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Subject: **Impact of the Medicare and Social Security Fair Share Act on the Solvency of the Hospital Insurance Trust Fund**

The 2023 Medicare Trustees Report, which was released on March 31, 2023, projected that the Hospital Insurance (HI) trust fund would be depleted in calendar year 2031. The Medicare and Social Security Fair Share Act was introduced in the Senate on April 18, 2023 and in the House of Representatives on July 11, 2023. This proposed bill contains two provisions that have a direct impact on the HI trust fund:

- Sections 2 and 3—Increase the additional Medicare tax rates for employment taxes under the Self-Employment Contributions Act and the Federal Insurance Contribution Act by 1.2 percentage points for taxpayers with modified adjusted gross income (MAGI) above the unindexed thresholds of $400,000 for a single filer and $500,000 for a married couple filing jointly.

- Section 4—Expand the tax on net investment income (NII) as defined in the Affordable Care Act to cover earnings from active S corporation holders and active limited partners. Apply a 5.0-percent tax on this expanded definition of NII, payable to the HI trust fund with specified thresholds, effective for 2024 and later. The NII tax would apply to the lesser of NII and the excess of MAGI above the unindexed thresholds of $400,000 for a single filer and $500,000 for a married couple filing jointly.

The Office of the Chief Actuary at the Social Security Administration provided estimates for the additional HI revenue that would result from these provisions.[1] The CMS Office of the Actuary estimates that if this proposed bill were enacted, the additional revenue would extend the solvency of the HI trust fund throughout the 75-year projection period included in the 2023 Medicare Trustees Report. Similarly, the additional revenue would eliminate the actuarial deficit of 0.62 percent of taxable payroll over this same period and would result in a 75-year surplus of 0.38 percent of taxable payroll.

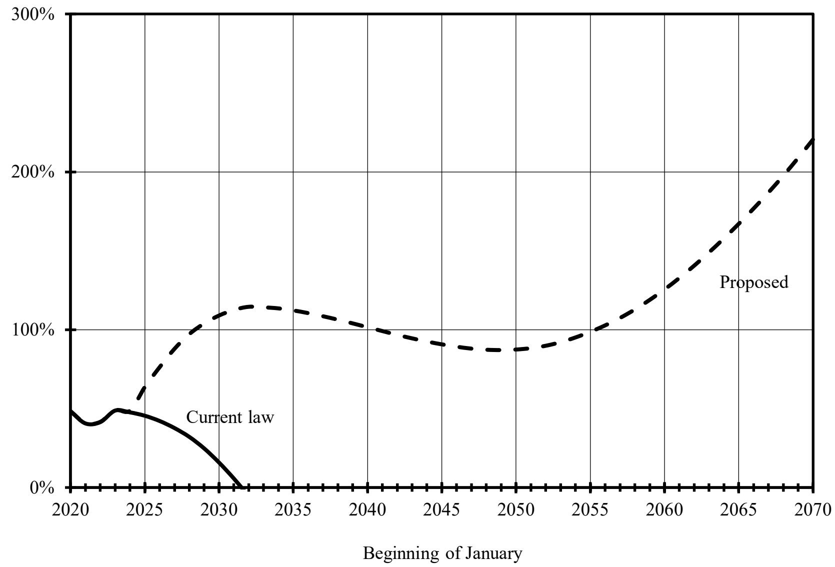
In calendar year 2024, total non-interest income for the HI trust fund, including the additional revenue from this proposal, would be 17 percent higher than under the intermediate assumptions

[1] The Office of the Actuary at CMS did not independently assess the reasonability of the revenue estimates for the stated provisions. More information on the Medicare and Social Security Fair Share Act, including the impact on the Old Age, Survivors, and Disability Insurance Trust Funds, can be found here.

in the 2023 Medicare Trustees Report, and it would rise steadily to 36 percent higher by the end of the 75-year period.

Figure 1 illustrates the projected HI trust fund ratio through 2070 under current law and under the assumption that the proposal is enacted. The trust fund ratio is defined as the trust fund reserves at the beginning of the year expressed as a percentage of annual expenditures during the year. Assuming enactment of the proposal, and under the intermediate assumptions of the 2023 Medicare Trustees Report, this ratio is expected to continue to increase significantly, and the trust fund is expected to be able to pay scheduled benefits in full and on time throughout the 75-year projection period.[2]

Figure 1—HI Trust Fund Balance at Beginning of Year as a Percentage of Annual Expenditures



Under current law, the percentage of expenditures covered by non-interest income is projected to decrease from 89 percent in 2031, after depletion of the trust fund reserves, to 81 percent in 2047 and then to increase to about 96 percent by 2097. Assuming enactment of the proposal, non-interest income is projected to cover 118 percent of expenditures in 2024, to gradually decrease to 97 percent of expenditures in 2041, and then to increase to roughly 130 percent of expenditures by 2097.

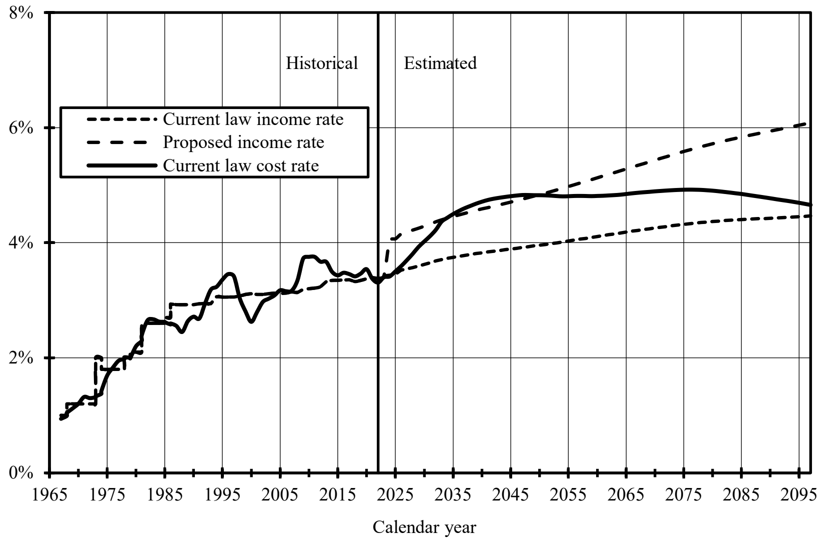
The Trustees measure the long-range actuarial status of the HI trust fund by comparing, on a year-by-year basis, the non-interest income (from payroll taxes, taxation of benefits under the Old Age, Survivors, and Disability Insurance program, premiums, general fund transfers for uninsured persons, and monies derived from the fraud and abuse control program) with the corresponding incurred costs, expressed as percentages of taxable payroll.[3] These percentages are referred to as income rates and cost rates, respectively.

Figure 2 shows the year-by-year non-interest income and costs as a percentage of taxable payroll under current law, as well as the income rate reflecting enactment of the proposal. Based on the

[2] The trust fund ratio is projected to exceed 800 percent by the end of the 75-year period.
[3] Taxable payroll is the total amount of wages, salaries, tips, self-employment income, and other earnings subject to the HI payroll tax.

intermediate assumptions, cost rates will continue to exceed income rates in all years starting in 2024 under current law. However, if this proposal were to be enacted, then the income rate would be higher than the cost rate through 2033, drop lower through 2049, and be higher again throughout the remainder of the 75-year projection period.

Figure 2—Estimated HI Cost and Income Rates as a Percentage of Taxable Payroll



While year-by-year comparisons of revenues and costs are necessary to measure the adequacy of HI financing, the financial status of the trust fund is often summarized, over a specific valuation period, by a single measure known as the actuarial balance. The actuarial balance of the HI trust fund is defined as the difference between the summarized income rate for the valuation period and the summarized cost rate for the same period.

Table 1—HI Actuarial Balances under Current Law and Proposal

	Current Law	Proposed
Valuation periods:[1]		
25 years, 2023–2047:		
Summarized income rate	3.77	4.46
Summarized cost rate	4.48	4.48
Actuarial balance	−0.70	−0.02
50 years, 2023–2072:		
Summarized income rate	3.92	4.77
Summarized cost rate	4.63	4.63
Actuarial balance	−0.70	0.14
75 years, 2023–2097:		
Summarized income rate	4.05	5.06
Summarized cost rate	4.67	4.68
Actuarial balance	−0.62	0.38

[1]Income rates include beginning trust fund balances, and cost rates include the cost of attaining a trust fund balance at the end of the period equal to 100 percent of the following year's estimated expenditures.

Note: Totals do not necessarily equal the sums of rounded components.

The summarized income rates, cost rates, and actuarial balance are based upon the present values of future income, costs, and taxable payroll. The Trustees calculate the present values, as of the beginning of the valuation period, by discounting the future annual amounts of income and outgo using the projected effective rates of interest credited to the HI trust fund for the first 10 years and transition to the ultimate interest rate assumption by year 15. They then determine the summarized income and cost rates over the projection period by dividing the present value of income and cost, respectively, by the present value of taxable payroll. The difference between the summarized income rate and cost rate over the long-range projection period (after an adjustment to take into account the fund balance at the valuation date and a target trust fund balance at the end of the valuation period) is the actuarial balance.

The summarized cost rate includes the cost of maintaining a trust fund balance at the end of the period equal to the following year's estimated costs. While a zero or positive actuarial balance implies that the end-of-period trust fund balance is at least as large as the target trust fund balance, there is no such implication for the trust fund balance at other times during the projection period.

Should this proposal be enacted, the actuarial balance for the HI program over the 75-year projection period would be improved by 1.00 percent of taxable payroll—from an actuarial deficit of 0.62 percent of payroll under current law to a positive actuarial balance of 0.38 percent of taxable payroll under the proposal.

The Medicare Trustees Report includes several references to illustrative alternative scenario projections[4] that reflect the assumption that certain price-reducing features of current law are not fully adhered to throughout the projection period. Under this scenario, the HI trust fund is projected to be depleted in 2031, and the long-range actuarial balance is estimated to be −1.46 percent of taxable payroll. However, if this proposal were to be enacted, the trust fund would be depleted in 2052 under the illustrative alternative scenario, and roughly 92 percent of expenditures would be covered by non-interest income in that year. In addition, the 75-year actuarial balance would be an estimated −0.46 percent of taxable payroll.

[4] https://www.cms.gov/files/document/illustrative-alternative-scenario-2023.pdf