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Measures of Medicare's Finances Reconsidered: Introduction to a Paper Series

The debate over Medicare's future takes many forms. At its most basic, the issue is whether we can (or want to) afford Medicare. In addition, the debate is often inextricably linked to questions about financing—usually couched in terms of the burdens on current or future taxpayers. Are the current levels of benefits affordable over time? And how should the financing burdens be shared? Should taxpayers or beneficiaries bear greater burdens? Too often these discussions take place in the absence of good information on how Medicare operates in practice and how its financing actually works.

While there are many different ways to look at these questions, in practice expediency often rules and the measures cited may not fully address the questions at hand. For the series of issue briefs that will follow, we have developed measures that we believe can be used to address key questions concerning the future of Medicare and how that will affect taxpayers and beneficiaries over time. We also have produced two longer papers that describe the details and nuances of each measure.

Our first issue brief ("Who Pays for Medicare?") examines on an annual basis how much taxpayers and beneficiaries each contribute to the costs of the Medicare program and how that will grow over time. It uses the basic principle that Medicare is a "pay as you go" program, funded each year by current taxpayers. And it recognizes that the program has multiple sources of financing and multiple payers of the various components. We then use that basic measure to examine how this will affect taxpayers in a brief entitled "How Much Will Medicare Costs Affect Taxpayers Over Time?"

The third issue brief in this series ("A 'Lifetime' Measure of Medicare's Value") addresses what beneficiaries will have paid into the system over their lifetimes and compares that to the value of the benefits they will receive. We are somewhat skeptical of the value of this measure; recent versions have been cited frequently, but often in ways that are interpreted incorrectly. Our approach properly aligns the financing sources with the benefits received—a flaw in other commonly cited versions.

In the final brief in this series ("Can We Afford Medicare?") we combine the results to indicate where the measures differ in the information they provide. In particular, the differences between the pay as you go view and the lifetime contributions view are important to explore.

Translating the findings of these measures into policy prescriptions requires further value judgements such as what is an appropriate burden or what should beneficiaries be expected to pay. Will Medicare be affordable over time? Should beneficiaries be asked to take on more of the costs of the program as some have argued? And if so, how should those burdens be distributed? We have tried to frame the papers to inform this debate but do not expect that the results on their own are sufficient to settle the issue. Rather it is our hope that the debate on how the future burdens of Medicare should be distributed will be better informed from the analyses we have developed.