

# 20.6 LONG-TERM UNFUNDED LIABILITIES ASSOCIATED WITH HEALTH ENTITLEMENTS EXCEED \$66 TRILLION\*

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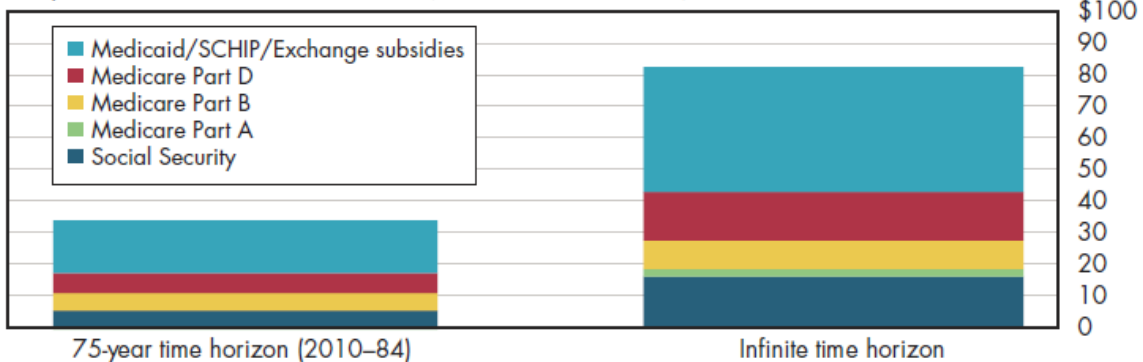
### Abstract

In today’s dollars, the long-term unfunded liabilities associated with health entitlements exceed \$66 trillion—approximately four times as much as the unfunded liabilities related to social security.

The unfunded liabilities for entitlements exceed \$80 billion over the long term (figure 20.6a). Only approximately 20 percent has to do with Social Security. The rest (\$66 trillion) is due to health entitlements. If it works as planned, the new health plan will reduce unfunded liabilities for Medicare by tens of billions of dollars.

### 20.6a Even assuming that the health reform law works as intended, unfunded liabilities for entitlements will exceed \$80 trillion over the long run

Net present value of unfunded liabilities (trillions of 2009 dollars)



Note: For Medicare Part B, Medicare Part D, and Medicaid, unfunded liabilities are calculated assuming that the 2010 share of GDP represents current willingness-to-pay for these programs. Any increase in spending above this share is calculated as an unfunded liability for which higher taxes must be paid eventually.

However, both the Medicare actuary and the CBO have raised questions about whether some of the law’s underlying premises will be maintained. For example, all the CBO projections used in this section assume that physician fees under Medicare will be cut by approximately 30 percent. With looming physician

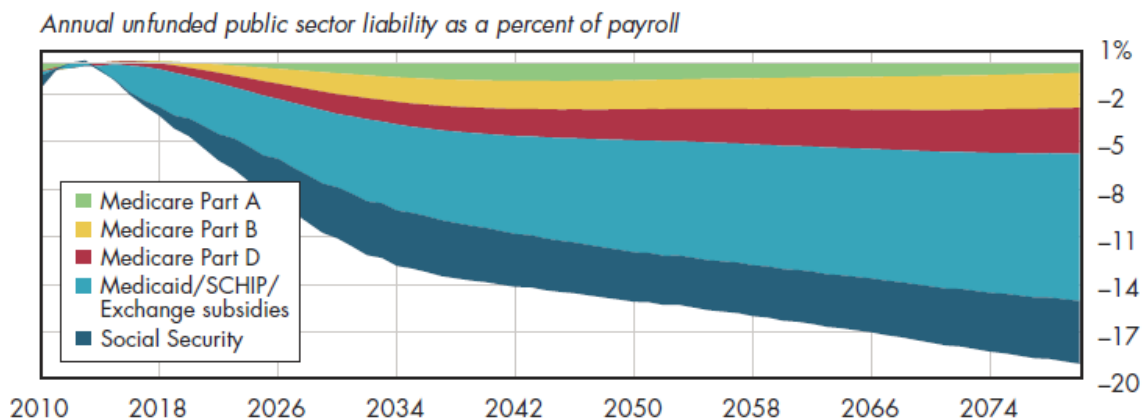
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shortages, few believe such a drastic cut is desirable even though current law technically requires it. As it has for the past eight years, Congress is expected to keep deferring this scheduled cut indefinitely or to change the law to eliminate it. The CBO has developed an alternative fiscal scenario in which this and several other policies designed to limit spending would not continue. Under these alternative assumptions, Medicare spending as a percent of GDP in 2080 (as estimated by the CBO) would be two percentage points higher than illustrated in figure 20.5b.

Calculations for unfunded liabilities assume that current payroll tax levels for Social Security and Medicare Part A remain in effect. Another assumption is that the current level of Medicaid and Medicare Parts B and D spending (as a percentage of GDP) reflect societal willingness-to-pay for these programs. The "unfunded" amount equals the increase in the burden (relative to current levels) required to sustain these programs.

To give some sense of whether these entitlements are "affordable," figure 20.6b expresses the funding shortfall as a percent of payroll. Essentially, the Social Security (FICA) payroll tax of 15.3 percent would have to more than double by the year 2080 simply to bankroll health-related entitlements. In present-value terms, the long-term unfunded liability is five times the U.S. national income (GDP) (figure 20.6c). This is approximately equivalent to assuming a mortgage equal to five times a family income. The unfunded liability is 1.5 times as much as the country's net worth. This is approximately equivalent to borrowing 1.5 times a family's net worth. Countries are not families, but these comparators at least provide a rough sense of just how large the problem of funding future entitlements has become.

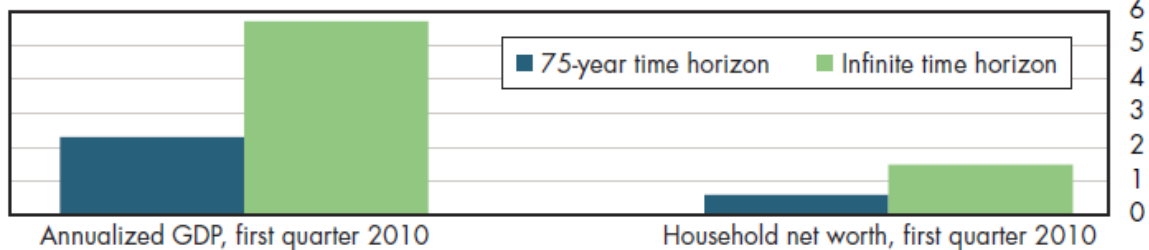
**20.6b The funding shortfall for major entitlements will amount to almost 20 percent of payroll within 70 years**



Note: Funding shortfalls for Medicaid, Medicare Part B, and Medicare Part D are calculated assuming the share of GDP devoted to these programs in 2009 represents societal willingness-to-pay for them. Under CBO's alternative fiscal scenario, the 2080 shortfall would be at least 6 percentage points higher than shown.

## 20.6c Health-related unfunded liabilities alone are at least double the national income; in the end, they exceed current U.S. net worth

Ratio of unfunded liabilities for Medicare and Medicaid relative to measure shown



Note: Unfunded liabilities calculated as of January 1, 2010.

## 1 Downloads

Download PowerPoint versions of all figures.

- Figure 20.6a Image Slide (as it appears above)<sup>1</sup>
- Figure 20.6a Editable Slide (can be formatted as desired)<sup>2</sup>
- Figure 20.6b Image Slide (as it appears above)<sup>3</sup>
- Figure 20.6b Editable Slide (can be formatted as desired)<sup>4</sup>
- Figure 20.6c Image Slide (as it appears above)<sup>5</sup>
- Figure 20.6c Editable Slide (can be formatted as desired)<sup>6</sup>

## 2 References

- Author's calculations.
- Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, The. 2010 Annual Report. US Government Printing Office. August 5, 2010.
- Congressional Budget Office.
- Department of Commerce. Bureau of Economic Analysis.
- Social Security Administration.

<sup>1</sup><http://https://hub.mili.csom.umn.edu/content/m10054/latest/20.6aIMG.ppt>

<sup>2</sup><http://https://hub.mili.csom.umn.edu/content/m10054/latest/20.6aData.ppt>

<sup>3</sup><http://https://hub.mili.csom.umn.edu/content/m10054/latest/20.6bIMG.ppt>

<sup>4</sup><http://https://hub.mili.csom.umn.edu/content/m10054/latest/20.6bDATA.ppt>

<sup>5</sup><http://https://hub.mili.csom.umn.edu/content/m10054/latest/20.6cIMG.ppt>

<sup>6</sup><http://https://hub.mili.csom.umn.edu/content/m10054/latest/20.6cDATA.ppt>