



Briefing Book

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WHAT IS THE MEDICARE TRUST FUND, AND HOW IS IT FINANCED?



The Medicare trust fund comprises two separate funds. The hospital insurance trust fund is financed mainly through payroll taxes on earnings and income taxes on Social

Taxes and Charitable Giving	+	<p>Security benefits. The Supplemental Medical Insurance trust fund is financed by general revenues and the premiums enrollees pay. Taken together, total Medicare costs have risen from just above 2 percent of GDP in 2000 to 4 percent in 2020 and projected by the Center for Medicare and Medicaid Services or CMS to rise to 6 percent by 2047. Under an “illustrative alternative” estimated by the CMS actuaries, those costs might rise to 8 percent of GDP by 2040. They are financed by a complex web of 15 different streams, including several forms of general revenue transfers, including the borrowing or federal deficits that are a part of general revenues (Steuerle 2023).</p>
Taxes and Health Care	+	
Taxes and Homeownership	+	
Taxes and Education	+	
Tax Complexity	+	
Wealth Taxes	+	
Payroll Taxes		

What are the major federal payroll taxes, and how much money do they raise?

What is the unemployment insurance trust fund, and how is it financed?

What are the Social Security trust funds, and how are they financed?

Are the Social Security trust funds real?

What is the Medicare trust fund, and how is it financed?

Excise Taxes	+
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Hospital Insurance Trust Fund

The hospital insurance (HI) trust fund, also known as Part A of Medicare, finances health care services related to hospital stays, skilled nursing facilities, and hospices for eligible beneficiaries—mainly Social Security recipients over age 65 or receiving Social Security Disability Insurance.


The HI trust fund had revenue of \$387 billion and a balance of \$178 billion at the end of 2022 (table 1). The fund’s chief revenue sources are

Business Taxes	+	payroll taxes, income from the taxation of Social Security benefits, and income from a 3.8 percent surtax on investment income of high-income individuals. Interest payments on trust fund balances, premiums from voluntary enrollees ineligible for Medicare coverage based on their earnings records, transfers from the general fund and the Railroad Retirement account, and miscellaneous receipts supply the remainder of revenues.
Tax Incentives for Economic Development	+	
Taxes and Multinational Corporations	+	
STATE AND LOCAL TAX POLICIES	+	
HOW COULD WE IMPROVE THE FEDERAL TAX SYSTEM?	+	
GLOSSARY	+	

TABLE 1

Hospital Insurance Trust Fund Receipts, Expenditures, and Assets

Billions of dollars, 2022



	Amount
Assets at end of 2021	\$136
Total income	\$387
Payroll taxes	\$344
Taxation of benefits	\$33
Premiums	\$5
Interest and other	\$5
Total expenditures	\$345
Benefits	\$340
Administrative expenses	\$5
Net change in assets	\$42
Assets at end of 2022	\$178

Source: Centers for Medicare and Medicaid Services (CMS). April 2023. 2023 Annual Report of the Boards of Trustees of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund. Table V.H5.

Supplemental Medical Insurance Trust Fund

The Supplemental Medical Insurance (SMI) trust fund finances two voluntary Medicare programs: Part B, which mainly covers physician services and medical supplies, and

Part D, the newer prescription drug program.

The combined SMI trust fund received \$571 billion in income and had \$171 billion in assets at the end of 2022 (table 2). Unlike the HI fund, no payroll taxes are dedicated to SMI. Instead, almost all the fund’s income comes from contributions from the general fund (receipts from other sources, such as individual income taxes, corporate taxes, excise taxes, and borrowing) and premiums from participants (there are separate premiums for Parts B and D, and a higher set of premiums within each Part for higher-income beneficiaries). Because the bulk of SMI’s funding comes from the general fund, the trust fund balance mainly serves to cover temporary shortfalls and is kept low. High reserves are not required as long as general fund revenues and borrowing automatically rises with costs.

TABLE 2
Supplementary Medical Insurance Trust Fund
Receipts, Expenditures, and Assets
Billions of dollars, 2022

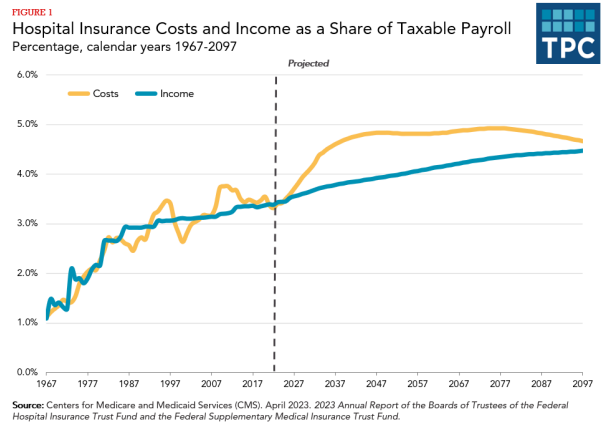


	Part B	Part D	Total
Assets at end of 2021	\$165	\$9	\$174
Total income	\$447	\$124	\$571
Premiums	\$127	\$18	\$144
Government contribution	\$314	\$93	\$406
Transfers from States	\$0	\$13	\$13
Interest and other	\$6	\$0	\$7
Total expenditures	\$443	\$130	\$573
Benefits	\$438	\$130	\$568
Administrative expenses	\$6	\$5	\$11
Net change in assets	-\$3	\$3.5	\$1

Source: Centers for Medicare and Medicaid Services (CMS). April 2023. 2023 Annual Report of the Boards of Trustees of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund. Tables V.H7 and V.H8.

Solvency and Budget Pressures

Like the Old-Age and Survivors Insurance and Disability Insurance trust funds, the HI trust fund faces long-term deficits (figure 1). (The SMI fund, primarily financed by general revenue, does not face these trust fund imbalances, though it still adds substantial growing pressure to the overall budget.) While the number of Medicare beneficiaries increased by around 2 percent annually from 2023 to 2032, the decline in the birth rate starting about 1965 now puts much greater pressure on the worker-to-retiree ratio. That ratio was about 4 from 1980 to 2008, declined to 2.9 in 2022, and is estimated to decline further to 2.5 in 2030 and to 2.2 by 2097. Meanwhile, the cost of health care has increased rapidly as well. Though this cost dynamic has slowed but not stopped, the aftermath from the COVID-19 crisis still remains uncertain, and much is dependent upon the direction of future policy.



Updated January 2024

FURTHER READING

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Medicare



**Are the Social Security trust
funds real?**