

Another Health Crisis is Looming

Medicare 101. Part of FICA payroll tax for every American employee includes a 1.45% tax to pay for Medicare Part A. Anything that is left over goes to the Hospital Insurance Trust Fund, which pays for additional Medicare Part A expenses.

In 2019 a Medicare report found that HITF will be insolvent by 2026. That is, only hospital expenses equal to HITF revenues will be able to be paid out. Why is this? Pre-pandemic, the sluggish economic growth and increasing number of retiring baby boomers were projected to drastically cut tax revenues. There is an additional spending problem, as the booming baby boomer population will require a higher intensity of services with their more complex medical conditions.

Now we need to add in the COVID-19 effect. We are seeing unemployment skyrocket, and payroll tax revenues decline. Despite the CARES stimulus bill, the 2026 insolvency trust fund projection is now expected to be accelerated by 3 years. So by 2023, Medicare Part A will cover less than 90% of hospitalization and hospice costs for beneficiaries, dropping to 70% by 2040. As COVID continues to spiral, these projections could even worsen. There is also the long term effect of patients who canceled elective surgeries and procedures and the health consequences of delayed medical care.

The post-COVID Medicare outlook is troubling. At least \$1.5 trillion in costs will need to be cut over the next decade. Without higher spending and dwindling revenues, Medicare will only be left with two options: increase the share the beneficiaries pay by increasing taxes, or by reducing the number that is eligible by raising the retirement age. Neither option is palatable as they involve accepting a new, more austere type of health care.

But these don't have to be the only two options. Focusing efforts on ensuring "right care" and reducing unnecessary utilization of services will lower costs without compromising quality. Innovation in digital technology, wearables, big data analytics that focus on cost control will need to be accelerated faster, especially in areas of chronic disease management. Hospitals will need more aggressive incentives to invest in technologies through value-based programs and

shared savings models. Decisions about how we allocate resources in end of life care will finally need to be confronted as well.

While every effort by our health providers and policymakers should be focused on the current pandemic, we can't lose sight of the fact that what is on the other side is potentially far more troubling.

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Vipul Kella, MD MBA

Healthcare Consultant | Executive | Physician |