The Medicare Trustees have released their 2019 report, which makes projections for Medicare spending and revenue for the next 75 years. The Trustees expect Medicare spending to grow significantly over the next few decades. The Hospital Insurance trust fund for Part A is projected to be exhausted in seven years, and continued growth faster than the economy in Parts B and D is expected to put pressure on beneficiaries and the budget.

Highlights of the report include:

- The Trustees project Medicare spending will increase from 3.7 percent of Gross Domestic Product (GDP) in 2018 to 5.0 percent in 2028 and 5.9 percent by 2040. Spending will continue to increase after that but more slowly, reaching 6.5 percent in 2090.
- Spending growth is driven by both increased enrollment and per-person spending. Medicare enrollment is expected to grow by 27 million -- from 60 million to 87 million -- between 2018 and 2040, while per capita-spending is expected to grow faster than the economy over the next quarter century.
- Each part of Medicare will grow: Part B experiences the largest increase as a percent of GDP while Part D is the fastest-growing part of the program.
- The HI trust fund is expected to be insolvent by 2026 (unchanged from last year). The trust fund’s 75-year actuarial shortfall is 0.91 percent of taxable payroll, meaning it would take about that much of a payroll tax increase or an equivalent amount of spending cuts to maintain solvency over 75 years.
- Overall, the Trustees' report shows modestly higher spending relative to last year's report. Medicare spending will reach 6.5 percent of GDP by 2090 compared to 6.2 percent in last year's report.
- Medicare Advantage (MA) - private plans that provide Medicare coverage - is expected to continue to play a growing role in Medicare. MA enrollment is expected to increase from 37 percent of Medicare enrollment in 2018 to 40 percent by 2028, and spending will rise from 31 to 37 percent of Medicare spending.
- An illustrative alternative scenario assuming certain payment policies the Medicare Chief Actuary views as unsustainable are rolled back would result in Medicare spending rising much faster, to 8.8 percent of GDP by 2090.

The Trustees show Medicare spending is projected to increase significantly as a share of GDP over the next few decades, with each part of Medicare contributing to the cost growth. In addition, lawmakers face a near-term financial challenge as the HI trust fund will be exhausted by 2026, just seven years from now. Lawmakers need to undertake reforms to Medicare to contain spending growth and ensure HI solvency.
**Medicare Spending Is Growing Rapidly**

As a share of GDP, gross Medicare spending is expected to grow significantly over the long term, especially over the next few decades.

The Trustees project gross Medicare spending will rise from 3.7 percent of GDP in 2018 to 5.0 percent in 2028 and 5.9 percent by 2040. Spending will continue to increase after that but more slowly, reaching 6.5 percent by 2090.

Medicare Part A is largely financed by a payroll tax, and other parts of Medicare are partially financed through beneficiary premiums. Net of these and other funding sources, spending is lower but still expected to grow significantly from 1.6 percent of GDP in 2018 to 2.6 percent in 2028 and 3.3 percent in 2040 before growing more slowly to 3.5 percent by 2090.

**Fig. 1: Total Medicare Spending, 2000-2090 (Percent of GDP)**

The aging of the population is the primary driver of Medicare cost growth, particularly over the next few decades. The number of Medicare beneficiaries has already grown from 40 million in 2000 to 60 million in 2018 and is projected to grow by another 27 million (to 87 million) by 2040.

Per-capita increases in health care spending also play a role in Medicare spending increases, as nominal per-person Medicare spending is expected to increase by 65 percent – from $13,665 to $22,546 – between 2018 and 2028. This increase is larger than the 56 percent growth in the economy that is expected to occur over the same time period.
All Parts of Medicare Are Growing

The Medicare program comprises three main components: Part A covers inpatient care in hospitals and other facilities, Part B covers physician and outpatient care, and Part D covers prescription drugs.

Part A spending is projected to increase from 1.5 percent of GDP in 2018 to 2.2 percent in 2040 before growing more gradually to 2.3 percent by 2090. Part B follows a similar but faster-growing trend, increasing from 1.7 percent of GDP in 2018 to 3.0 percent in 2040 and 3.1 percent by 2090. Part D is the smallest but fastest-growing over the next 75 years, rising from 0.5 percent of GDP in 2018 to 0.8 percent in 2040 and 1.1 percent in 2090.

![Fig. 2: Medicare Spending by Part in 2018, 2040, and 2090 (Percent of GDP)](image)

Part A is financed primarily by a payroll tax paid into the Hospital Insurance (HI) trust fund, while Parts B and D are financed by general revenue contributions and premiums paid by beneficiaries to the Supplementary Medical Insurance (SMI) trust fund. Because of these differences in financing, the implications for growth in Medicare spending differ across trust funds, requiring different metrics to assess their status. Importantly, if the HI trust fund becomes insolvent, payments for benefits in Part A of the program will be reduced to match income. Policymakers would need to act to avoid disruption.

For the SMI trust fund, general revenue contributions and beneficiary premiums are set annually to cover program costs so the trust fund is always solvent by definition. Nevertheless, spending for Parts B and D is expected to grow significantly relative to GDP, putting pressure on the federal budget and on beneficiaries through higher premiums and out-of-pocket costs.
The Hospital Insurance Trust Fund Is Seven Years from Insolvency

The Trustees project the Part A Hospital Insurance (HI) trust fund will be exhausted in 2026, just seven years from now. At that time, spending would have to be reduced by 11 percent to be brought in line with revenue.

![Fig. 3: Hospital Insurance Spending and Revenue (Percent of Taxable Payroll)](source: Medicare Trustees)

The HI trust fund faces a 75-year shortfall equal to 0.91 percent of payroll, meaning it would take a payroll tax increase of about that size or an equivalent spending cut to keep the trust fund solvent. The shortfall is 19 percent of 75-year spending and 23 percent of 75-year revenue.

Both HI spending and revenue are expected to increase over time as a share of payroll, but spending will grow much more rapidly in the next few decades. HI spending will increase from 3.4 percent of payroll in 2018 to 4.2 percent by 2028 and 4.9 percent by 2040 before growing more slowly to 5.3 percent by 2090. Revenue will grow steadily from 3.3 percent in 2018 to 3.6 percent in 2028, 3.8 percent in 2040, and 4.4 percent by 2090.

**Part B and D Spending Growth Will Put Pressure on the Budget**

The Trustees project that both Parts B and D will grow faster than the economy because of growth in the eligible population and in spending per eligible beneficiary. As pointed out above, these parts are financed by general revenue as necessary, so they can’t become insolvent but their growth has other implications. The Trustees point out that absent changes in law, the growth in spending will require a growing share of federal income tax revenue and premiums and out-of-pocket spending will make up a growing share of beneficiary income.
The Trustees project spending for Parts B and D will increase from 2.1 percent of GDP in 2018 to 3.7 percent by 2040. We estimate this increase in program spending will cause beneficiary out-of-pocket costs to increase from 1 percent of GDP in 2018 to 1.8 percent by 2040.

**Fig. 4: Parts B and D Program and Out-of-Pocket Spending (Percent of GDP)**

![Graph showing program and out-of-pocket spending](image)

**Sources:** Medicare Trustees, CRFB calculations

### Medicare’s Outlook is Somewhat Worse than Last Year

This year’s Trustees report shows a somewhat more challenging financial outlook for Medicare than last year’s. The Hospital Insurance trust fund is still projected to be exhausted in 2026 as it was last year, but the 75-year shortfall has increased slightly, from 0.82 percent of payroll to 0.91 percent. The increase is attributed to higher spending and lower revenue than expected in 2018, lower economy-wide productivity growth (which results in higher payment growth), lower interest rates, and slightly higher private plan participation, partially offset by lower skilled nursing facility utilization.

**Fig. 5: Change in 75-Year HI Actuarial Deficit (Percent of Taxable Payroll)**

<table>
<thead>
<tr>
<th>Change in 75-Year Window</th>
<th>Increase/Decrease (-) in Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2018 Report 75-Year Deficit</strong></td>
<td>0.82%</td>
</tr>
<tr>
<td>Updated Actual Numbers</td>
<td>+0.04%</td>
</tr>
<tr>
<td>Economic and Demographic Assumptions</td>
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<tr>
<td>Provider Assumptions</td>
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<tr>
<td>Private Health Plan Assumptions</td>
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</tr>
<tr>
<td>Change in 75-Year Window</td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>2019 Report 75-Year Deficit</strong></td>
<td>0.91%</td>
</tr>
</tbody>
</table>

**Source:** Medicare Trustees

Medicare spending as a whole is also expected to be higher, particularly over the very long term. Projected spending in the 2019 report is within 0.1 percent of GDP of last year’s report through mid-century, then the gap slowly widens to 0.3 percent of GDP (6.5 percent compared to 6.2...
percent) in 2090. The Trustees attribute these differences to the aforementioned lower productivity growth -- which is used to reduce payment rates so lower growth results in higher payment growth – and increased growth in physician-administered drug spending. On the other hand, Part D spending is expected to be slightly lower due to higher rebates and slower drug price increases in the near term.

**Fig. 6: Change in Medicare Spending (Percent of GDP)**

![Graph showing change in Medicare Spending (Percent of GDP)](source: Medicare Trustees)

**Medicare Advantage Growth Will Continue**

Medicare Advantage, the system of private health plans that operates in parallel to "traditional" Medicare, has taken on a greater role in the program over time. Participation increased from 24 percent of total Medicare enrollment in 2009 to 36 percent in 2018 with Medicare Advantage plans receiving more than three-quarters of the net increase in enrollment during that time.

The Trustees expect this trend to continue, though somewhat more slowly. Private plans are expected to receive a majority of the net enrollment increase over the next decade, with private plan enrollment reaching 40 percent of total enrollment in 2028. Per-person spending is expected to increase by three-quarters over the next ten years, from about $11,000 in 2018 to over $19,000 in 2028, slightly faster than the 65 percent growth for overall Medicare per-person costs.

Combining these two trends, total Medicare Advantage spending is expected to increase by 150 percent between 2018 and 2028, from $234 billion to $589 billion, compared to 111 percent for Medicare overall. As a share of total Medicare spending, it will rise from 31 percent to 37 percent. These projections show the Trustees expect Medicare Advantage to continue to play a big and increasing role within Medicare.
**Actual Spending Growth Could Be Worse**

The Trustees’ default projections assume current law, which means no changes are made to how Medicare operates. However, certain payment policies intended to hold down costs may be financially unsustainable and threaten access. Under its default projection, the Trustees expect Medicare inpatient hospital payments to fall from 60 percent of private insurance levels to about 40 percent in 75 years and for physician payments to fall from about 75 percent to 23 percent. Since 2011, the Chief Actuary of Medicare has published an Illustrative Alternative Scenario that assumes some of the policies that result in these low payment levels are rolled back.

The alternative scenario makes different assumptions from current law for three policies: the productivity adjustments that reduce certain payment updates by economy-wide productivity growth, relatively slow payment increases for physicians, and the expiration in 2025 of 5 percent bonuses for physicians who participate in alternate payment models. They assume the productivity adjustments are phased out, physician payments increase more rapidly, and the bonuses continue.

With these assumptions, the HI trust fund shortfall nearly doubles to 1.74 percent of payroll, and Medicare spending rises to 8.8 percent of GDP by 2090 instead of 6.5 percent. Most of the difference in spending emerges over the very long term as the higher payment increases compound over time.
Conclusion

The 2019 Medicare Trustees’ report shows Medicare spending rising rapidly as a share of GDP over the next quarter century and the HI trust fund becoming insolvent by 2026. The illustrative alternative scenario that includes potentially more realistic payment policies shows Medicare spending rising even more substantially over the long term. Either scenario shows a situation where the federal government and Medicare beneficiaries will need to dedicate a growing share of their budgets to Medicare over time.

Lawmakers need to ensure the solvency of HI in the near term and should work at the same time to constrain spending growth in all components of the program. Doing these things will be key to securing our fiscal future.