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## MEDICARE TRUSTEES RELEASE ANNUAL REPORT

The Medicare Trustees Report issued today shows Medicare's financial outlook declined slightly, compared to last year's estimate.

HHS Secretary Mike Leavitt said the report points to the need to quickly and efficiently build on the reforms provided by the Medicare Modernization Act (MMA) to strengthen and improve Medicare, along with the steps proposed in the President's budget to address Medicare's fiscal health.

"Medicare presents us with the great dilemma of health care -- the things that are priceless are not price free," Secretary Leavitt said. "We are making progress toward addressing long-term solvency while providing better care and sustainable coverage. We need to build on those steps by taking further actions like accelerating the adoption of health information technology, increasing the focus on prevention and creating more transparency in the program. These steps will improve Medicare for current and future generations."

"We are implementing steps to strengthen Medicare and keep it up to date for future generations," said Centers for Medicare & Medicaid Services Administrator Mark B. McClellan, M.D., Ph.D. "Medicare is now providing comprehensive drug coverage and up-to-date preventive benefits. We are developing better information on quality and costs of health care and we are starting to pay more for quality care to ensure our beneficiaries get the best care at the lowest possible cost. This is a strong foundation for further steps."

As required by the MMA, the Trustees Report now presents a unified summary of Medicare's overall projected expenditures and dedicated revenue sources, and the general revenue required to fill the gap between spending and dedicated revenue.

In the estimate released today, Medicare's Hospital Insurance (HI) Trust Fund is projected to be exhausted in 2018, two years earlier than estimated in last year's report. This change results from slightly higher costs in 2005 than previously estimated and some upward revisions in the short-range assumptions about utilization of HI services. Expenditure growth is estimated to average 7.1 percent per year over the next 10 years.

As a result of the MMA, the Supplementary Medical Insurance (SMI) component of Medicare is now composed of two parts, Part B and Part D, each with its own separate account within the SMI trust fund. Part B benefit payments have increased by an average of 10.6 percent annually over the last

six years. The Part D account of the SMI trust fund was established in 2004 for the Medicare prescription drug coverage, which began this year. These benefits are projected to increase the total cost of Medicare by over 15 percent in 2006, and are projected to grow, at an average annual rate of about 11.5 percent through 2015.

As required by the Medicare Modernization Act, the Trustees compare overall projected Medicare expenditures with the program's "dedicated revenues" -- principally HI payroll taxes, certain income taxes on Social Security benefits, beneficiary premiums, and special state payments to Part D. This difference is projected to exceed 45 percent of total Medicare outlays in 2012. Because this result falls within the first seven years of the projection period (2006-2012), it triggers a determination of "excess general revenue Medicare funding" -- the first time that such a determination has been made under the MMA.

If a second such determination is made in next year's Trustees Report, then a "Medicare funding warning" would be made. Such a warning would require the President to propose legislation to address the issue in the next budget, and Congress would be required to consider the proposal on an expedited basis.

As the Trustees note in this report, "These projections demonstrate the need for timely and effective action to address Medicare's financial challenges. Consideration of such reforms should occur in the relatively near future. The sooner the solutions are enacted, the more flexible and gradual they can be."

The President has proposed budget reforms that will reduce Medicare spending growth and save more than \$100 billion over the next decade, delaying Trust Fund insolvency and reducing the general revenue needs of Medicare.

These reforms help to avoid preventable complications and unnecessary costs and, at the same time, increase quality. One of these reforms is providing prescription drug coverage that improves access to medications proven to prevent hospitalizations and other costly consequences of illnesses. Because of slower drug cost growth in 2004 and 2005 and strong competition among the Medicare drug plans, the cost of this coverage is now projected to be much lower than in last year's Trustees Report.

In this competitive approach, beneficiaries and their caregivers, with support from Medicare and many local partners around the country, are using information on prices and coverage to choose better benefits at a much lower cost than had been expected. Competition with good information on quality and price has the potential to lead to cost savings in many other aspects of Medicare, and Medicare is beginning to implement competitive reforms in durable medical equipment, Part B drug pricing and other areas.

The President's budget also proposes additional reforms and initiatives to improve Medicare's financial condition by preventing costly complications and getting the right care to each patient, instead of paying for more medical services. These proposals include:

- Pilot-testing quality and efficiency measures to pay more for better results rather than more services;
- Implementing competitive bidding approaches to the delivery of care;
- Continuing to expand access to Medicare Advantage plans, which save beneficiaries around \$100 a month and help reduce overall health care costs by coordinating care and prevention;
- Promoting the adoption of interoperable health information technology;
- Making Health Savings Accounts available in Medicare in 2007;
- Implementing modest reductions in market basket rates of growth, including a proposed 0.4 percent reduction in the growth rate of Medicare payments if Congress does not pass a specific alternative proposal to achieve needed improvements in sustainability; and
- Gradually increasing the share of program costs paid by the highest-income beneficiaries.

The President's budget notes that a range of approaches could be used to achieve these savings: "If Congress preferred to enact more specific sustainability reforms in lieu of these modest trends, expedited procedures would facilitate consideration."

The Medicare Trustees are Treasury Secretary and Managing Trustee John W. Snow, Secretary of Health and Human Services Michael O. Leavitt, Labor Secretary Elaine L. Chao and Social Security Commissioner Jo Anne B. Barnhart. Two other members, the public trustees, are appointed by the President. The public trustees are John Palmer and Thomas Saving, who represent the general public. Mark McClellan, Administrator of the Centers for Medicare & Medicaid Services, serves as secretary to the Board of Trustees.

The Medicare Trustees Report is available at [www.cms.hhs.gov/ReportsTrustFunds/](http://www.cms.hhs.gov/ReportsTrustFunds/).

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