Medicare Solvency

Questions and Answers

1. **For years I've heard that Medicare is going bankrupt. But it always works out. Why is this time any different?**

   A: The large number of baby boomers entering into Medicare every day, coupled with the fact that people are living longer and staying in the Medicare system longer, is putting a real strain on the system. There are 47 million beneficiaries today. By 2030, that number will almost double to around 80 million. It is estimated that the Medicare Trust Fund will run out of money in 2024. That is five years sooner than the previous projection. The insolvency date moves closer and closer.

2. **I have paid into the system, so doesn't the government need to fulfill its obligation and find a way to cover my healthcare expenses?**

   A: The current imbalance of the funds paid into the system and the number of health services being utilized makes the Medicare program nearly impossible to sustain. The average baby boomer couple will pay $114,000 into the Medicare system over their lifetime through Medicare payroll taxes, yet they will receive approximately $350,000 in medical care from Medicare.

3. **Does Medicare cover all of my expenses now?**

   A: Under the traditional fee-for-service Medicare program, all medical expenses are not covered. The average Medicare beneficiary spends about 20 percent of their income for medical care and insurance. Medicare does not, except in limited circumstances, cover vision, hearing, dental, or nursing home care. It also has a cap on the number of hospital days it covers. If a person reaches that maximum, no additional hospitalization costs will be paid for by Medicare.

4. **Can't a lot of money be saved if the government cuts down on fraud and abuse?**

   A: While it is estimated that about $70 billion is lost every year to fraud and abuse, eliminating this problem will not measurably strengthen Medicare solvency because it will not close the gap between what people are paying into the Medicare Trust Fund and the medical expenses being paid out. It should be part of the solution, but it is not enough.

5. **If the government hadn't added the Part D Prescription Drug Program would we have this solvency problem?**

   A: Prescription drug coverage in Medicare was long overdue. Prescription coverage helps seniors stay healthy and avoid serious and expensive health complications. In addition, the prescription drug program costs the government and beneficiaries far less than initially projected. Last year, the government's budgeting arm reduced its Part D spending projection by over $100 billion for the next 10 years.

6. **I keep hearing that companies are dropping retiree coverage. How will this impact Medicare's solvency?**

A: Although there have been government incentives for employers to retain health coverage for retirees, rising costs are prompting some companies to drop them once they become eligible for Medicare. Since 2000, 20% of companies with over 5,000 employees have eliminated retiree coverage. As recently as 2010, a survey of employers found that 4% of small businesses are dropping retiree coverage, and more than 20% were considering dropping benefits altogether. This trend only increases the strain on the Medicare program as it becomes the primary rather than secondary payer of benefits for this population.

7. **I hear that doctors are going to stop taking Medicare patients. This seems inhumane. Why are they doing that?**

A: The increasing number of people becoming eligible for Medicare has put a huge strain on physicians who treat Medicare patients, not only in terms of human and medical resources, but also the financial cost. Medicare pays well under what it costs to provide care; according to the Mayo Clinic about 50% less. Many practices have no choice but to limit their number of Medicare patients in order to balance those losses. As a result, according to a 2009 Medicare Payment Advisory Commission report, "While 92% of U.S. family doctors participate in Medicare, only 73% of those are accepting new patients under the program." The situation is much worse in some states. According to the Texas Medical Association, only 38% of Texas primary care physicians say they will take new Medicare patients because of low reimbursement rates.

8. **With so many baby boomers joining Medicare every day, how will the ratio of active workers per retiree change during the next 10 years? What role will demographics play in the solvency of Medicare?**

A: When the Medicare program was established in 1965 it was designed to have younger workers "paying forward" for current Medicare beneficiaries. At that time, there were approximately 19 working taxpayers per beneficiary. Today that number is around 3.4. By 2030, it is estimated to drop to 2.3 working taxpayers per Medicare beneficiary. With around 7,500 baby boomers joining the Medicare rolls every day and living longer, there will not be enough taxpayers to support these individuals throughout their lifespan in the Medicare program.

9. **Why is the problem of looming Medicare insolvency so hard to fix?**

A: It's complicated because it involves so many different stakeholders with unique interests. Solving the problem, just like addressing a dwindling personal checking or savings account, will take sacrifice and commitment by everyone. Doctors and hospitals have to work to provide better value, beneficiaries need to understand that keeping themselves healthy from an early age is paramount, and everyone, including health plans, providers, manufacturers, beneficiaries, and the government, needs to focus on making consensus-based changes now that might not have immediate results, but save money in the long run to ensure that Medicare is there for future generations.

10. I've always assumed that Medicare won't be there for me when I am eligible. Why should I worry about something that isn't going to be there for me in the future?

A: In fact, if we do nothing about fixing Medicare's solvency problem, it will impact young people far beyond just their healthcare. If we don't slow down healthcare spending, it will come at the expense of other important public needs, such as infrastructure like bridges and highway repair, and other important societal goods that we value. If we don't fix Medicare, the rest of our public necessities will begin to crumble because government funds will be diverted from infrastructure improvements to pay for Medicare.