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Medicare Remains on Fast Track to Bankruptcy

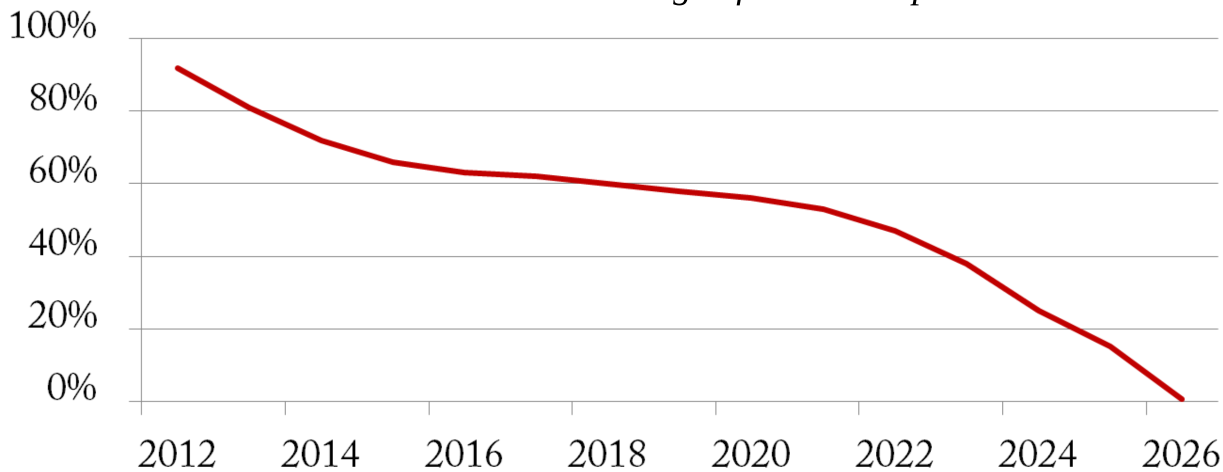
On May 31, the Medicare Trustees issued their annual report on the financial status of the program. The report outlines a program damaged by the Obama Administration's health care law and on the fast track toward bankruptcy. Administration officials claimed the health care law improved Medicare's financial outlook. Slower health care spending was a factor pushing the trust fund's insolvency date back two years – until 2026. However, the health care spending slowdown is likely due to the weak economy. Leading economists expect health care spending growth to increase once the sluggish economy recovers. Even Democrat Robert Reischauer, a public Medicare trustee, warned against seeing the extension as a significant development, saying: "I think that such an interpretation would be a mistake." Medicare's long-term fiscal challenges remain, and the President's health care law made the problem worse.

Runaway Deficits Lead to Bankruptcy

Medicare's Hospital Insurance (HI) Trust Fund continues to run annual cash flow deficits. Expenditures from the HI trust fund have exceeded annual income every year since 2008. The HI fund's deficit totaled $23.8 billion last year. When the HI Trust Fund goes bankrupt in 2026, the program will be unable to pay full benefits to America's seniors.

Trust Fund Fully Exhausted in 2026

Trust Fund Balance as a Percentage of Annual Expenditures



Unrealistic Assumptions

The 2026 Medicare bankruptcy projection date is actually based on optimistic calculations. This is because the trustees assume cost reductions that are part of current law. **For example, the trustees predict that Medicare's physician payments will be cut 24.7 percent starting January 1, 2014.** The report also assumes that President Obama's health care law provider "productivity" payment cuts will occur as planned. These assumptions defy past practice. Congress has overridden all scheduled Medicare physician payment reductions since 2003, and it is unlikely that Congress will allow the health care law's provider payment cuts to stand over the long term.

The trustees explain that the law's provider cuts will cause negative operating margins for 15 percent of hospitals, skilled nursing facilities, and home health agencies. That percentage increases to 25 percent in 2030 and 40 percent by 2050. The report adds that "providers could not sustain continuing negative margins and would have to withdraw from serving Medicare beneficiaries."

As a result, the non-partisan acting Chief Actuary at the Centers for Medicare and Medicaid Services (CMS) released an alternative projection that looks at Medicare's financial footing using more realistic assumptions.

> "The actual future costs for Medicare are likely to exceed those shown by the current-law projections in this report, possibly by substantial amounts."
> -- CMS Office of the Actuary, May 31, 2013

Long-Term Unfunded Obligations

Assuming current law remains unchanged, Medicare's HI unfunded obligation over the 75-year window is $4.6 trillion. Medicare's total 75-year unfunded liabilities equal $27.3 trillion. Under current law assumptions, Medicare spending rises from its current level of 3.6 percent of GDP to 5.8 percent in 2040 and 6.5 percent in 2087. As noted above, however, these spending projections are based on unrealistic assumptions.

Using the more realistic alternative scenario, Medicare's 75-year total unfunded liabilities jump to $36.2 trillion – an $8.9 trillion dollar difference. Additionally, Medicare spending as a percentage of GDP will dramatically increase to 6.5 percent in 2040 and 9.8 percent in 2087.

Multiple Funding Warnings

For the eighth year in a row, the trustees issued an "excess general revenue Medicare funding" warning. **This means the Medicare program will rely on money from the Treasury's general revenues to cover more than 45 percent of its expenses this year.**

By law, when Medicare gets into that situation the President must submit, within 15 days of his next budget, a detailed legislative proposal to stem the crisis. Although the trustees have issued a

Medicare funding warning every year since he took office, President Obama has never complied with the statutory requirement that he submit a plan to save Medicare from bankruptcy and preserve it for future generations.

Medicare Double Counting and Health Care Law Budget Gimmicks

Rather than confronting the looming entitlement crisis, President Obama's health care law raided more than $700 billion dollars from the Medicare program – not to save Medicare, but to start a brand new program. The President claims these Medicare cuts make the program more solvent. At the same time, the President also claims these Medicare cuts will pay for the cost of the new health insurance entitlement. The CMS actuary and CBO have both called the President on his double counting.

President Obama and congressional Democrats should level with the American people about the budget gimmicks they've used to pretend Medicare is not going bankrupt. Unless Washington starts telling the truth about the program's financial challenges and works together to enact real reforms, we will soon see the end of Medicare as we know it.