Medicare: An unexpected beneficiary of COVID

Gilbert Berdine MD

Not all of the news about COVID is bad. According to the most recent annual report on the Medicare Trust Funds by the Board of Trustees,[1] the fiscal outlook for Medicare Part A improved due to the COVID pandemic.

"Beginning in 2020, the Medicare program was dramatically affected by the COVID-19 pandemic. The amount of payroll taxes expected to be collected by the HI trust fund was greatly reduced due to the economic effects of the pandemic on labor markets. Spending was directly affected by the coverage of testing and treatment of the disease. In addition, several regulatory policies and legislative provisions were enacted during the public health emergency that increased spending; notably, the 3-day inpatient stay requirement to receive skilled nursing facility services was waived, payments for inpatient admission related to COVID-19 were increased by 20 percent, and the use of telehealth was greatly expanded. More than offsetting these additional costs in 2020, spending for non-COVID care declined significantly (compared to both actual 2019 spending and pre-pandemic expectations for 2020). Spending for services other than COVID-19 was significantly lower than expected in 2020 and 2021. This decline was more pronounced for elective services. In addition, Medicare beneficiaries whose deaths were identified as related to COVID had costs that were much higher than the average Medicare beneficiary prior to the onset of the pandemic. As a result, compared to the pre-pandemic Medicare population, the surviving Medicare population had lower morbidity, on average, reducing costs by an estimated 1.5 percent in 2020 and 2.9 percent in 2021. This morbidity effect is expected to continue over the next few years but is assumed to decrease over time before ending in 2028."

Corresponding author: **Gilbert Berdine**
Contact Information: Gilbert.Berdine@ttuhsc.edu
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The big picture

In 2021, 63.8 million people were covered by Medicare. Of the 63.8 million beneficiaries, 55.5 million were aged 65 and older, while 8.3 million were younger people considered disabled. Total expenditures were $839.3 billion for an average benefit of $13,155. Expenditures were less than expected due to closed outpatient services during the COVID pandemic, and due to elderly people with significant medical co-morbidities dying earlier from COVID at lower cost than would have occurred otherwise. Due to this unexpected COVID windfall, the Hospital Trust Fund (HI) that covers Medicare Part A will be depleted in 2028 rather than the previously expected date of insolvency in 2026. Hopefully, somebody at Health and Human Services (HHS) will not figure out that premature death of old people saves Medicare money and decide that denial of coverage is a good thing rather than a bad thing. Without changes in law, "the Trustees project deficits in all future years until the trust fund becomes depleted in 2028."[1]

Medicare bankruptcy

Medicare is clearly insolvent, though the program technically cannot go broke. When the Hospital Insurance (HI) fund is depleted, currently projected for sometime in 2028, the system continues on a pay as you go basis with payments decreasing to whatever percentage of predicted expenditures would balance predicted revenue. A mechanism is already in place to automatically reduce all Medicare Part A payments to 90% of previous reimbursement across the board. The 90% figure remains until 90% is no longer adequate. This would likely lead to the Soviet system in which health care workers pretend to work and the government pretends to pay them.

The funding for Medicare Parts B and D is different from Part A. Revenue never comes close to meeting expenditures for Parts B and D. The shortfall is made up by a transfer from the U.S. Government General

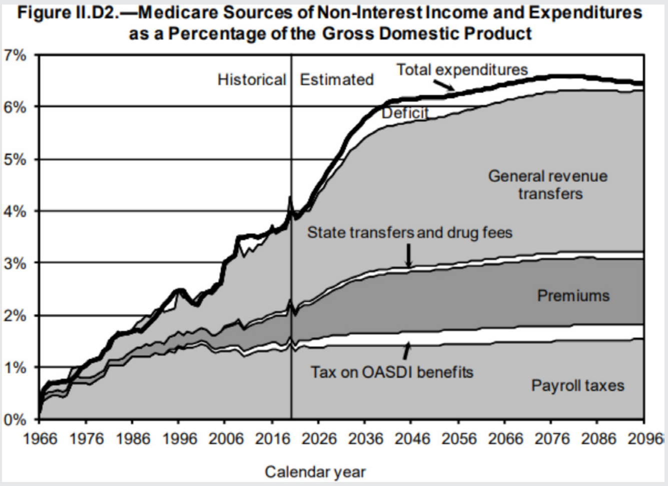

Figure 1. Medicare Expenditures and Revenue as fraction of Gross Domestic Product.[1]

Revenue (Figure 1). General Revenue is that budget line item that is perpetually in deficit by more than $1 trillion per year. For 2021, General Revenue contributed $318.6 billion to Medicare Part B and $85.3 billion to Medicare Part D.[1] So, Medicare is a substantial portion of the perpetual budget deficit.

One can see that Medicare has consumed a increasing portion of economic output over time. The trustees always project that the percentage will plateau, but the plateau always gets pushed forward into time like the proverbial can being kicked down the road. The only reason that Medicare can maintain the pleasant fiction of solvency is the ever increasing contribution from the General Revenue that is also perpetually in deficit. "Federal law requires that the Board of Trustees issue a determination of excess general revenue Medicare funding if they project that under current law the difference between program outlays and dedicated financing sources will exceed 45 percent of Medicare outlays within the first 7 fiscal years of the projection. For this year's report, the difference between program outlays and dedicated revenues is expected to exceed 45 percent in fiscal year 2025, and therefore the Trustees are issuing this determination."[1] In other words, when the revenue from the normal sources of patient premiums and interest earned on the Trust Fund are less than 55% of expenditures for Parts B and D, the General Revenue contribution crosses the Rubicon triggering a warning from the trustees to the government. These warnings are issued more often than not, but they are routinely ignored regardless of who controls government. Kicking the Medicare can down the road is one of the very few issues that enjoys bipartisan support.

Keywords: Medicare finances, budget deficit, Medicare Trust Fund

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Reference

1. 2022 Medicare trustees report. https://www.cms.gov/files/document/2022-medicare-trustees-report.pdf. Accessed 3-19-2023.