



## CMS Medicare Actuary Disavows the Medicare Trustees' Report

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“(T)he financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range. . . or the long range. . . . I encourage readers to review the ‘illustrative alternative’ projections that are based on more sustainable assumptions for physician and other Medicare price updates.”

These remarkable words are found, in all places, in the “Statement of Actuarial Opinion” in the back of the 2010 annual Medicare Trustees’ Report.

It is difficult to overstate how unusual this development is. The normal process with the annual Trustees’ Reports is for the Trustees to develop and publish the best available projections for the future finances of Social Security and Medicare. The respective Social Security and Medicare actuaries then sign a *pro forma* blessing of those projections, which is tacked to the back of the report when released to the public.

This year, the Medicare Chief Actuary clearly did not feel he could in good conscience sign such a declaration.

A cursory review of the Trustees’ Report as well as the CMS actuary’s “illustrative alternative” projections elucidates why the official Trustees’ projections are utter fiction.

The actuary’s alternative memo explains that “the projections in the report do not represent the ‘best estimate’ of actual future Medicare expenditures.” Worse than that, they are not even in the ballpark of

reasonability. The official 2010 Trustees’ Report tells us that total Medicare expenses will be total 6.37% of GDP by 2080. The CMS actuary’s alternative memorandum explains that 10.70% of GDP is a more reasonable estimate for that year – though one that is roughly 68% higher.

The chief consequence of the legislated productivity adjustments, therefore, would be to render 15 percent of hospitals, skilled nursing facilities, and home health agencies unprofitable by 2019 – up to 25 percent in 2030 and 40 percent by 2050.

If the 2010 report’s projections were arguably within the range of plausibility, perhaps the actuary could have agreed to sign off on them. But this was clearly prohibited by the magnitude of the deviations from reality. (For additional perspective, consider that the previous 2009 Trustees’ Report projected that program costs by 2080 would be 11.18% of GDP – more than 75% higher than this year’s projection.)

The actuary’s memo identifies two principal reasons why the official report’s projections are so far afield from reality.

One is that the official scoring presumes that payments to Medicare physicians will decline on December 1 by 23%, followed by a further 6.5 percent decline in January, 2011, and another 2.9 percent decrease in 2012. The Obama administration and the Congressional leadership are on record as opposing these enormous payment reductions, and no one seriously expects them to happen. The Medicare



actuary's memo refers to this physician payment formula as "clearly unworkable and almost certain to be overridden by Congress."

**Bad though all of this is, none of it is actually the worst gimmick in the official report's advertised improvement in Medicare solvency.**

The other major source of projection error is the assumption, enshrined in the recent health care law, that future program cost growth will be contained by downward adjustments in annual price updates, reflecting in turn the assumption that health service productivity growth will parallel "economy-wide productivity." The actuary states, however, that "(t)he best available evidence is that most health care providers cannot improve their productivity to this degree – or even approach this level – as a result of the labor-intensive nature of these services."

The actuary's memo provides greater detail on the point. The memo notes the long-acknowledged phenomenon that productivity growth in services industries is generally not as rapid as in industries affected more by technology improvements. It is possible, for example, for productivity in personal computer manufacturing to improve several-fold in a short time. It is not similarly possible for productivity in nursing services to mushroom in the same way. The actuary's memo rightly notes the generally slower pace of productivity growth in the health care field, which has been slowest of all in such labor-intensive venues as skilled nursing facilities and home health services.

As a result, the memo finds, it "very unlikely" that Medicare productivity growth can mirror productivity growth in the larger economy. The chief consequence of the legislated productivity adjustments, therefore, would be to render 15 percent of hospitals, skilled

nursing facilities, and home health agencies unprofitable by 2019 – up to 25 percent in 2030 and 40 percent by 2050.

The actuary concludes that "neither of these update reductions is sustainable in the long range, and Congress is very likely to legislatively override or otherwise modify the reductions in the future to ensure that Medicare beneficiaries continue to have access to health care services."

This is a key point; the glowingly optimistic projections in the official Trustees' Report assume that we as a nation will be content to have 40% of our medical facilities go under within the next 40 years, and that we will happily accept these severe constraints upon beneficiaries' access to health care. If that is not in fact the societal will after the enactment of health care reform, then the official cost estimates should be tossed into the nearest receptacle.

Bad though all of this is, none of it is actually the worst gimmick in the official report's advertised improvement in Medicare solvency. That involves the double-counting of Medicare savings. Earlier this year, Congress passed a health care bill containing various new Medicare taxes and constraints on program expenditures. Such savings are assumed in the official report to extend the solvency of Medicare. But Congress chose instead to spend the savings on a new health care entitlement.

The Medicare actuary wrote a memorandum on April 22 of this year calling attention to this "double-counting." "In practice," he stated, "the improved Part A financing cannot simultaneously be used to finance other Federal outlays (such as the coverage expansions under the PPACA) and to extend the trust fund, despite the appearance of this result from the respective accounting conventions."



In other words, money can only be used once. Since the Medicare savings is being spent elsewhere on expanded health care coverage, it is not really being employed to extend Medicare solvency. To claim an improvement in Medicare financing is to mislead about the effects of recent legislation.

Earlier this year, we at e21 noted the multiple occasions on which scorekeepers at the Congressional Budget Office and Medicare Actuary's Office had signaled their disbelief in the numbers they were compelled to release concerning health care reform. This persistent distancing, however, reached a new level with the Medicare actuary's utter disavowal of the official Medicare trustees' projections.

We must be careful not to allege impropriety in the way the Trustees' report was developed. As the report itself notes, "The annual report to Congress on the financial status of Medicare must be based on current law." The Trustees have little choice. That is the Trustees' obligation, no matter how implausible the provisions of "current law" are, and no matter how firmly Congress and the President have declared their intention to override it.

All that can be responsibly done is for those associated with the Trustees' Report is to note the limited utility of the "official projections" and to simultaneously provide their best projections for actual reality. The rest of us, for our part, must take appropriate note of the alternative findings of the scorekeepers. This was an ethic too-little observed during the health care debate, when health care reform's proponents continued to cite CBO's purported sign-off on the fiscal gains of health care reform -- despite the repeated caveats issued by CBO refuting the validity of such claims.

Unfortunately, some in positions of responsibility are spinning the Trustees' Report counter to the actual

findings. Treasury Secretary Geithner's statement on the occasion of the report's release mischaracterized it as follows:

"The Affordable Care Act has dramatically improved projected Medicare finances. Medicare's Hospital Insurance (HI) Trust Fund is now expected to remain solvent until 2029, 12 years longer than was projected last year, which is a record increase from one report to the next. In addition, the 75-year financial shortfall for HI has been reduced to 0.66 percent of taxable payroll from 3.88 percent of taxable payroll in last year's report, and the projected costs for the Medicare Supplementary Medical Insurance (SMI) program over the next 75 years, expressed as a share of GDP, are down 23 percent relative to the projections in the 2009 report. Nearly all of these improvements in projected Medicare finances are due to the Affordable Care Act President Obama signed into law in March."

Perhaps it is too much to expect the Secretary's statement to acknowledge the double-counting at the root of this purported solvency extension, or to delve into the full extent to which the Medicare actuary has explained the inapplicability of these particular numbers. But as the Managing Trustee of the Trust Funds, the Secretary bears a duty to represent program finances as accurately as possible, which this statement fails to do.

The implausible projections in the official Trustees' report will need to be revised downward almost immediately, after the next extension of Medicare physician payments expected later this year. By next year's report, this year's official projections may well look silly. It is unfortunate that the Treasury Department statement grotesquely spins the analysis in the Trustees' report, especially given the clarifying corrections that the CMS actuary has already publicized.

The final page of the Trustees' report states that "The Board of Trustees will convene an independent panel of expert actuaries and economists to consider these issues further and to make recommendations to the Board regarding the most appropriate long-



range growth assumptions for Medicare projections.” Clearly, to be credible, this panel should be assembled with the active guidance of the Medicare actuary’s office, to avoid any appearance that the panel has been convened to over-ride rather than support the non-partisan analytical work of the Medicare actuary. The last thing needed is for the long-respected Trustees’ process to be tainted by its own version of the Gruber episode.

There is, regrettably, a striking contrast between the Treasury Department’s statement on the Medicare Trustees’ Report, and the Medicare Actuary’s own repudiation of it. In time, the Treasury Secretary may very well come to regret his statement even as the Medicare Actuary comes to take pride in his own principled stand.