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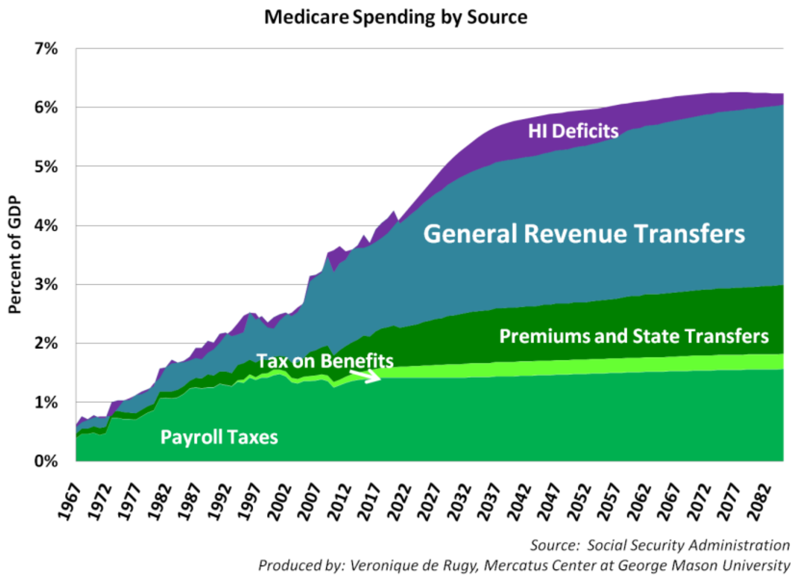


This week, Veronique de Rugy uses the Social Security Trustees Report's most recent projections to breakdown the sources of Medicare spending.

Federal Medicare spending is funded by two trust funds: the Hospital Insurance Trust Fund (HI) and the Supplementary Medical Insurance Trust Fund (SMI), which provides coverage for doctor visits and outpatient services. This chart shows the revenue sources for Medicare: dedicated sources in green (premiums, taxes on benefits, and payroll taxes), and the largest single source of federal Medicare funding in blue– general tax revenues. The purple section at the top represents continued HI deficits, which remain unfunded under current law. These deficits will ultimately be reconciled either through benefit cuts or yet more general fund spending.

Even under the best assumptions about the success of the President's healthcare reform, less than 60 percent of future Medicare spending will come from dedicated sources. By law, the vast majority of these spending gaps will be filled using the federal government's general revenue fund, the federal tax dollars of the average American taxpayer. As Medicare costs consume a greater portion of tax dollars and of GDP new taxes, spending cuts, or programmatic cuts will be required.

While Medicare costs over the next 75 years are projected to be 25% lower due to the ACA, these cost savings rest primarily on drastic reductions in the reimbursement rates for Medicare services – reductions in reimbursements which are unlikely to happen in a world where politicians are subject to powerful pressures from their constituencies.

Therefore, the Trustees note that, "actual future costs for Medicare are likely to exceed those shown by the current-law projections in this report."

Veronique de Rugy talks about the trustees report on Bloomberg TV.