

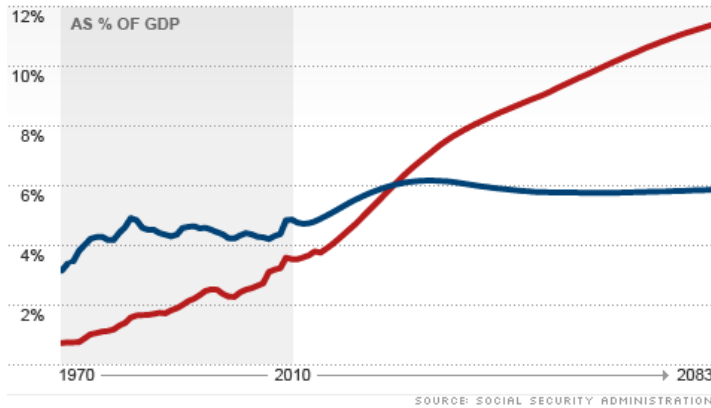
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# Medicare gets lifeline from health care reform

By 2083, Medicare will eat nearly 12% of the economy, while Social Security costs will level out



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By Tami Luhby, senior writer August 5, 2010: 2:11 PM ET

NEW YORK (CNNMoney.com) -- The newly passed health care law will boost the financial strength of the nation's massive Medicare program, the government said Thursday.

The controversial Affordable Care Act extends the life of the Medicare Trust Fund by 12 years, to 2029, according to the annual report from the trustees who oversee Medicare. At that time, Medicare will only be able to cover 85% of beneficiaries' hospital costs.

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The effects of the law -- lowering health care costs, focusing on prevention and improving service quality -- will help rein in the exploding costs of Medicare, the administration said.

Health care reform will also generate new revenue for the program by mandating that high-income earners pay an additional 0.9 percentage point in payroll tax, bringing the total to 2.35% of their wages, starting in 2013. They will also pay a new 3.8% Medicare tax on investment income.

"This new law gives Americans more control over healthcare decisions, ends insurance company abuses

and will bring down health care costs over the long term," said Treasury Secretary Tim Geithner, one of Medicare's trustees.

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Even though the new report projects Medicare will become insolvent in 2029, it's very unlikely that the program will ever truly run out of money and disappear. It is a bedrock national institution, covering 46.3 million people in 2009 and paying out \$502 billion in benefits.

Instead, the federal government will take steps -- such as increasing payroll taxes, hiking premiums or curtailing benefits -- to make sure it stays in the black. The trustees' report, however, gives the nation a detailed look at the program's financial health and future.

Some Medicare beneficiaries, mostly high-income retirees, will already see an "unusually large premium increase" in 2011, as they did this year, the trustees said.

The rest will not be subject to the hike because their premium increases are tied to the annual Social Security cost-of-living adjustment, which is expected to be zero.

**More needs to be done**

That look shows, to both Obama officials and critics, that there is still much work to be done.

For example, there will continue to be increased pressure on the federal budget from Medicare's Supplementary Medical Insurance component, which covers the costs of doctor visits and other medical services, Geithner said. The aging population will push the cost of this coverage from 1.9% of GDP in 2009 to 3.5% in 2040.

This piece of Medicare, as well as the prescription drug coverage, are both projected to remain adequately financed indefinitely because the law requires these costs be covered. About three-quarters of the expense is financed from the nation's general revenues and about one-quarter from premiums paid by beneficiaries.

It's the portion of Medicare that covers hospital costs that is expected to run into trouble in 2029. At that time, revenues would be sufficient to pay 85% of costs.

Total Medicare expenditures are still expected to grow faster than workers' earnings or the overall economy, the trustees report found. Spending is expected to grow from 3.5% of the nation's gross domestic product in 2009 to 6.4% in 2084.

If Congress continues to override a scheduled reduction in physician reimbursements, then Medicare spending would soar to 11% of GDP in 2084.

Government watchdogs continue to sound the alarm about Medicare's drag on the economy.

"The existence of trust fund balances on paper does not change the fact that Social Security and Medicare will place tremendous pressures on the rest of the budget and future taxpayers, as well as the economy as a whole," said Robert Bixby, executive director of the Concord Coalition.

As for [Social Security](#), the trustees report found that for the first time in nearly 30 years, the system will pay out more benefits than it receives in payroll taxes both this year and next.

And while Social Security cash flow will likely head back into the black for a few years after that, starting in 2015 it looks to stay in the red for the long haul, the trustees said in their annual report. ■

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<a href="#">S&amp;P 500</a>	1,124.02	-3.22	-0.29%
<a href="#">Treasurys</a>	2.91	-0.04	-1.49%
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