

# Monthly Trend Report for Medicare, Medicaid, and SCHIP

September 30, 2008

On these pages, the Office of the Actuary presents monthly and fiscal-year-to-date data for Medicare (HI and SMI), the Federal portion of Medicaid, and the Federal portion of the State Children's Health Insurance Program (SCHIP). Highlights include

- changes in HI and SMI income, expenditures, and assets (see Table 1 below);
- changes in Federal Medicaid and Federal SCHIP expenditures (see Table 2 below); and
- actual versus projected data for each of the four programs (see Figures 1, 2, and 3 below).

The primary sources of information for these reports are the [U.S. Department of Treasury's Financial Management Service's Monthly Treasury Report](#) (table 5) for the Federal portions of Medicaid and SCHIP, and financial statements from the Bureau of Public Debt and CMS for Medicare. (Because premiums paid directly to Part D plans by enrollees are not displayed on the financial statements and are not available other than on an estimated basis, they are not included in these reports except where otherwise indicated.)

The reasons offered to explain monthly and fiscal-year-to-date changes are preliminary in nature and may be subject to change as more information becomes available.

NOTE: These pages display only the financial performance of Medicare, Medicaid, and SCHIP. For more information on the nature of the three programs, please refer to the [Brief Summaries of Medicare and Medicaid](#).

## Key Data and Trends (change is usually measured fiscal-year-to-date compared to prior fiscal-year-to-date)

### Total spending

Fiscal-Year-to-Date 2008 (October 2007-September 2008)

- Total Federal spending for HI, SMI, Medicaid, and SCHIP increased by 5.0 percent compared to the corresponding period in fiscal year 2007.

### Medicare

September 2008

- HI income exceeded expenditures by \$4.5 billion this month. The receipt of both quarterly self-employment (SECA) taxes and quarterly income taxes paid on Social Security benefits were two notable factors contributing to this excess. On the expenditures side, the bulk of the Medicare Advantage payment for September was made in August. (When

the first day of the month is a Saturday, Sunday, or legal holiday, as was the case for September 1, the payment date is often sped up to the prior month.) Therefore, HI expenditures would have been higher—and the excess of income over expenditures lower—had the payment for September been made this month rather than last month. In fact, were it not for these three notable factors contributing to the excess of income over expenditures, expenditures would have exceeded income this month.

SMI income exceeded expenditures by \$5.1 billion this month, of which \$4.3 billion was attributable to the Part B account and \$0.8 billion was attributable to the Part D account.

For Part B, the main contributing factor to the large excess was on the expenditures side, where the bulk of the Medicare Advantage payment for September was made in August, as described above for HI.

For Part D, on the expenditures side, the bulk of payments for September were sped up to August, as described for Medicare Advantage for HI and Part B. However, for Part D, most of the largest source of income (from Federal contributions) was sped up as well. Thus, the excess of income over expenditures for Part D is small, and attributable mainly to smaller secondary sources of income.

- The Part D account spent only a small amount—about \$0.5 billion—this month, but this was because the bulk of Part D payments for September were made in August, as discussed above.

#### Fiscal-Year-to-Date 2008 (October 2007-September 2008)

- Medicare expenditures were 4.5 percent higher than in the corresponding period in fiscal year 2007. This increase includes two factors that deserve mention. First, a provision of the Deficit Reduction Act (DRA) of 2005 required that all Part A and Part B payments that would have been paid from September 22, 2006 through September 30, 2006 (the last 9 days of fiscal year 2006) be paid instead on October 2, 2006 (the first business day of fiscal year 2007). This provision resulted in an artificially high expenditure level for the prior fiscal-year-to-date (2007) and, therefore, an artificially low increase for the current fiscal-year-to-date (2008). Removing the effect of this provision yields an increase of about 6.1 percent. Next, while both the current and prior fiscal-years-to-date contain 12 months' worth of Medicare Advantage and Part D payments, the payments made for November 2007-April 2008, during the current fiscal year, were affected by the Part D reconciliation, which reduces payments in fiscal year 2008 to retroactively adjust for overpayments in fiscal year 2006, as explained in detail in the November 2007 report. (In Table 1 below, the effect of the Part D reconciliation is most pronounced in the decrease in fiscal-year-to-date Part D expenditures.) Adjusting Medicare Advantage and Part D payments to incurred, rather than cash, levels—thereby removing the effect of the Part D reconciliation—and having already removed the effect of the DRA provision, it is estimated that Medicare expenditures for the current fiscal-year-to-date would have been 7.1 percent higher than in the corresponding period in fiscal year 2007.

Another analysis produced by our office examined the same two factors discussed in the above bullet point, but in the opposite order. If one starts again with the 4.5 percent increase in total Medicare expenditures for fiscal year 2008, but first removes the effect of the Part D reconciliation, it is estimated that Medicare expenditures for the fiscal year would have increased 5.5 percent. If one next removes the effect of the DRA provision, one arrives at the same estimated increase in total Medicare expenditures of 7.1 percent for fiscal year 2008.

No matter the order, the important thing to note is that while a 4.5 percent increase in total Medicare expenditures is a moderate growth rate by historical standards, it reflects two unusual factors that tend to mask a somewhat faster underlying increase of 7.1 percent.

- Expenditures for Medicare Parts A and B, combined, were 6.7 percent higher in fiscal year 2008 than in fiscal year 2007. However, after adjusting for the DRA provision described above (and for the Part D reconciliation, in which Parts A and B were involved early on, but for which, in the end, there was no net effect on Parts A and B), the growth rate was 8.5 percent. This growth rate represents the weighted average increase of fee-for-service expenditures and payments to Medicare Advantage plans. For fee-for-service, the increase in expenditures was 4.7 percent, reflecting a decline in enrollment (of about 2.0 percent), price growth (of about 2.5 percent) and an increase in the volume and intensity of services (of about 4 percent). The increase in aggregate payments to Medicare Advantage plans was 23 percent, consisting of a 17 percent increase in enrollment and a 6 percent increase in payment rates.
- It should be noted that during the prior fiscal year—and, in fact, for a longer period, from May 2005-September 2007—certain payments for hospice care that should have been paid from the Part A trust fund were inadvertently paid from the Part B account of the SMI trust fund. This misallocation occurred as a new accounting system was implemented. Because of the misallocation, Part A expenditures for the prior fiscal-year-to-date (2007) were slightly lower than they should have been, and thus the increase for Part A expenditures for the current fiscal-year-to-date (2008) is slightly overstated. Similarly, but in the opposite direction, Part B expenditures for the prior fiscal-year-to-date (2007) were slightly higher than they should have been, and thus the increase for Part B expenditures for the current fiscal-year-to-date (2008) is slightly understated. In July 2008, a transfer was made to correct the misallocation, and this transfer has the effect of overstating the increase in Part A expenditures, and understating the increase in Part B expenditures, for the current fiscal-year-to-date, both to a greater degree than the misallocation's effects. On a combined basis (Parts A and B together, with or without Part D), the increase for Medicare is unaffected by the misallocation and the corrective transfer.
- Expenditures for HI were 13.5 percent higher in fiscal year 2008 than in fiscal year 2007. However, after adjusting for the DRA provision and hospice corrective transfer, both of which are described above, the growth rate was 8.7 percent. The HI trust fund declined \$0.5 billion in fiscal year

2008, and estimates contained in *The 2009 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds* show this fiscal year as the start of continued and larger annual decreases in the trust fund, with a projected depletion of the fund in fiscal year 2017, unless corrective action is taken.

- Expenditures for Part B were 1.1 percent lower in fiscal year 2008 than in fiscal year 2007. However, after adjusting for the DRA provision and hospice transfer, both of which are described above, the growth rate was 8.2 percent, which is a large increase considering that the average price update for Part B services was only about 1.0 percent. The gap seems to indicate that there were substantial increases in the volume and intensity of Part B services in fiscal year 2008. The Part B account of the SMI trust fund increased \$19.8 billion in fiscal year 2008, reflecting the hospice corrective transfer and efforts to restore assets to a more adequate contingency reserve level. The Part B account is adequately financed over the next 10 years and beyond, because premium and general revenue income is reset each year to match expected costs. However, according to *The 2009 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds*, such financing will have to increase rapidly to match expected expenditure growth under current law, and because current law assumes physician payment fee reductions that are unsustainable and implausible, larger increases will likely be needed than those indicated under current law. In either case, it is estimated that the Part B average annual growth rate for the next 10 years will significantly outpace that of the U.S. economy. Also, further Congressional overrides of scheduled physical fee reductions, together with an existing “hold-harmless” provision restricting premium increases for most beneficiaries if no cost-of-living increase is contained in Social Security benefit payments, could jeopardize Part B solvency and require unusual measures to avoid asset depletion.
- Expenditures for Part D decreased 11.7 percent from fiscal year 2007 to fiscal year 2008, but the Part D reconciliation, which reduced payments in fiscal year 2008 to retroactively adjust for overpayments in fiscal year 2006, was responsible for most of this decrease. Like Part B, the Part D account is adequately financed over the next 10 years and beyond, because premium and general revenue income is reset each year to match expected costs. However, also similar to Part B, it is estimated in *The 2009 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds* that the average annual growth rate for Part D for the next 10 years will be 11.1 percent, while the U.S. economy is projected to grow significantly slower, at 4.5 percent annually. The *Report* also notes the uncertainty associated with the cost of the Medicare prescription drug benefit, and anticipates that the projection uncertainty should decline over the next few years as additional actual expenditure data under this new program become available.

## **Medicaid**

Fiscal-Year-to-Date 2008 (October 2007-September 2008)

- Federal expenditures for Medicaid were 5.7 percent higher than in the corresponding period in fiscal year 2007.

## **SCHIP**

Fiscal-Year-to-Date 2008 (October 2007-September 2008)

- Federal expenditures for SCHIP were 15.0 percent higher than in the corresponding period in fiscal year 2007.

## **Consumer Price Index (all items, for urban consumers; CPI-U)**

September 2008

- The CPI-U decreased 0.1 percent during the month of September.

Fiscal-Year-to-Date 2008 (October 2007-September 2008)

- The fiscal-year-to-date change in the CPI-U is an increase of 4.9 percent.

**Table 1. Medicare Trust Fund Activity as of September 30, 2008**  
**[in millions]**

Income, Expenditures, and Balance	Supplementary Medical Insurance					Total Medicare
	Hospital Insurance Trust Fund (Part A)	Part B Account	Transitional Assistance Account	Medicare Prescription Drug Account (Part D)	Supplementary Medical Insurance Trust Fund (Total SMI)	
<b>This Month:</b>						
Income	\$18,616	\$16,536	\$0	\$1,309 <sup>1</sup>	\$17,845 <sup>1</sup>	\$36,460 <sup>1</sup>
Expenditures	14,126	12,229	0	545 <sup>1</sup>	12,775 <sup>1</sup>	26,901 <sup>1</sup>
Difference	4,489	4,306	0	746	5,070	9,560
<b>Current Fiscal-Year-to-Date:</b>						
Income	229,729	197,478	0	44,424 <sup>2</sup>	241,902 <sup>2</sup>	471,631 <sup>2</sup>
% Change	4.8	6.4	(100.0)	(11.1) <sup>2</sup>	2.7 <sup>2</sup>	3.7 <sup>2</sup>
Expenditures	230,240	177,709	0	44,190 <sup>2</sup>	221,899 <sup>2</sup>	452,139 <sup>2</sup>
% Change	13.5	(1.1)	(100.0)	(11.7) <sup>2</sup>	(3.4) <sup>2</sup>	4.5 <sup>2</sup>
Difference	(511)	19,769	0	234	20,003	19,492
<b>Prior Fiscal-Year-to-Date:</b>						
Income	219,207	185,614	10	49,971 <sup>3</sup>	235,595 <sup>3</sup>	454,802 <sup>3</sup>
Expenditures	202,827	179,651	10	50,066 <sup>3</sup>	229,727 <sup>3</sup>	432,554 <sup>3</sup>
<b>End-of-Month:</b>						
Balance	319,000	58,323	0	826	59,149	378,149

<sup>1</sup>Not including Part D premiums paid directly to plans, which are not displayed on the financial statements and are available only on an estimated basis. The estimated amount of these directly-paid Part D premiums should be added to both Part D income and expenditures for a complete picture of Part D operations. Based on estimates prepared under 2009 Trustees Report assumptions, the estimated amount for this month is \$260 million. Adding this amount to the amounts shown above yields estimates of \$1,569 million for Part D income; \$18,105 million for SMI income; \$36,720 million for total Medicare income; \$805 million for Part D expenditures; \$13,035 million for SMI expenditures; and \$27,161 million for total Medicare expenditures.

<sup>2</sup>Not including Part D premiums paid directly to plans, which are not displayed on the financial statements and are available only on an estimated basis. The estimated amount of these directly-paid Part D premiums should be added to both Part D income and expenditures for a complete picture of Part D operations. Based on estimates prepared under 2009 Trustees Report assumptions, the estimated amount for the current fiscal-year-to-date is \$2,938 million. Adding this amount to the amounts shown above yields estimates of \$47,362 million for Part D income; \$244,840 million for SMI income; \$474,569 million for total Medicare income; \$47,128 million for Part D expenditures; \$224,837 million for SMI expenditures; and \$455,077 million for total Medicare expenditures. The associated "% Change" estimates are (9.3) for Part D income, 2.9 for SMI income, 3.8 for total Medicare income, (10.0) for Part D expenditures, (3.1) for SMI expenditures, and 4.7 for total Medicare expenditures.

<sup>3</sup>Not including Part D premiums paid directly to plans, which are not displayed on the financial statements and are available only on an estimated basis. The estimated amount of these directly-paid Part D premiums should be added to both Part D income and expenditures for a complete picture of Part D operations. Based on estimates prepared under 2009 Trustees Report assumptions, the estimated amount for the prior fiscal-year-to-date is \$2,275 million. Adding this amount to the amounts shown above yields estimates of \$52,246 million for Part D income; \$237,870 million for SMI income; \$457,077 million for total Medicare income; \$52,341 million for Part D expenditures; \$232,002 million for SMI expenditures; and \$434,829 million for total Medicare expenditures.

- Notes:
1. Totals do not necessarily equal the sums of rounded components.
  2. Changes shown ("% Change") reflect current fiscal-year-to-date amounts as compared to amounts in the corresponding period in the prior fiscal year.
  3. Transitional Assistance Account income and expenditures are \$0 for this month, \$0 for the current fiscal-year-to-date, and \$9,814,846.92 for the prior fiscal-year-to-date.

**Table 2. Federal Medicare, Medicaid, and SCHIP Expenditures  
as of September 30, 2008  
[in millions]**

<b>Expenditures</b>	<b>Total Medicare Expenditures</b>	<b>Federal Medicaid Expenditures</b>	<b>Federal Expenditures for State Children's Health Insurance Program</b>	<b>Total Expenditures</b>
This month	\$26,901 <sup>1</sup>	\$16,716	\$656	\$44,273 <sup>2</sup>
Fiscal-year-to-date	452,139 <sup>3</sup>	201,426	6,900	660,465 <sup>4</sup>
Prior fiscal-year-to-date	432,554 <sup>5</sup>	190,624	6,000	629,178 <sup>6</sup>
% Change	4.5 <sup>3</sup>	5.7	15.0	5.0 <sup>4</sup>

<sup>1</sup>See footnote 1 of Table 1. Adding the estimated amount for Part D premiums paid directly to plans yields an estimate of \$27,161 million for total Medicare expenditures for this month.

<sup>2</sup>See footnote 1 of Table 1. Adding the estimated amount for Part D premiums paid directly to plans yields an estimate of \$44,533 million for total expenditures for this month.

<sup>3</sup>See footnote 2 of Table 1. Adding the estimated amount for Part D premiums paid directly to plans yields an estimate of \$455,077 million for total Medicare expenditures for the current fiscal-year-to-date, and the associated "% Change" estimate is 4.7.

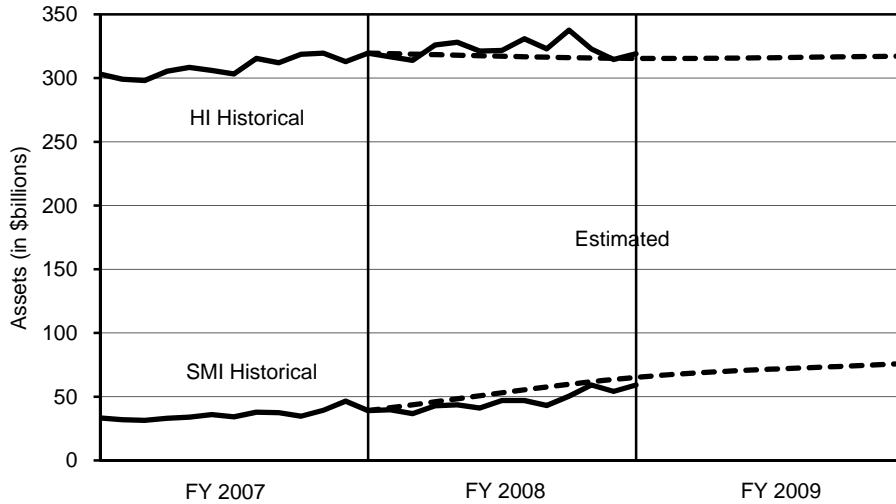
<sup>4</sup>See footnote 2 of Table 1. Adding the estimated amount for Part D premiums paid directly to plans yields an estimate of \$663,403 million for total expenditures for the current fiscal-year-to-date, and the associated "% Change" estimate is 5.1.

<sup>5</sup>See footnote 3 of Table 1. Adding the estimated amount for Part D premiums paid directly to plans yields an estimate of \$434,829 million for total Medicare expenditures for the prior fiscal-year-to-date.

<sup>6</sup>See footnote 3 of Table 1. Adding the estimated amount for Part D premiums paid directly to plans yields an estimate of \$631,453 million for total expenditures for the prior fiscal-year-to-date.

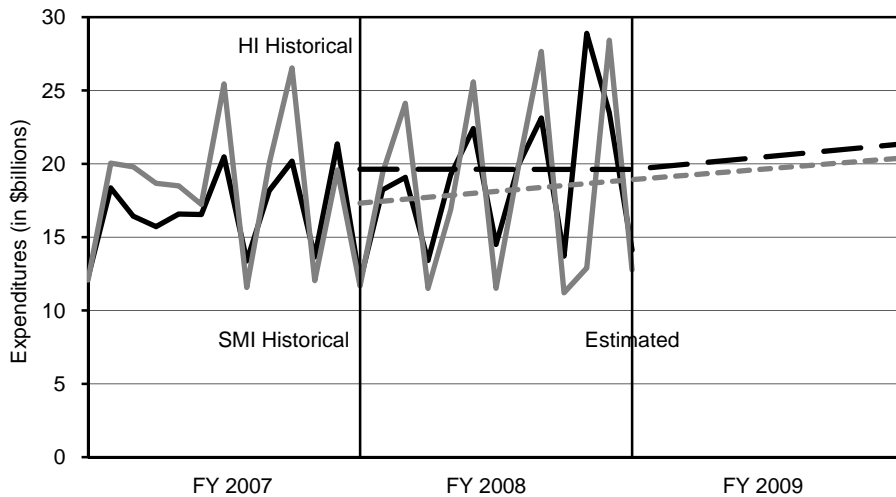
- Notes:
1. State governments also support the Medicaid and SCHIP programs.
  2. Totals do not necessarily equal the sums of rounded components.
  3. Changes shown ("% Change") reflect current fiscal-year-to-date amounts as compared to amounts in the corresponding period in the prior fiscal year.

**Figure 1. Medicare Trust Fund Assets at End of Month: Historical and Estimated**



**Note: Estimates are from the 2008 Trustees Report (intermediate assumptions).**

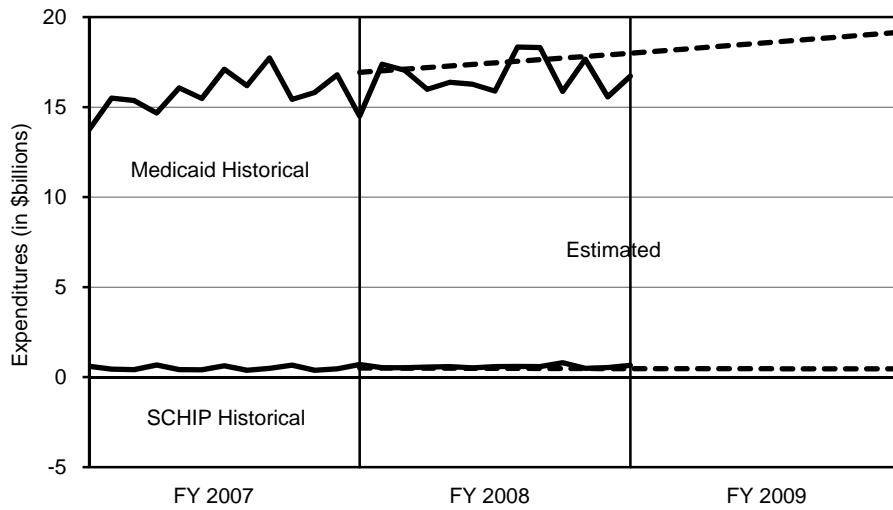
**Figure 2. Medicare Expenditures: Historical and Estimated**



**Note: Estimates are from the 2008 Trustees Report (intermediate assumptions). The historical figures reflect monthly fluctuations, but the estimated figures are based on annual amounts and thus do not. Because premiums paid directly to Part D plans by enrollees are not available other than on an estimated basis, they are not included in the historical figures, but because they are part of the Trustees Report projections, they are included in the estimated figures.**



**Figure 3. Federal Medicaid and SCHIP Expenditures: Historical and Estimated**



**Note: Estimates are from the Mid-Session Review of the President's Fiscal Year 2008 Budget.**