

How Much Will Medicare Costs Affect Taxpayers Over Time?

Marilyn Moon and Yan Wang

A major justification for reforms to reduce Medicare benefits surrounds the claim that the program will be unaffordable in the future and will overburden taxpayers. But many such arguments aren't based on facts or more than minimal amounts of analysis of these claims. Here, we take a comprehensive look at the likely levels of burden that Medicare will impose on taxpayers in relation to their projected ability to afford them.

The simplistic analyses of burdens of Medicare on taxpayers look at such statistics as the number of workers per beneficiary. The substantial declines in this ratio do indicate that per capita burdens will rise, but overstate the impact. For several reasons, it is actually less. First, payroll taxes aren't the major funding resource for Medicare so broader indicators of financial costs are also relevant. Also, a simple ratio of workers to beneficiaries says nothing about either the absolute or relative levels of resources that could be used to support the program. Finally, since someone must pay, the costs that beneficiaries will bear in the future must also be taken into account. Since seniors (most of the beneficiaries) are remaining in the labor force longer, they are paying more toward the costs of their benefits.¹

To provide a more comprehensive measure, we estimate the annual burdens on taxpayers and beneficiaries and then compare those sums to future levels of resources. We look at what taxpayers under the age of 65 pay each year and what beneficiaries (here limited to persons aged 65 and over) contribute toward the costs of Medicare. Included in this measure are contributions from payroll taxes and income taxes, which constitute the bulk of revenues received by the program. Payroll taxes are dedicated to Part A (hospital and other institutional services) while general revenues (mainly income taxes) fund 75 percent of Parts B and D of the program (physician and other ambulatory services, and prescription drugs).²

Because Americans over the age of 65 also pay income and payroll taxes, we deduct those contributions from the total attributed to persons aged 20 through 64. Beneficiaries must also pay premiums that total 25 percent of the costs of Parts B and D. Finally, some of the taxation of Social Security benefits fund Part A so those are also directed to the beneficiary burden estimates. Thus, burdens on beneficiaries arise from a range of sources, and the common assumption that seniors pay only for premiums is wrong.

¹ See Brief 1 in this series, Marilyn Moon and Yan Wang, "Who Pays for Medicare?"

² The Medicare and Social Security Trustees Reports for 2015 constitute our principal source of data, but we supplement that with projections from other sources, including IRS information on income taxation and data from the Labor Department on labor force projections for older workers. More specifics on the data sources and the formulas for allocating burden shares are in the appendix to this paper.

The 2015 Burdens on Taxpayers

In 2015, the share of taxes that do not fall on seniors are distributed across all persons aged 20 to 64. Per capita, that burden is \$2,334. Medicare beneficiaries themselves pay much more—\$3,854 per capita. But because young taxpayers outnumber seniors, the taxpayer share is 68 percent of the total burden.³

Importantly, the relative shares indicate that seniors are *already* bearing a substantial burden. If taxpayers’ burden is reduced by cutting benefits or raising premiums, for example, much of that shift would probably increase the beneficiary burden.

To put this burden in context (and to use a consistent projection of economic growth over time), we estimate GDP per capita by dividing the total GDP by the number of adults aged 20 and above. In 2015, this figure is \$75,277. The Medicare burden for young taxpayers using this measure is 3.1 percent, and the “after Medicare” GDP amount would be \$72,943. (See Table 1).⁴

Table 1. Impact of Medicare Burden on Per Capita GDP for Young Adults (2015 Dollars)

Year	Real GDP	Medicare Burden (20-64)	Real GDP net of taxpayer burden
2015	\$75,277	\$2,334	\$72,943
2025	\$85,363	\$3,307	\$82,057
2035	\$94,322	\$4,423	\$89,898

How Will The Burdens of Medicare on Taxpayers Change over Time?

This analysis and calculation build on a 2002 paper examining whether taxpayers would be able to afford Medicare in the future. That paper’s focus was on estimating the dollar burden on workers and comparing it to expected per capita GDP over time. The conclusion then was that the burden would grow

³ This estimate is described in more detail in “Who Pays for Medicare?” which is part of this series.

⁴ We also calculated real GDP per worker and real income per adult. GDP per worker is higher than GDP per adult and income is lower. Since we are examining income as well as payroll taxes and allocating the burden of Medicare over all adults, using the per adult GDP figure seems appropriate here.

relative to GDP but that real GDP per young taxpayer net of the Medicare burden would still rise by more than 50 percent through 2035.⁵ Our new estimates allow us to re-examine that question but to also consider how much beneficiaries pay toward the cost of their own care.

Since 2002, a number of things have changed that affect our estimates. Medicare is more complicated; a prescription drug benefit has been introduced and income-related premiums have been added to both Part B (physician and other ambulatory services) and the drug benefit (Part D). In addition, Americans are working longer each year, increasing the number of workers over the age of 65. Projections of both GDP and the level of Medicare spending are substantially different than in 2002. Both are lower.

The Great Recession led to both a smaller workforce and lower wages than projected earlier in this century—figures that affect both the current situation and projections for the future. For example, the 2007 OASDI Trustees Report (issued just before the economic downturn) projected that there would be 171.8 million workers in 2015 with taxable payroll totaling \$8.1 trillion.⁶ The 2015 Trustees Report indicated that these two figures would instead be 167.6 million and \$6.4 trillion respectively in 2015.⁷

And Medicare estimates have fallen even faster. In 2007, it was estimated that per capita Medicare spending would reach \$15,983 by 2015. In actuality, the number for 2015 from the most recent report is \$12,174—lower by a quarter from the projection of just eight years ago.

Nonetheless, our results are similar to those of the previous 2002 analysis in terms of the impact on

⁵ Marilyn Moon and Matthew Storeygard, 2002, “Solvency or Affordability? Ways to Measure Medicare’s Financial Health,” Henry J. Kaiser Family Foundation. Note that the 50 percent figure represented over 30 years of growth as compared to our estimates using a 20 year time frame.

⁶ Board of Trustees, 2007, *2007 Annual Report of the Boards of Trustees of the Federal Hospital and Federal supplementary Medical Insurance Trust Funds*. US: GPO.

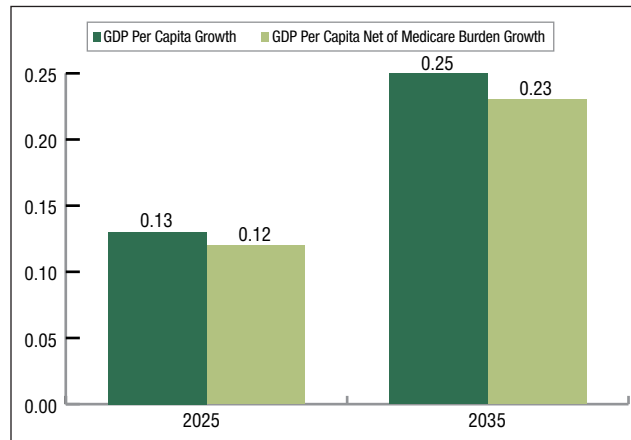
⁷ Board of Trustees, 2015, *2015 Annual Report of the Boards of Trustees of the Federal Hospital and Federal supplementary Medical Insurance Trust Funds*. US: GPO.

younger taxpayers: Medicare burdens will lower the net amount of GDP, but young adults will still achieve substantial real (inflation-adjusted) growth in per capita well-being over time.

As Table 1 also shows, Medicare burdens rise over time, reaching \$4,423 for taxpayers. But real per adult GDP will reach \$94,322 in that year. To put this in context, GDP per adult will grow by 25 percent between 2015 and 2035 even after controlling for inflation; after netting out the Medicare burden, that growth will be lower but will still be 23 percent. So while Medicare’s burden will grow faster than GDP under current projections, GDP is so much larger that it can “absorb” that growth with only a modest decline in improvements during the twenty-year period in which all of the Baby Boomers become Medicare beneficiaries. Figure 1, which compares the rates of growth of GDP per adult before and after accounting for the Medicare burden, echoes that finding.

Note too that burdens on seniors are also projected to rise over this period, from \$3,854 in 2015 to \$6,975 in 2035. If the differential impact between these two groups over time based on projected incomes, the burdens on beneficiaries would rise more even with no change in policy.

Figure 1. Growth in Real Per Capita GDP Before and After Accounting for Medicare Burden



Conclusion

Burdens on young taxpayers will rise over time as the population ages and more people become eligible for Medicare and as costs of health care continue to rise. However, that increased burden has only modest impacts on lowering the expected rate of growth of GDP per adult, a good indicator of likely increases in living standards over time. Calling these changes “unsustainable” seems to overstate the impact, but it will be up to society to decide whether to ask taxpayers to pay more over time. If not, burdens on beneficiaries would rise even faster—or they will get less health care over time.

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FUNDING

The Center on Aging is funded by American Institutes for Research.

