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Medicare Trustees Issue Report Disavowed by Chief Actuary

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Over the past six years, Congress has twice passed and two Presidents have signed into law major legislation affecting Medicare. President Bush signed the bill creating a new drug benefit that provided an important modernization for the program yet also significantly worsened its finances. President Obama signed "Obamacare" into law, which appeared to improve Medicare's finances—if one assumes that the difficult programmatic changes Obamacare requires take effect.

Those assumptions are implausible, according to the Chief Actuary. In fact, for the first time ever, Medicare's Chief Actuary felt compelled to release a detailed statement appended to the Trustees' Report calling the assumptions "implausible" and "unreasonable."[1] What is left then is a report on Medicare—one of the federal government's largest and most important programs—containing projections that the Chief Actuary suggests are "poor indicators" of its likely finances.

Trustees' Report Delayed, Devalued by Obamacare. The Trustees' Report came out late for 2010 due to the need to reflect the roughly 165 provisions relating to Medicare contained in the Patient Protection and Affordable Care Act, or as it is now widely known, Obamacare. According to the report, the enactment of Obamacare "improves the outlook for Medicare substantially."

Would that it were so; however, the report then goes on to offer so many caveats to that claim as to strip it of all meaning. For example, the report quickly follows its rosy assessment of Obamacare's effects with a discussion of how a new ruse has been constructed for Medicare similar in nature to the now infamous Sustainable Growth Rate (SGR) limiting payments to physicians. Enacted in 1997 to slow the growth of Medicare spending, Congress habitually overrides the SGR with "doc fix" legislation. The SGR experience is a clear portent of what is to come with the assumed savings from Obamacare.

Like the SGR, the new Medicare savings ruse involves formulaic downward adjustments to physician payment rates. According to Obamacare, these payment rates are to be adjusted downward to reflect economy-wide productivity gains. However, the historical record is clear, as recounted in the report: "Most categories of health care providers have not been able to improve their productivity to the same extent as the economy at large."

The implication is that physicians are going to see payment rates steadily ratcheted down to reflect productivity gains they cannot achieve. If allowed to proceed, providers "would eventually be unwilling or unable to treat Medicare beneficiaries." In other words, seniors relying on Medicare for their health insurance would be unable to find doctors willing to treat them.

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Doctors' lobbyists will almost certainly be sufficiently powerful to prevent these steady reductions in provider payments, and Congress would never permit seniors to be denied medical care because low payment rates have driven doctors from the program. As the report all but definitively declares, Congress will not allow these steady downward adjustments in payment rates to proceed but will, instead, repeatedly suspend them, just as it has done with the SGR.

Consequently, as the Chief Actuary tried to warn to the extent the political masters in the Administration would permit, the estimates of savings from Obamacare are not credible. Nowhere is this clearer than in the Statement of Actuarial Opinion provided at the tail end of the report, which states:

> Further, while the Patient Protection and Affordable Care Act, as amended, makes important changes to the Medicare program, and substantially improves its financial outlook, there is a strong likelihood that certain of these changes will not be viable in the long range.…
>
> For these reasons, the financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range (as a result of the unsustainable reductions in physician payment rates) or the long range (because of the strong likelihood that the statutory reductions in price updates for most categories of Medicare service providers will not be viable).…
>
> The current-law projections are poor indicators of the likely future financial status of Medicare.

A "strong likelihood" is that the changes required by Obamacare "will not be viable." The financial projections "do not represent a reasonable expectation for actual program operations." The projections included in the report reflecting Obamacare's reforms "are poor indicators" of Medicare's finances.

The report should not have been released unless and until these matters were resolved in a responsible, reasonable fashion so the report could provide policymakers and the nation with a sound indicator of Medicare's finances.

More Reliable Metrics of Medicare's Long-Run Finances. Typical measures of Medicare's long-run finances are the program's 75-year or indefinite future unfunded obligations. This calculation is simply the net of the program's projected future outlays less programmatic inflows, all discounted back to the present. Expressed another way, it is the present value of the general revenue from individual income taxes and the like that would be needed to support all projected Medicare benefits.

Unfortunately, these traditional unfunded obligation estimates are now of little use. Various flaws are built into the projections through both the existing SGR provision noted above as well as the Obamacare changes that are unlikely to be viable in the long run, according to the Chief Actuary. For example, the unfunded obligation for Medicare Part A in the 2009 report was $13.4 trillion. Because of the unreasonable provisions contained in current law, the unfunded obligation for Part A in the 2010 report is $2.4 trillion. Only a badly politicized document would contain such a figure.

The Office of the Actuary attempts to rectify the issue with a separate, illustrative set of trust fund projections that highlight the distorting effects of Obamacare assumptions.[2] For example, the Office of the Actuary depicts expenditures under the Part A Hospital Insurance (HI) element of Medicare as a share of gross domestic product (GDP) for selected years for current law—including the Obamacare assumptions—and for an alternative projection largely based on assuming that the SGR adjustment and Obamacare productivity adjustment are set

1. See Centers for Medicare and Medicaid Services, "2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds," August 5, 2010, at *https://www.cms.gov/ReportsTrustFunds/downloads/tr2010.pdf* (August 10, 2010).
2. See John D. Shatto and M. Kent Clemens, "Projected Medicare Expenditures under and Illustrative Scenario with Alternative Payment Updates to Medicare Providers," Centers for Medicare and Medicaid Services, August 5, 2010, at *http://www.cms.gov/actuarialstudies/downloads/2010TRAlternativescenario.pdf* (August 10, 2010).

Part A Hospital Insurance Expenditures as a Percentage of GDP

	2010 Report (Current Law)	Alternative Projection
2009	1.67%	1.67%
2010	1.66%	1.66%
2020	1.63%	1.63%
2030	1.99%	2.09%
2040	2.24%	2.62%
2050	2.27%	2.94%
2060	2.23%	3.23%
2070	2.21%	3.57%
2080	2.17%	3.87%

Source: Centers for Medicare and Medicaid Services, Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers, August 5, 2010, at*http://www.cms.gov/ActuarialStudies/Downloads/2010TRAlternativeScenario.pdf* (August 5, 2010).

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Medicare Expenditures as a Percentage of GDP

	2010 Report (Current Law)	Alternative Projection
2008	3.18%	3.18%
2009	3.53%	3.53%
2010	3.59%	3.59%
2020	3.91%	4.28%
2030	5.11%	6.02%
2040	5.76%	7.34%
2050	5.94%	8.17%
2060	6.12%	9.03%
2070	6.29%	9.93%
2080	6.37%	10.70%

Source: Centers for Medicare and Medicaid Services, Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers, August 5, 2010, at*http://www.cms.gov/ActuarialStudies/Downloads/2010TRAlternativeScenario.pdf* (August 5, 2010).

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aside. Under Obamacare, Medicare spending rises from 1.67 percent to 2.17 percent of GDP between 2010 and 2080, but under the more reasonable alternative assumptions, HI spending rises from 1.67 percent to 3.87. In terms of 2010 GDP, that 1.7 percent of GDP difference is about $247 billion.

The actuaries present similar estimates of the differences between current law and the alternative assumptions for all of Medicare. Under current law, Medicare outlays rise from 3.18 percent to 6.37 percent of GDP, whereas under the more reasonable alternative assumptions, Medicare outlays rise to 10.7 percent of GDP. To put this into current terms, the more reasonable assumptions applied to 2010 mean that the current law projections assume that spending is understated by about $628 billion.

Finally, note that someone entering the workforce today is likely to retire somewhere between 2060 and 2070. In 2060, Medicare expenditures are projected to hit 9 percent of GDP, up from 3.59 percent today. In today's terms, that means Medicare spending would reach roughly $1.3 trillion, or just slightly less than total Social Security, Medicare, and Medicaid spending in 2010. Clearly, Medicare is unaffordable in its current form.

Medicare Reform Remains Essential, Inevitable. Assuming away problems is one of the surest ways for them to grow. Obamacare was enacted on the basis of a great many dubious and implausible assumptions. These assumptions now permeate the traditional analysis of Medicare as presented in the annual Trustees' Report, rendering the document largely useless and little more than dense propaganda.

Medicare continues to be a critical program for the nation's seniors, continues to be grossly unaffordable as currently constructed, and continues to pose a clear and present danger to the nation's financial health. It will be reformed because it cannot continue as is. The sooner Congress and the President cease their political games and get about the serious business of Medicare reform, the sooner the danger will subside.

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