

MEDICARE PART D RESEARCH FACTS



Cornell University
College of Human Ecology
Cornell Cooperative Extension



Volume 4 Number 4

Cornell University Resource Education for Medicare Part D

TRUST FUNDING

Baby Boomers are coming of age and the United States is on the verge of an elderly population explosion. In 2000, those 65 years of age and older numbered 35 million. Data from the Census Bureau estimate that in 2030, the population of this group will more than double, to about 72 million. According to this projected increase, roughly 1 in 5 Americans will be elderly in 2030.

The increasing aging population is expected to add considerable financial strain to Medicare, giving rise to much debate regarding the future sustainability of the system. A 2008 report of Social Security and Medicare Trustees suggests that long term sustainability of benefit programs cannot be maintained with current financing arrangements. Financial difficulty for Medicare will occur much sooner than for Social Security.

There are several trusts, funded through taxes, premiums, and other dedicated revenues that pay for Medicare and Social Security. Prescription benefits under Medicare Part D are paid for by the Medicare Supplementary Medical Insurance Trust Fund. Physician and outpatient services are paid for by a separate part of this trust. Inpatient hospitalizations are paid for by the Hospital Insurance Trust Fund.

Two additional trusts, Old Age and Survivors Insurance, and Disability Insurance, provide funding for Social Security. Reserves allocated to Social Security are expected to last until 2041. Medicare's Hospital Insurance Trust fund may be depleted by as soon as 2019.

In 2007, Medicare costs accounted for 3.2% of the gross domestic product and this proportion is expected to increase significantly over the next

several years. By 2028, the ratio of Medicare costs to the GDP will surpass that of Social Security, fueled mainly by rising healthcare costs. Funding streams for Medicare trusts from wages simply cannot keep pace with the increases in health care costs. In 2014, almost one-half of Medicare expenditures will be funded by general revenue transfers to the program.

Financing for each subsequent future year of Medicare Part D is prescribed by law and is based on costs of the previous year as well as projections for the next year. Currently, approximately 75% of Part D expenditures come from federal general fund revenues. The remaining costs are paid for by the monthly premium charges to the beneficiaries. Comparatively, with this approach to Part D, the outlook for this program is not quite as grave as it is overall for Medicare, but the impact to individuals could prove to be problematic.

Rapidly rising costs in the prescription drug sector are almost virtually certain. The Part D benefit structure plan design offsets the increased costs to the program by shifting some costs to the beneficiary. This cost shifting forces the individual to assume more financial responsibility for their prescription drug costs, and at a rate which is expected to exceed the growth of the economy as well as the growth of individual incomes. Failing to maintain this rate of increase, beneficiaries may opt to go without the benefit, or worse, without their needed medications.

PART D FACT

Part D expenditures for benefits and administrative costs in 2008 totaled approximately \$49.3 billion in 2008. Actuary projections for 2008 were \$98.5 billion in a 2005 report, and \$101.9 billion in a 2004 report.

[CURxED Home Page](#)
[Comparing Part D Plans](#)

[Reports on Part D Policy Details](#)
[CURxED Pocket Guide](#)

[About CURxED](#)
[Anatomy of a Part D Plan](#)

www.CURxED.human.cornell.edu/



email: CURxED@cornell.edu

This material is based upon work supported by a grant from the Dean of the College of Human Ecology and Smith Lever funds from the Cooperative State Research, Education, and Extension Service, U.S. Department of Agriculture. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the view of the U.S. Department of Agriculture. Cornell University offers equal program and employment opportunity.