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SPECIAL REPORT
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Bush Budget Speeds Medicare Insolvency by 15 Years

In the highlights of his Budget Blueprint to the Congress, President Bush contends that the budget "[s]pends every penny of Medicare tax and premium collections over [the] next 10 years only on Medicare."[1] Shortly thereafter, the President's Message states: "The President's Budget reserves all Medicare funds for Medicare."[2] These statements are very misleading.

As the following analysis shows, the President's budget would divert $526 billion over the next 10 years from the Medicare Hospital Insurance Trust Fund (Medicare Part A), which is funded by dedicated payroll taxes, and use it to cover a portion of Medicare physician and outpatient services (Medicare Part B). Since Medicare Part B is, by law, mostly funded through general revenues, this frees up $526 billion in general revenues to pay for other items in the budget, such as approximately one-third of President Bush's proposed $1.6 trillion tax reduction.

In the process, *the $526 billion diversion of funds from the Medicare Hospital Insurance Trust Fund hastens that Trust Fund's insolvency* ***by 15 years****. Rather than remaining solvent until 2025 (as projected in the most recent Trustees' report[3]),* ***the Trust Fund would become insolvent in the year 2010****.*

Background

The Medicare Hospital Insurance Trust Fund (Medicare Part A) helps pay for inpatient hospital, home health, skilled nursing facility, and hospice care. Part A is funded through a dedicated payroll tax. Employers and their workers each pay 1.45 percent of earnings into the Trust Fund. Payroll taxes that are not immediately needed to pay for services are supposed to be kept in the Trust Fund, where they collect interest from investments in government bonds. As a result, surpluses in the Trust Fund are designed to earn interest and grow so that they are available in future years, especially when the "baby boom" generation reaches old age.

Medicare Part B pays for physician, outpatient hospital, home health, and other services. Part B is financed through a combination of beneficiary premiums and general revenues. The Medicare legislation specifies that 25 percent of program costs should be raised through beneficiary premiums; in 2001, the monthly premium paid by beneficiaries is $50. The remaining 75 percent of Part B is financed through general revenues.

Last year, the Board of Trustees projected that the Medicare Hospital Insurance Trust Fund (Part A) would be financially solvent until 2025.[4] Table 1 illustrates the financial health of the Trust Fund over the next 10 years *under current law*. At the beginning of fiscal year 2002, the Trust Fund is expected to have $200.4 billion in surplus reserves. From 2002 through 2010, payroll tax receipts are projected to exceed expenditures under Part A. In 2011, however, payroll tax receipts will equal

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Table 1

Medicare Trust Fund Income and Expenditures under Current Law
(Billions of Dollars)

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Surplus beginning of the year	200.4	236.3	275.3	316.0	356.0	399.7	441.2	481.9	521.2	558.3
Total Income-Part A										
Payroll Taxes*	167.3	176.0	185.3	195.5	205.2	215.5	226.4	237.8	249.9	262.7
Interest	14.0	16.0	18.2	20.5	22.6	25.3	27.7	30.0	32.2	34.4
Total Income	**181.3**	**192.0**	**203.5**	**216.0**	**227.8**	**240.8**	**254.1**	**267.8**	**282.1**	**297.1**
Total Expenditures-Part A**	**145.4**	**153.0**	**162.8**	**176.0**	**184.1**	**199.3**	**213.4**	**228.5**	**245.0**	**262.7**
Surplus for the Year	35.9	39.0	40.7	40.0	43.7	41.5	40.7	39.3	37.1	34.4
Cumulative Surplus	**236.3**	**275.3**	**316.0**	**356.0**	**399.7**	**441.2**	**481.9**	**521.2**	**558.3**	**592.7**

*Includes income from taxation of benefits, railroad retirement account transfers, and premium payments for voluntary enrollees.
**Includes payments for services and costs of administration.
Source: CBO January 2001 Baseline.

Part A expenditures—and, thereafter, as baby boomers enter the program, Part A expenditures will exceed payroll tax receipts.

Fortunately, in addition to payroll tax receipts, the Trust Fund also generates income from interest received on the surplus reserves. For example, in 2011, the Trust Fund is projected to receive $34.4 billion in interest revenues. As a result, the cumulative surplus reserves are projected to grow in each year throughout the 2002-2011 period. By the close of fiscal year 2011, the Trust Fund is projected to have a cumulative surplus of $592.7 billion.

President Bush's Proposed Budget

The President's budget proposes to take $526 billion over the next 10 years from the Medicare Hospital Insurance Trust Fund (Part A) to subsidize Part B of Medicare.[5] Table 2 illustrates the year-by-year diversion of Medicare Hospital Insurance Trust Fund dollars to Part B.

Through this 10-year diversion of $526 billion in funds from the Medicare Hospital Insurance Trust Fund to subsidize portions of Part B, the general fund of the U.S. budget is relieved of a commensurate obligation for financing Part B. In turn, this frees up $526 billion in general funds for other purposes. Thus, for example, the $526 billion of additional resources in the general fund are available to support almost one-third of the President's proposed $1.6 trillion tax cut.

By transferring $526 billion out of the Hospital Insurance Trust Fund, the Trust Fund not only loses those funds, but it also loses interest revenue because the reserve balance is reduced. Throughout the 10-year period, it is estimated that the Trust Fund will lose approximately $172.5 billion in interest—resulting in an overall loss of $698.5 billion from current fiscal projections. Table 3 sets forth the year-by-year Trust Fund losses in interest revenues resulting from the $526 billion diversion.

Table 2

Transfers out of Part A Trust Fund by Bush Budget (Billions of Dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
Transfers	34	39	44	47	54	56	59	61	66	66	526

Source: OMB, 2001.

Table 3

Interest Earned and Lost by the Part A Trust Fund (Billions of Dollars)

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
Interest: Current Law	14.0	16.0	18.2	20.5	22.6	25.3	27.7	30.0	32.2	34.4	240.9
Interest: Bush Budget	12.9	12.5	11.9	11.0	9.6	8.0	5.8	3.1	-0.2	-6.2	68.4
Interest lost under Bush Budget	1.1	3.5	6.3	9.5	13.0	17.3	21.9	26.9	32.4	40.6	172.5

Sources: CBO January 2001 Baseline and Families USA projections based on ratio of reserves under current law and after annual diversions from reserves.

The net effect of these losses by the Hospital Insurance Trust Fund is depicted in Table 4. This table sets forth the year-by-year changes in the fiscal viability of the Trust Fund throughout the fiscal 2002-2011 period if the President's budget were adopted.

As Table 4 reflects, these massive transfers out of the Hospital Insurance Trust Fund significantly change the Trust Fund's solvency. Under current baseline projections, Part A income exceeds expenditures for every year from 2002 to 2011. Under the President's budget, by contrast, expenditures would exceed income, beginning in 2003. From 2003 onward, outflow would exceed income.

As a result, the Hospital Insurance Trust Fund would experience a cumulative debt of $105.8 billion by the end of fiscal 2011—instead of the projected cumulative surplus of $592.7 billion under current law (see Figure 1).[6] By fiscal 2010, the Trust Fund would become insolvent and would be unable to meet all of its expenditure obligations. This fiscal 2010 insolvency, under the President's budget, would occur 15 years earlier than current projections, thereby impairing seniors' abilities to count on inpatient services nine years from now.

Table 4

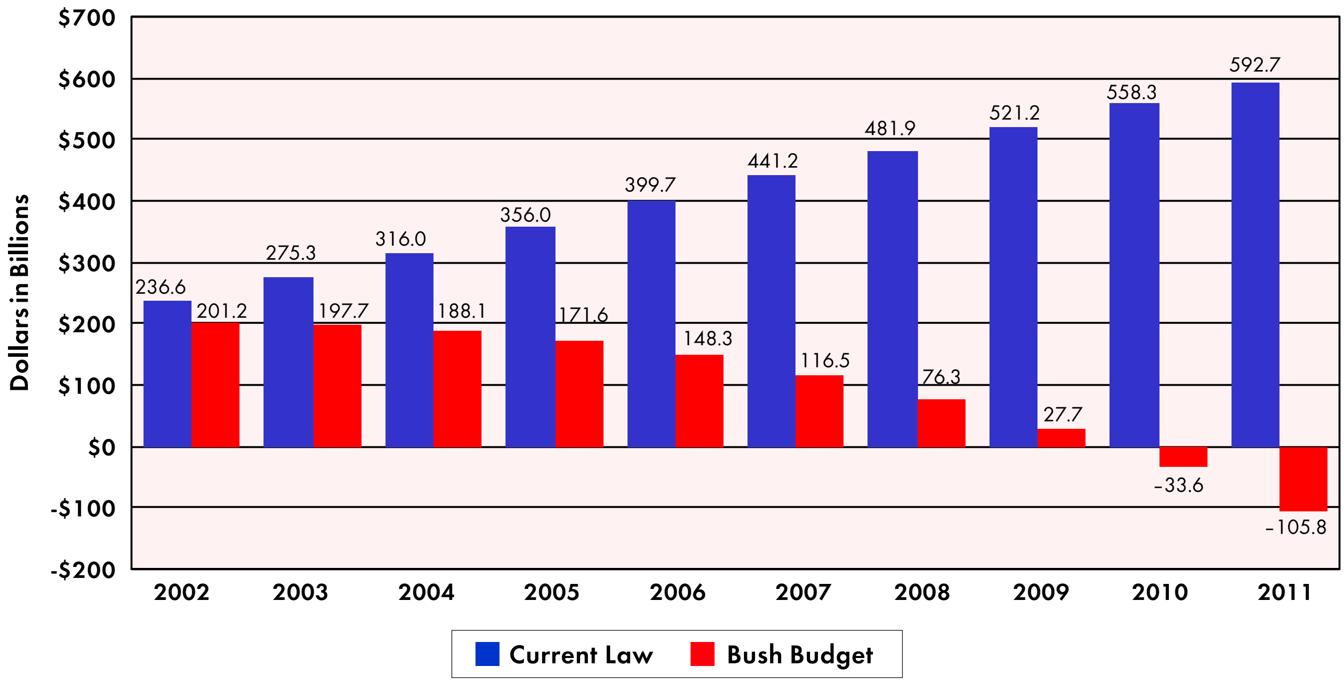
Medicare Part A Spending Under the President's Proposed Budget
(Billions of Dollars)

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Surplus beginning of the year	200.4	201.2	197.7	188.1	171.6	148.3	116.5	76.3	27.7	-33.6
Income Part A										
Payroll Taxes*	167.3	176	185.3	195.5	205.2	215.5	226.4	237.8	249.9	262.7
Interest	12.9	12.5	11.9	11.0	9.6	8.0	5.8	3.1	-0.2	-6.2
Total Income-Part A	**180.2**	**188.5**	**197.2**	**206.5**	**214.8**	**223.5**	**232.2**	**240.9**	**249.7**	**256.5**
Total Expenditures-Part A										
Part A Expenditures**	145.4	153.0	162.8	176.0	184.1	199.3	213.4	228.5	245.0	262.7
Transfer to Part B	34.0	39.0	44.0	47.0	54.0	56.0	59.0	61.0	66.0	66.0
Total Expenditures- Part A	**179.4**	**192.0**	**206.8**	**223.0**	**238.1**	**255.3**	**272.4**	**289.5**	**311.0**	**328.7**
Surplus for the Year	0.8	-3.5	-9.6	-16.5	-23.3	-31.8	-40.2	-48.6	-61.3	-72.2
Cumulative Surplus	**201.2**	**197.7**	**188.1**	**171.6**	**148.3**	**116.5**	**76.3**	**27.7**	**-33.6**	**-105.8**

*Includes income from taxation of benefits, railroad retirement account transfers, and premium payments for voluntary enrollees.
**Includes payments for services and cost of administration.
Sources: Office of Management and Budget, March 2001, and Families USA projections based on ratio of reserves under current law and after annual diversions from reserves.

Figure 1

Medicare Part A Trust Fund: Cumulative Surplus/Deficit (Billions of Dollars)



Conclusion

The Administration's Budget Message emphasizes that the "President is committed to shoring up Medicare's finances"[7] so that the program's promise of medical security is protected "for generations to come."[8] Unfortunately, the President's 10-year budget proposal would have the opposite effect. By transferring $526 billion out of the Medicare Hospital Insurance Trust Fund—ultimately providing additional resources to the general fund—the President significantly hastens the insolvency of the Trust Fund. In effect, he trades 15 years of Trust Fund solvency to finance approximately one-third of his proposed $1.6 trillion tax cut. In the process, he places the security of seniors' health care at risk.

Endnotes

[1] *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities* (Washington, DC: U.S. Government Printing Office, February 2001), p. 7.

[2] Ibid., p. 13.

[3] *2000 Annual Report of the Board of Trustees of the Hospital Insurance Trust Fund*, Revised, April 2000.

[4] Ibid.

[5] Unlike previous administrations' budget submissions, President Bush's Budget Blueprint does not separate Part A and Part B revenues and expenditures. The President's Budget Blueprint, however, indicates that the Medicare Hospital Insurance Trust Fund (Part A) has a budget "surplus" of $526 billion in the 2002-2011 period. (See p. 14.) The only surplus that is taken "off budget" by the President is the Social Security surplus. (See pp. 185 and 200.) Thus, since the President indicated that the "Budget reserves all Medicare funds for Medicare" (p. 13), it is apparent that the Part A "surplus" is proposed for transfer to Part B. Current law does not permit commingling of Part A and Part B funds. Hence, the Bush Administration would need to seek a statutory change to achieve the transfer. Absent such a statutory change, the Administration's budget proposal, in effect, double counts the $526 billion.

[6] President Bush has made clear that he would not ameliorate the Trust Fund's fiscal solvency problems through an increase in the payroll taxes (*A Blueprint for New Beginnings*, op. cit., p. 51), thereby limiting options for offsetting the harm caused by the transfer of funds from the Trust Fund.

[7] *A Blueprint for New Beginnings*, op. cit., p. 22.

[8] Ibid., p. 49.

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