

In Brief: The Status of the Medicare HI and SMI Trust Funds: The Trustees' 2005 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 2005 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 2020, one year later than the 2004 projection.
- The later date of HI Trust Fund insolvency is the result of slightly higher income from payroll taxes and other sources than previously projected and slightly lower costs than previously estimated due to slower actual growth in inpatient hospital benefits.
- 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 2013. Under low cost assumptions, insolvency would occur in 2059.

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 2014 and beyond.
- Over time, SMI spending is projected to consume an increasingly larger share of the economy. In 2004, SMI expenditures accounted for 1.2 percent of GDP, but are expected to increase to 4.2 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 prompt, effective, and decisive action is needed to address Medicare's financial challenges.
- The Trustees believe that the sooner reforms are enacted, the more flexible and gradual they can be. Moreover, the early introduction of reforms will increase the time available for affected individuals and organizations to adjust their expectations.

Source: 2005 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, March 23, 2005.

For more information about the financial status of the Medicare program, see *PPI Data Digest* #111.
Prepared by Craig Caplan and Leigh Gross, AARP Public Policy Institute, March 2005.
601 E Street, N.W., Washington, DC 20049. © 2005, AARP. Reprinting with permission only.
<http://www.aarp.org/ppi> 202-434-3890