



**AARP**  
**STATEMENT FOR THE RECORD**  
**for the**  
  
**UNITED STATES SENATE**  
**COMMITTEE ON THE BUDGET**  
**on**  
  
**MEDICARE FINANCIAL STABILITY AND**  
**THE FUTURE OF MEDICARE SOLVENCY**

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AARP, which advocates for the more than 100 million Americans age 50 and older, appreciates the Senate Committee on the Budget's effort to examine the Medicare Part A Hospital Insurance Trust Fund and the future of Medicare financing. Medicare faces long-term financial challenges that must be addressed. The 2023 Medicare Trustees' Report estimates that the Hospital Insurance (HI) Trust Fund, which funds Part A and is mainly financed by payroll taxes, will be fully solvent until 2031. While another 8 years is a long time compared to historic solvency projections, that date is constantly in flux. Continued increases in medical costs, rapid changes in medical technology, and a growing population — which will add 21 million enrollees to the program by 2030 — require that we consider policies to secure Medicare's financial sustainability. Medicare must remain a strong, broadly supported social insurance program so that it can continue to provide critically needed benefits to protect current and future generations.

It should be noted that HI Trust Fund insolvency does not mean Medicare is 'going broke' or will be out of money; rather, it means that Medicare will not be able to *fully* pay for the services financed by Part A. Current projections indicate that in 2031 the Trust Fund will still be able to cover 89 percent of Part A billed services. It is also noteworthy that Medicare Part B and Part D will continue to be fully funded by the Supplemental Medical Insurance (SMI) Trust Fund, which is financed through general revenues and premiums. While we must strive to avoid HI insolvency, this must be done through responsible reforms rather than reductions to Medicare benefits and eligibility.

As described in AARP's *Medicare Financial Outlook: What Do Trust Fund Solvency Projections Mean?*,<sup>1</sup> throughout Medicare's history, Congress has enacted numerous policy changes that have affected the Trust Fund by reducing Medicare's spending compared with previous projections. Other policy changes have repeatedly extended the Trust Fund's solvency by expanding the Trust Fund's revenue. Policymakers should again look to similar policy approaches to address current solvency challenges.

Past experience shows that a combination of policy interventions — rather than one single solution — can substantially improve Trust Fund solvency. For example, the Balanced Budget Act of 1997 reduced spending growth by decreasing the annual updates to hospital payments, modifying payment methods for home health care and skilled nursing facilities, and shifting some home health spending from Part A to Part B. In addition, the Act increased Trust Fund income from payroll taxes. As a result, the 1998 Medicare Trustees' Report projected solvency period increased by 6 years compared to the prior year's report.

In a more recent example, the Trustees increased the estimated Part A solvency period by 12 years, reflecting numerous changes enacted in the 2010 Affordable Care Act. These changes reduced spending growth for hospitals and other Part A services and increased Trust Fund revenue by establishing a higher payroll tax on earnings over a specified amount beginning in 2013.

As has always been the case, sustaining Medicare for the future will require continued attention to reducing unnecessary spending, addressing quality of care improvements, and ensuring adequate revenue. One potential solution is the continued testing and implementation of new payment innovations and person-centered care pilots and demonstrations. These efforts have the potential to identify new

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<sup>1</sup> Komisar, Harriet. *Medicare Financial Outlook: What Do Trust Fund Solvency Projections Mean?* Washington, DC: AARP Public Policy Institute. May 2020. <https://doi.org/10.26419/ppi.00102.001>

approaches that, when scaled, could reduce unnecessary spending and slow spending growth. Scaling such approaches could improve the solvency outlook over time.<sup>2</sup> Still, other policy changes may be needed to strengthen the Part A Trust Fund for the future.

Another action Congress can take right now to improve the Medicare program's finances is to continue addressing high prescription drug prices. Fully implementing prescription drug reforms, like those contained in the Inflation Reduction Act, as well as adopting new reforms, would save nearly all Medicare beneficiaries money in their out-of-pocket expenses and save the Medicare program billions of dollars each year. Lower drug prices, and the better health outcomes and reduced hospitalizations that result from improved medication adherence, would benefit both the HI and SMI Trust Funds.<sup>3</sup>

Congress can also improve Medicare's program-wide finances by addressing excess payments to private Medicare Advantage (MA) plans. AARP believes Medicare payments should be neutral with respect to Medicare coverage options. Congress should set and maintain benchmarks upon which MA plan payments are based so they are more in line with Original Medicare costs. Further, as MedPAC has recommended, Congress should periodically evaluate the impact of the MA reimbursement methodology to ensure reasonable private health plan participation in the Medicare program and appropriate Medicare payments to participating plans.

Beyond these immediate improvements, a wide variety of incremental changes in Medicare policy could extend the Trust Fund's solvency. History shows that relatively small payment modifications to slow spending growth can have a significant positive impact on the Trust Fund. Congress should consider revisiting previous policies that increased Trust Fund revenue, including raising new revenue or redirecting revenue from existing sources.

Medicare continues to provide critical health coverage for older Americans, and measures to address Medicare's long-term financial outlook are necessary to protect access to high quality care and prevent simply shifting costs to current and future Medicare beneficiaries. We urge you to work together on the necessary combination of policies to the program's finances and payments to maximize the value of every dollar spent.

Thank you for the opportunity to provide AARP's perspective on improving Medicare's current and future finances. We look forward to working with you to address this important issue and ensure continued access to affordable health benefits for older Americans.

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<sup>2</sup> Lind, Keith. *Savings Expected from Slowdown in Medicare Spending*. Washington, DC: AARP Public Policy Institute. February 2017.

<sup>3</sup> <https://www.cbo.gov/publication/58850>