

## Key Elements of the U.S. Tax System

What is the Medicare trust fund, and how is it financed?

### **Q. What is the Medicare trust fund, and how is it financed?**

**A. The Medicare trust fund finances health services for beneficiaries of Medicare, a government insurance program for the elderly, the disabled, and people with qualifying health conditions specified by Congress. The trust fund is financed by payroll taxes, general tax revenue, and the premiums enrollees pay.**

The Medicare trust fund comprises two separate funds. The hospital insurance trust fund is financed mainly through payroll taxes on earnings and income taxes on Social Security benefits. The Supplemental Medical Insurance trust fund is financed by general tax revenue and the premiums enrollees pay.

#### **HOSPITAL INSURANCE TRUST FUND**

The hospital insurance (HI) trust fund, also known as Part A of Medicare, finances health care services related to stays in hospitals, skilled nursing facilities, and hospices for eligible beneficiaries—mainly people over age 65 with a sufficient history of Medicare contributions.

The HI trust fund had receipts of \$306.6 billion and a balance of \$200.4 billion at the end of 2018 (table 1). The fund's chief revenue sources are payroll taxes and income from the taxation of Social Security benefits. Interest payments on trust fund balances, premiums from voluntary enrollees ineligible for Medicare coverage based on their earnings records, transfers from the general fund and the Railroad Retirement account, and miscellaneous receipts supply the remainder of revenues.

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TABLE 1

### Hospital Insurance Trust Fund Receipts, Expenditures, and Assets

Billions of dollars, 2018



	Amount
<b>Assets at end of 2017</b>	<b>\$202</b>
<b>Total income</b>	<b>\$307</b>
Payroll taxes	\$268
Interest	\$7
Taxation of benefits	\$24
Premiums	\$4
General revenue	\$2
Transfers from states	\$0
Other	\$2
<b>Total expenditures</b>	<b>\$308</b>
Benefits	\$303
Hospital	\$146
Skilled nursing facility	\$28
Home health care	\$7
Physician fee services	\$0
Private plans (part C)	\$102
Prescription drugs	\$0
Other	\$20
<b>Net change in assets</b>	<b>-\$2</b>
<b>Assets at end of 2018</b>	<b>\$200</b>

**Source:** Centers for Medicare and Medicaid Services (CMS). April 2019. 2019 Annual Report of the Boards of Trustees of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

#### SUPPLEMENTAL MEDICAL INSURANCE TRUST FUND

The Supplemental Medical Insurance (SMI) trust fund finances two voluntary Medicare programs: Part B, which mainly covers physician services and medical supplies, and Part D, the newer prescription drug program.

The SMI trust fund received \$449.1 billion in revenues and had \$104.3 billion in assets at the end of 2018 (table 2). Unlike the HI fund, no payroll taxes are dedicated to SMI. Instead, the fund's chief revenue sources

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are contributions from the general fund (receipts from other sources, such as individual income taxes, corporate taxes, and excise taxes), premiums from participants (there are separate premiums for Parts B and D), and a small amount of interest on trust fund balances and miscellaneous receipts. Because the bulk of SMI's funding comes from the general fund, the trust fund balance mainly serves to cover temporary shortfalls and is kept low. High reserves are not required as long as general fund revenues and borrowing automatically rise with costs.

TABLE 2

### Supplementary Medical Insurance Trust Fund Receipts, Expenditures, and Assets

Billions of dollars, 2018



	Part B Amount	Part D Amount	Total Amount
<b>Assets at end of 2017</b>	<b>\$80</b>	<b>\$8</b>	<b>\$88</b>
<b>Total income</b>	<b>\$354</b>	<b>\$95</b>	<b>\$449</b>
Payroll taxes	\$0	\$0	\$0
Interest	\$3	\$0.1	\$3
Taxation of benefits	\$0	\$0	\$0
Premiums	\$93	\$16	\$109
General revenue	\$253	\$68	\$321
Transfers from States	\$0	\$12	\$12
Other	\$5	\$0	\$0.6
<b>Total expenditures</b>	<b>\$337</b>	<b>\$95</b>	<b>\$432</b>
Benefits	\$333	\$95	\$428
Hospital	\$57	\$0	\$57
Skilled nursing facility	\$0	\$0	\$0
Home health care	\$11	\$0	\$11
Physician fee services	\$69	\$0	\$69
Private plans (Part C)	\$131	\$0	\$131
Prescription drugs	\$0	\$95	\$95
Other	\$64	\$0	\$64
Net change in assets	\$17	\$0.2	\$17
<b>Assets at end of 2018</b>	<b>\$96</b>	<b>\$8</b>	<b>\$104</b>

**Source:** Centers for Medicare and Medicaid Services (CMS). April 2019. *2019 Annual Report of the Boards of Trustees of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund*.

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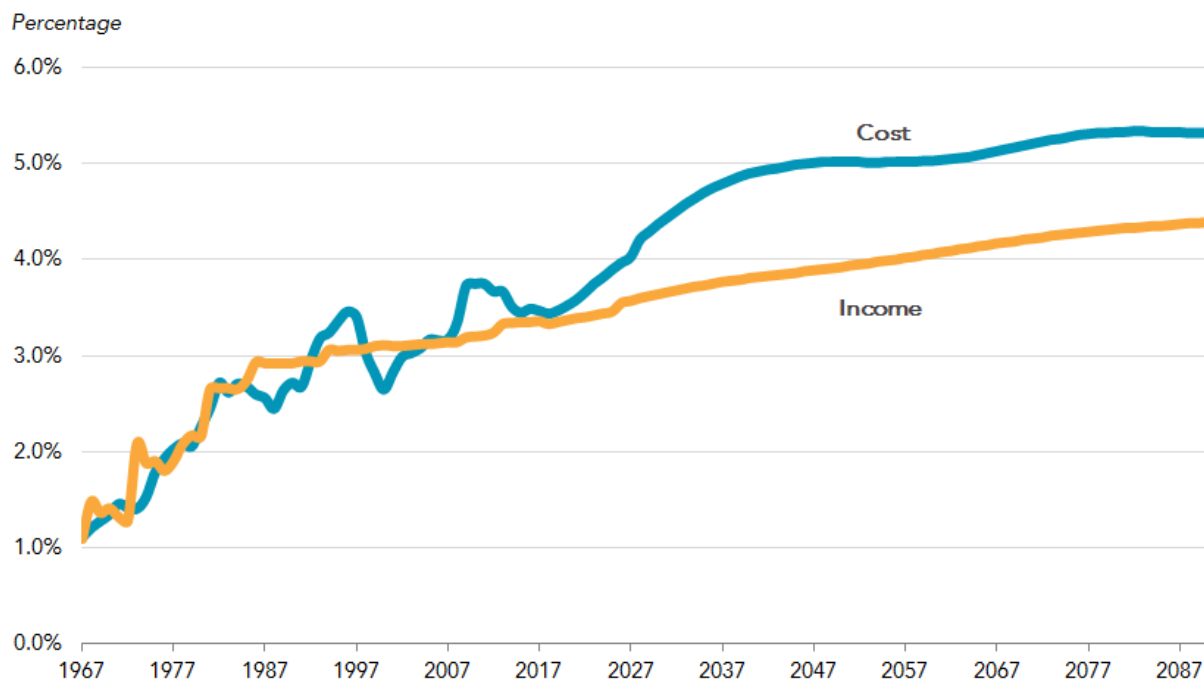
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### SOLVENCY AND BUDGET PRESSURES

Like the Old-Age and Survivors Insurance and Disability Insurance trust funds, the HI trust fund faces long-term deficits (figure 1). (The SMI fund, primarily financed by general revenue, does not face these trust fund imbalances, though it still adds growing pressure to the overall budget.) As the number of Medicare beneficiaries increases from about 61.2 million in 2019 to nearly 80 million by 2030, the number of workers per beneficiary will decline from 3.1 to 2.4. The cost of health care has increased rapidly as well—though this dynamic has slowed but not stopped during and following the Great Recession—putting further pressure on program costs. HI trust expenditures exceeded taxes for several years up to 2016, and though these outflows and inflows will roughly stabilize for a few years, the fund is projected to be exhausted by 2026, according to the intermediate assumptions of the 2019 Trustees Report. These pressures, now and in the future, will force lawmakers to find ways to finance promised benefits or cut services or provider payment rates.

**FIGURE 1**

### Hospital Insurance Cost and Income as a Share of Taxable Payroll Calendar years 1967-2093



**Source:** Centers for Medicare and Medicaid Services (CMS). April 2019. *2019 Annual Report of the Boards of Trustees of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.*

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### Data Sources

Centers for Medicare and Medicaid Services. 2019. ["2019 Expanded and Supplemental Tables."](#) Baltimore, MD: Centers for Medicare and Medicaid Services.

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## What is the Medicare trust fund, and how is it financed?

### Further Reading

Centers for Medicare and Medicaid Services. 2018. [\*2018 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds\*](#). Baltimore, MD: Centers for Medicare and Medicaid Services.

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Congressional Budget Office. 2018. [\*The 2018 Long-Term Budget Outlook\*](#). Washington, DC: Congressional Budget Office.

Shatto, John D., and M. Kent Clemens. 2018. [\*"Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers."\*](#) Baltimore, MD: Centers for Medicare and Medicaid Services.

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