

In Brief: The Status of the Medicare Part A and Part B Trust Funds: The Trustees' 2002 Annual Report

The Trustees of the Federal Hospital Insurance (HI) and the Federal Supplementary Medical Insurance (SMI) Trust Funds report annually to Congress on the short- and long-term financial health of these Medicare trust funds. Key findings from their year 2002 projections follow.

The Federal Hospital Insurance (HI) Trust Fund—Medicare Part A

- The Trustees project that, under their intermediate or “best guess” assumptions, the HI Trust Fund will remain solvent until 2030, one year later than projected in their 2001 report. This slight improvement is due to higher economic growth and income than projected in the 2001 report.
- The Trustees project that the HI Trust Fund will be seriously underfunded after 2030.
- The Trustees’ estimates of solvency are sensitive to changes in actuarial assumptions. Under high cost assumptions, the HI Trust Fund’s assets would be depleted in 2018. Under low cost assumptions, annual trust fund income would continue to exceed costs for at least the next 75 years.

The Federal Supplementary Medical Insurance (SMI) Trust Fund—Medicare Part B

- Federal general revenues finance about 75 percent of Part B costs while beneficiary premiums cover about 25 percent. Income from the federal government is adjusted each year to ensure that all expenses are covered, so, by design, the SMI Trust Fund will remain adequately financed into the indefinite future.
- SMI costs in the short-term are projected to increase at a faster rate than the economy (as measured by growth in the Gross Domestic Product, or GDP) through 2011 and beyond.
- Over time, SMI spending is projected to consume an increasingly larger share of the economy. In 2001, SMI expenditures accounted for about 1 percent of GDP, but are expected to increase to 2.1 percent of GDP by 2030.

Trustees’ Conclusions

- The Trustees urge policymakers to use the time gained by the later depletion of the HI Trust Fund productively to address the Fund’s remaining long-term problems.
- The Trustees also recommend that policymakers explore effective means of controlling SMI costs and address the financial impact of the impending retirement of the baby boom generation.

Source: 2002 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, March 27, 2002.

For more information about the financial status of the Medicare program, see *PPI Data Digest #71*.
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