



Office of the Actuary

To: ██████████
Senate Budget Committee

From: Suzanne Codespote
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Date: March 13, 2014

Subject: Medicare Unfunded Obligation under the Alternative Physician Update Scenario

Per your request, this memorandum presents a table with a summary of Medicare’s unfunded obligations (in trillions) under the alternative physician update scenario presented in the 2013 Medicare Trustees Report. This illustration assumes that the physician payment updates would be 0.7 percent per year through the short-run projection period, an increase which reflects the 10-year average Medicare physician fee schedule payment update that has occurred from 2004 through 2013, the most recent 10 years during which SGR reductions have been consistently overridden by legislative action. For 2023 through 2037, the illustration assumes that Medicare physician spending growth would gradually transition to the per capita increase in health spending in the U.S. overall and then equal that rate for the last 50 years of the projection.¹ The 75-year present value of Part B expenditures under the alternative physician update scenario is \$24.5 trillion, which is \$3.1 trillion higher than under current law (\$21.4 trillion). The 75-year present value of Part B beneficiary premiums under the alternative physician update scenario is \$6.5 trillion, which is \$0.8 trillion higher than under current law (\$5.7 trillion). Therefore, the 75-year present value of general revenue contributions under the alternative physician update scenario is \$17.9 trillion, or \$2.3 trillion higher than under current law (\$15.7 trillion).

| | Alternative physician update scenario |
|---|--|
| <i>Part A</i> | |
| Income | 16.2 |
| Expenditures | 21.0 |
| Income less expenditures | -4.8 |
| Beginning trust fund balance | 0.2 |
| Unfunded obligation | -4.6 |
| Dedicated revenues less expenditures | -4.8 |
| <i>Part B</i> | |
| Beneficiary premiums | 6.5 |
| Fees related to brand-name prescription drugs | 0.1 |
| General revenue contributions | 17.9 |
| Expenditures | 24.5 |
| Unfunded obligation | 0.0 |
| Beginning trust fund balance | 0.1 |
| Dedicated revenues less expenditures | -17.9 |
| <i>Part D</i> | |
| Beneficiary premiums | 1.5 |
| State transfers | 0.9 |
| General revenue contributions | 6.9 |
| Expenditures | 9.2 |
| Unfunded obligation | 0.0 |
| Beginning trust fund balance | 0.0 |
| Dedicated revenues less expenditures | -6.9 |
| Total Medicare unfunded obligation | -4.6 |
| Total Medicare dedicated revenues less expenditures | -29.6 |

¹On average during this latter period, the growth rate for per capita national health spending is assumed to equal the per capita increase in GDP plus 1 percent.