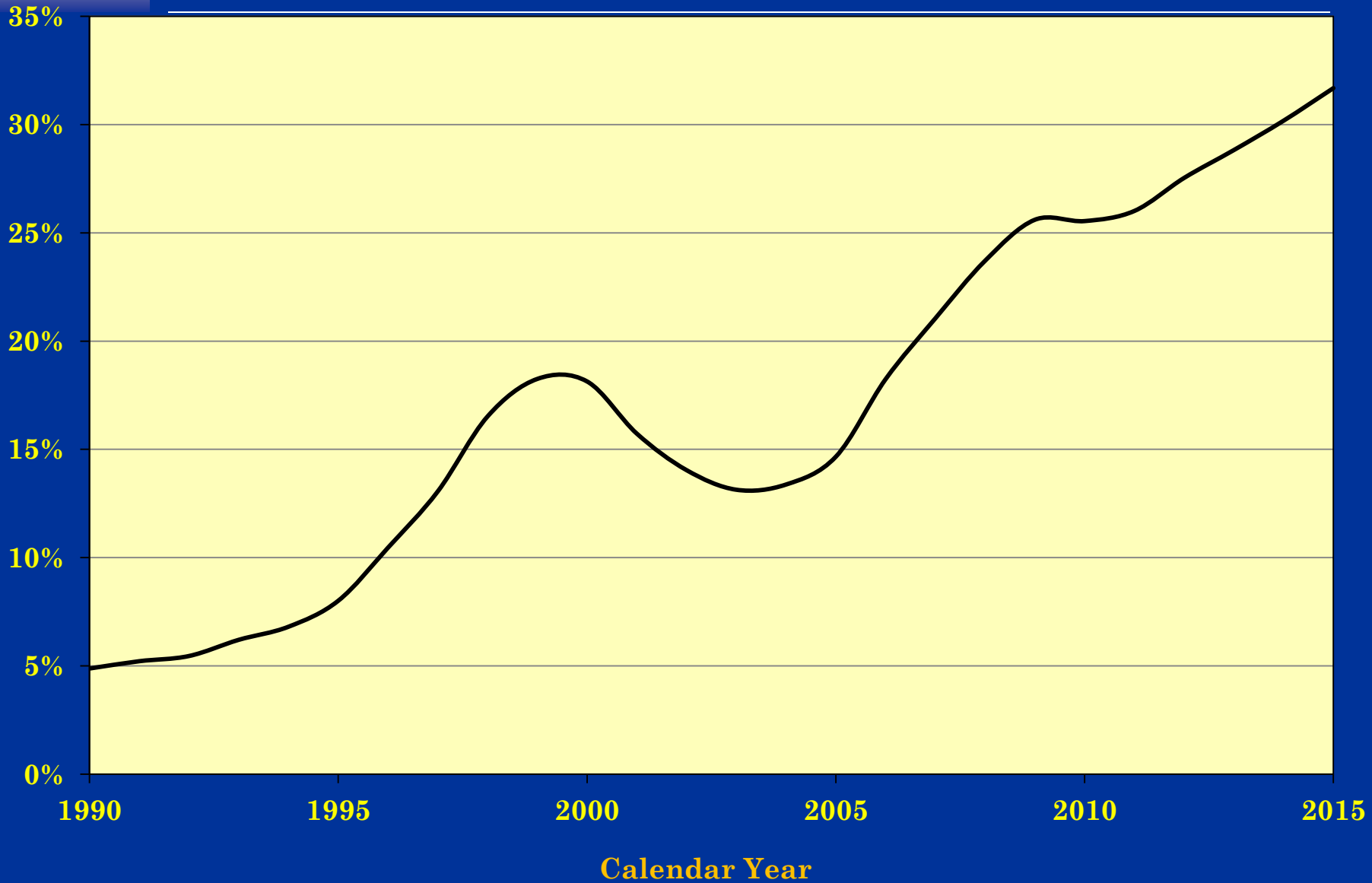
**Total Benefits = \$182.2B
(2.38% of GDP)**

**Total Benefits = \$638.0B
(3.55% of GDP)**

Note: Totals represent incurred benefits only and do not include admin & other.



Proportion of Medicare Spending in Private Plans





Medicare enrollment, benefits, and financing

Hospital Insurance (HI)

Supplementary Medical Insurance (SMI)

CY 2015 Enrollment:

Total enrollment.....	54.9 million	Part B: 50.7 million	Part D: 41.8 million
FFS beneficiaries served	22%	Part B: 98%	Part D: 93%

Benefits*	Inpatient hospital care Skilled nursing care Home health care (post-institutional) Hospice care
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* Subject to certain deductible and coinsurance requirements

- Part B:
- Physician services
 - Outpatient hospital services
 - Home health care (general)
 - Other services, e.g.
 - Diagnostic tests
 - Medical equipment
 - Ambulance
- Part D:
- Prescription drug benefit

CY 2016 Financing.....	HI tax on covered earnings: <ul style="list-style-type: none"> • 1.45% payable by employees and employers, each • 2.90% payable by self-employed • Following elimination of HI contribution base (effective 1994), HI tax applies to <u>all</u> earnings in covered employment • Tied to worker income in 2013 and later Revenue from income taxation of OASDI benefits (portion between 50% & 85%)
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- Part B premiums and general revenue transfers:
- \$121.80 standard monthly premium
 - Tied to beneficiary income in 2007 and later
 - Fees on manufacturers, importers of brand-name Rx drugs
 - General revenues cover about 81% of costs
- Part D drug premiums, general revenues, and State transfers:
- Base premium in 2016 is \$34.10; average premium is about \$33; covers 25.5% of standard benefit costs, 13.4% of total costs
 - Tied to beneficiary income in 2011 and later
 - State payments on behalf of certain beneficiaries cover about 9% of costs
 - General revenues cover 82% of costs



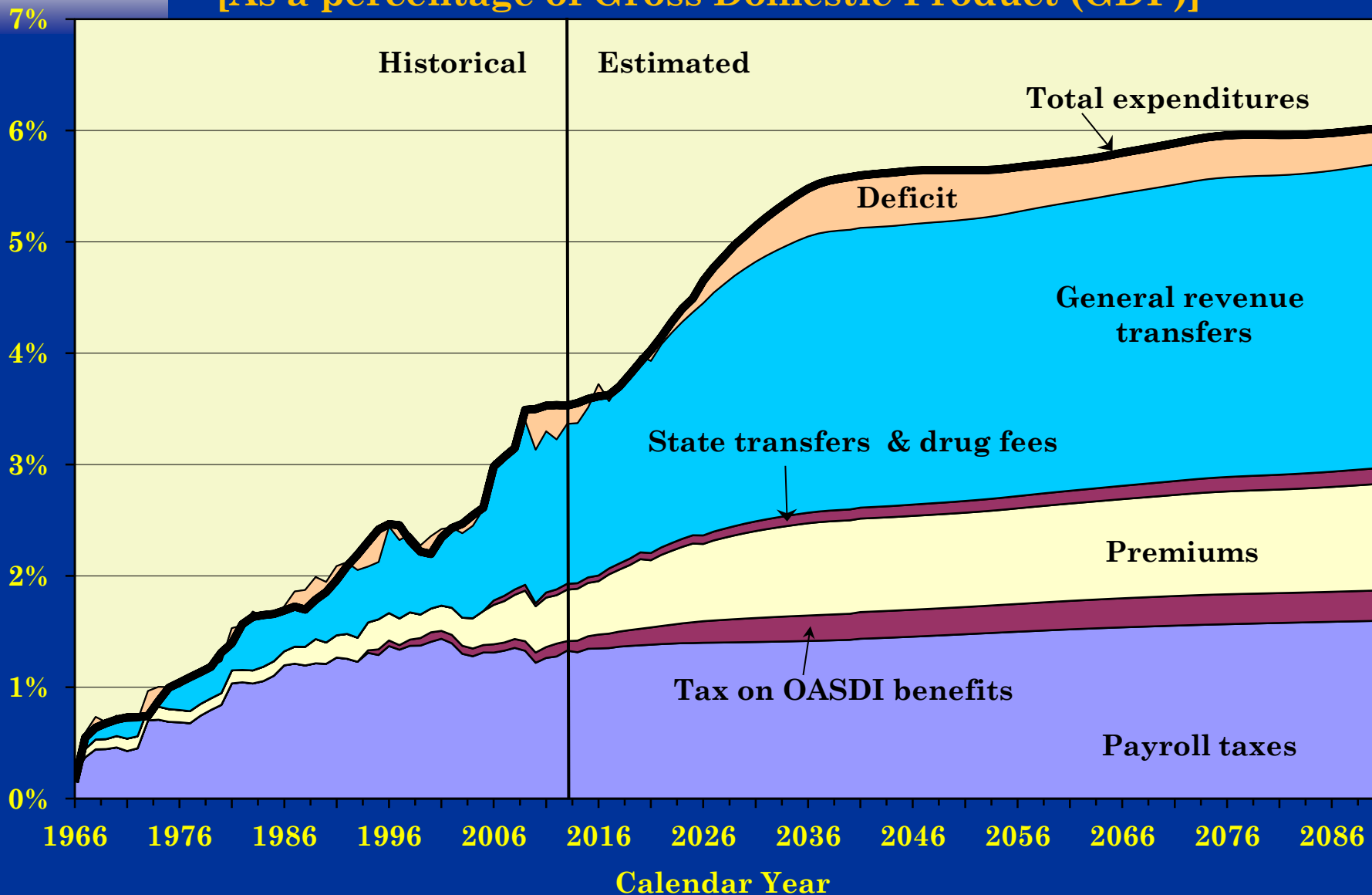
2015 Medicare experience (\$ billions)

	2016 Report	2015 Report	Difference
HI			
Income	\$275.4	\$277.7	-\$2.3
Expenditures	\$278.9	\$275.7	\$3.2
Surplus/(Deficit)	-\$3.5	\$2.0	-\$5.5
SMI - Part B			
Income	\$279.0	\$280.9	-\$1.9
Expenditures	\$279.0	\$280.7	-\$1.7
Surplus/(Deficit)	\$0.1	\$0.2	-\$0.1
SMI - Part D			
Income	\$90.0	\$92.4	-\$2.3
Expenditures	\$89.8	\$92.7	-\$2.9
Surplus/(Deficit)	\$0.3	-\$0.3	\$0.6

Source: 2015 & 2016 Medicare Trustees Reports.

Medicare Sources of non-interest income and expenditures

[As a percentage of Gross Domestic Product (GDP)]



Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.

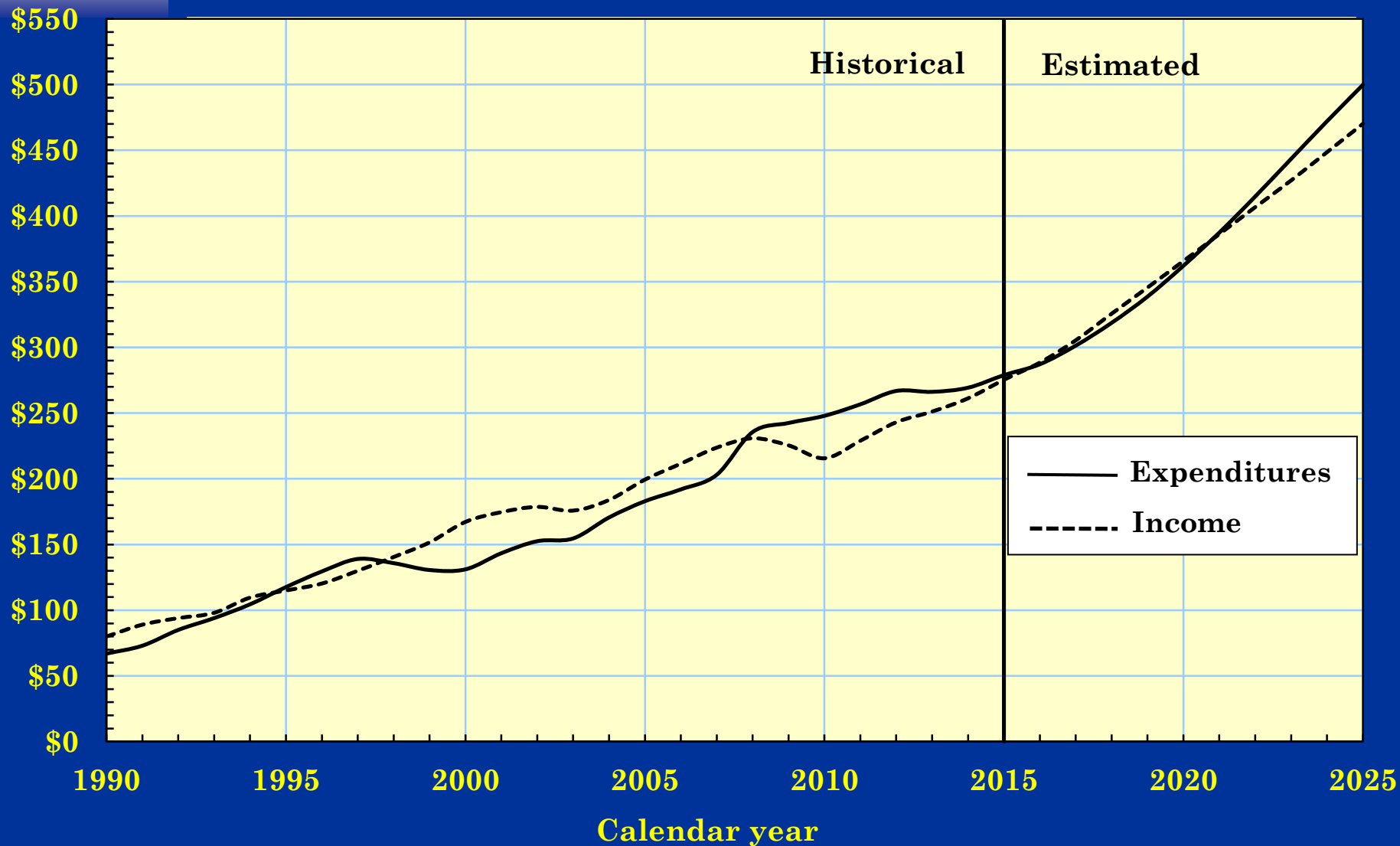
Formal Status of Trust Funds

- **Evaluate HI separately from SMI**
- **HI**
 - Are assets plus projected income adequate to finance anticipated benefit costs?
- **SMI**
 - Part B account financing set annually
 - Part D account draws on General Fund of the Treasury on an as needed basis
 - No long term solvency issues

Illustrative Alternative

- **Long-range costs could be higher if certain cost reduction measures prove problematic**
 - Productivity cuts
 - Payment updates for most non-physician providers reduced by economy-wide productivity
 - Physician updates
 - MACRA price updates specified for all future years (0.75% for APMs, 0.25% for MIPS)
- **Illustration alternative presents a scenario that demonstrates potential understatement**
 - Productivity transitions to productivity in health sector
 - Physician updates transition to MEI
 - IPAB provisions not implemented

Short-range HI income and outgo (In billions)



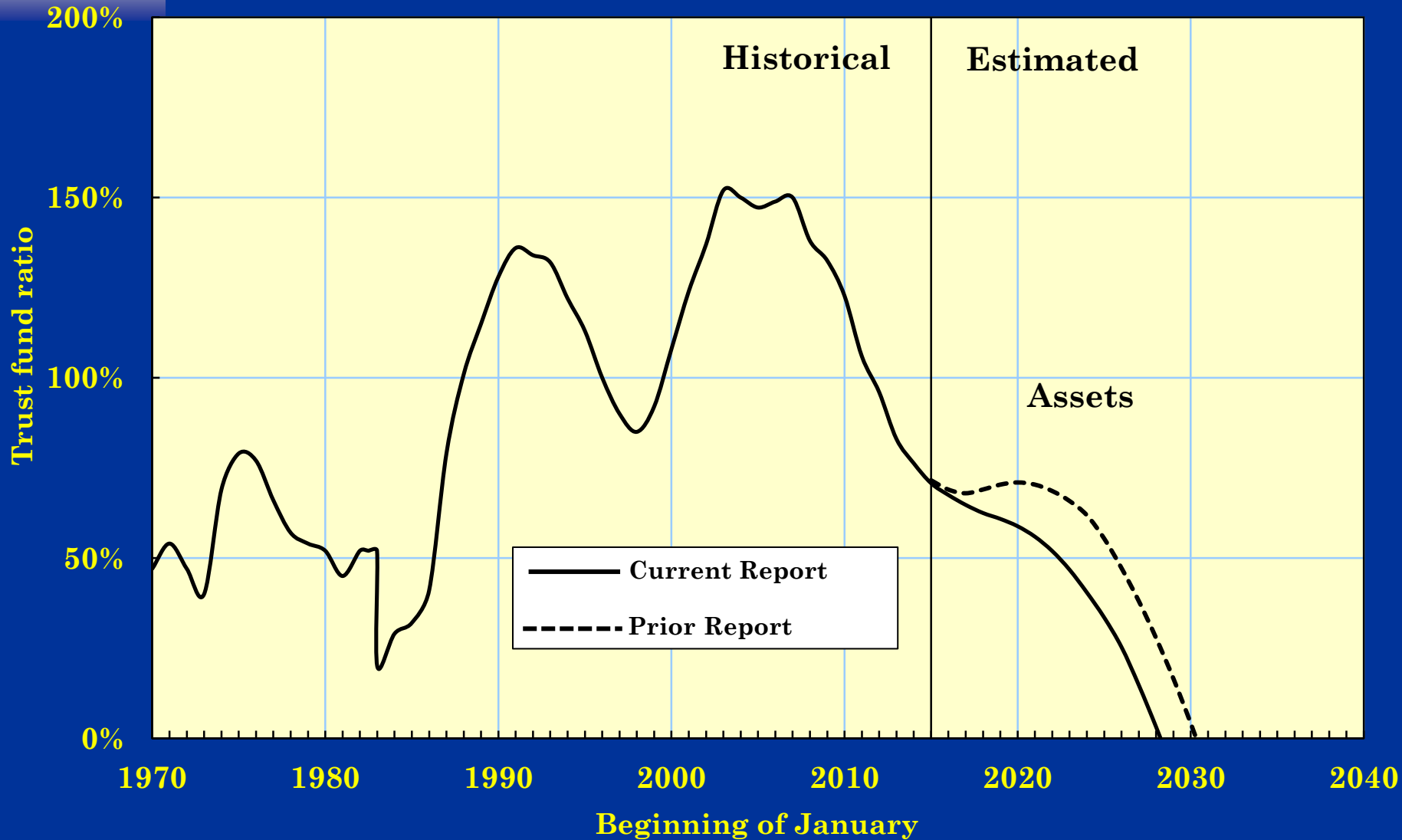
Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.



HI fund ratio

2016 Report compared to 2015 Report

(Assets at beginning of year as percentage of annual expenditures)



Note: Projections are based on intermediate assumptions from the 2015 & 2016 Trustees Reports.

75-year actuarial balance

- **Present value of income rate less cost rate**
 - Rates compare income or costs to taxable payroll

75-year PV	2016 Report	2015 Report
Income rate	3.91%	3.84%
Cost rate	4.63%	4.52%
Actuarial balance	-0.73%	-0.68%

- **2016 report includes additional amounts for uninsured beneficiaries**
 - Income rate of 0.06% and cost rate of 0.07%



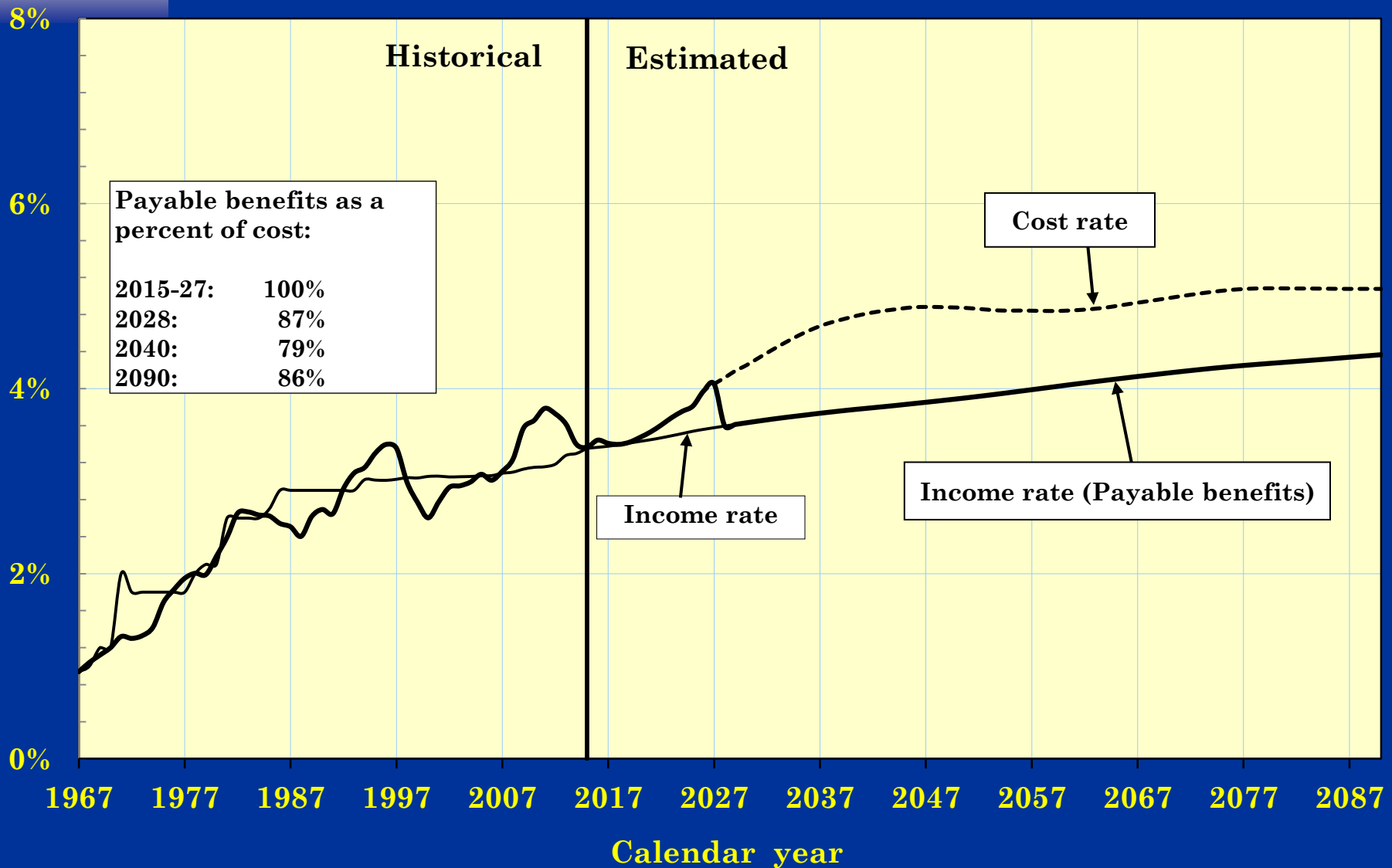
Factors of change in 75-year actuarial balance since the 2015 report

1. Actuarial balance, intermediate assumptions, 2015 report	-0.68%
2. Changes:	
a. Valuation period	-0.01%
b. Base estimate	-0.01%
c. Private health plan assumptions	0.00%
d. Hospital assumptions	-0.01%
e. Other provider assumptions	0.00%
f. Other economic and demographic assumptions	-0.01%
g. Methodological changes	-0.01%
Net effect, above changes	-0.05%
3. Actuarial balance, intermediate assumptions, 2016 report	-0.73%

Source: 2016 Medicare Trustees Report.

Long-range HI income and cost rates

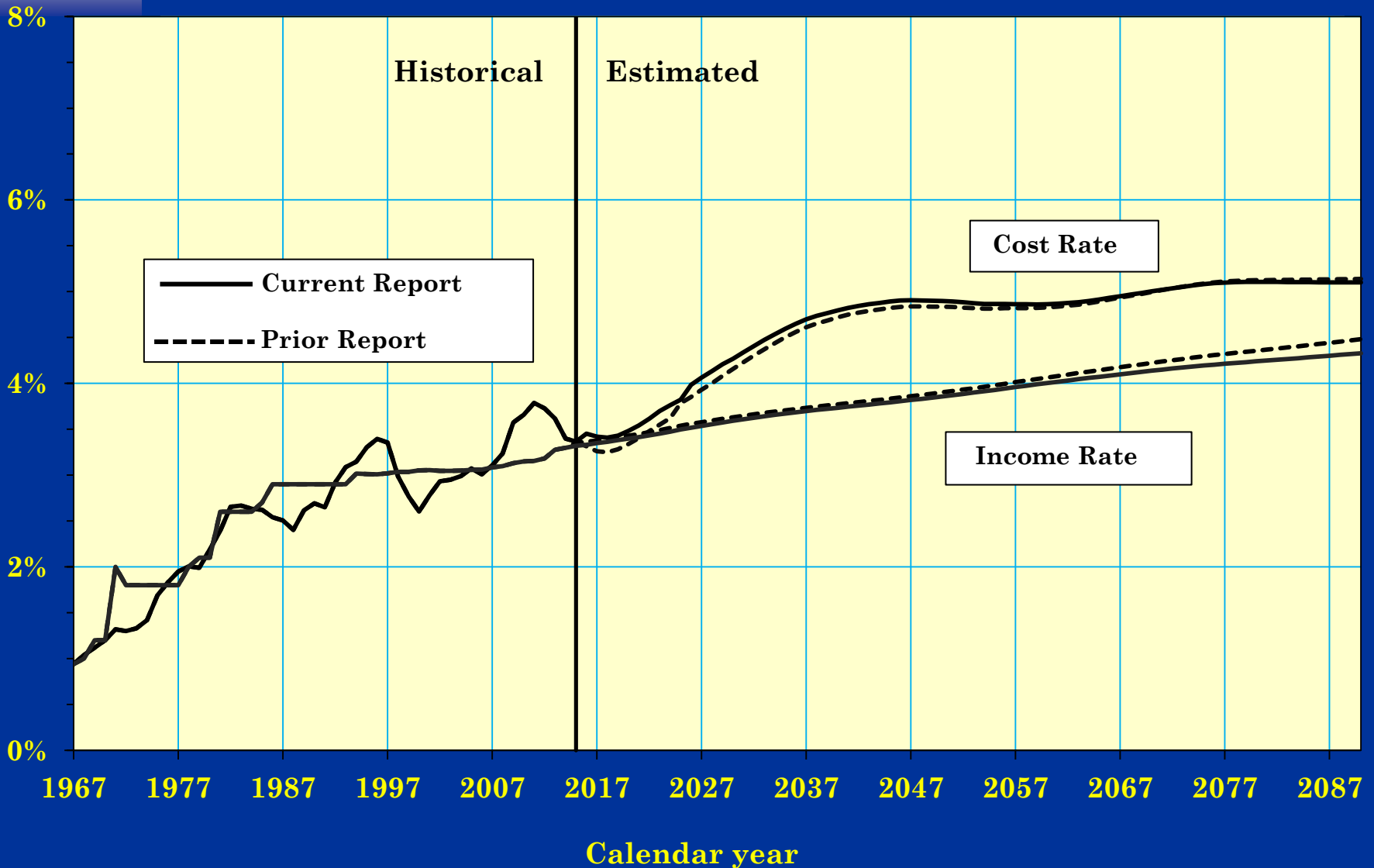
(As a percentage of taxable payroll)



Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.

Long-range HI Income and Cost Rates

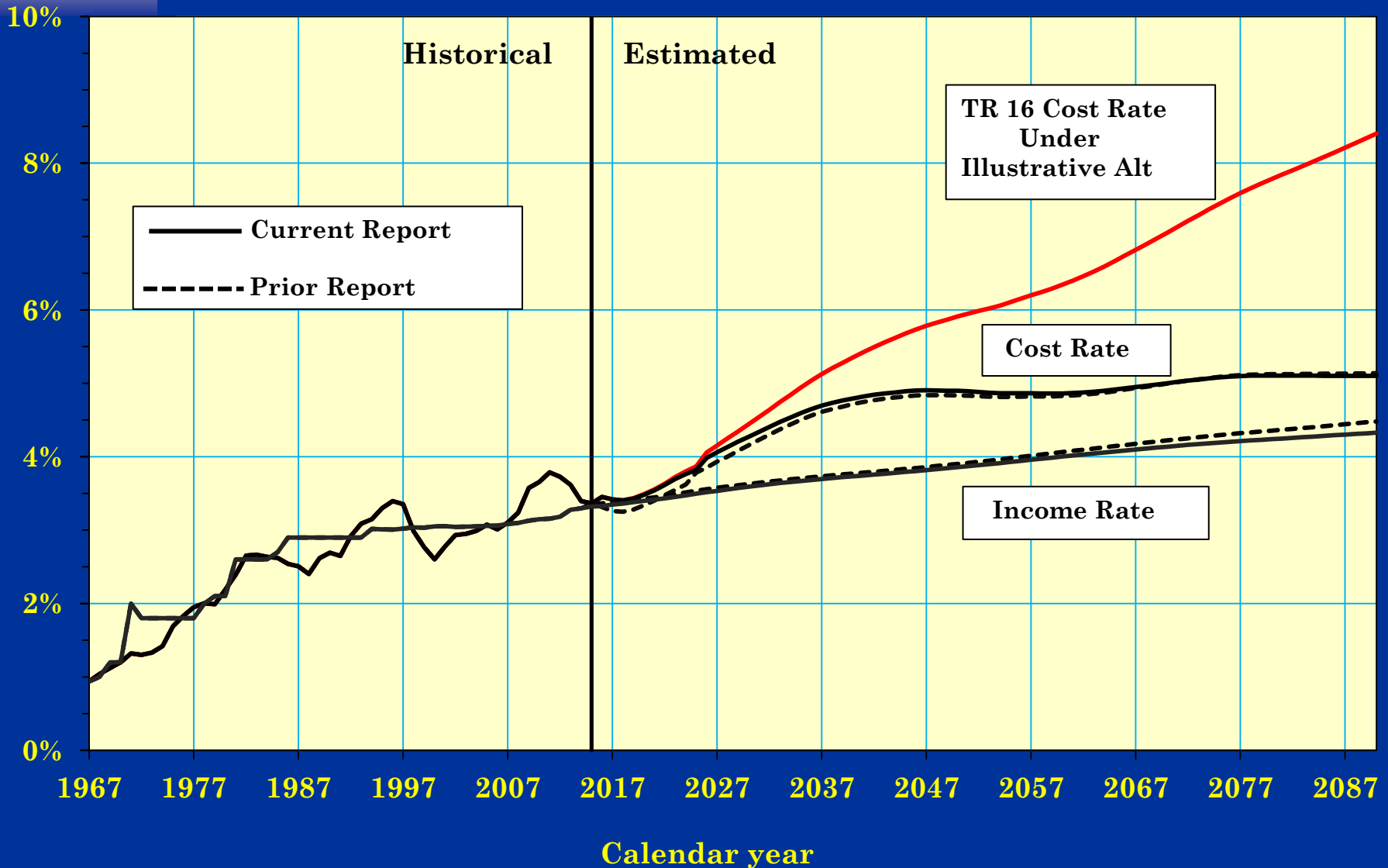
2016 Report compared to 2015 Report



Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.

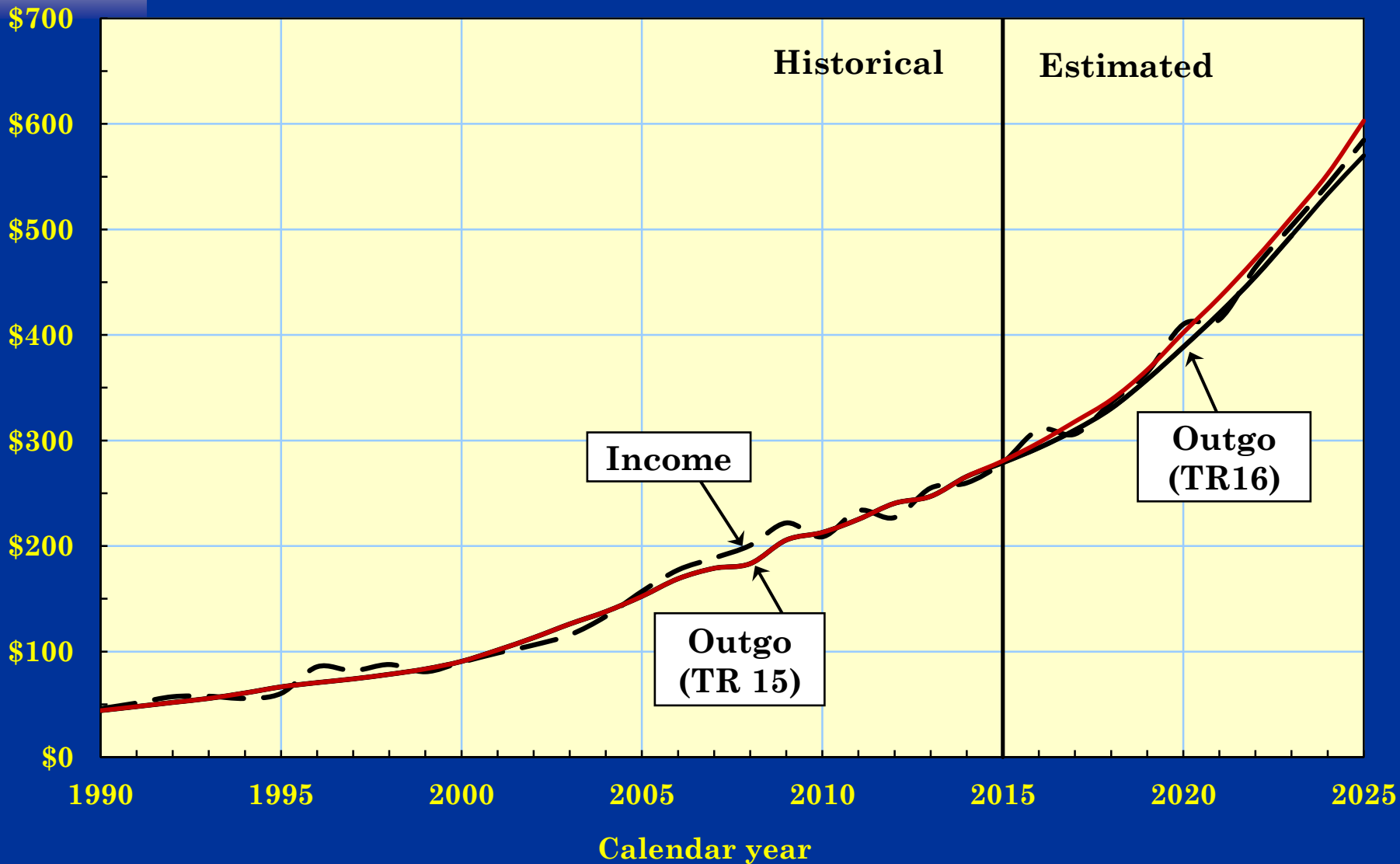
Long-range HI Income and Cost Rates

2016 Report compared to 2015 Report



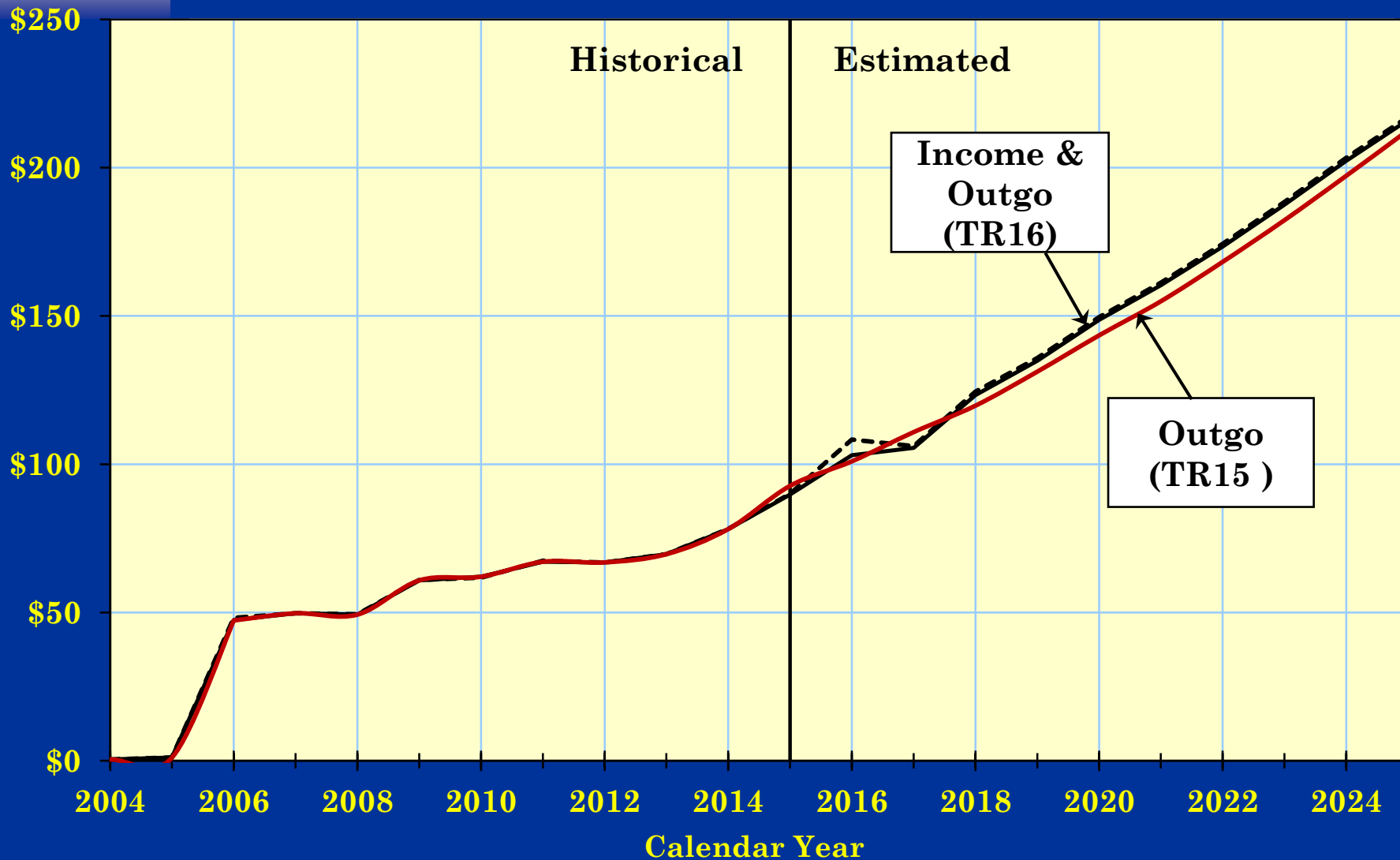
Note: Projections are based on the intermediate assumptions from the 2015 & 2016 Trustees Reports.

SMI Part B cash income and outgo (In billions)



Note: Projections are based on the current law intermediate assumptions from the 2015 and 2016 Trustees Reports.

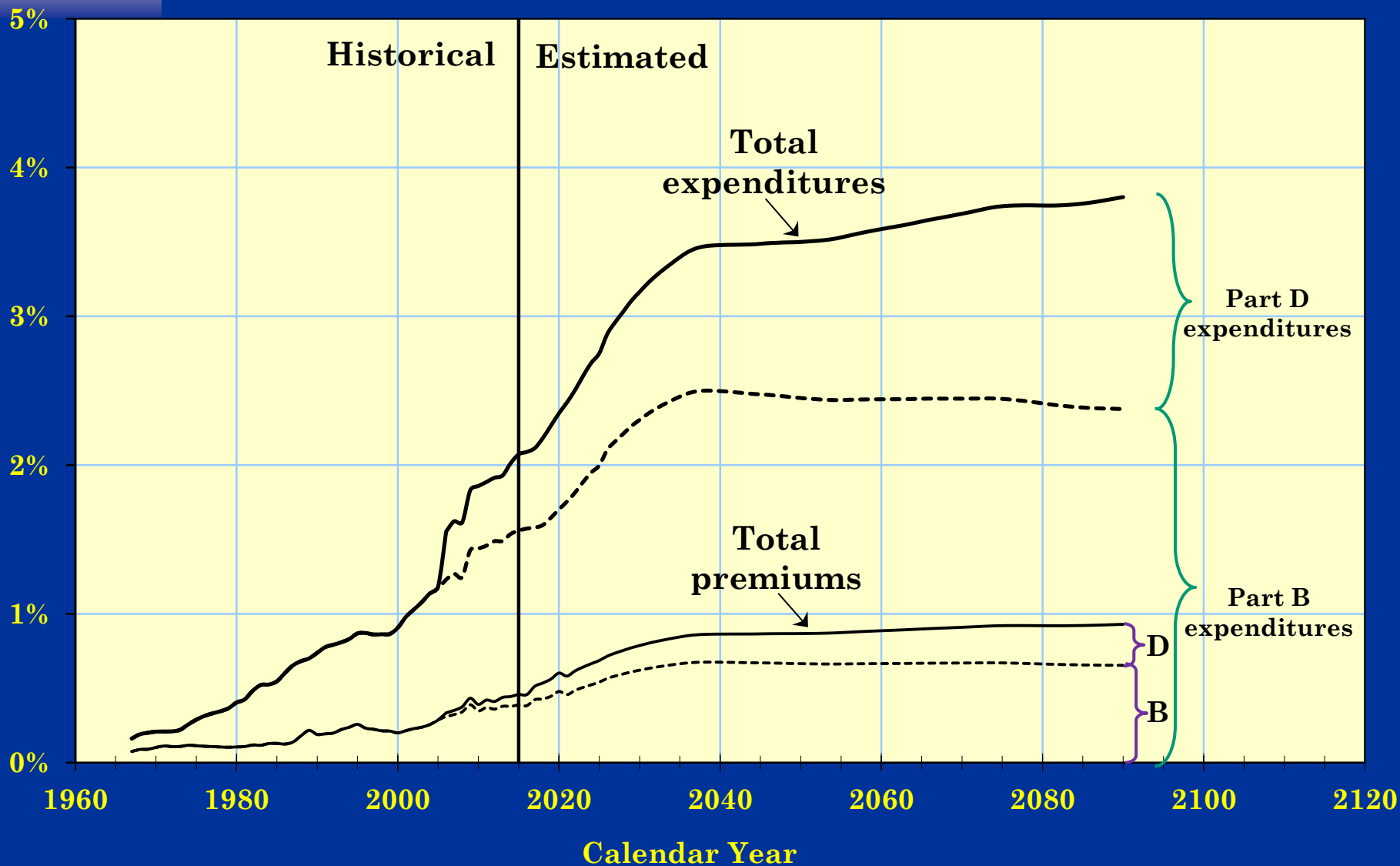
SMI Part D income and outgo (In billions)



Note: Projections are based on the current law intermediate assumptions from the 2015 & 2016 Trustees Reports.

SMI expenditures and premium income

[As a percentage of Gross Domestic Product (GDP)]



Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.

SMI change from 2015 report

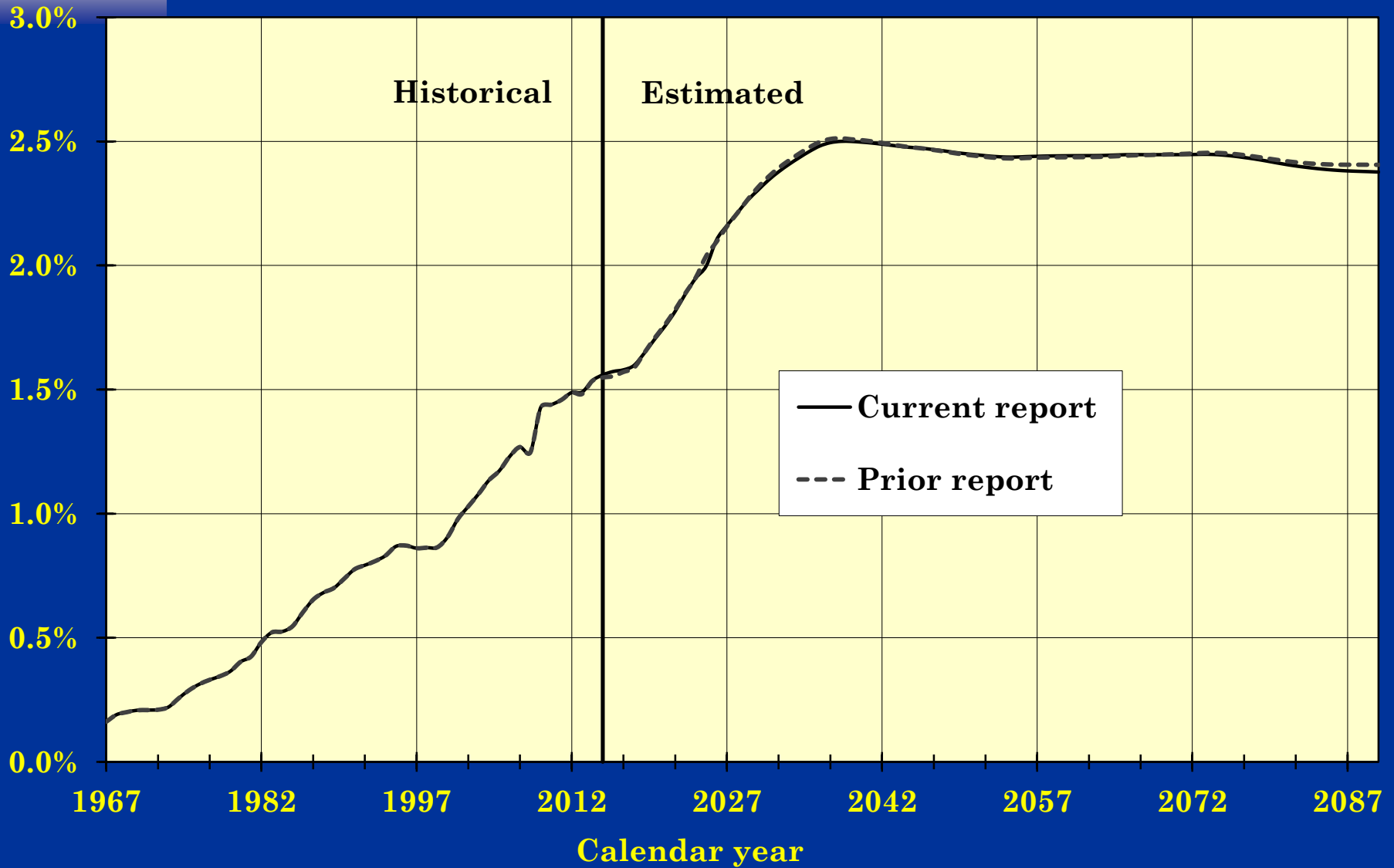
	2016 Report	2015 Report
Part B		
2015 % of GDP	1.56%	1.55%
2085 % of GDP	2.39%	2.41%
Part D		
2015 % of GDP	0.51%	0.49%
2085 % of GDP	1.37%	1.35%

Note: Estimates are based on intermediate assumptions of the 2015 and 2016 Trustees Reports.



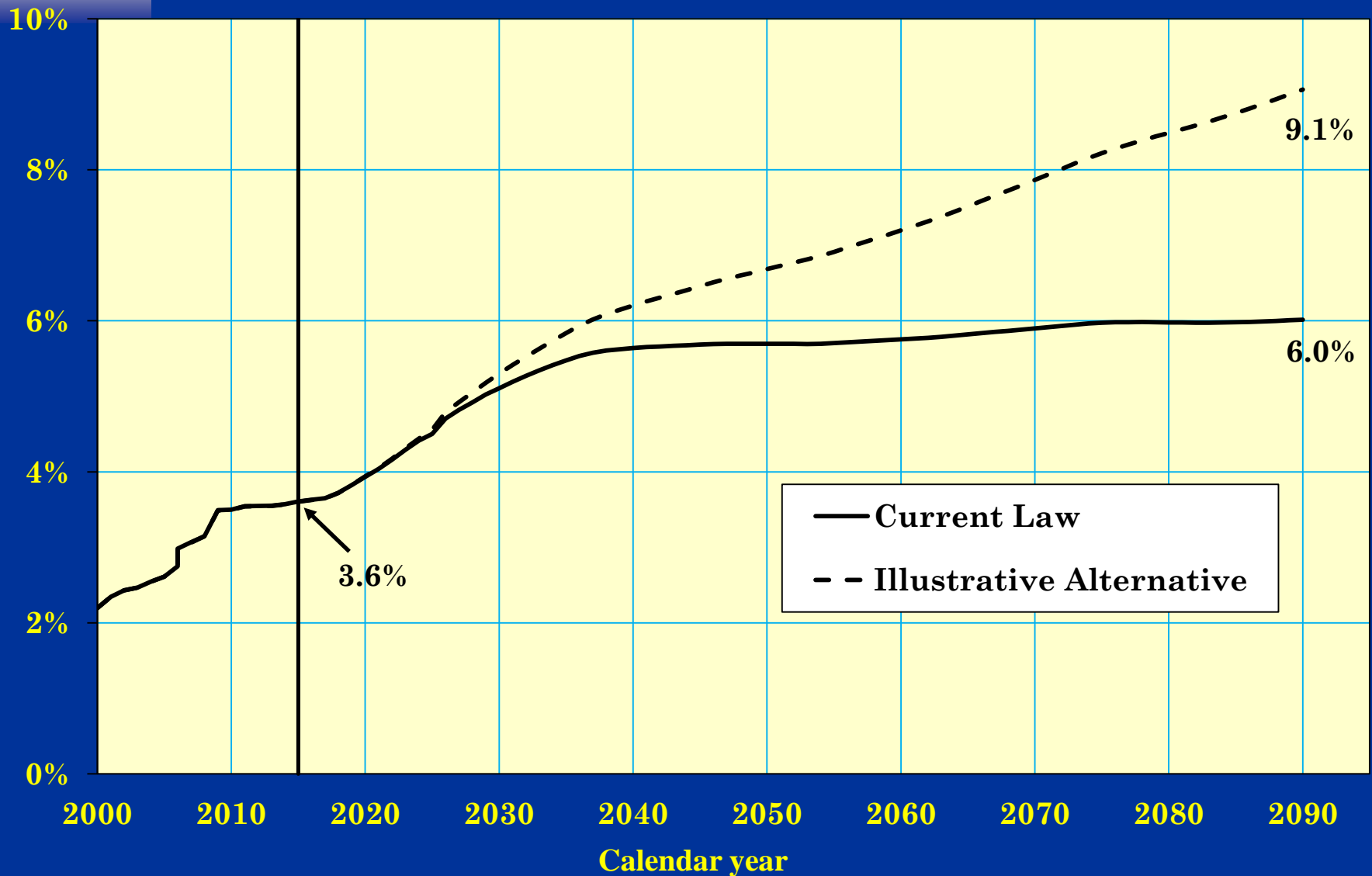
Medicare Part B Expenditures as a % of GDP

Current vs Prior Year's Reports



Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.

Medicare expenditures as a % of GDP under current law and illustrative alternative



Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.



Key Rates of Growth for IPAB Determination

Calendar year	Medicare per capita	IPAB determination	
		Medicare	Target
2011	2.4%	—	—
2012	0.3	—	—
2013	-1.1	1.46%	3.04%
2014	1.8	0.43	2.61
2015	2.0	1.70	2.48
2016	1.8	2.21	2.33
2017	1.1	2.82	2.62
2018	4.3	3.40	5.06
2019	4.7	3.98	5.26
2020	4.9	4.72	5.11

Note: Projections are based on the intermediate assumptions from the 2016 Trustees Report.

2016 Part B premium

- **No Social Security cost of living adjustment (COLA) in 2016**
- **Hold harmless provision prevented most Social Security beneficiary checks from decreasing**
 - Includes the Medicare Part B premium
 - About 70% of beneficiaries are again paying \$104.90 in 2016 (no increase in premium)
 - 30% not held harmless include duals, new in 2016, high-income or direct bill
- **Bipartisan Budget Act of 2015 enacted to help ensure adequate Part B funding without shifting entire financial burden to 30% not held harmless**
 - 2016 transfer from general revenue
 - Will be repaid with \$3.00 added to the monthly premium rate
 - If no COLA in 2017, provisions will apply again
- **Premium increased from \$104.90 in 2015 to \$121.80 in 2016**

2017 Part B Premium

- **The BBA provisions will apply if no COLA in 2017**
- **Alternatively, if COLA is sufficiently large, the hold harmless provisions will not be material**
- **The Trustees assume that the 2017 COLA will be 0.2%**
 - 2017 Part B premium projected to be \$149.00 for about 30% of beneficiaries not held harmless
 - Similar implication for 2017 Part B deductible (increase from \$166 in 2016 to \$204 in 2017)
- **Both premium and deductible expected to drop to typical levels after projected 2.9% COLA for 2018**
- **Through May, CPI-W is +.09% since 3Q2014 (the comparison index level for the 2017 COLA is 3Q2014 since there was no COLA for 2016)**