

In Brief: The Status of the Medicare Part A and Part B Trust Funds: The Trustees' 2004 Annual Report

The Trustees of the Federal Hospital Insurance (HI) and the Supplementary Medical Insurance (SMI) Trust Funds report annually to Congress on these trust funds' short- and long-term financial health. Key findings from their year 2004 projections follow.

The 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 2019. By comparison, the Trustees' 2003 Annual Report projected that the Trust Fund would be solvent until 2026.
- The earlier insolvency date is the result of significantly lower projected payroll tax income, higher than expected expenditures for inpatient hospital care, and increased payments to rural hospitals and private health plans due to recent legislation.
- 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 2012. Under low cost assumptions, insolvency would occur in 2055.

The SMI Trust Fund—Medicare Part B and Part D

- 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 are projected to increase at a faster rate than the economy (as measured by growth in the Gross Domestic Product, or GDP) both through 2013 and beyond.
- Over time, SMI spending is projected to consume an increasingly larger share of the economy. In 2003, SMI expenditures accounted for 1.1 percent of GDP, but are expected to increase to 4.3 percent of GDP by 2030.
- Income and expenditures for the new Medicare Prescription Drug Benefit (Part D) and the discount card program will be handled by a separate account within the SMI Trust Fund; these transactions will affect SMI financial adequacy in the future.

Trustees' Conclusions

- The Trustees believe that solutions should be found in the near future to ensure the financial integrity of the HI program and to provide effective means to control Medicare costs.
- The Trustees believe that prompt, effective, and decisive action is necessary to address these concerns.

Source: 2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, March 23, 2004.

For more information about the financial status of the Medicare program, see PPI *Data Digest* #96.
Prepared by Craig Caplan and Ryan Cool, AARP Public Policy Institute, March 2004.
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