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To: Democratic Staff, Committee on Ways and Means
Subcommittee on Health

From: John Shatto
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Subject: Elimination of the HI Trust Fund Deficit

The ratio of HI tax income to taxable payroll is called the "income rate," and the ratio of expenditures to taxable payroll is the "cost rate." In order to evaluate the actuarial status of the Hospital Insurance trust fund for the next 75 years, the average values of the income rate and cost rate are compared for that period. Based on the projections of the 2011 Medicare Trustees Report, the actuarial deficit for the HI trust fund is 0.79 percent of taxable payroll, representing the difference between the summarized income rate of 3.84 percent and the summarized cost rate of 4.63 percent.

To eliminate the long-range financial imbalance, the standard 2.90-percent payroll tax could be immediately increased by the amount of the actuarial deficit to 3.69 percent, or expenditures could be reduced by a corresponding amount. These changes would require an immediate 24-percent increase in the tax rate or an immediate 17-percent reduction in expenditures.

If the provisions of the Affordable Care Act were to be repealed, the actuarial deficit would increase to approximately 3.89 percent of taxable payroll. To eliminate this deficit, the 2.90-percent payroll tax would have to be increased to 6.79 percent, or expenditures could be significantly reduced. These much larger changes would require an immediate tax increase of 134 percent or a reduction in benefits of 53 percent.