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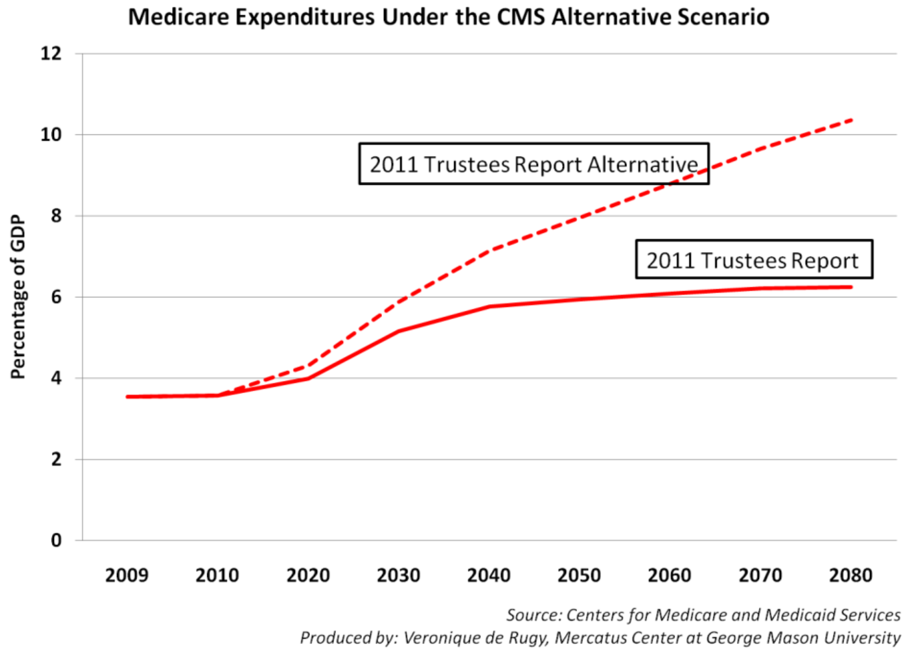

This chart by Mercatus Center Senior Research Fellow Veronique de Rugy compares the long-term projections of Medicare costs under the current law (“2011 Trustees Report”) with the CMS Office of the Actuary’s alternative projections (“2011 Trustees Report Alternative”). The latter projections were released as a ‘best estimate’ of future Medicare expenditures, to address the ‘likely understatement of current-law projections’[1].

These projections primarily differ in their assumptions about the plausibility of drastic payment rate cuts – if these cuts do not materialize, Medicare will cost tens of billions more each year than current law projects.

Current law includes provisions under the Affordable Care Act which tie physician payments to a Sustainable Growth Rate mechanism (SGR), which adjusts repayment rates in order to cap physician-related spending. Since 2001, physicians have been scheduled to receive at least a 5% reimbursement cut each year under SGR; this cut has been overridden by Congress every year except 2002.

In 2012, physician payments are scheduled to decrease by 29.4% - an update which is extremely unlikely to occur. So while the Board of Trustees are legally bound to incorporate these cost savings into their projections, the Office of the Actuary has formed a more realistic baseline which incorporates increasing physician repayments into the total cost of Medicare.

Under the current law baseline, Medicare spending is projected to grow from 3.99% of GDP in 2020 to 6.25% of GDP in 2080; under the alternative scenario Medicare spending is projected to grow from 4.31% of GDP in 2020 to 10.36% of GDP in 2080. In nominal terms, this is a cost underestimation of $2.7 trillion dollars by the year 2080.

Veronique de Rugy blogs why Medicare will cost more than expected at The Corner.

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[1] From Centers for Medicare and Medicaid Services, Office of the Actuary, “Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers”, news release, May 13, 2011.