

Alternative Assumptions for Present Value Calculations of Lifetime Medicare Benefits

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While Social Security benefits grow roughly in line with real wage growth in the economy, the value of Medicare benefits that government pays on behalf of enrollees is subject to much more uncertainty. For example, faster growth in the price of physician services or more covered medical expenses incurred at earlier ages enhances the value of the insurance to enrollees.

The present value estimates shown in earlier iterations of our lifetime benefits report¹ relied solely on current law projections from the Center for Medicare and Medicaid Services (CMS) actuaries. CMS has long acknowledged that these projections likely underestimate government obligations for seniors' health insurance, as medical costs grow much faster than assumed and scheduled cuts in payments to physicians are rolled back each year by policymakers.

In these tables, we show how lifetime Medicare benefits net of premiums vary based on three sets of assumptions. Two estimates are presented using current law numbers. The first uses the basic aggregate assumptions presented in the *2012 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, or the Trustees Report. The second demonstrates how the present value of benefits changes when spending per enrollee is varied based on age of the enrollee. Finally, estimates based on an alternative scenario from CMS are presented and explained.²

Basic Assumptions

In all cases, we employ a 2 percent real discount rate and, where premium projections are unavailable, we assume that premiums will cover 25 percent of Part B and D expenditures, about the historic average. We do not capture higher premiums paid by some higher income households. Because taxes are based on wage profiles that are constant across all scenarios, we disregard them in this analysis. All amounts are presented in constant 2012 dollars.

Lifetime Benefits under Current Law

Table 1 presents our updated estimates of lifetime Medicare benefits and taxes using the same methodology implemented in the 2011 report on Social Security and Medicare lifetime benefits.³ The estimates reflect data taken from the 2012 Trustees Report, which uses a “current law” assumption for its primary analysis. That is, the actuaries assume that all taxes and benefits will be collected and disbursed as scheduled in law at the time projections were constructed.

¹ C. Eugene Steuerle and Stephanie Rennane, “Social Security and Medicare Benefits and Taxes over a Lifetime,” <http://www.urban.org/publications/412281.html>.

² These final estimates represent those put forward in our most recent analysis of lifetime Social Security and Medicare benefits, available at <http://www.urban.org/publications/412660.html>

³ For details on basic methodology, see <http://www.urban.org/retirees/Estimating-Social-Security.cfm>.

Table 1. Expected Lifetime Medicare Benefits Net of Premiums by Year Cohort Turns 65: Current Law

	2010	2015	2020	2025	2030
Male	\$170,000	\$186,000	\$210,000	\$237,000	\$265,000
Female	\$195,000	\$213,000	\$239,000	\$268,000	\$299,000

Allowing Benefits to Vary by Age

Table 2 also uses current law assumptions but disaggregates spending by year and age. This allows for present-value calculations to better reflect the timing of benefits for average individuals. Benefits for 2010 and 2015 cohorts are around 7 percent higher than those displayed in Table 1. Lifetime benefits for later cohorts diverge less from Table 1's estimates in part because current law total spending projections level off in the out years.

Table 2. Expected Lifetime Medicare Benefits Net of Premiums by Year Cohort Turns 65: Spending Varies by Age

	2010	2015	2020	2025	2030
Male	\$184,000	\$202,000	\$223,000	\$246,000	\$270,000
Female	\$209,000	\$227,000	\$250,000	\$275,000	\$300,000

Lifetime Benefits under an Alternative Scenario

Table 3 shows our estimates of the lifetime Medicare benefits that enrollees could expect if productivity adjustments mandated by the Affordable Care Act are not fully achieved and lawmakers' current policy of repealing scheduled payment rate cuts before they take effect were to continue. Projection data comes from an illustrative alternative scenario submitted to Congress by the CMS actuaries.⁴ These numbers likely represent a more accurate depiction of expected benefits, particularly for future enrollees.

⁴ John D. Shatto and M. Kent Clemens, 2012, "Projected Medicare Expenditures under Illustrative Scenarios with Alternative Payment Updates to Medicare Providers" <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/2012TRAlternativeScenario.pdf>.

Table 3. Expected Lifetime Medicare Benefits Net of Premiums by Year Cohort Turns 65: Alternative Scenario

	2010	2015	2020	2025	2030
Male	\$180,000	\$203,000	\$232,000	\$269,000	\$311,000
Female	\$207,000	\$233,000	\$267,000	\$308,000	\$353,000

Concluding Remarks

As shown by the variety of projections, the true course of lifetime health benefits to the elderly population is highly uncertain as unknown policy changes inevitably take effect. Adjusting for varying health care consumption at different ages shows lifetime benefits about 7 or 8 percent higher for some cohorts, and accounting for likely scale backs of scheduled cost control mechanisms implies present values 15 to 18 percent higher for later cohorts.

Other ways of estimating lifetime benefits are possible as well, for example if data were available to project age- and sex-specific medical costs for seniors or capture interactions between income, health, and life expectancies. Any method of estimation, however, would arrive at the same conclusion the CMS actuaries reached: the path of health care spending for seniors relative to taxes and premium revenues is unsustainable in the long run. In fact, analysis of only Medicare's promised benefits to seniors understates government's total liability as many seniors become dually entitled to long-term care assistance in Medicaid once other assets are exhausted.