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Budget Model

President Biden's Proposal to Extend the Medicare Trust Fund

Summary: PWBM estimates that President Biden's new Medicare proposal would increase the solvency of the Medicare trust fund from the year 2028 to 2053. However, a significant share of that increase comes from redirecting existing (current law) revenue to the trust fund. Another portion comes from unspecific expenditure reductions that lack the details required to score. Counting only new income without unspecified expenditure reductions, we project, as an illustrative alternative, that the HI trust fund would remain solvent until 2037.

Key Points

- Under current law, the Medicare Hospital Insurance (HI) trust fund faces insolvency in 2028. The White House writes that President Biden's new Medicare proposal "would extend solvency at least into the 2050s."

- We estimate that this proposal would extend trust fund solvency to the start of the year 2053. However, almost 40 percent of that increase comes from redirecting *existing* (current law) revenue to the trust fund account. Each $1 of redirection increases the on-budget deficit by a corresponding $1, thereby only producing an accounting change.

- We also compute an illustrative alternative accounting that includes only new sources of revenue and assumed expenditure reductions contained in the proposal. We estimate that the Medicare trust fund would then remain solvent until the start of 2041. That calculation, however, includes unspecified cost savings from reduced prescription drug expenditures without the details required to score. If, following scoring conventions, we additionally exclude unspecified cost savings, then the trust fund would remain solvent until 2037 under this illustrative alternative.

Introduction

Under current law, the Medicare HI trust fund is projected to face insolvency in 2028. If Congress does not increase revenues or decreases benefits paid, automatic benefit cuts would result in that year.

President Biden's Proposal

President Biden's proposal increases trust fund income and decrease expenditures in three main ways:

- *Increase Tax Rates*. Increase the HI payroll tax and net investment income tax (NIIT) rate from 3.8 percent to 5 percent on households earning more than $400,000 per year.

- *Expand the Tax Base*. Expands the NIIT to apply to more types of income, including the profits of active owners of S corporations, the income of active limited partners, and the sale of business property from active partners.

- *Decrease Prescription Drug Expenditures*. Decreases prescription drug expenditures by expanding the provisions in the Inflation Reduction Act in largely unspecified ways.

President Biden's proposal would also redirect existing resources available under current law to the HI trust fund:

- NIIT revenue that is already collected under the current 3.8 percent tax.

The redirection of existing resources represents an accounting shift that credits the trust fund while increasing the "on-budget" deficit by an equivalent amount.

Estimated Effect on the HI Trust Fund Balance

Table 1 shows the estimated income and expenditure effects over the 2023-2053 period.[1] Over that period, President Biden's proposal decreases HI trust fund deficits by a total of $8.4 trillion, of which $5.2 trillion are from new and $3.1 trillion are from redirecting existing income and expenditures.[2]

Table 1: Effects of President Biden's Proposal on Medicare HI Trust Fund Surplus

Billions of dollars

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	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Income											
Existing	$45	$47	$50	$49	$54	$55	$58	$62	$65	$67	$72
New	$48	$60	$62	$58	$60	$64	$67	$70	$74	$77	$81
Total Income	$93	$107	$111	$107	$114	$119	$125	$132	$139	$144	$153
Expenditures											
Existing	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New	$0	$0	-$2	-$8	-$17	-$26	-$27	-$31	-$32	-$34	-$36
Total Expenditures	$0	$0	-$2	-$8	-$17	-$26	-$27	-$31	-$32	-$34	-$36
Surplus											
Existing	$45	$47	$50	$49	$54	$55	$58	$62	$65	$67	$72
New	$48	$61	$64	$66	$77	$89	$94	$101	$106	$111	$117
Total Surplus	$93	$108	$113	$115	$131	$145	$152	$163	$171	$178	$189
Memorandum:											
Cumulative change in surplus											
Existing	$45	$92	$141	$191	$244	$300	$358	$420	$485	$553	$625
New	$48	$109	$172	$238	$315	$405	$499	$600	$706	$817	$934
Total cumulative change in surplus	$93	$200	$314	$429	$560	$705	$857	$1,020	$1,191	$1,370	$1,559

	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Income										
Existing	$75	$80	$84	$88	$92	$96	$101	$107	$111	$115
New	$85	$90	$95	$99	$104	$109	$115	$121	$127	$133
Total Income	$160	$171	$179	$187	$196	$205	$215	$228	$238	$248
Expenditures										
Existing	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New	-$38	-$41	-$43	-$46	-$48	-$51	-$54	-$58	-$61	-$65
Total Expenditures	-$38	-$41	-$43	-$46	-$48	-$51	-$54	-$58	-$61	-$65
Surplus										
Existing	$75	$80	$84	$88	$92	$96	$101	$107	$111	$115
New	$124	$131	$138	$145	$153	$160	$169	$179	$188	$198
Total Surplus	$198	$211	$222	$233	$244	$257	$270	$285	$299	$313
Memorandum:										
Cumulative change in surplus										
Existing	$700	$780	$864	$952	$1,044	$1,140	$1,241	$1,347	$1,458	$1,573
New	$1,058	$1,189	$1,326	$1,471	$1,624	$1,784	$1,953	$2,132	$2,320	$2,518
Total cumulative change in surplus	$1,757	$1,969	$2,190	$2,423	$2,667	$2,924	$3,194	$3,479	$3,778	$4,091

	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053
Income										
Existing	$124	$131	$136	$141	$150	$156	$161	$176	$183	$193
New	$142	$151	$157	$165	$174	$182	$191	$205	$216	$230
Total Income	$266	$281	$293	$306	$325	$338	$351	$381	$400	$423
Expenditures										
Existing	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New	-$69	-$73	-$77	-$82	-$87	-$92	-$98	-$104	-$110	-$117
Total Expenditures	-$69	-$73	-$77	-$82	-$87	-$92	-$98	-$104	-$110	-$117
Surplus										
Existing	$124	$131	$136	$141	$150	$156	$161	$176	$183	$193
New	$211	$224	$235	$247	$261	$275	$289	$309	$326	$347
Total Surplus	$334	$354	$370	$388	$412	$431	$449	$485	$510	$539
Memorandum:										
Cumulative change in surplus										
Existing	$1,697	$1,828	$1,963	$2,105	$2,255	$2,411	$2,572	$2,748	$2,931	$3,124
New	$2,729	$2,952	$3,187	$3,434	$3,696	$3,970	$4,259	$4,568	$4,894	$5,241
Total cumulative change in surplus	$4,426	$4,780	$5,151	$5,539	$5,951	$6,381	$6,831	$7,316	$7,826	$8,365

Source: Penn Wharton Budget Model, data for New Expenditures were taken from Table S-6 of the Budget of the U.S. Government, Fiscal Year 2024, available at https://www.whitehouse.gov/wp-content/uploads/2023/03/budget_fy2024.pdf.
Notes: Annual growth in CY expenditures past 2032 are assumed to grow at 6.0 percent, the average over the 2028-2032 period. All data in calendar years.

Table 2 shows the effect of President Biden's proposal on the HI trust fund balance. Under current law, the HI trust fund balance turns negative in 2028 (see **"End-of-Year Balance, current law"**). Under the Biden policy, if we count new and existing revenue increases and expenditure reductions, the HI trust fund balance remains positive until 2053 (see **"End-of-Year Balance, policy: Existing and New"**). However, under an illustrative alternative accounting, the trust fund balance remains positive until 2040 if we count only new revenue and new expenditure (see **"End-of-Year Balance, policy: New Only"**). Table 2 shows that these values are roughly unchanged when adjusting expenditure reductions for differences in PWBM versus White House economic forecasts.

Table 2: Penn Wharton Budget Model Projections of Balances in the HI Trust Fund

Billions of dollars

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	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
End-of-Year Balance, current law	$169	$155	$129	$93	$48	-$9	-$77	-$157	-$247	-$354	-$479
Cumulative change in surplus											
Existing and New	$93	$200	$314	$429	$560	$705	$857	$1,020	$1,191	$1,370	$1,559
New Only	$48	$109	$172	$238	$315	$405	$499	$600	$706	$817	$934
Adjusting for PWBM baseline economic forecast											
Existing and New	$93	$200	$314	$429	$559	$703	$854	$1,015	$1,185	$1,360	$1,547
New Only	$48	$109	$172	$238	$315	$403	$496	$595	$699	$808	$922
Without unspecified expenditure decreases	$48	$108	$170	$228	$288	$352	$418	$489	$563	$640	$721
End-of-Year Balance, policy											
Existing and New	$262	$355	$443	$522	$608	$696	$780	$863	$944	$1,016	$1,080
New Only	$217	$264	$301	$331	$363	$396	$422	$443	$459	$463	$455
Adjusting for PWBM baseline economic forecast											
Existing and New	$262	$355	$443	$522	$607	$694	$777	$858	$938	$1,006	$1,068
New Only	$217	$264	$301	$331	$363	$394	$419	$438	$452	$454	$443
Without unspecified expenditure decreases	$217	$263	$299	$321	$336	$343	$341	$332	$316	$286	$242

	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
End-of-Year Balance, current law	-$619	-$781	-$963	-$1,164	-$1,384	-$1,625	-$1,890	-$2,178	-$2,488	-$2,828
Cumulative change in surplus										
Existing and New	$1,757	$1,969	$2,190	$2,423	$2,667	$2,924	$3,194	$3,479	$3,778	$4,091
New Only	$1,058	$1,189	$1,326	$1,471	$1,624	$1,784	$1,953	$2,132	$2,320	$2,518
Adjusting for PWBM baseline economic forecast										
Existing and New	$1,743	$1,951	$2,169	$2,398	$2,639	$2,892	$3,158	$3,439	$3,733	$4,041
New Only	$1,043	$1,171	$1,305	$1,447	$1,596	$1,752	$1,917	$2,091	$2,275	$2,468
Without unspecified expenditure decreases	$806	$897	$991	$1,090	$1,194	$1,304	$1,418	$1,539	$1,666	$1,799
End-of-Year Balance, policy										
Existing and New	$1,138	$1,188	$1,227	$1,259	$1,283	$1,299	$1,304	$1,301	$1,290	$1,263
New Only	$439	$408	$363	$307	$240	$159	$63	-$46	-$168	-$310
Adjusting for PWBM baseline economic forecast										
Existing and New	$1,124	$1,170	$1,206	$1,234	$1,255	$1,267	$1,268	$1,261	$1,245	$1,213
New Only	$424	$390	$342	$283	$212	$127	$27	-$87	-$213	-$360
Without unspecified expenditure decreases	$187	$116	$28	-$74	-$190	-$321	-$472	-$639	-$822	-$1,029

	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053
End-of-Year Balance, current law	-$3,204	-$3,615	-$4,068	-$4,565	-$5,103	-$5,675	-$6,293	-$6,961	-$7,691	-$8,479
Cumulative change in surplus										
Existing and New	$4,426	$4,780	$5,151	$5,539	$5,951	$6,381	$6,831	$7,316	$7,826	$8,365
New Only	$2,729	$2,952	$3,187	$3,434	$3,696	$3,970	$4,259	$4,568	$4,894	$5,241
Adjusting for PWBM baseline economic forecast										
Existing and New	$4,371	$4,719	$5,084	$5,466	$5,871	$6,295	$6,737	$7,214	$7,716	$8,246
New Only	$2,674	$2,892	$3,121	$3,361	$3,616	$3,884	$4,165	$4,466	$4,784	$5,122
Without unspecified expenditure decreases	$1,941	$2,092	$2,249	$2,414	$2,589	$2,771	$2,962	$3,167	$3,384	$3,614
End-of-Year Balance, policy										
Existing and New	$1,222	$1,165	$1,083	$974	$848	$706	$538	$355	$135	-$114
New Only	-$475	-$663	-$881	-$1,131	-$1,407	-$1,705	-$2,034	-$2,393	-$2,797	-$3,238
Adjusting for PWBM baseline economic forecast										
Existing and New	$1,167	$1,104	$1,016	$901	$768	$620	$444	$253	$25	-$233
New Only	-$530	-$723	-$947	-$1,204	-$1,487	-$1,791	-$2,128	-$2,495	-$2,907	-$3,357
Without unspecified expenditure decreases	-$1,263	-$1,523	-$1,819	-$2,151	-$2,514	-$2,904	-$3,331	-$3,794	-$4,307	-$4,865

Source: Penn Wharton Budget Model.
Notes: Data in calendar years.

We are unable to separately estimate the decrease in expenditure that would be credited to the HI trust fund since the budget does not specify how those cost reductions will be achieved within each expenditure category. Instead, the budget presents rounded cost reductions without any further discussion of how those values are achieved. The Inflation Reduction Act specified the mechanism by which Medicare could negotiate price reductions.[3] In contrast, the president's budget simply mentions "expanding upon" the actions taken in the Inflation Reduction Act, including expanded negotiated price reductions.

Scoring convention usually does not credit cost savings in mandatory programs without such details that would enable an actual score.[4] If unspecified expenditure decreases are further omitted from the "New Only" category, we project that the trust fund will remain positive until 2036 under the illustrative alternative accounting (see **"End-of-Year Balance, policy: Without unspecified expenditure decreases"**).

This analysis was produced by Felix Reichling. Jagadeesh Gokhale and John Ricco contributed to the analysis. Prepared for the website by Mariko Paulson.

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1. We convert fiscal year (a budget concept) to calendar year (a trust fund concept) for consistency. ↩

2. Differences due to rounding. ↩
3. For example, the IRA specified the number of drugs subject to price negotiation in each future year in enough detail to enable a score. ↩
4. For example, if a hypothetical proposal to cut taxes by $1 trillion over the budget window stated a pay-for offset by cutting "waste, overhead and fraud" but without specifying any details, PWBM and most scoring agencies would record the net cost as $1 trillion. Without this discipline, budget scoring essentially becomes irrelevant. Similarly, claimed cost savings from enhanced price negotiations without specific details would generally not be included. ↩