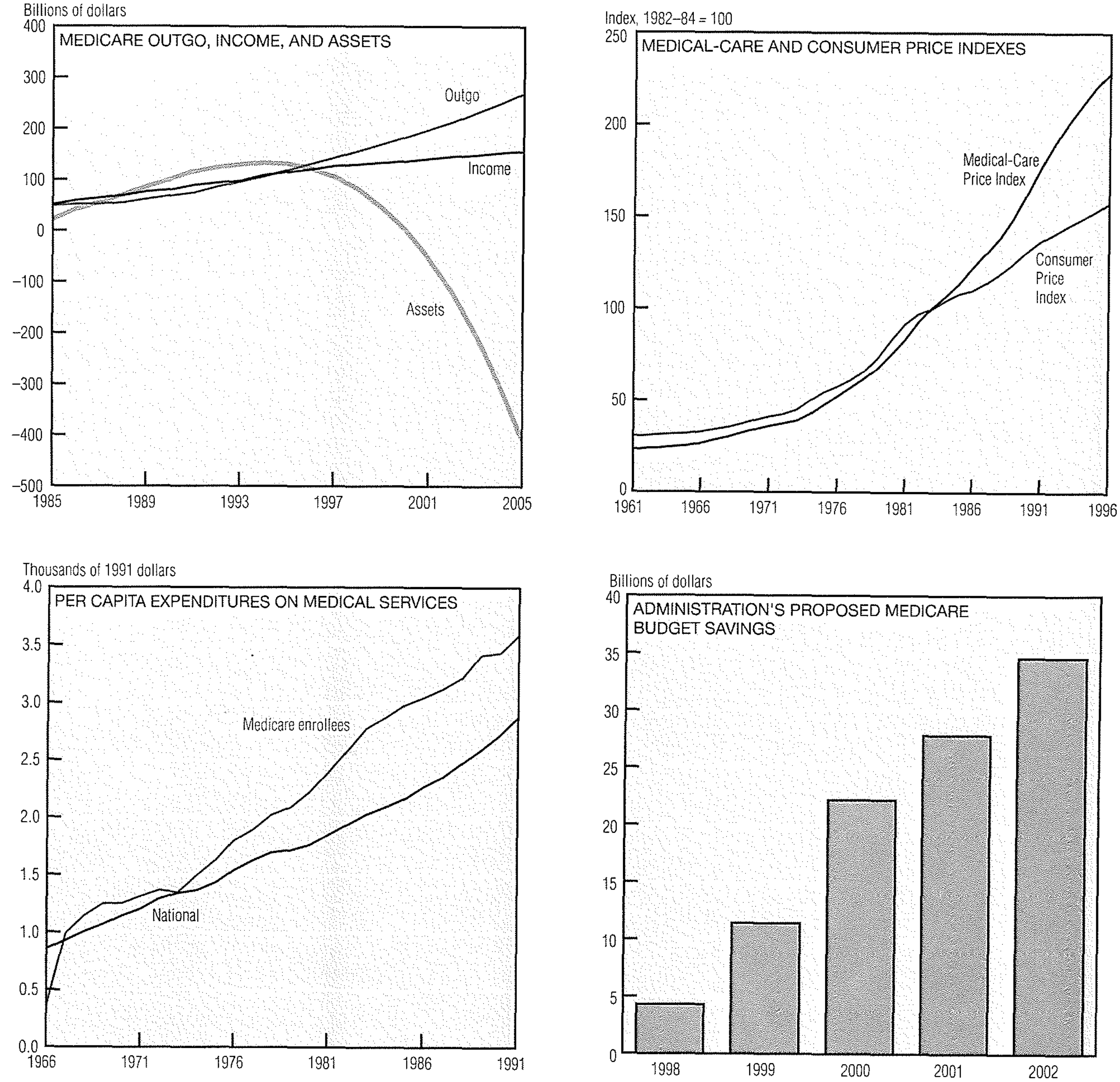
Medicare Insolvency



SOURCES: Health Care Financing Administration; Congressional Budget Office; and Office of Management and Budget.

The Hospital Insurance trust fund (Medicare—Part A), which covers hospital services, home health care, hospice stays, and skilled nursing services for the elderly, is in much deeper trouble than Social Security. Like Social Security, the Medicare trust fund holds government securities in its portfolio. These "assets" are projected to be exhausted by the year 2001. However, the fund's total annual income is already lower than annual outgo, implying that some non-payroll taxation is already being devoted to redemption of government securities held in the trust fund's portfolio.

The shortfall in Medicare's finances has been caused, in large part, by escalating health care prices. Since 1983, the Medical-Care Price Index has increased much faster than the general price level. One factor that helps to explain this trend is higher demand for medical services: Real per capita spending on these services has risen dramatically over the last two decades.

The Clinton administration's budget for fiscal year 1998 proposes lowering reimbursements for health care providers and reforming the payment system for home health care and skilled nursing services. Administration officials project that this would save $100 billion over five years, extending Medicare's solvency until 2007. More than 85% of the reductions, however, are scheduled to occur in the year 2000 or later.