

Medicare: Issues and Answers

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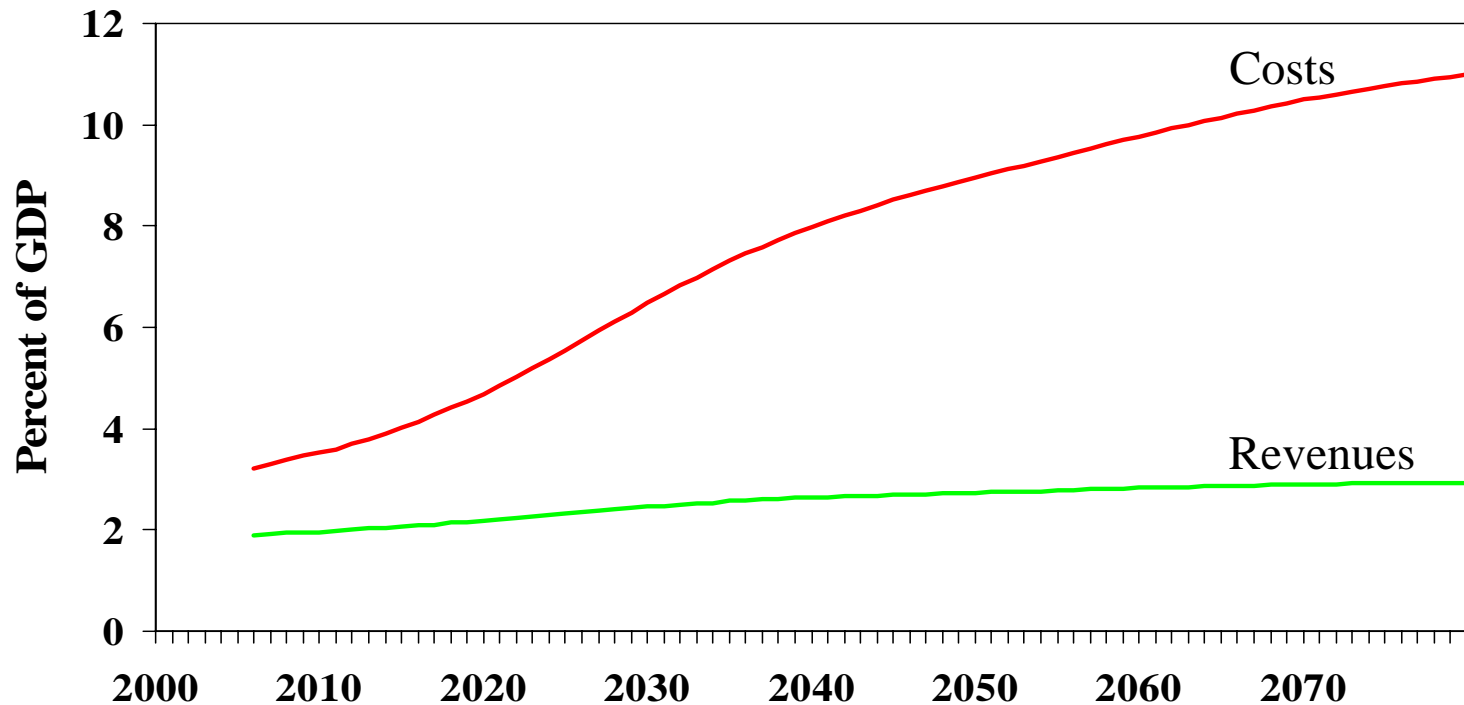
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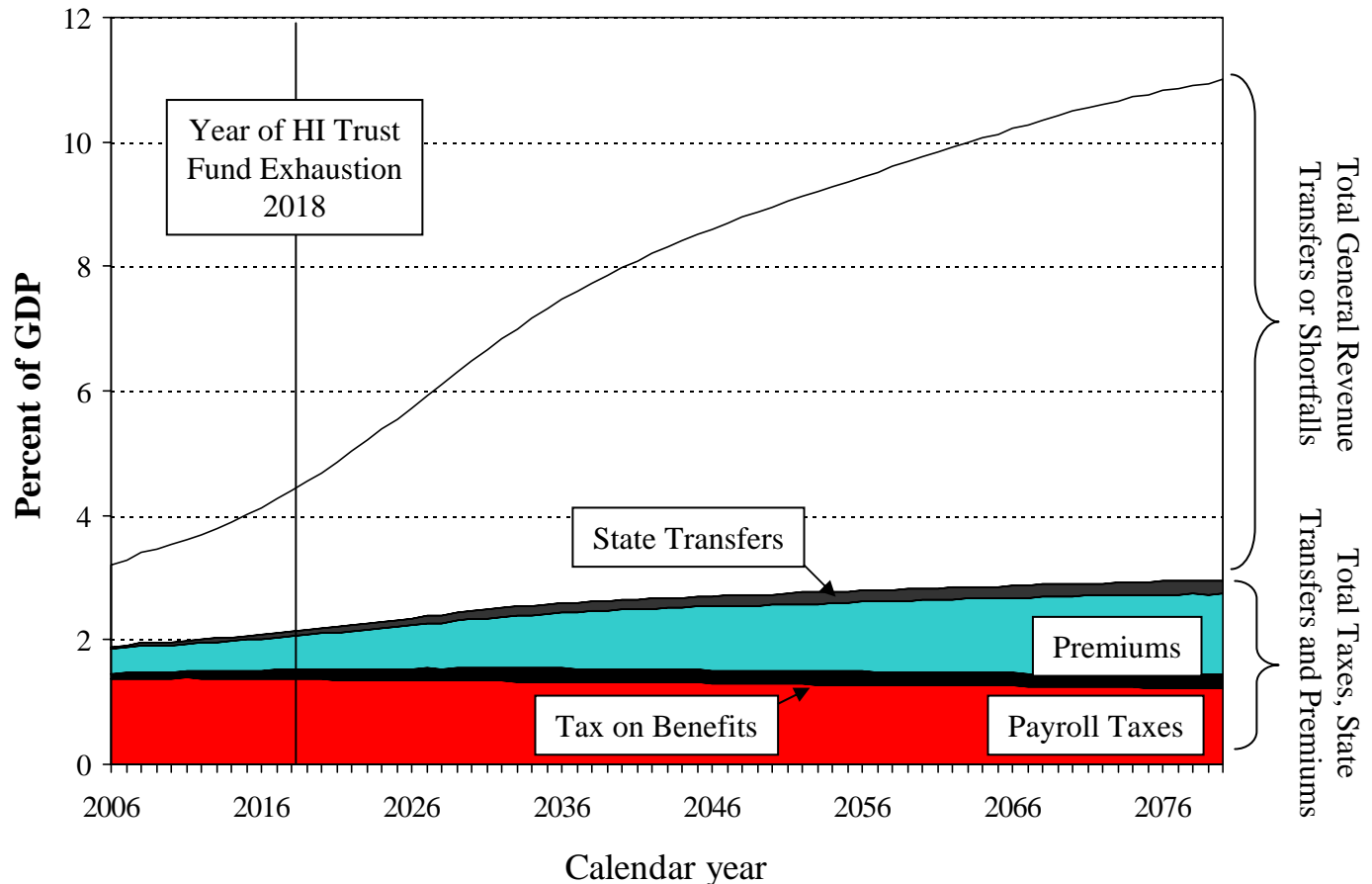
Projected Medicare Costs and Revenues



Source: 2006 Medicare Trustees Report Table III.A2, III.C15, III.C21, Social Security Trustees Report Table VI.F4, and author's estimates. Revenues include payroll taxes, taxes paid on Social Security benefits, premium income, and state transfers.



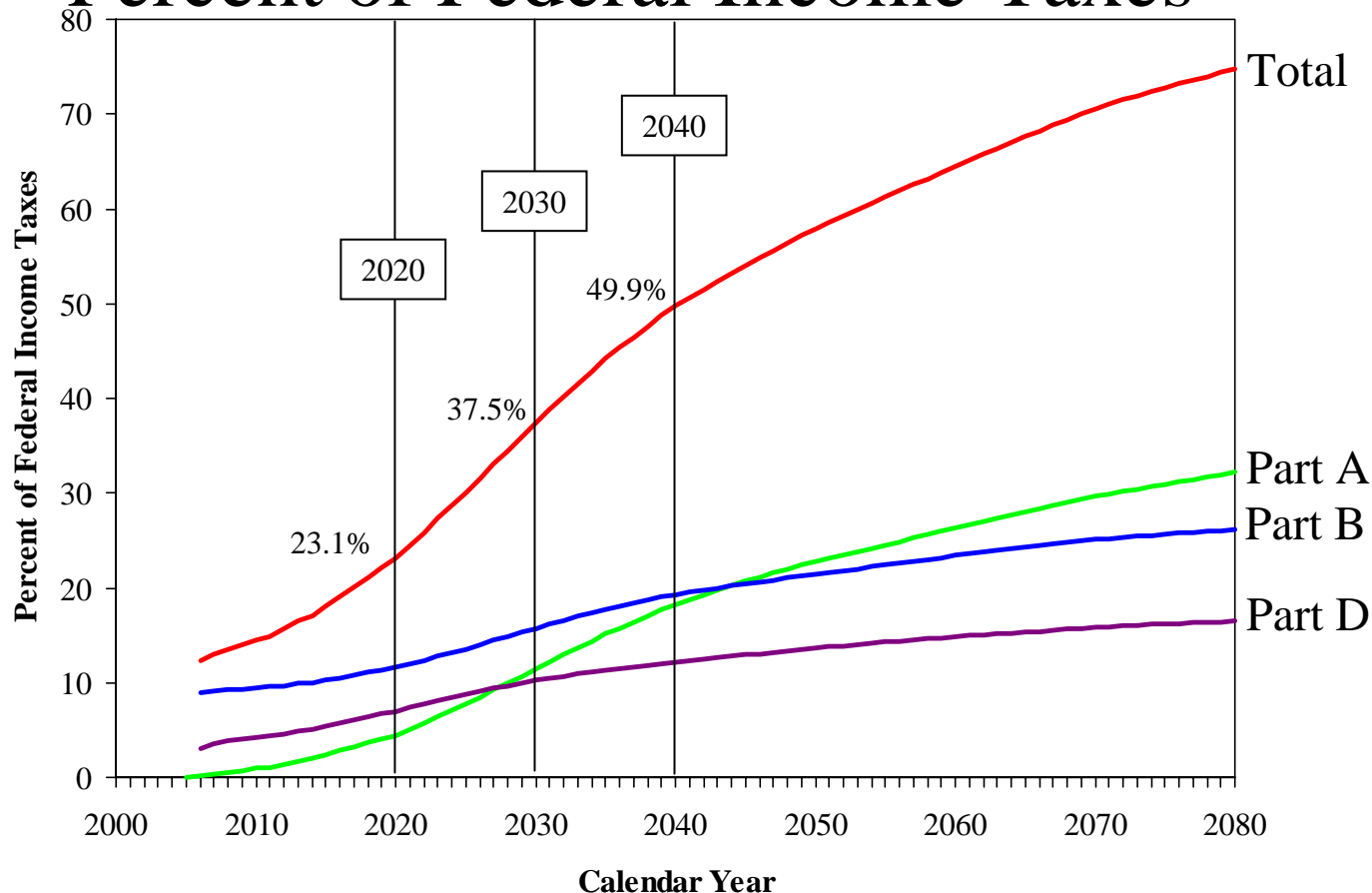
Medicare Expenditures and Income by Source



Source: 2006 Medicare Trustees Report Table III.A2, III.C15, III.C21, 2006 Social Security Trustees Report Table VI.F4, and author's estimates.



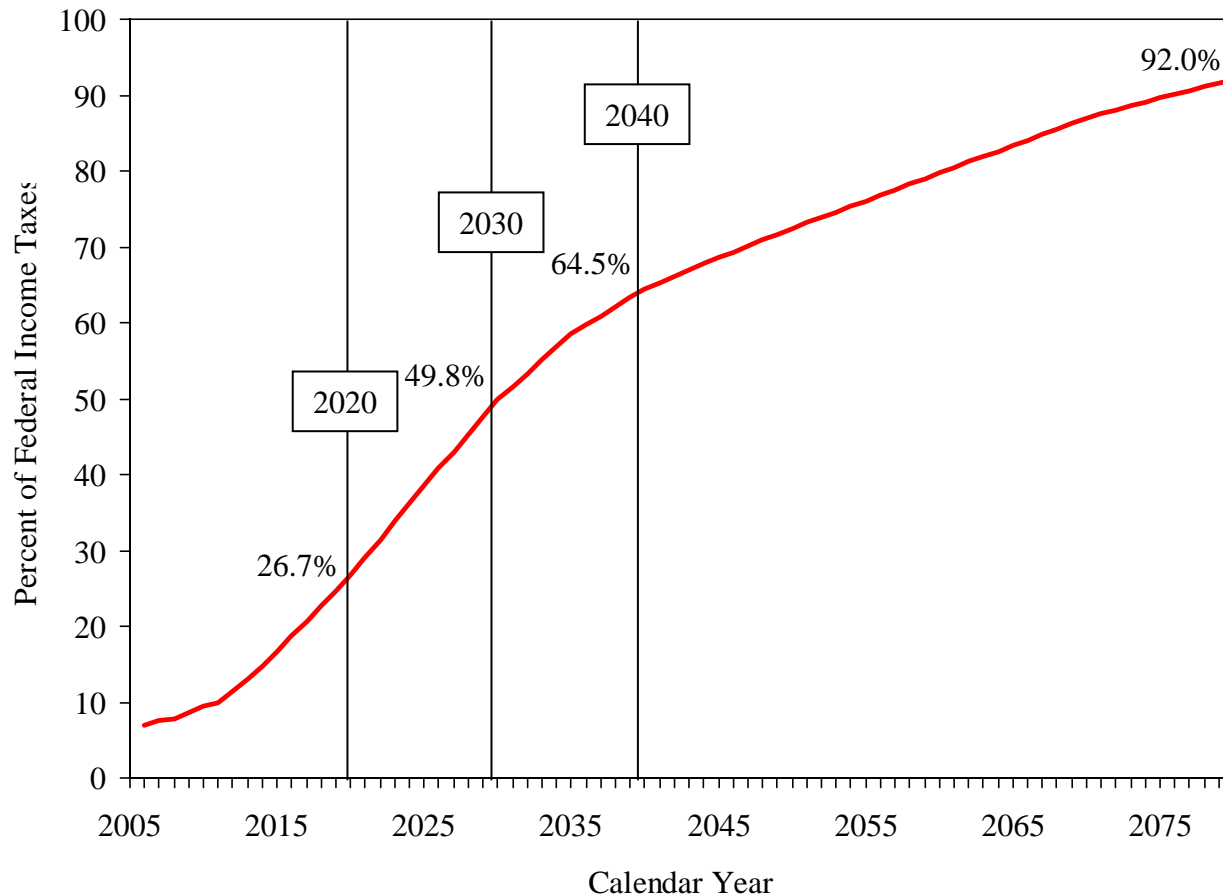
Medicare Funding Shortfalls as a Percent of Federal Income Taxes



Source: 2006 Medicare Trustees Report and author's estimates. Federal Income Taxes are estimated to be 10.76% of GDP, the 50-year average.



Social Security and Medicare Funding Shortfalls as a Percent of Federal Income Taxes



Source: 2006 Social Security and Medicare Trustees Reports and author's estimates. Federal Income Taxes are estimated to be 10.76% of GDP, the 50-year average.



The Fundamental Economics of Generation Transfer Systems

- **The Debt Owed to the Current Generation**

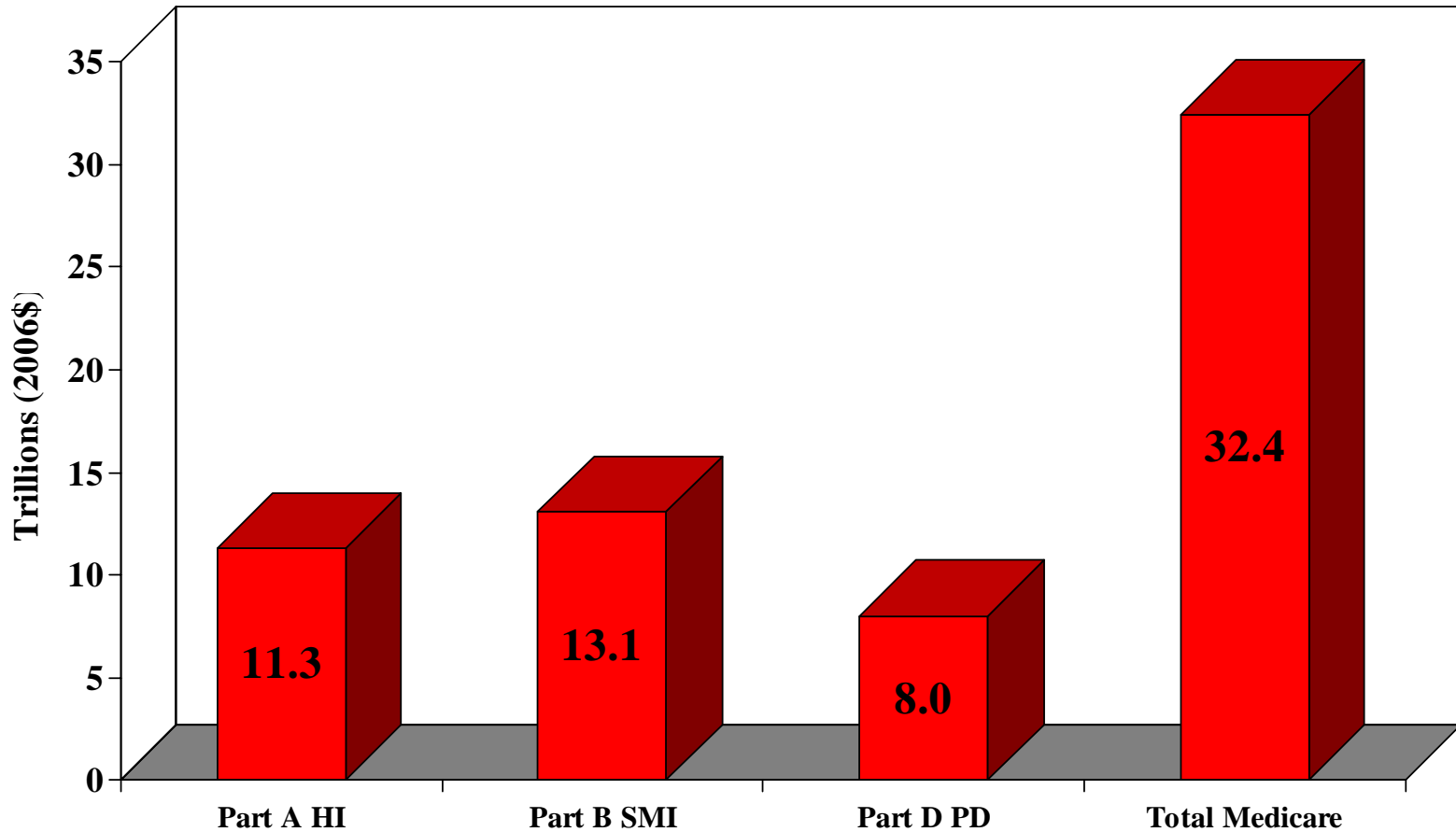
- **Must be Paid by New entrants to the system**



The Total Cost of Medicare



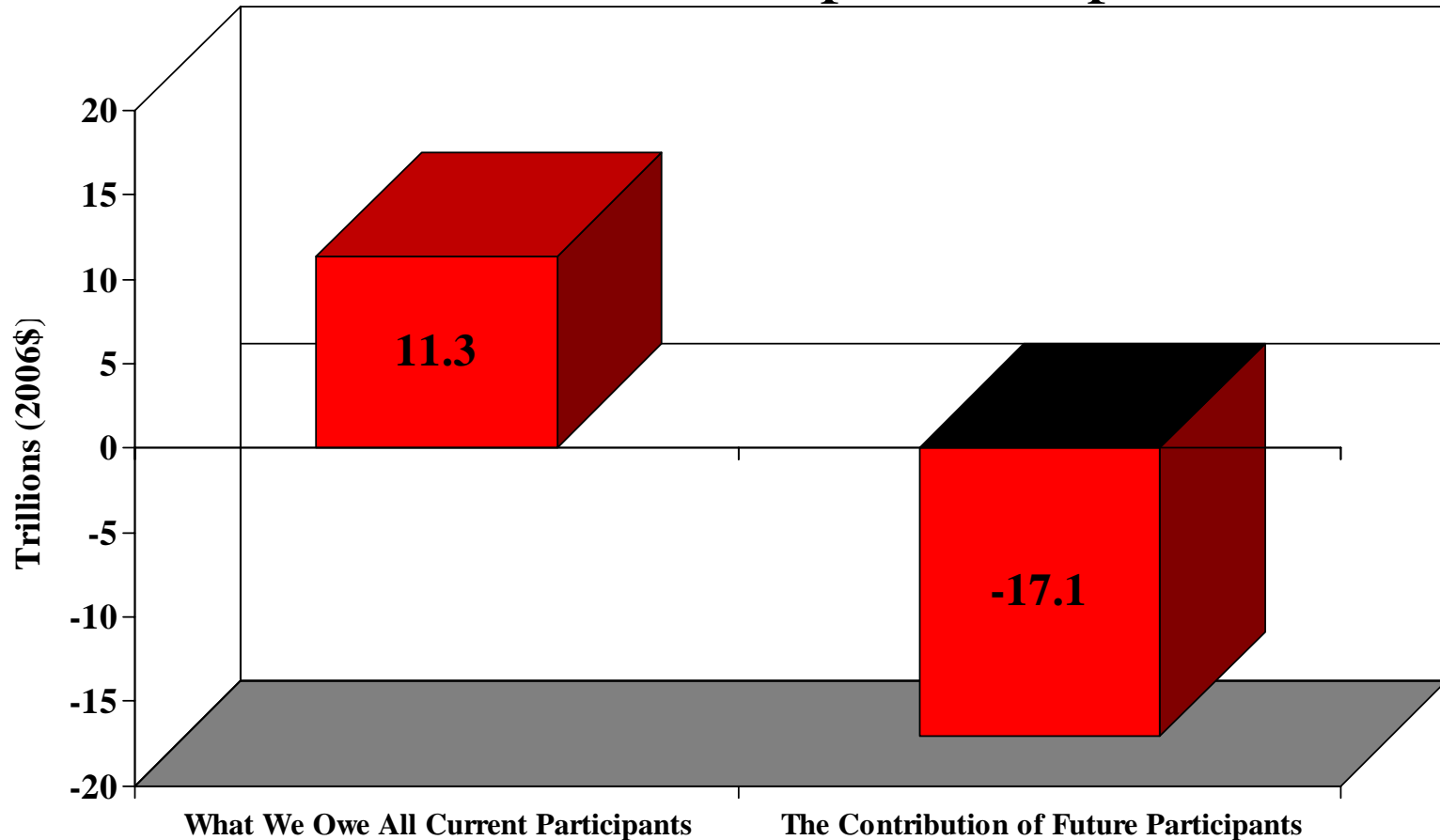
Medicare's 75-Year Unfunded Obligation



Source: Table III.B10, Table III.C15, Table III.C21 2006 Trustees Reports excluding HI Trust Fund.



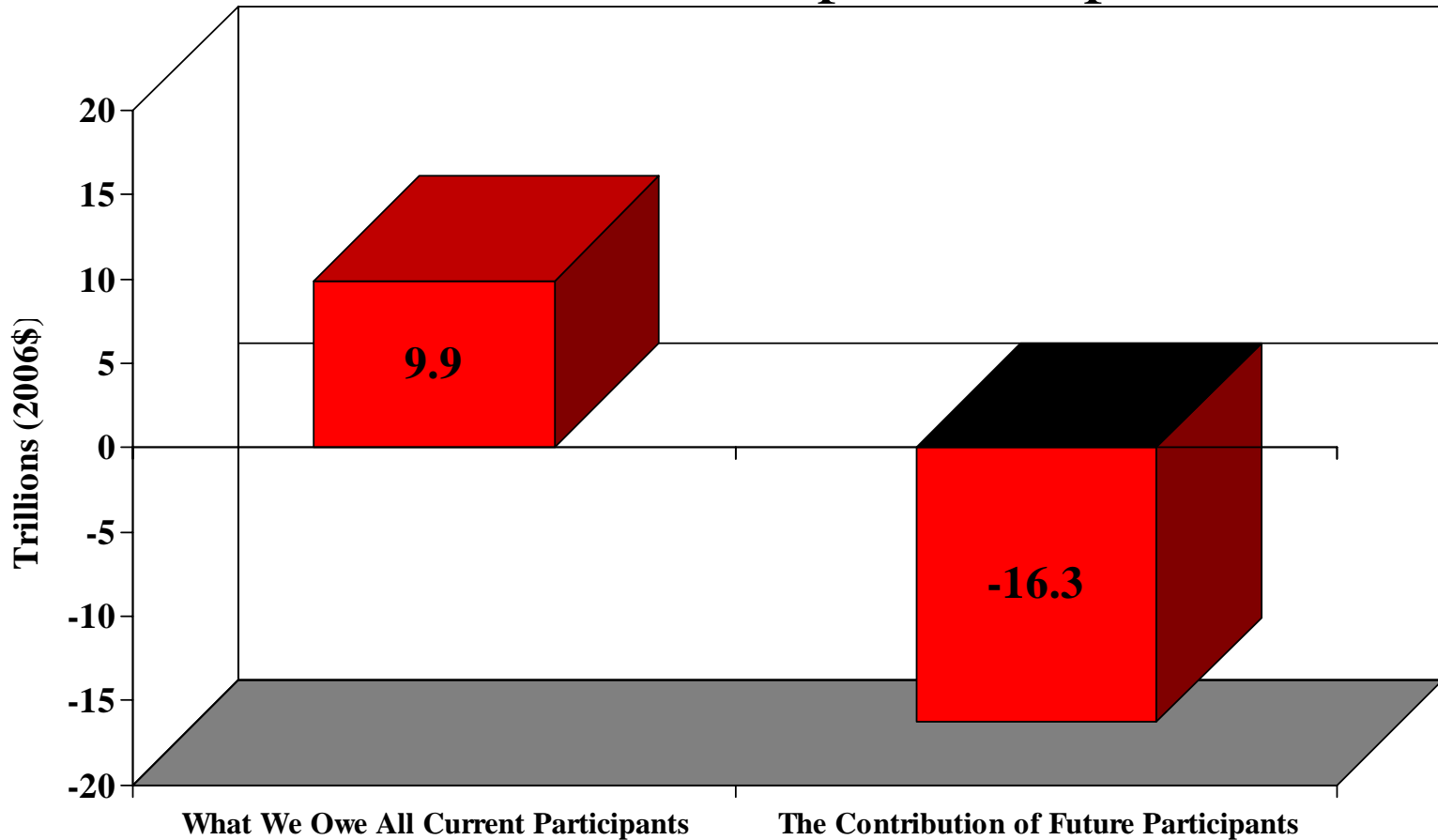
Medicare Part A Debt: How Much Will Future Participants Help?



Source: Table III.B11, 2006 Trustees Reports.



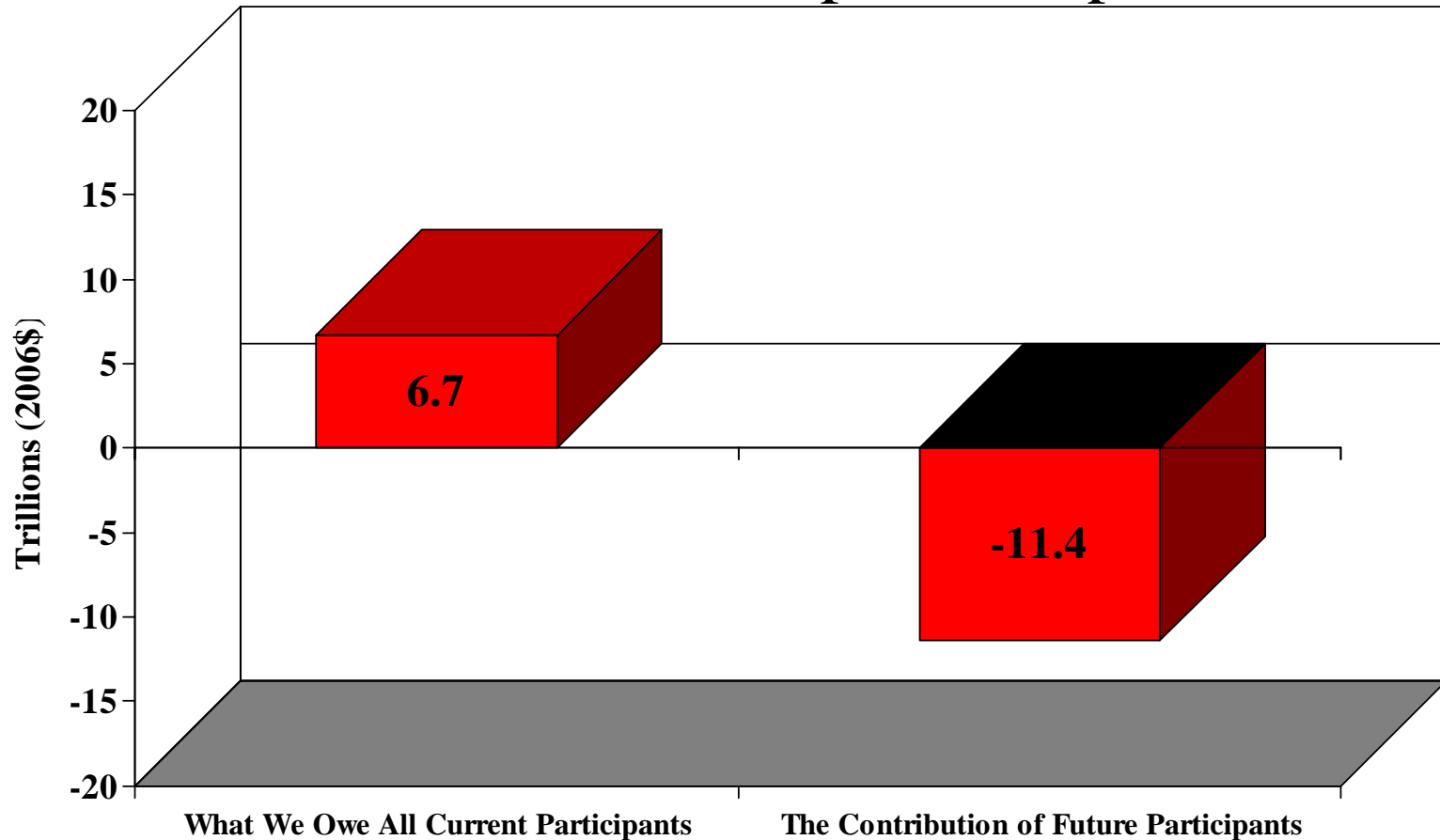
Medicare Part B Debt: How Much Will Future Participants Help?



Source: Table III.C16, 2006 Trustees Reports



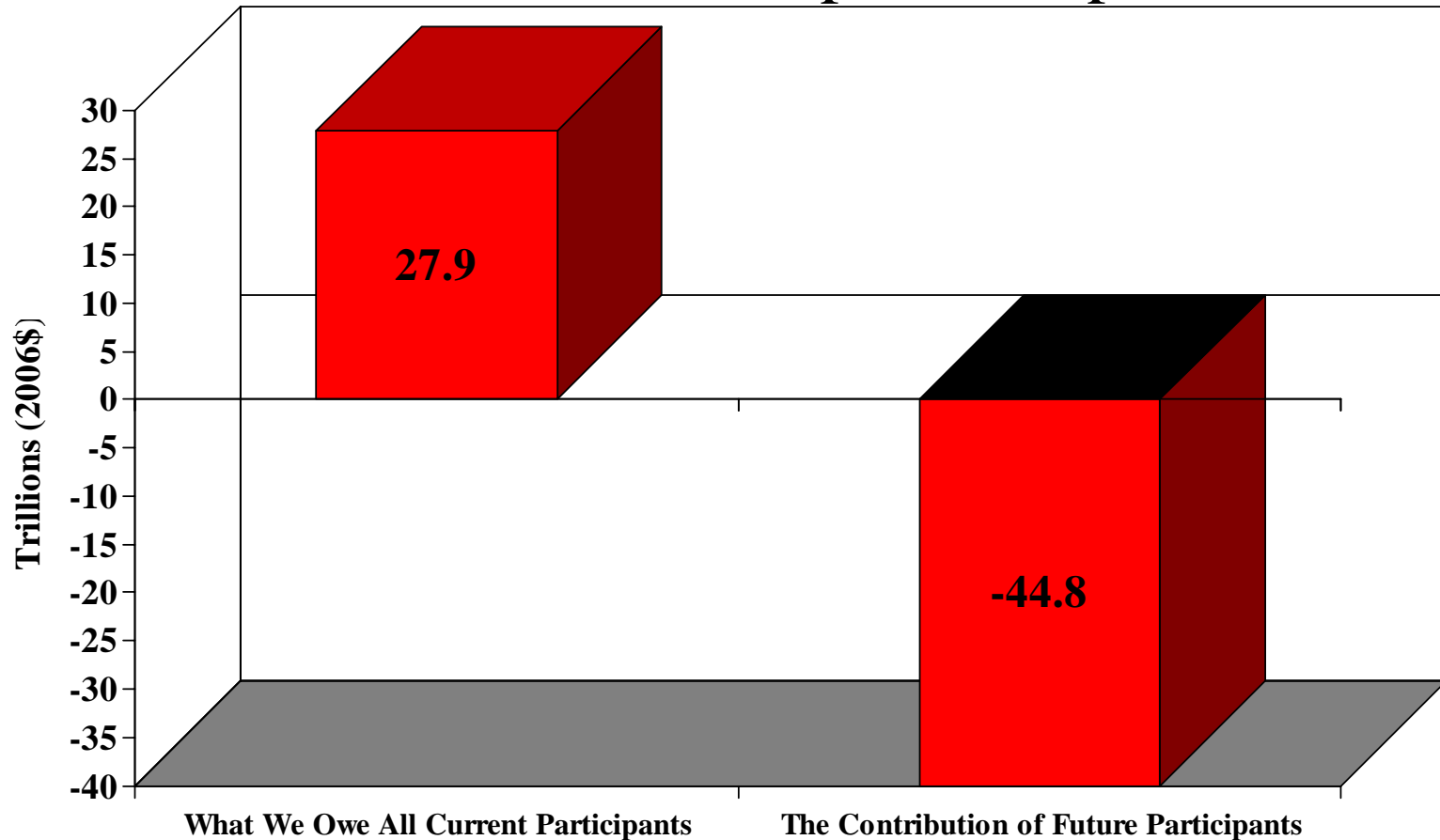
Medicare Part D Debt: How Much Will Future Participants Help?



Source: Table III.C22, 2006 Trustees Reports – results treat state transfers of \$0.7 trillion for the current generation and \$1.2 trillion for future generations as unfunded liability since they must be paid by taxpayers.



Total Medicare Debt: How Much Will Future Participants Help?



Source: 2006 Trustees Reports



Composition of Medicare's Unfunded Obligations

Trillions 2006\$

Group	Unfunded obligations			
	Part A	Part B	Part D	Combined
Current participants	11.3	9.9	6.0	27.2
Future participants	17.1	16.3	10.2	43.6
Current and future participants	28.4	26.2	16.2	70.8
Trust Fund Offset	0.3	0.0	0.0	0.3
Infinite horizon	28.1	26.2	16.2	70.5

Sources: Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report.



Composition of Medicare's Unfunded Obligations

% Federal Income Tax Revenues

Group	Part A	Part B	Part D	Combined
Current participants	9.3	8.4	4.7	22.3
Future participants	13.9	13.9	8.4	36.3
Current and future participants	23.2	21.4	13.0	57.6
Trust Fund Offset	0.0	0.0	0.0	0.0
Infinite horizon	22.2	21.4	13.0	57.6

Sources: Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report and author's estimates. Federal Income Tax revenues are assumed to be 10.76% of projected GDP, the 50-year average (1956-2005).



2006 Trustees Reports

Social Security and Medicare Combined Overview



Composition of Social Security's and Medicare's Unfunded Obligations

Trillions 2006\$

Unfunded Obligations

Group	Medicare	Social Security	Combined
Current participants	27.2	15.1	42.3
Future participants	43.6	0.1	43.7
Current and future participants	70.8	15.2	86.0
Trust Fund Offset	0.3	1.9	2.2
Infinite horizon	70.5	13.3	83.8

Sources: Table IV.B7, 2006 Social Security Trustees Report and Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report.



Composition of Social Security's and Medicare's Unfunded Obligations

% of GDP

Unfunded Obligations

Group	Medicare	Social Security	Combined
Current participants	2.4	1.4	3.8
Future participants	3.9	0.0	3.9
Current and future participants	6.2	1.4	7.6
Trust Fund Offset	0.0	0.2	0.2
Infinite horizon	6.2	1.3	7.5

Sources: Table IV.B7, 2006 Social Security Trustees Report and Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report.



Composition of Social Security's and Medicare's Unfunded Obligations

% of Federal Income Taxes

Unfunded Obligations

Group	Medicare	Social Security	Combined
Current participants	22.3	13.0	35.3
Future participants	36.3	0.0	36.3
Current and future participants	57.6	13.0	70.6
Trust Fund Offset	0.0	1.9	1.9
Infinite horizon	57.6	12.1	69.7

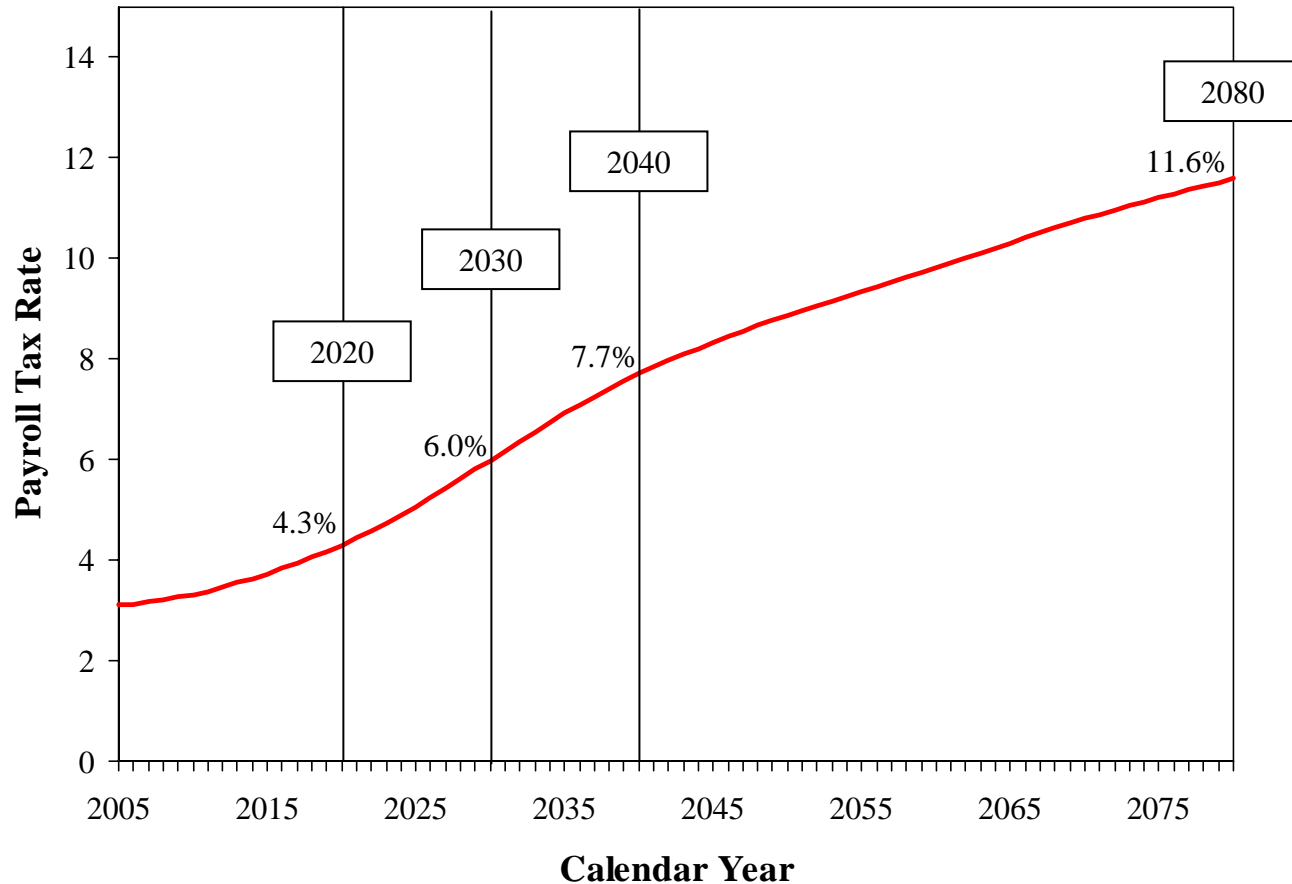
Sources: Table IV.B7, 2006 Social Security Trustees Report and Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report. Federal Income Taxes are estimated to be 10.76% of GDP, the 50-year average.



Implications of Alternative Financing of Medicare's Shortfalls



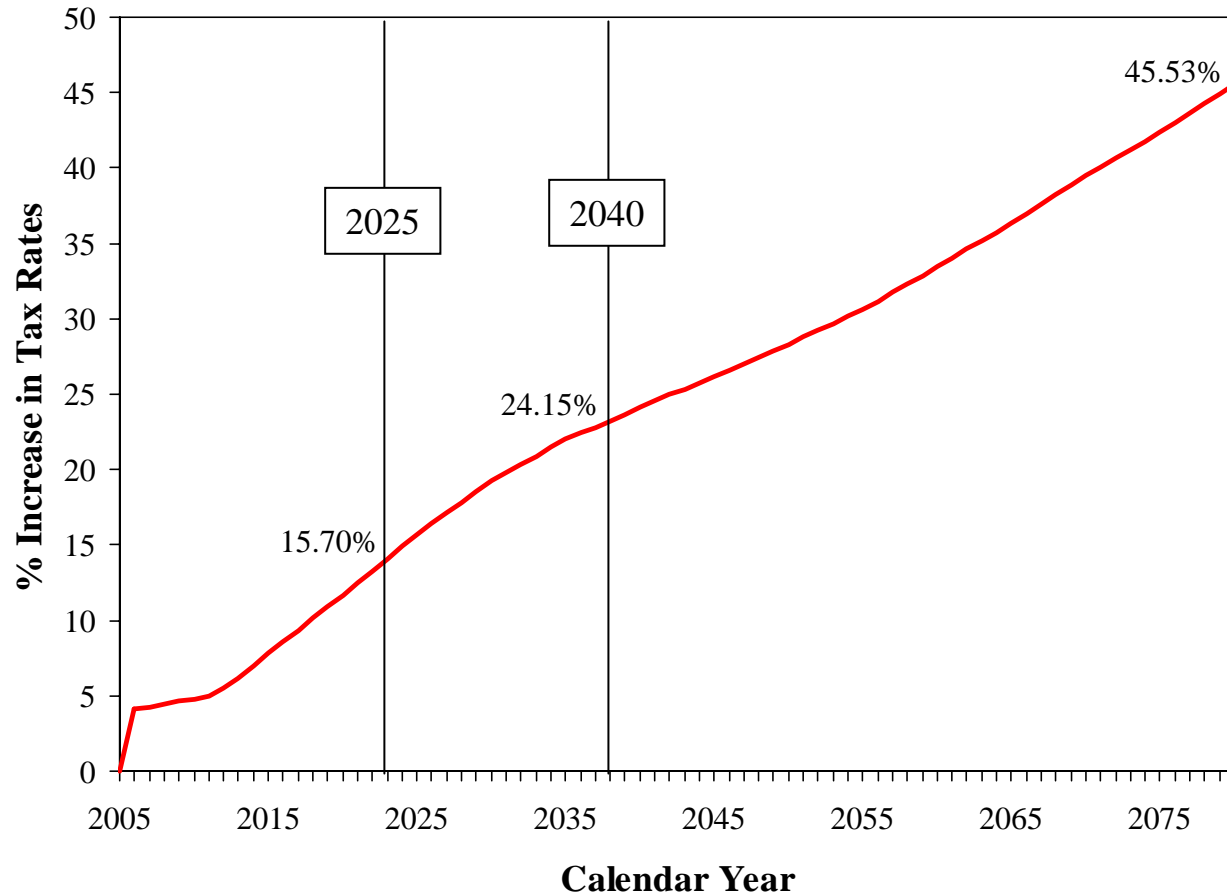
Balancing the Medicare Part A Budget With Payroll Taxes



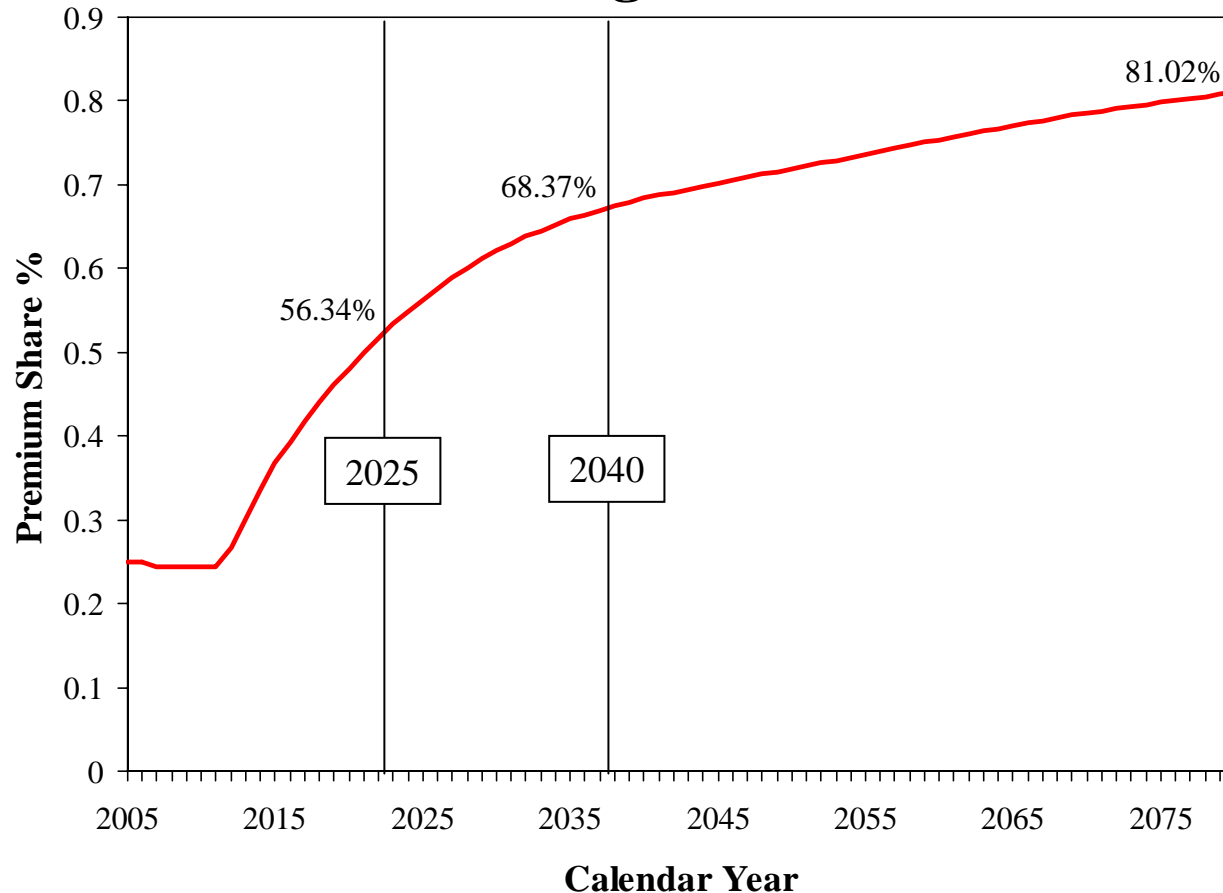
Source: Figure II.E1 2006 Medicare Trustees Report



Average Tax Rate Increase Required to Maintain Non-Entitlement Expenditures Part A Deficits Financed with Payroll Taxes



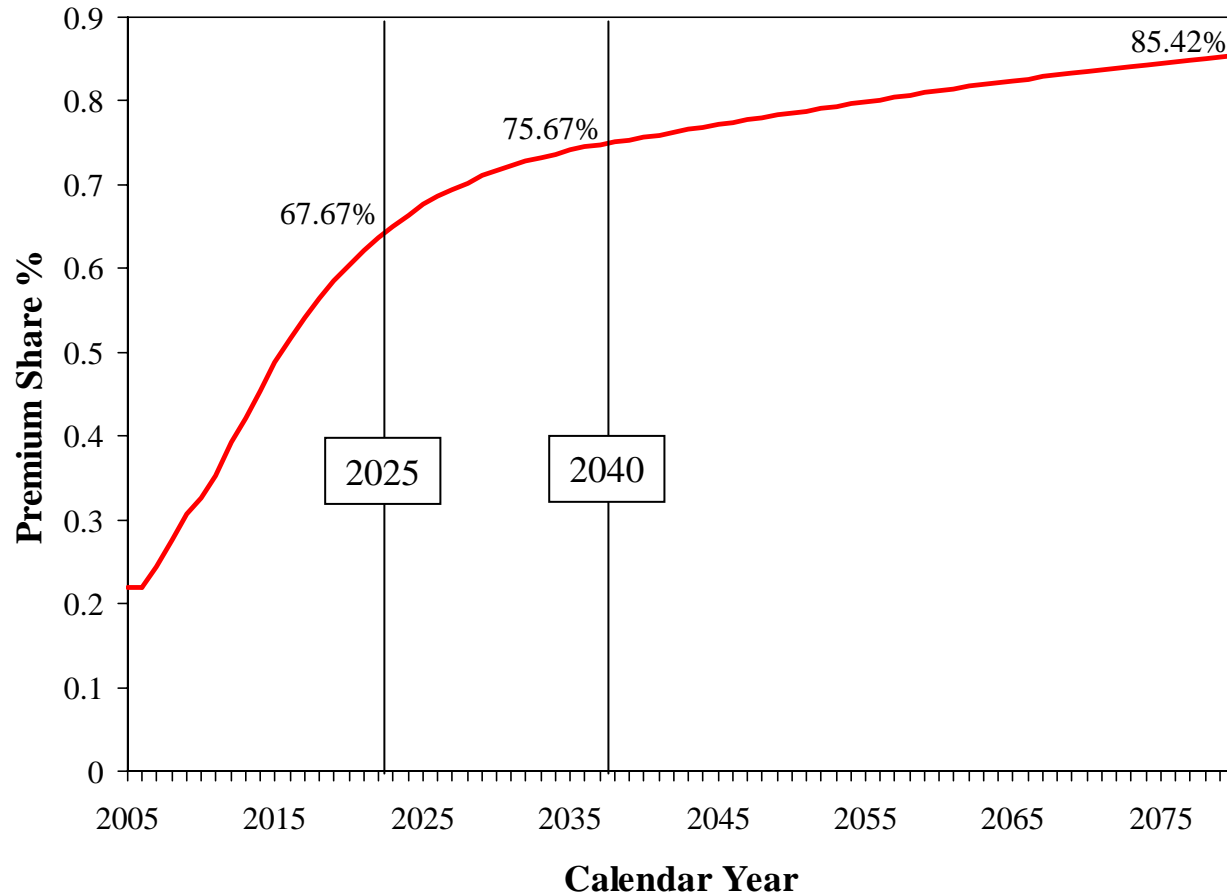
Premiums as a Share of Total SMI Expenditures Assuming a Constant Transfer Share and Premium Financing for SMI Deficits



Transfer fixed 2006 share of GDP from Table III.A2 2006 Medicare Trustees Report.



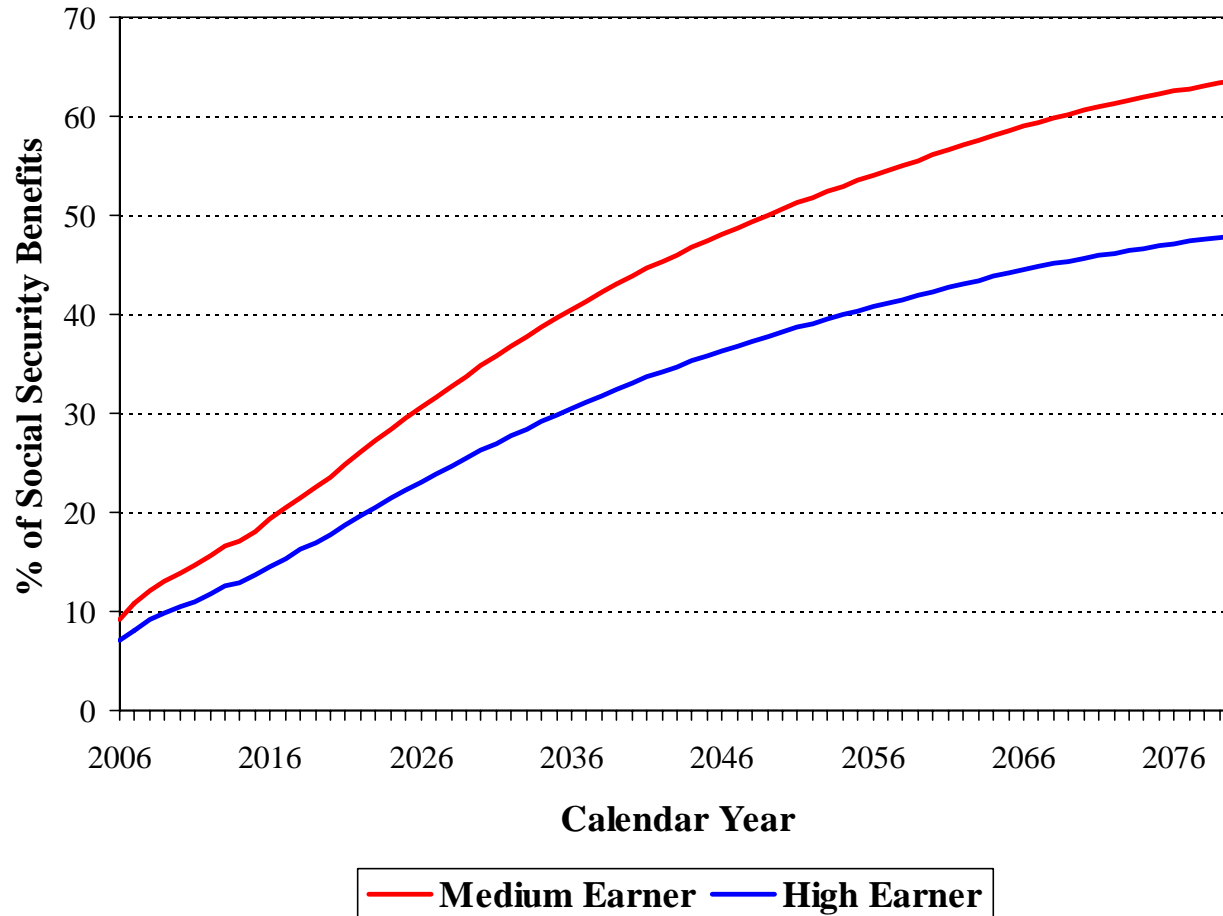
Premiums as a Share of Total Prescription Drug Expenditures Assuming a Constant Transfer Share and Premiums Used to Finance Part D Deficits



Transfer fixed 2006 share of GDP from Table III.A2 2006 Medicare Trustees Report.



Premiums as a Share of Projected Social Security Benefits Assuming a Constant Transfer Share of Parts B and D



Transfer fixed 2006 share of GDP from Table III.A2 2006 Medicare Trustees Report.

