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Dead Seniors Save Congress from Tough Decisions

By Kerry Weems

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For the last two years, the Medicare Trustees have been sounding the alarm about the possibility of the Hospital Insurance Trust fund going bust in 2026 — four short years away. Neither the Administration nor the Congress acted because official Washington's means of dealing with a crisis is to wait until it becomes a catastrophe.

The Medicare Trustees just published the 2022 report and the insolvency date has moved to 2028 giving Congress even more time to dither. What happened?

THE MECHANICS

The Medicare Hospital Trust Fund, also called the Part A trust fund, is financed with payroll tax dollars withheld from paychecks, FICA taxes. The trust fund, in turn, pays the hospital and rehabilitation bills of Medicare beneficiaries. Despite the regressive nature of the payroll tax, the benefit is the same for Warren Buffett as it is for people of much more modest means. It is one of the most egalitarian benefits in our system of government.

Medicare was enacted in 1965, right at the end of the Baby Boom. Over the years, the trust fund has built up a balance against the baby-boom retirement tsunami, a wave now sweeping over the landscape. Just over half of the baby boomers have already turned 65. The rest will join Medicare over the next eight years.

This surge in beneficiaries is quickly eroding the Medicare Trust Fund. Estimates predict that next year's trust-fund expenditures will outstrip revenues by $3 billion. The progressively worse imbalance of expenditures versus revenues will exhaust the trust funds in 2028.

THE STAKES

An often-asked question regarding trust fund exhaustion is: "So what really happens?"

The answer is that **the law makes no provision for Medicare operations in the case of insolvency**. However, while at HHS, I had the opportunity to explore this question on several occasions. What emerges from the legal analysis is that there are two possibilities.

1. **Medicare pays the bills on a discounted basis,** meaning that if expected revenues are 85 percent of expenditures, then Medicare would pay bills at 85 percent of the amount mandated by statute and regulations.

2. **Medicare holds the bills until there are sufficient tax dollars to pay them, and pays them on a first-in, first-out basis.** While provider institutions would receive full payment, revenue cycles would extend from the current 30 days to 90-120 days — or more.

Since the law does not allow for "discounted" payments, the best reading of the law is to hold the payments until there's sufficient income to pay them. At the time of insolvency, that current Administration would have to pick its poison.[1] Either choice is catastrophic for the US health system.

THE PANDEMIC

As of May 2022, the coronavirus pandemic has killed over one percent of the population over 65, taking the oldest and most vulnerable first. Or in the words of the Trustees:

> ***"…Medicare beneficiaries whose deaths were identified as related to COVID had costs that were much higher than the average Medicare beneficiary prior to the onset of the pandemic. As a result, compared to the pre-pandemic Medicare population, the surviving Medicare population had lower morbidity, on average, reducing costs by an estimated 1.5 percent in 2020 and 2.9 percent in 2021.***
>
> ***This morbidity effect is expected to continue over the next few years but is assumed to decrease over time before ending in 2028."***

In other words, the Medicare Trust fund's insolvency date got pushed out because a substantial cohort of costly individuals died rather than continuing to depend on Medicare for several more years.[2]

While I'm sure our policymakers mourn the dead, some are also breathing a sigh of relief that any kind of Medicare reform just got pushed out on the legislative event horizon.

REASONS FOR REFORM

2028 is three election cycles away, an eternity in official Washington. There will be an intervening presidential election, three elections for the entire House of Representatives, and all senators will have stood for election or reelection before the trust fund becomes insolvent. So why fix it now?

Besides being the right thing to do, **here are three reasons to undertake reform now.**

1. Inflation was last at current levels between 1981 and 1982. In 1982, healthcare spending accounted for **9 percent of GDP** and Medicare outlays were **$42 billion**.

   Today healthcare accounts for nearly **20 percent of the economy** and experts expect that Medicare outlays will be **$915 billion**. The automatic escalators in the Medicare formula could lead to a prolonged bout of inflation, especially with the tight labor market in the hospital and rehabilitation sectors. There is no doubt that inflation-accelerated Medicare spending will exacerbate the deficit.

2. **There are six years remaining to solve the problem, so policymakers and other stakeholders have more options for reforming Medicare financing than we will have two years or less from insolvency.** For instance, the mismatch between benefits and income is less than one percent in 2023. By the year of insolvency, the mismatch will grow to 10 percent.

   It's been my experience that a 1 percent problem is easier to fix than a 10 percent problem.

3. **Real reform takes time. Fee-for-service healthcare is unsustainable, and the pending insolvency is a manifestation of that fact.**

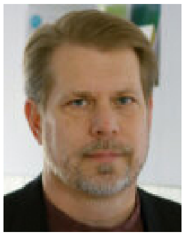
Increasing our most regressive tax, the payroll tax, makes no sense, so reform has to be on the expenditure side. Real reform, matching payment to the actual value of the services, is impossible to realize in two years or on the cusp of a crisis. Now there is time.

Our policymakers received a reprieve from hard decisions. A reprieve that came at the cost of several hundred thousand seniors' lives. Let's honor those seniors by using the extra time for real Medicare reform.

SOURCES

1. The Trustees Report acknowledges that there's no provision for continuing payments under insolvency. For the purposes of estimating expenditures beyond insolvency, the Trustees assume payments will continue as if there are sufficient funds.
2. Given the timeline to produce the Trustees report, it's likely that it does not fully account for the high mortality rate experienced by the 65-and-over cohort during the Omicron surge.

AUTHOR



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