

OFFICE OF THE ACTUARY

The Financial Status of Medicare

Presentation for the American Enterprise Institute

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Richard S. Foster, FSA
Chief Actuary



Chart 1—Medicare enrollment, benefits, and financing

Hospital Insurance (HI)

Supplementary Medical Insurance (SMI)

Enrollment in CY 2006:

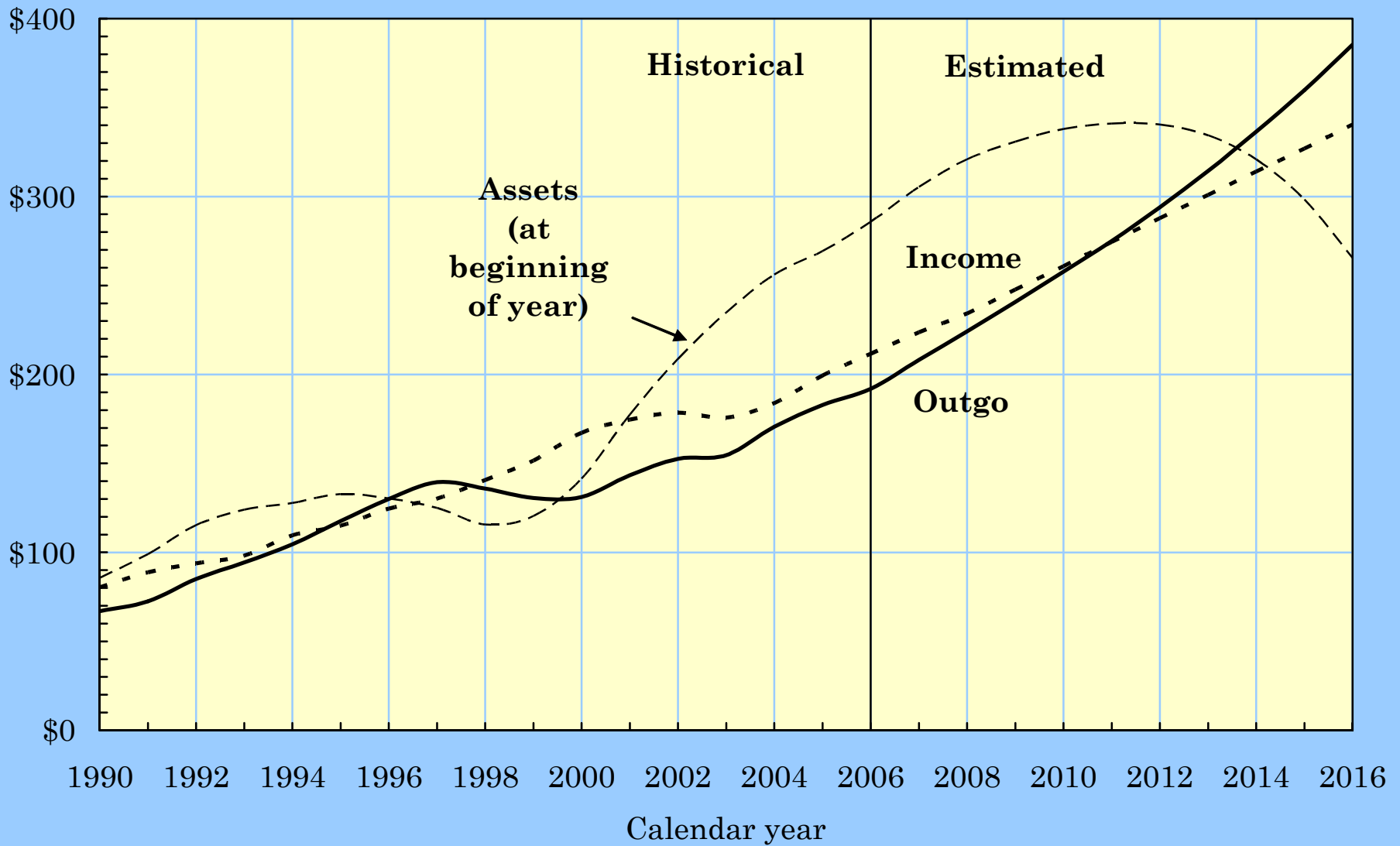
Total.....	43 million	40 million
Proportion with services.....	22%	87%

<p>Benefits*</p> <p>* Subject to certain deductible and coinsurance requirements</p>	<p>Inpatient hospital care</p> <p>Skilled nursing care</p> <p>Home health care (post-institutional)</p> <p>Hospice care</p>	<p>Physician services</p> <p>Outpatient hospital services</p> <p>Home health care (general)</p> <p>Prescription drug benefit</p> <p>Other services, e.g.</p> <ul style="list-style-type: none"> • Diagnostic tests • Medical equipment • Ambulance
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<p>CY 2006 Financing.....</p>	<p>HI tax on covered earnings:</p> <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 <p>Revenue from income taxation of OASDI benefits (portion between 50% & 85%)</p>	<p>Part B premiums and general revenue transfers:</p> <ul style="list-style-type: none"> • \$93.50 per month in 2007; covers about 25% of costs • Tied to beneficiary income in 2007 and later • General revenues cover 75% of costs <p>Part D drug premiums, general revenues, and State transfers:</p> <ul style="list-style-type: none"> • Base premium in 2007 estimated to be \$27.35; covers 7% of standard benefit costs, about 7% of total costs • State payments on behalf of certain beneficiaries cover about 11% of costs • General revenues cover 82% of costs
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Chart 2—HI income, outgo, and trust fund assets

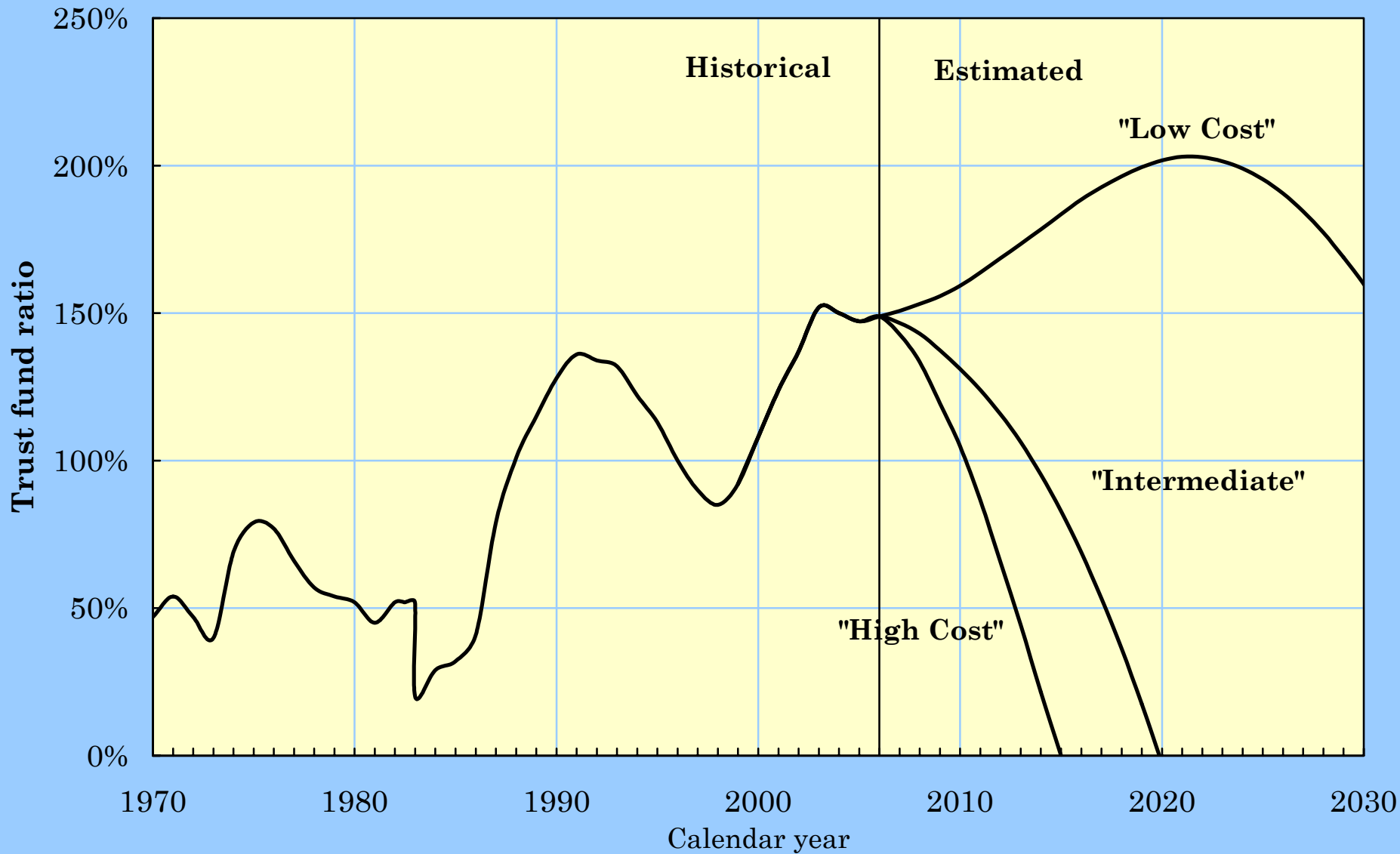
(In billions)



Note: Projections are based on the intermediate assumptions from the 2007 Trustees Report.

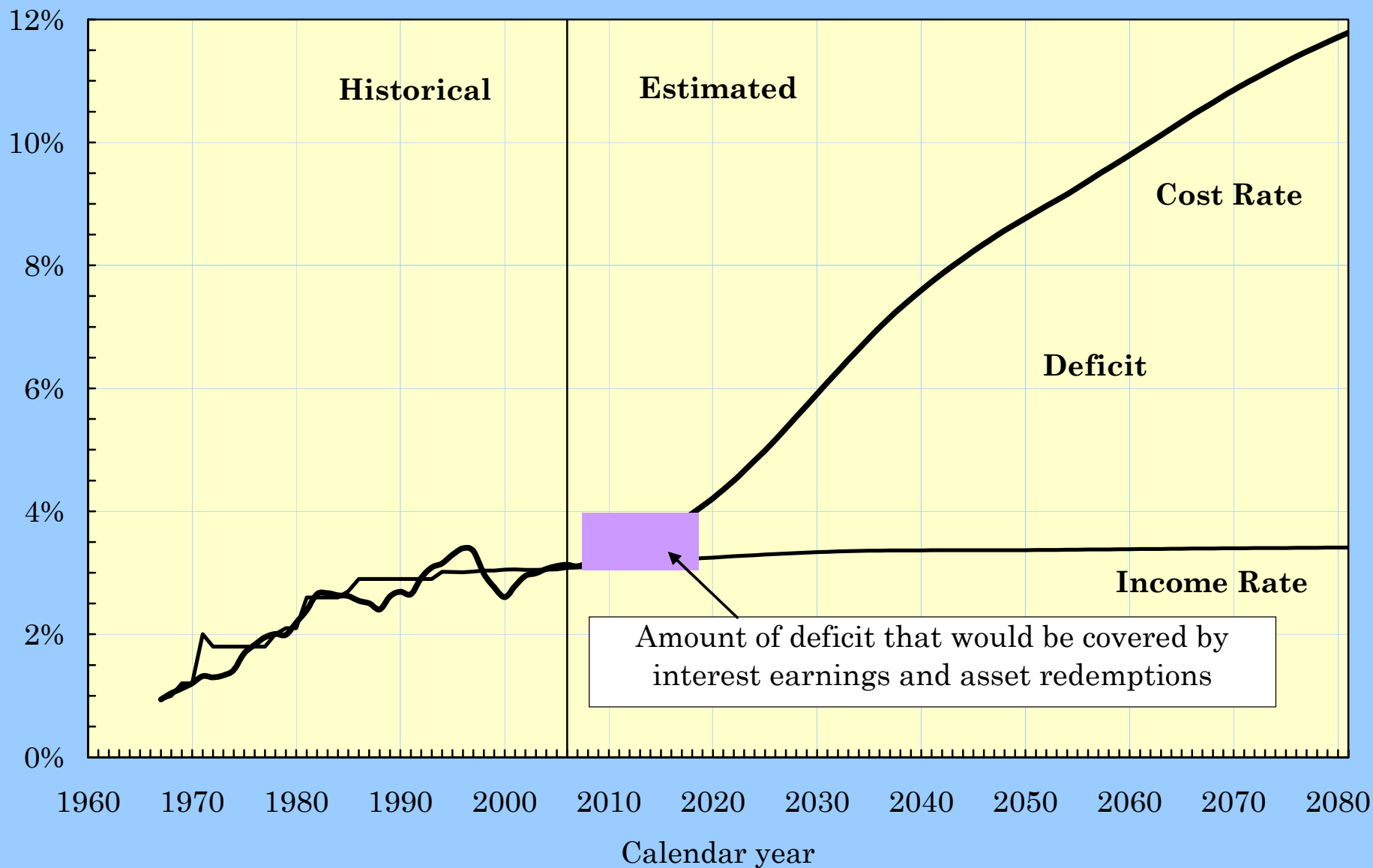
Chart 3—HI fund ratios under alternative assumptions

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



Note: Projections are based on the intermediate assumptions from the 2007 Trustees Report.

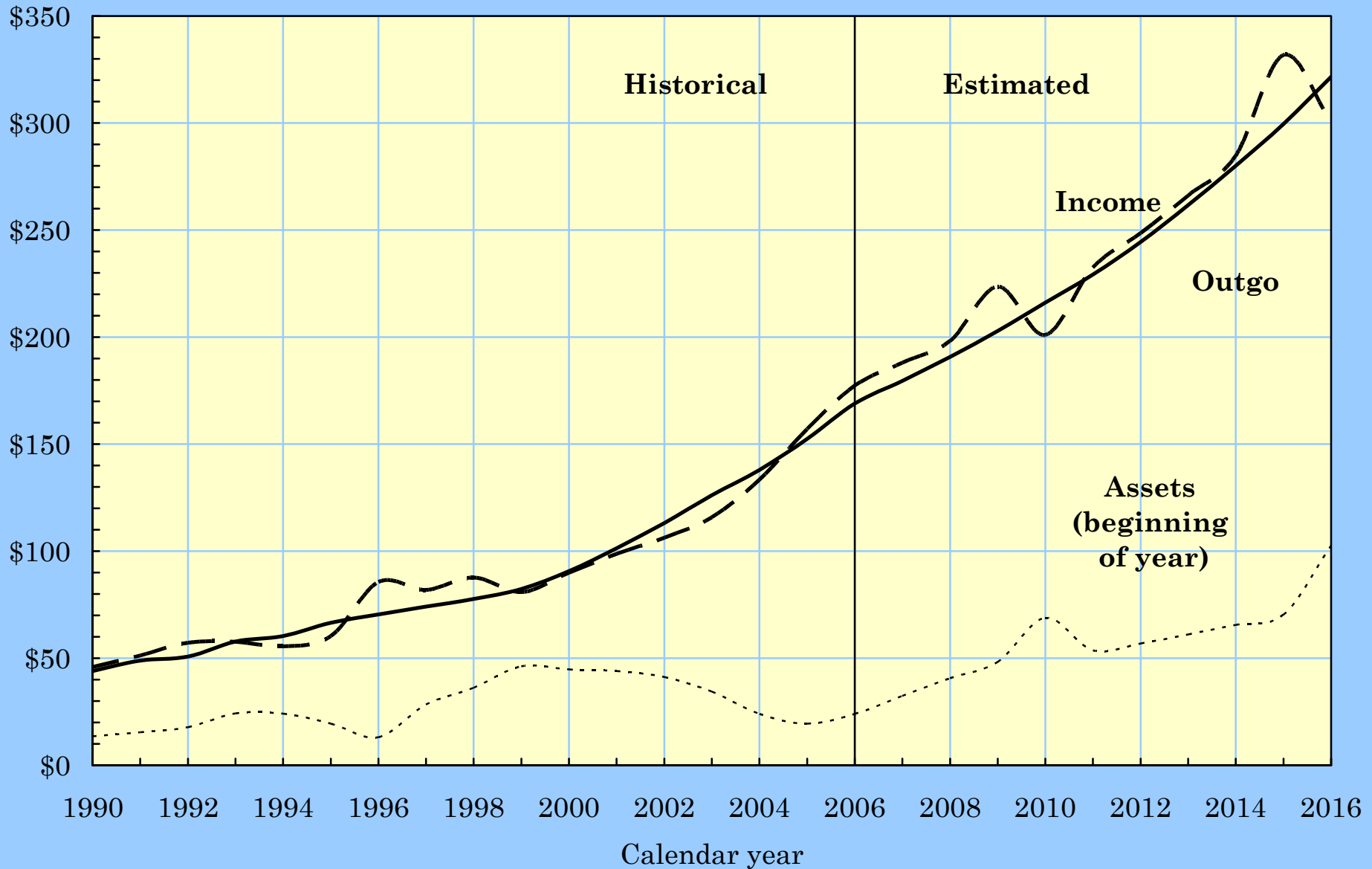
Chart 4--Long-range HI income and cost rates
(As a percentage of taxable payroll)



Note: Projections are based on the intermediate assumptions from the 2007 Trustees Report.

Chart 5—SMI Part B income, outgo, and trust fund assets

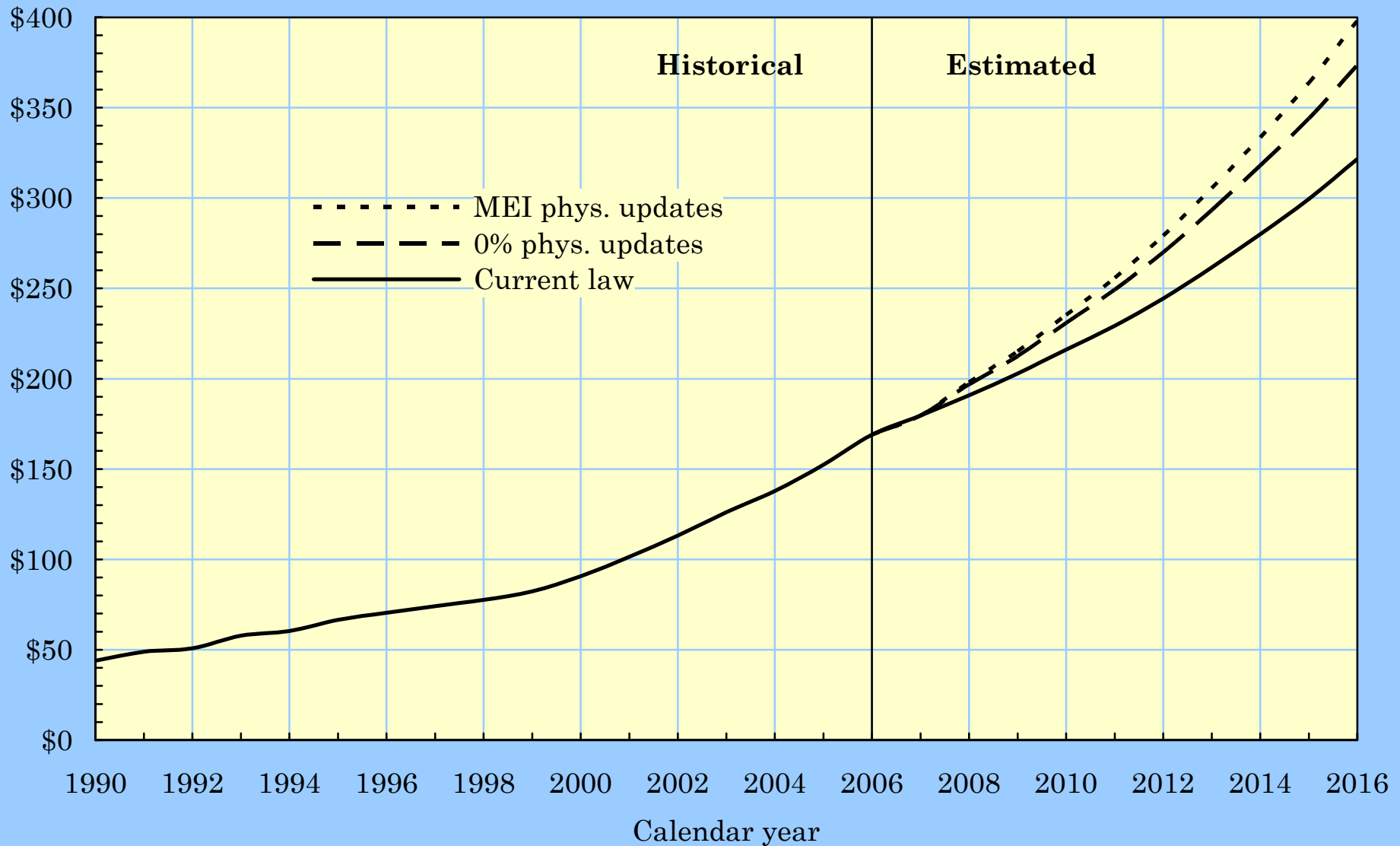
(In billions)



Note: Projections are based on the intermediate assumptions from the 2007 Trustees Report.

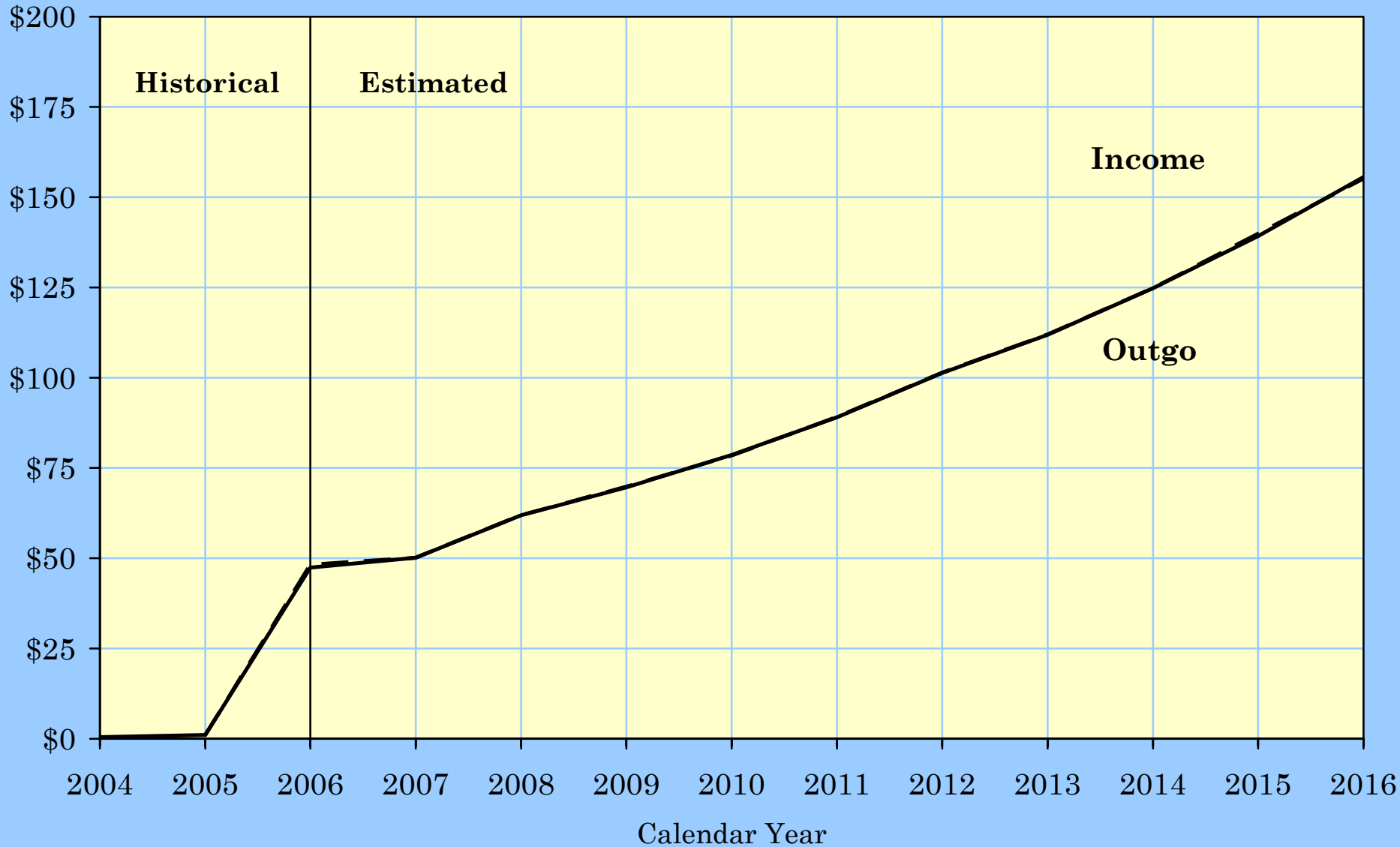
Chart 5.a—Illustration of possible understatement in projected Part B expenditures due to SGR

(In billions)



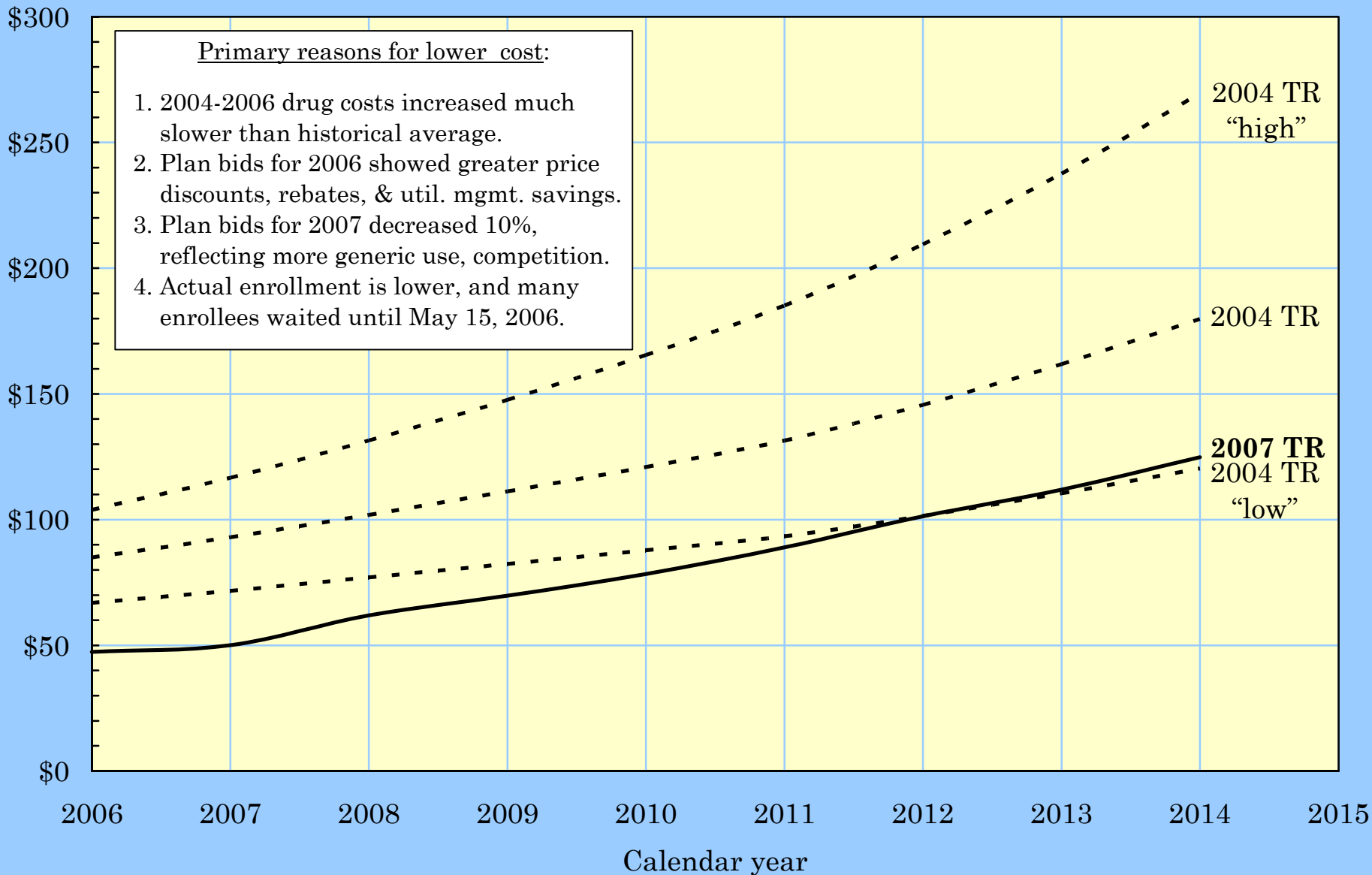
Note: Projections are based on intermediate assumptions from the 2007 Trustees Report.

Chart 6--SMI Part D income and outgo
(In billions)



Note: Projections are based on the intermediate assumptions from the 2007 Trustees Report.

Chart 6.a—2007 Trustees Report Part D intermediate cost projections vs. original estimate range from 2004 Report
(in billions)



Impact of competition: Higher-cost plans in 2006 generally lowered premiums for 2007

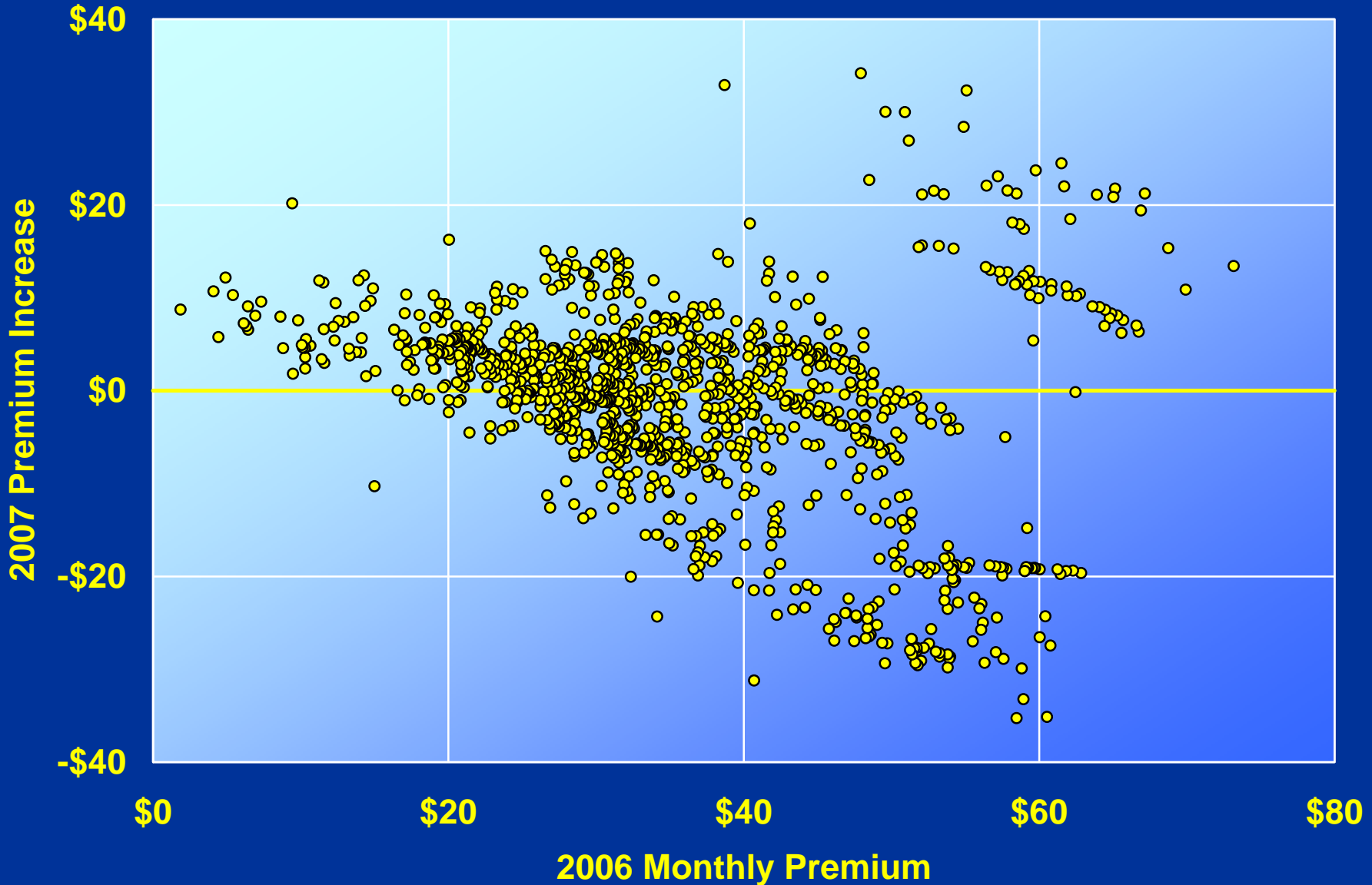
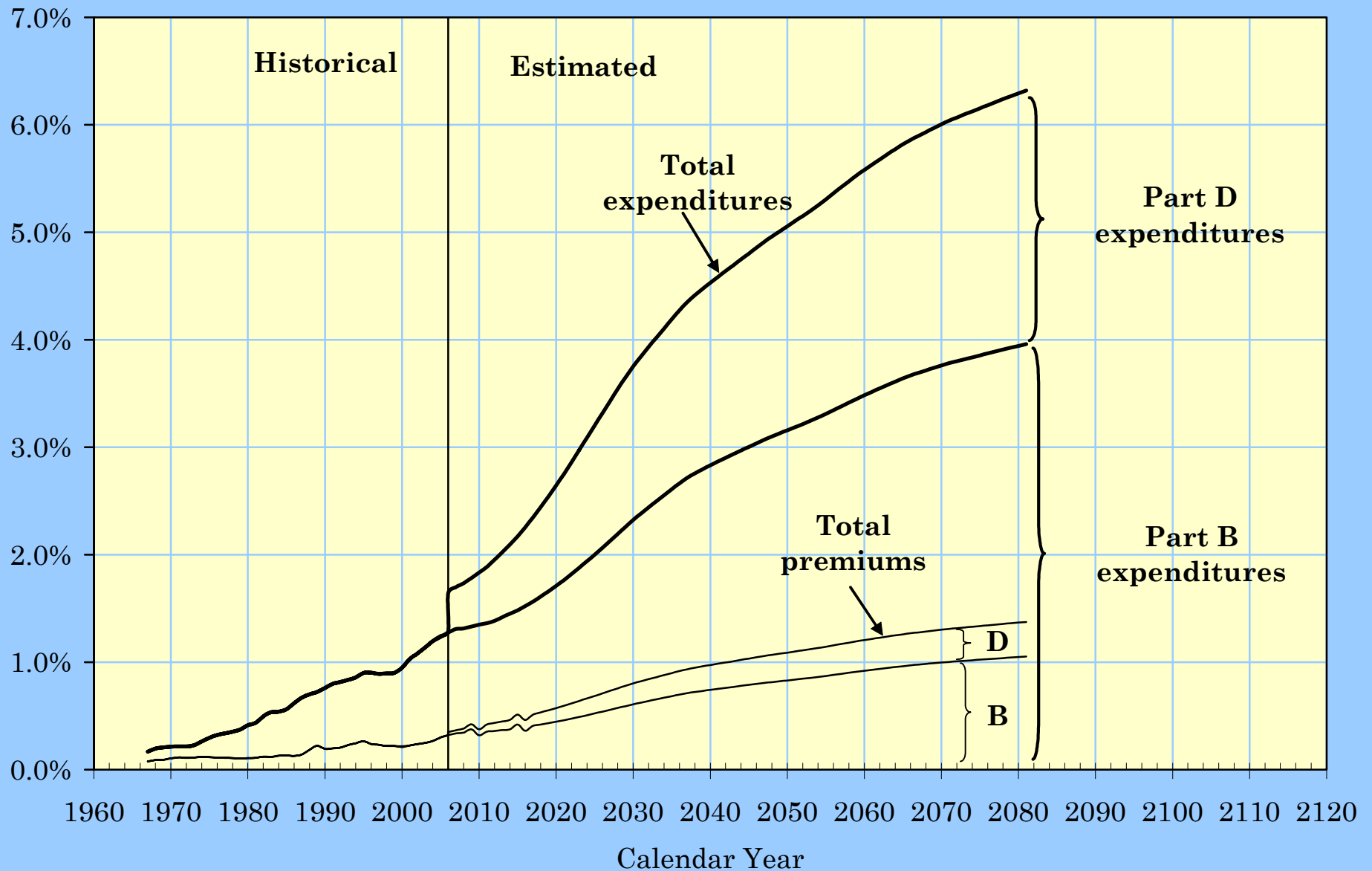


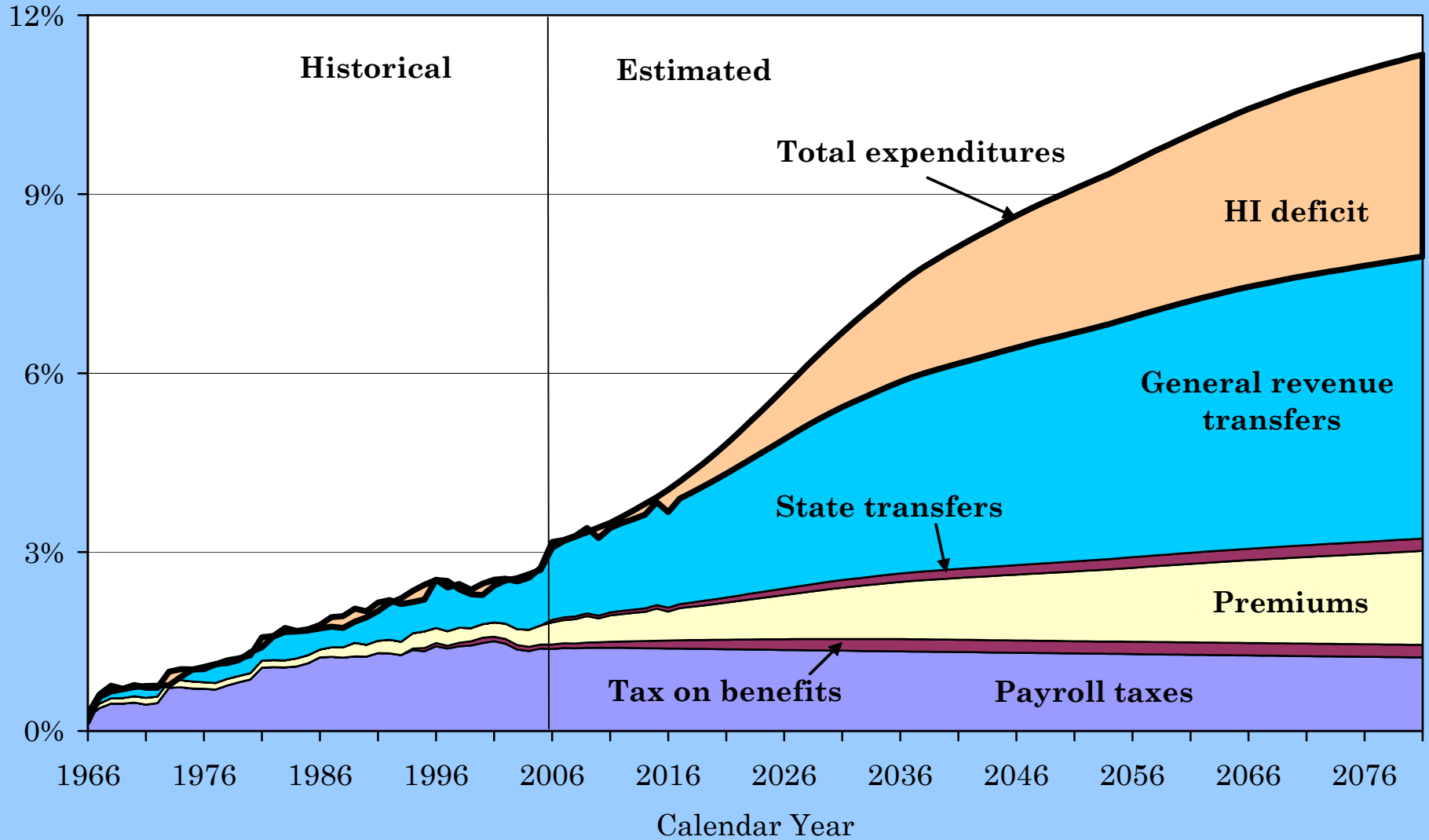
Chart 7--SMI expenditures and premium income

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



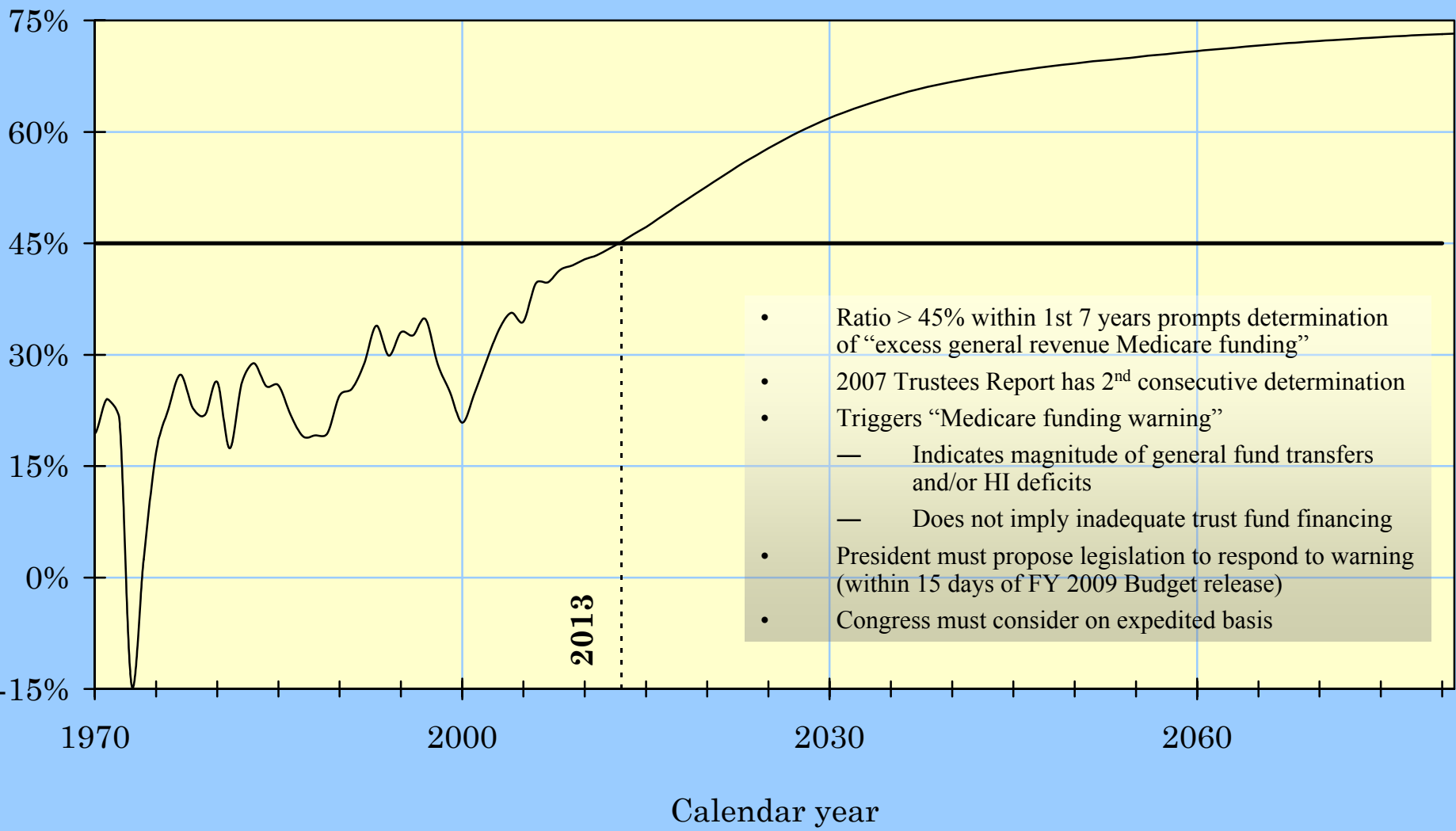
Note: Projections are based on the intermediate assumptions from the 2007 Trustees Report.

**Chart 8—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 2007 Trustees Report.

Chart 9—Projected difference between total Medicare outlays and dedicated financing sources, as a percentage of total outlays



- Ratio > 45% within 1st 7 years prompts determination of “excess general revenue Medicare funding”
- 2007 Trustees Report has 2nd consecutive determination
- Triggers “Medicare funding warning”
- Indicates magnitude of general fund transfers and/or HI deficits
- Does not imply inadequate trust fund financing
- President must propose legislation to respond to warning (within 15 days of FY 2009 Budget release)
- Congress must consider on expedited basis

Note: Projections are based on the intermediate assumptions from the 2007 Trustees Report.