Medicare is an important source of support for elderly Americans. Under current reimbursement rules, the actuarial present value of future Medicare benefits for middle-aged people is $26,100 for males and $27,300 for females. The actuarial present value increases markedly for people nearing retirement: $53,300 for 65-year-old males and $53,700 for 65-year-old females. (Females have larger present values than males because their mortality rates are lower.) Those who are even older will receive less in actuarial present value of benefits because they have fewer years to live and a higher probability of death. For middle-aged people, Medicare benefits average just under 30% of all transfers; for the oldest retirees, the share increases to just under 35%.

Historically, Medicare spending growth has been fairly volatile, ranging from 2% to over 16%. The program's year-over-year growth in total outlays has fallen considerably in the last four years, from 14.1% in 1994 to 7.1% in 1997. Much of this decline occurs because beneficiaries shift from traditional fee-for-service to managed care plans. The growth in outlays is projected to come in at under 4% in 1998.

On average, Medicare grew at a much faster rate during the past decade than did its taxable payroll. This trend is expected to continue in the future. Indeed, the growth rate of Medicare outlays is expected to accelerate over time, while that of Medicare's taxable payroll is expected to slow. By the year 2030, rapid Medicare spending growth is projected to raise the share of Medicare outlays in GDP from slightly less than 3% to almost 6%.