

# Monthly Trend Report for Medicare, Medicaid, and CHIP

September 30, 2009

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 Children's Health Insurance Program (CHIP; formerly the State Children's Health Insurance Program, or SCHIP). Highlights include

- changes in HI and SMI income, expenditures, and assets (see Table 1 below);
- changes in Federal Medicaid and Federal CHIP 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 CHIP, 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 CHIP. 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 2009 (October 2008-September 2009)

- Total Federal spending for HI, SMI, Medicaid, and CHIP increased by 14.0 percent compared to the corresponding period in fiscal year 2008.

### Medicare

September 2009

- HI expenditures exceeded income by \$0.7 billion this month. On the income side this month, the trust fund received quarterly self-employment (SECA) taxes and quarterly income taxes paid on Social Security benefits. Without these notable factors, HI expenditures would have exceeded income by \$5.6 billion this month. For a number of months, extending

back into fiscal year 2008, we have seen that, after adjustment for notable factors, expenditures have consistently exceeded income for the HI trust fund. While the notable factors do matter, and those on the income side (in months with notable income besides FICA taxes) mitigate this condition somewhat over the course of a year, this downward trend for the HI trust fund is now evident on a monthly basis. *The 2009 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds* shows last fiscal year—fiscal year 2008—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.

SMI income and expenditures were quite close this month, in total and for both the Part B and Part D accounts separately.

- The Part D account spent \$4.6 billion this month, accounting for about 21 percent of SMI expenditures and about 11 percent of total Medicare expenditures.

#### Fiscal-Year-to-Date 2009 (October 2008-September 2009)

- Medicare expenditures were 9.4 percent higher than in the corresponding period in fiscal year 2008. This increase was slightly inflated because, while there were 12 months' worth of Medicare Advantage and Part D payments during both the current and prior fiscal-years-to-date, a Part D reconciliation necessitated reducing Part D payments in fiscal year 2008 (the prior fiscal-year-to-date), in order to retroactively adjust for overpayments made in fiscal year 2006. (In Table 1 below, the effect of the Part D reconciliation is most pronounced in the large increase 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—it is estimated that Medicare expenditures for the current fiscal-year-to-date would have been 8.3 percent higher than in the corresponding period in fiscal year 2008.
- Expenditures for Medicare Parts A and B, combined, were 8.2 percent higher in fiscal year 2009 than in fiscal year 2008. 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 4.9 percent, reflecting a decline in enrollment (of about 0.8 percent), price growth (of about 2.1 percent) and an increase in the volume and intensity of services (of about 3.6 percent). The increase in aggregate payments to Medicare Advantage plans was 20 percent, consisting of a 12-percent increase in enrollment and an 8-percent increase in payment rates.
- In July 2008 (during fiscal year 2008, the prior fiscal year), a transfer was made to correct misallocations made for hospice care payments during fiscal year 2007. This corrective transfer raised the level of Part A expenditures and lowered the level of Part B expenditures for fiscal-year-2008-to-date (the prior fiscal-year-to-date), thereby understating the increase in Part A expenditures and overstating the increase in Part B expenditures for fiscal-year-2009-to-date (the current fiscal-year-to-date). (These increases are shown in Table 1, below.) On a combined

basis (Parts A and B together, with or without Part D), the increase for Medicare expenditures is unaffected by the corrective transfer. For more information on the corrective transfer and the misallocation that prompted it, see the Monthly Trend Report for September 30, 2008.

- Expenditures for HI were 3.4 percent higher in fiscal year 2009 than in fiscal year 2008. However, after adjusting for the hospice corrective transfer, which is described above, the growth rate was 7.3 percent. The HI trust fund declined \$9.1 billion in fiscal year 2009, 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 last fiscal year—fiscal year 2008—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 14.5 percent higher in fiscal year 2009 than in fiscal year 2008. However, after adjusting for the hospice transfer, which is described above, the growth rate was 9.3 percent, which is a very large increase considering that the average payment update for Part B services was just over 1.0 percent. The gap between overall Part B cost growth and the average payment update seems to indicate that there were substantial increases in the volume and intensity of Part B services in fiscal year 2009. The Part B account of the SMI trust fund increased \$2.3 billion in fiscal year 2009. 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 were 20.2 percent higher in fiscal year 2009 than in 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 increase. After adjusting for the reconciliation payments, the growth rate was 9.4 percent. 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**

September 2009

- The unusually high level of Federal expenditures for Medicaid in each month from March to September, relative to each month from October to February this fiscal year (as seen in Figure 3, below), is due to a temporary increase in Federal Medicaid matching rates. This increase was mandated by a law enacted in February 2009; it is retroactive to the start of this fiscal year, and it runs through December 2010.

Fiscal-Year-to-Date 2009 (October 2008-September 2009)

- Federal expenditures for Medicaid were 24.6 percent higher than in the corresponding period in fiscal year 2008. The temporary increase in Federal Medicaid matching rates, noted above, is contributing to this higher-than-average increase for the fiscal-year-to-date.

## **CHIP (formerly SCHIP)**

Fiscal-Year-to-Date 2009 (October 2008-September 2009)

- Federal expenditures for CHIP (formerly SCHIP) were 9.4 percent higher than in the corresponding period in fiscal year 2008.

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

September 2009

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

Fiscal-Year-to-Date 2009 (October 2008-September 2009)

- The fiscal-year-to-date change in the CPI-U is a decrease of 1.3 percent.

**Table 1. Medicare Trust Fund Activity as of September 30, 2009**  
**[in millions]**

Income, Expenditures, and Balance	Supplementary Medical Insurance				Total Medicare
	Hospital Insurance Trust Fund (Part A)	Part B Account	Medicare Prescription Drug Account (Part D)	Supplementary Medical Insurance Trust Fund (Total SMI)	
<b>This Month:</b>					
Income	\$18,983	\$17,070	\$4,595 <sup>1</sup>	\$21,666 <sup>1</sup>	\$40,649 <sup>1</sup>
Expenditures	19,692	17,588	4,557 <sup>1</sup>	22,145 <sup>1</sup>	41,837 <sup>1</sup>
Difference	(709)	(518)	38	(480)	(1,189)
<b>Current Fiscal-Year-to-Date:</b>					
Income	228,915	205,689	53,185 <sup>2</sup>	258,874 <sup>2</sup>	487,789 <sup>2</sup>
% Change	(0.4)	4.2	19.7 <sup>2</sup>	7.0 <sup>2</sup>	3.4 <sup>2</sup>
Expenditures	238,001	203,421	53,137 <sup>2</sup>	256,557 <sup>2</sup>	494,559 <sup>2</sup>
% Change	3.4	14.5	20.2 <sup>2</sup>	15.6 <sup>2</sup>	9.4 <sup>2</sup>
Difference	(9,086)	2,268	48	2,317	(6,769)
<b>Prior Fiscal-Year-to-Date:</b>					
Income	229,729	197,478	44,424 <sup>3</sup>	241,902 <sup>3</sup>	471,631 <sup>3</sup>
Expenditures	230,240	177,709	44,190 <sup>3</sup>	221,899 <sup>3</sup>	452,139 <sup>3</sup>
<b>End-of-Month:</b>					
Balance	309,914	60,591	874	61,466	371,380

<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 \$316 million. Adding this amount to the amounts shown above yields estimates of \$4,911 million for Part D income; \$21,982 million for SMI income; \$40,965 million for total Medicare income; \$4,873 million for Part D expenditures; \$22,461 million for SMI expenditures; and \$42,153 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 \$3,630 million. Adding this amount to the amounts shown above yields estimates of \$56,815 million for Part D income; \$262,504 million for SMI income; \$491,419 million for total Medicare income; \$56,767 million for Part D expenditures; \$260,187 million for SMI expenditures; and \$498,189 million for total Medicare expenditures. The associated "% Change" estimates are 20.0 for Part D income, 7.2 for SMI income, 3.6 for total Medicare income, 20.5 for Part D expenditures, 15.7 for SMI expenditures, and 9.5 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 \$2,938 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.

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.

**Table 2. Federal Medicare, Medicaid, and CHIP Expenditures  
as of September 30, 2009  
[in millions]**

<b>Expenditures</b>	<b>Total Medicare Expenditures</b>	<b>Federal Medicaid Expenditures</b>	<b>Federal Expenditures for Children's Health Insurance Program</b>	<b>Total Expenditures</b>
This month	\$41,837 <sup>1</sup>	\$21,044	\$688	\$63,569 <sup>2</sup>
Fiscal-year-to-date	494,559 <sup>3</sup>	250,924	7,547	753,030 <sup>4</sup>
Prior fiscal-year-to-date	452,139 <sup>5</sup>	201,426	6,900	600,465 <sup>6</sup>
% Change	9.4 <sup>3</sup>	24.6	9.4	14.0 <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 \$42,153 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 \$63,885 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 \$498,189 million for total Medicare expenditures for the current fiscal-year-to-date, and the associated "% Change" estimate is 9.5.

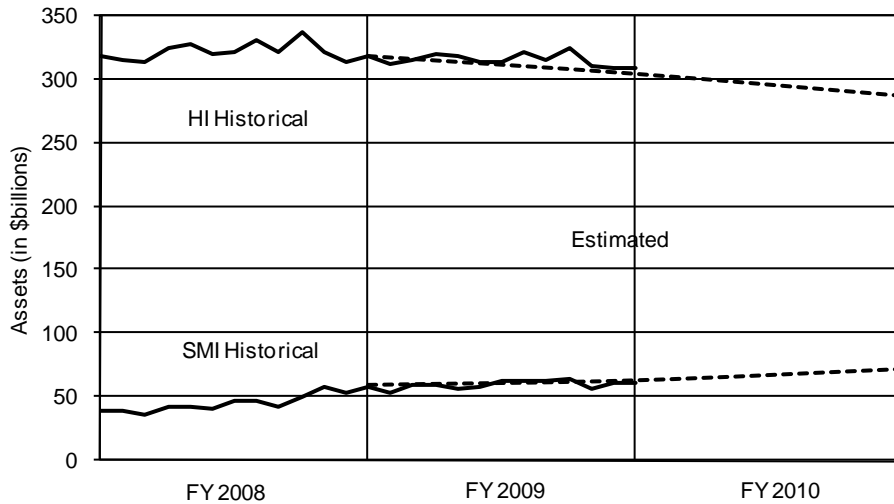
<sup>4</sup>See footnote 2 of Table 1. Adding the estimated amount for Part D premiums paid directly to plans yields an estimate of \$756,660 million for total expenditures for the current fiscal-year-to-date, and the associated "% Change" estimate is 14.1.

<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 \$455,077 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 \$663,403 million for total expenditures for the prior fiscal-year-to-date.

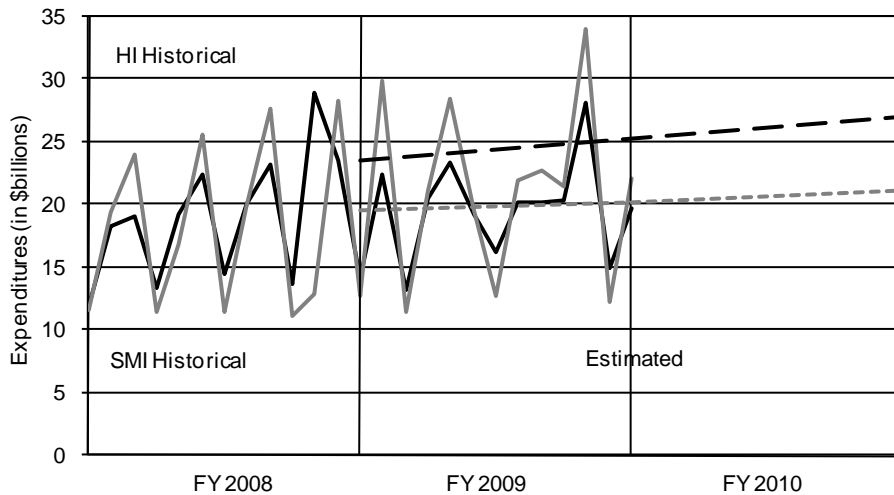
- Notes:
1. State governments also support the Medicaid and CHIP programs.
  2. Totals do not necessarily equal the sums of rounded components.
  3. Changes shown ("% Change") reflect current fiscal-year-to-date amounts as compared to amounts in the corresponding period in the prior fiscal year.

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



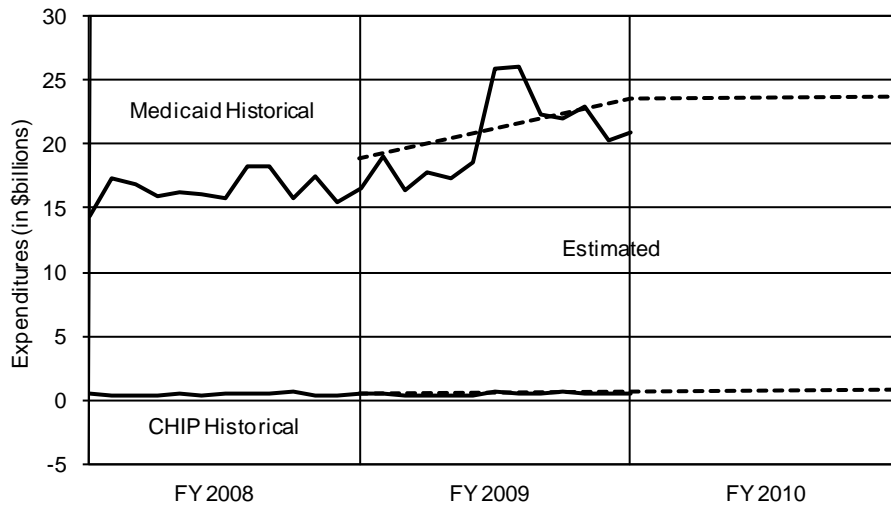
**Note: Estimates are from the 2009 Trustees Report (intermediate assumptions).**

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



**Note: Estimates are from the 2009 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 CHIP Expenditures: Historical and Estimated**



**Note:** Estimates are from the President's Fiscal Year 2010 Budget. For FY 2009 (and beyond, through December 31, 2010), the American Recovery and Reinvestment Act of 2009 mandated temporary increases in Federal Medicaid matching rates. This law was not enacted until February 2009; however, it was made retroactive to the beginning of FY 2009. The historical figures reflect the fact that the retroactive amounts for October 2008 to February 2009 were not expended until after enactment. The estimated figures, however, are based on annual amounts and thus reflect a "smooth" projection during the FY; i.e., for the estimated figures, the retroactive expenditures for October 2008 to February 2009, respectively, are included in October 2008 to February 2009, respectively.