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Notes

E X E C U T I V E   S U M M A R Y

More Detail on Lump-Sum Distributions of Workers Who Have Left a Job, 2006

MORE DATA FROM SIPP: This article examines workers' decisions to a take a lump-sum distribution—a one-time payment—from an employment-based retirement plan when changing jobs, while remaining in the labor force. It builds on earlier, top-line data from the 2004 Survey of Income and Program Participation (SIPP). This study provides estimates of the percentage of workers changing jobs and leaving their assets in their former employers' plan, compares the standard of living of individuals age 55 or older with that of their early 50s, and assesses how the current near-elderly and elderly have fared after making a lump-sum decision.

AVERAGE DISTRIBUTIONS AND BREAK-DOWN: As of 2006, 16.2 million workers had taken a lump-sum distribution of their retirement plan assets. The average amount of these distributions was $32,219 and the median (mid-point) amount was $10,000. Almost half of these distributions were for less than $10,000, and 22.7 percent were received from 2004 through 2006. Just over 55 percent went to individuals age 40 or younger, 83.7 percent were received by whites, and 53.9 percent went to females. Recipients ages 61–64 had the highest average amount of any age category, and the average distribution was significantly higher for males than for females.

LEAKAGE: Through 2006, almost half (47.3 percent) of those taking a lump-sum distribution used at least some portion of the money for tax-qualified savings, while 16.9 percent used at least some portion of it for consumption. The other most prevalent uses were buying a home, paying off debt, or starting a business. At least some portion of a lump-sum distribution is more likely to go for tax-qualified savings if the distribution is larger, the recipient is older, male, or white.

The Basics of Medicare, Updated With the 2009 Board of Trustees Report

SHARE OF GDP: Expenditures in the Medicare program equaled 3.2 percent of GDP in 2008 and are estimated to be 11.2 percent by 2080. But after 2007, the projected Part B, Supplemental Medical Insurance, and total Medicare expenditures are unrealistically low because of scheduled cuts in physician payments. If Congress blocks these cuts (as it has in the past), the overall Medicare Part B costs would increase—possibly by 4 to 8 percent for 2030 and later, depending on specific changes.

UNFUNDED OBLIGATIONS: The unfunded obligation of Part B (covering physician care, outpatient hospital services, and independent laboratory services) from program inception through 2083, is estimated to be $23.2 trillion. Medicare costs are projected to exceed those of the Social Security Old Age and Survivors' Disability Insurance program in 2028 and would be nearly double that of Social Security by 2083.

More Detail on Lump-Sum Distributions of Workers Who Have Left a Job, 2006

By Craig Copeland, EBRI

Introduction

An important issue facing all Americans is the degree of financial security that they have or will have in retirement. This outcome can be significantly affected by the decision to preserve assets built up in a defined contribution plan when changing jobs as opposed to cashing out the balance. This article examines workers' decisions to a take a lump-sum distribution—a one-time payment—from an employment-based retirement plan when changing jobs, while remaining in the labor force. It builds on a prior *Notes* article using the Retirement and Pension Plan Coverage Topical Module of the 2004 Survey of Income and Program Participation (SIPP),[1] which has a wealth of data on workers' lump-sum distribution decisions. The prior publication focused on "top-line" results of individuals' decisions on the uses of lump-sum distributions and on the factors determining these choices.[2]

This study follows up the prior analysis by examining other aspects of the lump-sum distribution decision and by providing more detailed results from the data. In addition, it provides estimates of the percentage of workers changing jobs and leaving their assets in their former employers' plan. The final section of the study compares the standard of living of individuals age 55 or older with the standard they maintained when they were in their early 50s for those who took a lump sum versus those who did not. This allows for an assessment of how the current near elderly and elderly have fared after making a lump-sum decision.

Lump-Sum Distributions

What individuals chose to do with a lump-sum distribution can have a significant impact on how much, if any, assets they have at retirement. Consequently, it is important to identify those groups that are rolling over their assets or using their assets for other purposes. As of 2006, 16.2 million workers had taken a lump-sum distribution of their retirement plan assets (Figure 1). The average amount (in 2006 dollars) of these distributions was $32,219 and the median amount was $10,000. Almost 50 percent of these distributions were for less than $10,000, and 22.7 percent were received from 2004 through 2006. Furthermore, just over 55 percent went to individuals age 40 or younger, 83.7 percent were received by whites, and 53.9 percent went to females. Recipients ages 61–64 had the highest average amount of any age category, and the average distribution was significantly higher for males than for females.

Overall, 81.1 percent of workers who received a distribution received their most recent payment from a private-sector employer (Figure 2). Another 13.1 percent received their distribution from a state or local government employer, while just below 4 percent were from a federal government employer.

Workers have choices of where to roll over their retirement assets and preserve their tax preference until retirement or withdrawal. They can roll over the assets to a plan at a new job, if allowed by that plan, to an individual retirement account (IRA), or to an individual annuity.[3] The overwhelming choice for rollovers was an IRA, which accounted for 69.5 percent of all of the most recent lump-sum distributions that were rolled over (Figure 3). The next most likely choice was to roll over a distribution to a plan at another job, at 16.4 percent. Current distributions were more likely than older ones to have been rolled over to a plan at another job, a decision that increased from 11.4 percent for distributions taken from 1994–1998 to 16.4 percent for those taken from 2004–2006. Just under 7 percent of those rolling over a distribution used an individual annuity.[4]

Not everyone who takes a lump-sum distribution rolls over those assets. Recipients could use the money for various other purposes, such as starting a business, buying a home, obtaining higher education, paying off debts, or just spending the money. Through 2006, 47.3 percent of those taking a lump-sum distribution used at least some portion of

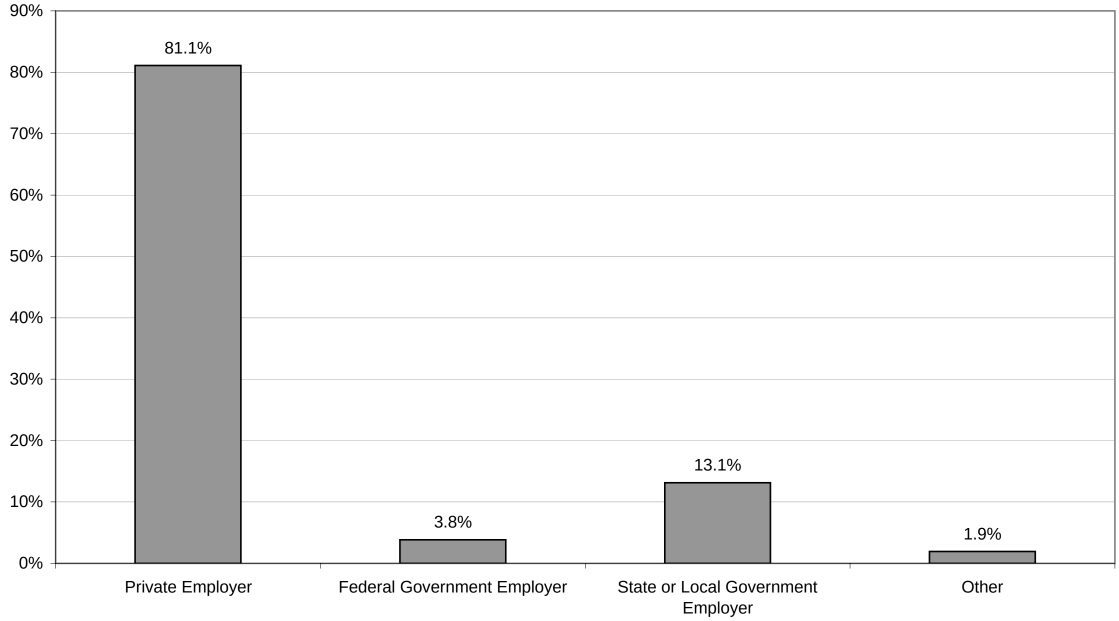
Figure 1

Number, Average Amount, and Median Amount of Most Recent Lump-Sum Distribution of Workers Who Had Left a Job, by Various Factors, 2006

	Total Recipients (thousands)	Total Recipients (percentage)	Average Amount[a]	Median Amount[a]
Total	16,156	100.0%	$32,219	$10,000
Amount of Most Recent Lump-Sum Distribution				
$1–$499	813	5.0	294	300
$500–$999	703	4.4	734	732
$1,000–$2,499	1,926	11.9	1,696	1,671
$2,500–$4,999	1,976	12.2	3,539	3,409
$5,000–$9,999	2,614	16.2	7,273	7,244
$10,000–$19,999	2,567	15.9	14,025	13,460
$20,000–$49,999	2,934	18.2	31,291	29,825
$50,000 or more	2,624	16.2	138,248	103,724
Year in Which Most Recent Lump-Sum Distribution Was Received				
Before 1980	655	4.1	67,374	20,040
1980–1986	1,172	7.3	47,679	15,107
1987–1993	2,285	14.1	38,644	14,235
1994–1998	2,898	17.9	35,309	10,983
1999–2003	5,478	33.9	27,128	8,701
2004–2006	3,669	22.7	22,166	7,497
Age of Recipient When Most Recent Lump-Sum Distribution Was Received				
30 or younger	4,422	27.4	17,640	5,260
31–40	4,588	28.4	22,510	9,152
41–50	3,439	21.3	37,394	13,364
51–60	2,334	14.4	58,124	22,000
61–64	737	4.6	69,276	31,047
65 and older	637	3.9	37,668	13,492
Gender				
Male	7,454	46.1	39,313	12,138
Female	8,703	53.9	26,144	8,629
Race				
White	13,524	83.7	34,565	10,696
Black	1,023	6.3	20,167	7,500
Hispanic	865	5.4	19,061	6,526
Other	743	4.6	21,458	8,629

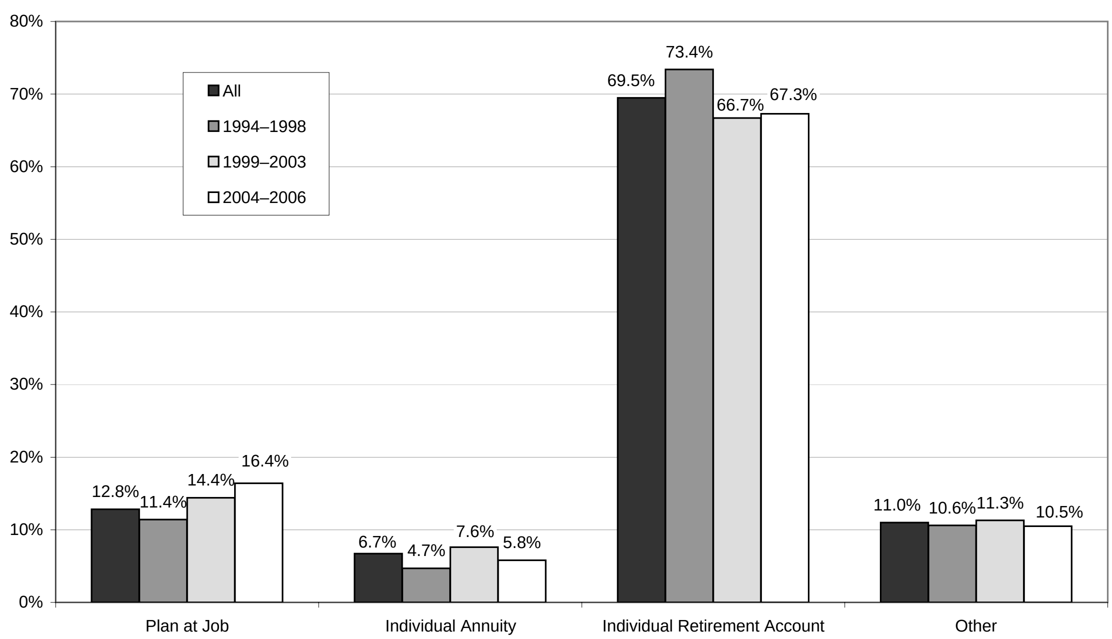
Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.
[a] In 2006 dollars.

Figure 2
Source of Most Recent Lump-Sum Distributions of Workers Who Had Left a Job, 2006



Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.

Figure 3
Where Lump-Sum Distributions Are Being Rolled Over to, by Year of Distribution, 2006



Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.

the money for tax-qualified savings (another employment-based plan, IRA, or annuity), while 16.9 percent used at least some portion of it for consumption (Figure 4).[5] The other most prevalent uses were buying a home, paying off debt, or starting a business (35.9 percent of lump-sum recipients used their distributions for these purposes). At least some portion of a lump-sum distribution is more likely to be used for tax-qualified savings if the distribution is larger, the recipient is older (through age 64) at time of the distribution, is male or white, or has annual earnings of $50,000 or more.

For the most recent distributions (2004–2006), the likelihood of rolling over some portion of the lump sum decreased relative to that of those taken from 1987–2003 (Figure 4). Correspondingly, an increase occurred in the percentage of those using some of their lump-sum distribution for expenses related to job changes and consumption. Therefore, the more recent lump-sum recipients appear to be either forced to, or choose to, use the assets for a more immediate financial purpose rather than holding them for retirement—owing particularly to rising housing costs and expenses associated with changing jobs.

Among those using their entire lump-sum distributions for only one purpose, 44.3 percent rolled over the entire amount to tax-qualified savings (Figure 5). Approximately 9 percent used the entire distribution on consumption, while an additional 26.1 percent used their entire distribution for buying a home, paying off debt, or starting a business. Factors related to the use of the *entire* lump-sum distribution follow the same patterns as those related to the use of at least *some portion* of it.[6]

The average amounts of the lump-sum distributions are significantly different across the various uses of the distributions. The average amount of a distribution used entirely for tax-qualified savings was $36,992 at the time of the most recent distribution, compared with $11,901 for those using the entire amount for home purchase, business expenses, or debt payments (Figure 6). For distributions used entirely for consumption, the average amount was the lowest at $8,041.

One alternative available to participants at job termination is to leave the assets in the former employer's plan until retirement or some other future date. This choice is generally not considered in the discussion of those who take a lump-sum distribution. Thus, the percentage of individuals who are preserving their assets until retirement or at least a future date tends to be understated by analyses that omit those who leave their assets in the plan.

As of 2006, 56 percent of workers who had retirement plan benefits at a previous employer received a lump-sum payment only, and another 10 percent received a lump-sum payment and retained some assets in a former employer's plan (Figure 7).[7] The remaining 34 percent of these workers had left their retirement benefits in their former job's plan only. This figure includes those who had a defined benefit or a defined contribution plan.

One of the most important factors in the decision to roll over a lump-sum distribution to another tax-preferred retirement savings vehicle is the size of the distribution. Thus, size would also be expected to be a factor in the decision to retain benefits in a previous employer's plan.[8] A close proxy can be derived from the SIPP data to investigate this issue. While lump-sum distribution recipients could have received a payment from either a defined benefit or a defined contribution plan, only those who had a defined contribution plan were asked the value of their plan at a previous job, and then were asked only the account balance at the time of survey, not at the time of job termination. With these caveats in mind, a comparison can be made (by lump-sum amount and account balance) of those who either received only a lump-sum distribution or who only retained their benefits. Among individuals with account balances and lump-sum amounts of less than $5,000, the percentage who left their retirement plan benefits in a previous employer's plan ranged from 10.6 percent to 21.7 percent. For individuals with balances or distributions of $5,000 or more, the percentage leaving their retirement plan benefits in a previous employer's plan ranged from 21.2 percent to 36.8 percent (Figure 8). Consequently, individuals with higher balances are not only more likely to roll over their lump-sum distributions to other tax-qualified savings but also are significantly more likely to retain their benefits in a previous employer's plan.[9]

Figure 4
Uses of Any Portion of Most Recent Lump-Sum Distributions by Workers Who Had Left a Job, 2006

	Total Recipients (thousands)	Tax-Qualified Savings	Non Tax-Qualified Savings	Home, Business, or Debt	Education Expenses	Job Change-Related Expenses	Consumption
Total	16,156	47.3%	6.9%	35.9%	1.7%	6.1%	16.9%
Amount of Most Recent Lump-Sum Distribution							
$1–$499	813	17.7	4.3	51.9	1.5	8.3	23.6
$500–$999	703	23.1	8.1	51.0	1.5	14.7	23.8
$1,000–$2,499	1,926	24.6	4.6	50.6	1.7	7.2	21.6
$2,500–$4,999	1,976	34.7	6.9	41.8	1.7	8.5	21.5
$5,000–$9,999	2,614	45.9	8.6	33.2	2.0	6.7	17.4
$10,000–$19,999	2,567	48.7	6.9	35.3	2.5	5.9	16.7
$20,000–$49,999	2,934	57.4	7.4	31.7	1.3	4.7	14.2
$50,000 or more	2,624	78.0	7.0	19.4	1.0	1.7	8.5
Year in Which Most Recent Lump-Sum Distribution Was Received							
Before 1980	655	17.8	14.1	44.7	0.5	4.9	33.4
1980–1986	1,172	37.4	10.7	34.7	2.5	6.5	21.4
1987–1993	2,285	49.4	6.6	32.5	2.3	6.0	18.2
1994–1998	2,898	51.8	7.4	34.1	1.0	4.3	15.5
1999–2003	5,478	50.6	5.0	36.6	1.4	5.8	14.3
2004–2006	3,669	46.0	7.1	36.9	2.2	8.1	16.6
Age of Recipient When Most Recent Lump-Sum Distribution Was Received							
30 or younger	4,422	35.6	5.6	41.6	2.2	8.0	19.9
31–40	4,588	46.8	5.3	37.0	1.6	6.7	17.6
41–50	3,439	51.3	6.5	36.1	2.0	5.1	13.7
51–60	2,334	59.1	8.4	30.1	0.9	5.2	14.0
61–64	737	67.2	12.2	18.0	1.3	1.5	12.9
65 and older	637	44.4	18.5	27.8	0.3	2.2	22.8
Annualized Earnings in 2006[a]							
No income	4,796	46.2	10.0	34.3	1.2	5.3	20.7
$1–$5,000	410	40.9	7.3	37.9	1.3	6.4	21.7
$5,000–$9,999	456	43.5	6.3	40.9	1.5	8.2	14.5
$10,000–$14,999	558	34.3	9.0	45.9	0.5	11.7	25.8
$15,000–$19,999	736	34.4	5.0	53.3	0.8	4.0	18.7
$20,000–$24,999	967	31.0	6.2	51.2	1.7	9.8	16.9
$25,000–$29,999	807	39.6	3.8	40.7	2.0	7.8	18.5
$30,000–$49,999	3,353	45.2	5.8	37.5	2.8	7.2	17.2
$50,000 or more	4,075	60.9	5.1	26.5	1.7	4.1	9.9
Gender							
Male	7,454	49.8	6.7	34.6	1.7	6.1	14.5
Female	8,703	45.2	7.2	36.9	1.7	6.0	18.9
Race							
White	13,524	49.8	7.1	33.9	1.6	5.3	15.7
Black	1,023	30.1	6.3	54.0	3.3	12.1	21.1
Hispanic	865	35.8	6.3	41.8	1.2	10.2	22.4
Other	743	38.8	5.8	40.4	1.2	7.8	24.9

Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.
[a] This is the respondent's monthly income in the reference month, annualized or multiplied by 12.

Figure 5

Uses of Entire Portion of Most Recent Lump-Sum Distributions by Workers Who Had Left a Job, 2006

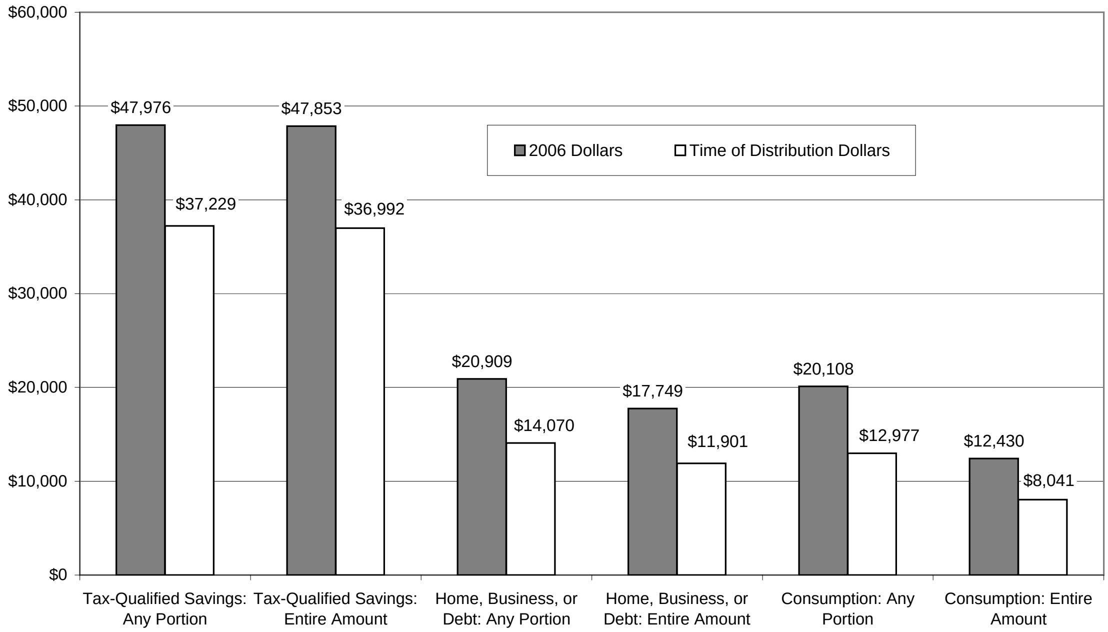
	Tax-Qualified Savings	Non Tax-Qualified Savings	Home, Business, or Debt	Education Expenses	Job Change-Related Expenses	Consumption
Total	44.3%	4.6%	26.1%	1.0%	2.8%	9.2%
Amount of Most Recent Lump-Sum Distribution						
$1–$499	17.0	3.7	48.1	1.0	5.3	19.2
$500–$999	19.5	5.8	37.5	1.5	5.0	14.7
$1,000–$2,499	23.7	3.5	42.8	1.7	4.8	14.7
$2,500–$4,999	32.8	5.4	30.8	1.1	4.4	12.8
$5,000–$9,999	43.9	6.0	24.2	1.1	3.4	9.3
$10,000–$19,999	46.5	4.6	24.1	1.4	1.9	8.2
$20,000–$49,999	52.5	4.8	20.9	0.7	1.6	6.3
$50,000 or more	72.4	3.4	10.2	0.1	0.4	2.1
Year in Which Most Recent Lump-Sum Distribution Was Received						
Before 1980	16.8	11.5	32.9	0.3	2.8	23.0
1980–1986	34.7	9.6	25.5	1.8	4.2	12.5
1987–1993	45.5	4.9	23.3	1.2	2.5	10.7
1994–1998	48.8	4.2	24.4	0.8	2.3	8.2
1999–2003	47.5	3.1	27.3	0.8	2.5	7.5
2004–2006	43.3	4.3	26.4	1.2	3.5	8.1
Age of Recipient When Most Recent Lump-Sum Distribution Was Received						
30 or younger	33.7	4.2	32.9	1.6	4.4	12.9
31–40	44.3	3.5	27.2	1.1	2.5	9.3
41–50	47.4	4.3	25.1	0.8	2.9	7.0
51–60	54.6	5.2	20.0	0.5	2.0	4.6
61–64	64.0	7.5	10.0	0.3	0.3	6.8
65 and older	40.7	12.3	18.6	0.3	0.4	13.3
Annualized Earnings in 2006[a]						
No income	43.0	6.3	22.8	0.5	2.5	11.0
$1–$5,000	40.2	5.9	26.5	0.8	2.4	12.3
$5,000–$9,999	39.3	4.7	32.1	0.4	3.6	7.9
$10,000–$14,999	29.9	5.5	26.0	0.5	3.6	12.4
$15,000–$19,999	30.0	1.7	42.1	0.4	1.3	10.7
$20,000–$24,999	28.2	4.4	40.2	1.2	5.3	6.7
$25,000–$29,999	38.4	2.6	32.1	0.9	4.1	11.2
$30,000–$49,999	41.6	4.1	27.9	1.5	3.3	9.4
$50,000 or more	58.7	3.9	20.5	1.4	2.2	6.3
Gender						
Male	46.7	4.4	26.0	1.1	2.7	8.3
Female	42.3	4.9	26.2	1.0	3.0	9.9
Race						
White	47.1	4.9	25.0	1.0	2.6	8.7
Black	25.5	4.2	35.8	1.4	3.2	8.2
Hispanic	31.8	2.8	31.5	1.2	5.3	14.9
Other	34.8	3.1	27.3	1.1	4.0	12.7

Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.

[a] This is the respondent's monthly income in the reference month, annualized or multiplied by 12.

Figure 6

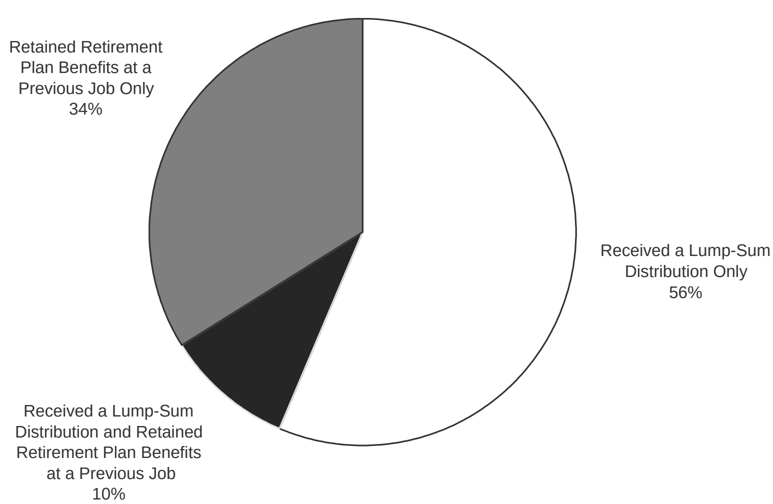
Average Amount of Most Recent Lump-Sum Distribution Received by Workers Who Had Left a Job, 2006



Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.

Figure 7

Percentage of Former Participants in an Employment-Based Retirement Plan Who Either Took a Lump-Sum Distribution or Retained the Benefits in Their Previous Job's Plan, 2006



Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.

Standard of Living

A potential factor affecting the retirement standard of living in an era of increased availability of lump-sum distributions is the retention of lump-sum distributions through rollovers to other tax-deferred accounts. A significantly higher percentage of those who spent their lump-sum distributions entirely reported their standard of living as being much worse than was reported by those who had rolled over their entire distribution (11.8 percent compared with 4.3 percent) (Figure 9). This may be because those who spent their lump-sum distributions did not plan for retirement and consequently are worse off in old age, or because spending the lump-sum distribution left these individuals without resources they needed to maintain their standard of living in older age. While the percentage who reported being much worse was relatively small, the consequences of spending lump-sum distributions highlight the fact that those who took a lump-sum distribution and spent it entirely were almost three times more likely to describe their standard of living as being much worse than was reported by all of those age 55 or older who rolled over their assets. This issue is expected to become increasingly prevalent, as more individuals who reach age 55 will have to face the decision concerning what to do with a lump-sum distribution.

Endnotes

[1] The 2004 Panel of the Survey of Income and Program Participation (SIPP), conducted by the U.S Census Bureau, follows the same households for a two-and-one-half-year period, asking various questions on their economic and demographic status. The survey participants are interviewed at four-month intervals about a core set of demographic and economic issues. In addition, topical modules that ask more specific questions about important economic issues are included. The Retirement and Pension Plan Coverage Topical Module 7 was fielded in January–April 2006 and asked questions about workers' participation in retirement and/or pension plans in addition to the questions on lump-sum distributions. For more information about SIPP, see www.census.gov/sipp/

[2] See Craig Copeland, "Lump-Sum Distributions at Job Change," *EBRI Notes*, no. 1 (Employee Benefit Research Institute, January 2009).

[3] The question in SIPP allows for the answers: plan on a job, individual annuity, IRA, or other. It is not clear what falls in the other category except for possibly a joint-or-survivor annuity or cannot remember. There is no breakdown among the potential sources in the other category from the survey.

[4] A high use of annuities would not be expected for these individuals, as this analysis focuses on workers who are changing jobs, not retiring, so they will not need the money until a later date in most cases.

[5] Consumption includes purchases of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

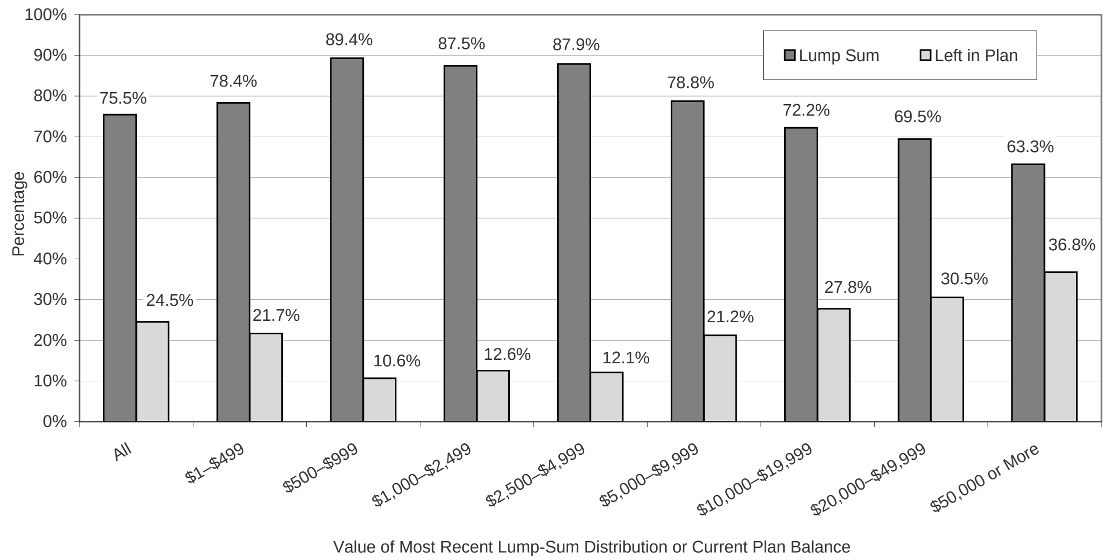
[6] For further analysis of lump-sum distributions from this dataset, see Copeland (2009, above).

[7] A study by Fidelity Investments of the plans they administer found that 56 percent of the plan participants whose employment terminated in 2000 left their assets in the former employer's plan. See Lynn Miller, "The Ongoing Growth of Defined Contribution and Individual Account Plans: Issues and Implications," *EBRI Issue Brief,* no. 243 (Employee Benefit Research Institute, March 2002). However, this percentage did not account for those who removed their assets after year-end 2000. The SIPP dataset permits an examination of those leaving their assets in a plan after termination relative to a longer time frame.

[8] In fact, the Fidelity study (Miller et al., 2002) showed that among 401(k) participants with less than $10,000 in their accounts, 48 percent left their assets in the plan, compared with 68 percent of those with an account balance of $50,000–$99,999.

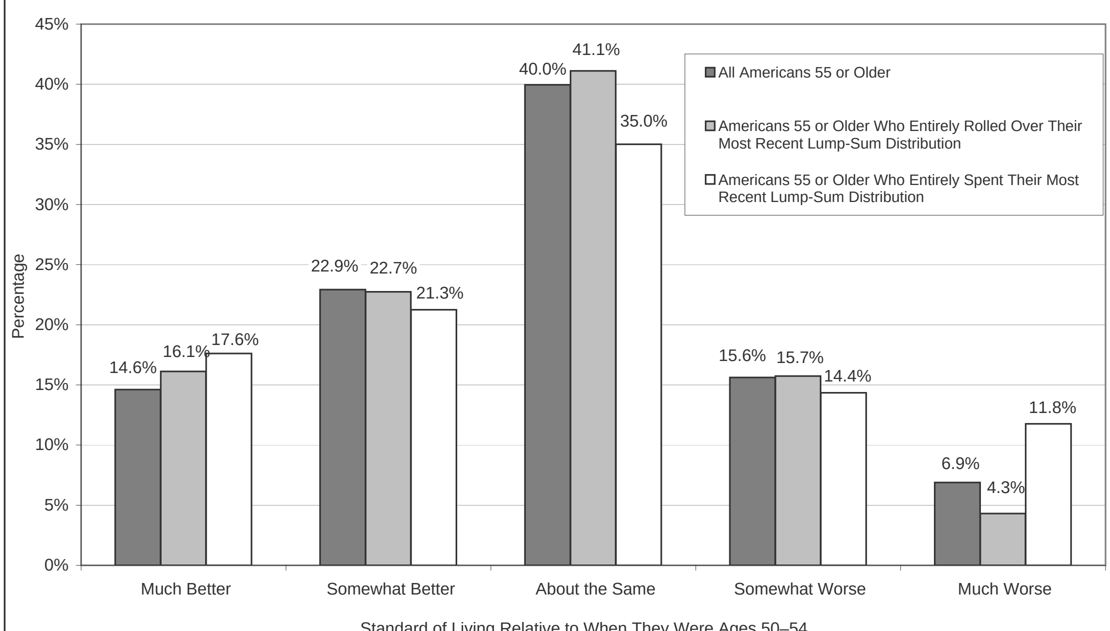
[9] This suggests that, when the percentage of individuals who leave their benefits in their previous employer's plan is added to the percentage of those who roll over their entire lump-sum distribution to tax-qualified savings, 82.6 percent of individuals with an account balance of $50,000 or more appear to preserve their assets for retirement. This percentage is calculated by adding the 36.8 percent of participants with a balance of $50,000 or more who leave their assets in a previous employer's plan to the 72.4 percent (from Figure 5) of those 63.3 percent who take a lump-sum distribution of $50,000 or more and rolled over the entire amount of the distribution or 36.8 percent plus (72.4 percent times 63.3 percent) equals 82.6 percent. (The Fidelity study (Miller, 2002) reported that from 70 percent to 78 percent of participants with balances of $50,000 or more either completely rolled over their lump-sum distribution or left their assets in their account.) This would suggest that, as account balances increase; fewer assets will "leak" from the retirement system.

Figure 8
Percentage of Individuals Who Had a Retirement Plan at a Previous Job and Took a Lump-Sum Distribution vs. Leaving the Assets in the Plan, by Value of the Distribution and the Current Plan Balance, 2006[a]



Source: Employee Benefit Research Institute estimates from the 2004 Survey of Income and Program Participation Topical Module 7.
[a] This looks only at those who took only a lump-sum distribution or retained their retirement plan benefits in a previous job's plan, not a combination of the two. Furthermore, only individuals who reported a balance in the previous job's plan were included. The balance is at the time of the survey, not at the time of the job termination. All lump-sum distributions are in 2006 dollars.

Figure 9
Americans Age 55 and Older Self-Reported Standard of Living Relative to When They Were Ages 50–54, by Use of Most Recent Lump-Sum Distribution, 2006



Source: Employee Benefit Research Institute estimates of the 2004 Survey of Income and Program Participation Topical Module 7.

The Basics of Medicare, Updated With the 2009 Board of Trustees Report

By Ken McDonnell, EBRI

History

- In 1965, Title 18, "Health Insurance for the Aged," of the Social Security Act created the Medicare program. Medicare consists of two parts: Hospital Insurance (HI), Part A, covers hospital services and some home health care and skilled nursing facility services, and Supplemental Medical Insurance (SMI), Part B, covers physician care, outpatient hospital services, and independent laboratory services; and Part D, covers outpatient prescription drugs.

- In 1972, the Medicare program was expanded to include disabled persons who qualified for benefits under the Disability Insurance (DI) program and certain individuals with end-stage renal (kidney) disease.

- In 1986, all state and local government employees hired after Mar. 31, 1986, and not covered under Social Security, were required to be covered by Medicare.

- In 1997, the Balanced Budget Act of 1997 expanded the delivery of health care under Medicare with the Medicare+Choice program. See below for more details in the section Medicare Advantage.

- In 1997, under the Balanced Budget Act of 1997, home health services not associated with a hospital or skilled nursing facility stay for individuals enrolled in both HI and SMI were transferred from the HI program to the SMI program, effective January 1998.

- In 2000, Congress enacted the Benefits Improvement and Protection Act (BIPA) to increase payments to plans in an effort to stop plans from withdrawing from the Medicare+Choice program.

- In 2003, Congress enacted the Medicare Prescription Drug Improvement and Modernization Act, which created Part D, prescription drug coverage, means-tested Part B premiums and increased the Part B deductible.

Covered Beneficiaries

- Medicare serves elderly and disabled workers who qualify for DI benefits. Enrollment in HI (Part A) is automatic, while enrollment in SMI (Parts B and D) is voluntary. In 2008, 37.5 million elderly and 7.4 million disabled individuals were enrolled in Part A, and 35.2 million elderly and 6.6 million disabled individuals were enrolled in Part B, and 32.3 million individuals were enrolled in Part D.

Financing

- Expressing Medicare expenditures as a percentage of gross domestic product (GDP) gives a relative measure of the size of the Medicare program compared with the general economy. The projection of this measure affords the public an idea of the relative financial resources that will be necessary to pay for Medicare services. In 2008, expenditures in the Medicare program equaled 3.24 percent of GDP. By 2080, that percentage is estimated to be 11.18 percent. However, after 2007, the projected Part B, SMI, and total Medicare expenditures are unrealistically low because of the current-law physician payment reductions. Should these payment rates, by new legislation, be prevented from declining, the overall Medicare costs shown in this section would be increased—possibly by 4 to 8 percent for 2030 and later, depending on the specific changes enacted.

- Medicare costs are projected to exceed those of the Social Security OASDI program in 2028 and would be nearly double that of Social Security by 2083.

Federal Budgetary Processes

- Currently, the U.S. Department of the Treasury credits the Medicare and Social Security trust funds with any annual excess of Medicare and Social Security tax revenues over the amount spent for current benefits. By law, these assets must be invested in special securities issued by the Treasury. The government then spends these "assets" to ease fiscal pressures on other programs. The trust fund surpluses are not reserved for future Medicare and Social Security benefits but are bookkeeping entries showing how much the Medicare and Social Security programs have lent to the Treasury (or alternatively, what is owed to Medicare and Social Security, including interest, by the Treasury). When the trust funds go into negative cash flow, the Treasury must start repaying the money.

- For budgetary purposes, the date on which the trust funds go into negative cash flow (i.e., the benefit payments exceed the income from payroll taxes and the taxation of benefits) is significant because it marks the point at which the government must provide cash from general revenues to the programs rather than receive surplus cash from them to fund other current spending.

Part A: Hospital Insurance (HI)

- The Balanced Budget Act of 1997 contained numerous provisions affecting the Medicare program. These provisions were designed in part to postpone the imminent depletion of the HI trust fund, which, according to the 1997 Board of Trustees' report, had been projected for 2001.

- In 2008, the fund began using interest earnings to cover the excess of expenditures over tax income. Beginning in 2008, trust fund assets are used to cover the excess.

- The HI trust fund is expected to be exhausted by 2017.

- HI payroll taxes are based on a combined employer/employee rate of 2.9 percent. The Omnibus Budget Reconciliation Act of 1993 completely removed any wage base limit for the HI payroll tax, effective Jan. 1, 1994. In 2008, total income for the HI trust fund was $230.8 billion: $198.7 billion came from payroll taxes, $11.7 billion from taxation of Social Security benefits, $15.6 billion from interest, $2.9 billion from premium payments, and $1.9 billion from general revenue and other sources.[1]

- In 2008, the average amount reimbursed per enrollee in Part A was $5,179.

- In 2008, administrative costs for Part A were $3.3 billion, or 1.4 percent of expenditures.

- The unfunded obligation of the HI trust fund, from program inception to 2083, is estimated to be $13.4 trillion, while the unfunded obligation from program inception through the infinite horizon is $36.4 trillion.

Part B: Supplementary Medical Insurance (SMI)

- The SMI trust fund is financed on a year-by-year basis. The SMI program derives its revenues from premium payments by beneficiaries and general revenues from the federal budget. Under current law, no more than 25 percent of SMI's revenues can come from premium payments.

- In 2008, total income for Part B of the SMI trust fund was $200.6 billion: $146.8 billion from general revenues of the federal government, $50.2 billion in premium payments, and $3.5 billion in interest.

- The average amount reimbursed per enrollee in Part B was $4,322, in 2008.

- In 2008, administrative costs for Part B were $3.0 billion, or 1.6 percent of expenditures.

- The unfunded obligation of Part B, from program inception through 2083, is estimated to be $23.2 trillion, while the unfunded obligation from program inception through the infinite horizon is $50.1 trillion.

Part D: Medicare Prescription Drug Account

- Part D is financed by beneficiary premium payments, transfers from the general fund of the Treasury, and transfers from state governments. Premiums are to account for 25.5 percent of the total costs of Part D.

- In 2008, total income for Part D of the SMI trust fund was $49.4 billion: $37.5 billion from general revenues of the federal government; $5.0 billion in premium payments, and $7.1 billion in transfers from states.

- The average amount reimbursed per enrollee in Part D was $1,517, in 2008.

- The unfunded obligation of Part D, from program inception through 2083, is estimated to be $9.4 trillion, while the unfunded obligation from the program inception through the infinite horizon is $20.3 trillion.

- Estimated operations of the Part D account are summarized below. Actual experience for 2008 came in lower than the intermediate cost estimates from the 2008 Trustees Report.

Part D Estimated Operations

Calendar Year	Premiums From Enrollees	Other Income[1]	Total Revenue	Total Expenditures
		($ in billions)		
Actual Experience				
2008	$ 5.0	$ 44.4	$ 49.4	$ 49.3
Estimated 2008 Operations, From 2008 Trustees Report				
2008[2]	4.7	46.8	51.5	51.5
Intermediate Assumptions				
2009	6.3	56.4	62.7	63.0
2018	17.7	123.2	140.9	140.8
Low-Cost Assumptions				
2009	6.3	55.1	61.4	61.6
2018	12.8	94.3	107.1	107.0
High-Cost Assumptions				
2009	6.3	57.8	64.1	64.4
2018	24.2	160.2	184.4	184.2

[1] Contains federal and state government payments plus interest income.
[2] Intermediate assumptions.

Cost-Sharing Provisions

Hospital Insurance (HI): Part A

- Part A requires an enrolled individual to pay various deductibles and co-pays, depending on the facility where the service is provided and the length of stay.

- *2009 Cost-Sharing Provisions:*

  - *In-patient Hospital Deductible*—For a hospital stay of 1–60 days, a patient is liable for a $1,068 deductible. For a hospital stay of 61–90 days, the patient is liable for a $267 co-pay per day. For a hospital stay of more than 90 days, a patient is liable for a $534 co-pay per day.

  - *Skilled Nursing Facility*—There is no deductible or co-pay for the first 20 days of a skilled nursing facility stay. If the stay lasts for 21 days or longer, the patient is liable for a $133.50 co-pay per day.

- *Part A Premium*—For an individual who is age 65 or older and not otherwise covered by the Medicare program, the monthly premium to be covered by Part A is $443. For enrollees who have at least 30 quarters of credit may apply for a reduced premium. That reduced premium amount is $244.

- *2018 Cost-Sharing Provisions Estimates* (based on intermediate assumptions):

  - *In-patient Hospital Deductible*—For a hospital stay of 1–60 days, a patient is estimated to be liable for an $1,584 deductible. For a hospital stay of 61–90 days, the patient is estimated to be liable for a $396 co-pay per day. For a hospital stay of more than 90 days, a patient is estimated to be liable for a $792 co-pay per day.

  - *Skilled Nursing Facility*—There is no deductible or co-pay for the first 20 days of a skilled nursing facility stay. If the stay lasts for 21 days or longer, the patient is estimated to be liable for a $198.

  - *Part A Premium*—For an individual who is age 65 or older and not otherwise covered by the Medicare program, the monthly premium to be covered by Part A is estimated to be $622. For enrollees who have at least 30 quarters of credit may apply for a reduced premium. In 2018, that reduced premium amount is estimated to be $342.

- The use of Medicare benefits is calculated based on benefit periods and reserve days. The benefit period is the block of time used to determine how much of a deductible and/or co-pay the beneficiary owes. A benefit period begins and ends when he or she has been out of the hospital for 60 consecutive days. For example, if a beneficiary enters the hospital on November 10, 2009, and is released on November 24, 2009, he or she is liable for $1,068. If the beneficiary is re-admitted to the hospital on December 20, 2009, and released on December 26, 2009, he or she does not have to pay another $1,068. The beneficiary is liable to pay the deductible per benefit period, not per admission. The benefit period on this example runs until January 24, 2010.

- There is no limit on the number of benefit periods a beneficiary may use in a lifetime, except for hospice care, which entitles a beneficiary to two 90-day periods and one 30-day period.

- Reserve days are used for hospital stays beyond 90 days. A beneficiary is entitled to only 60 reserve days.

Supplementary Medical Insurance (SMI): Part B

- Since Part B of Medicare is voluntary, participants are required to make a monthly contribution to the premium. Part B premiums are automatically deducted from the enrollee's Social Security benefit, provided the enrollee receives Social Security benefits. Under current law, no more than 25 percent of Part B's revenues can come from premium payments.

- The Medicare Prescription Drug Improvement and Modernization Act of 2003 require the Medicare Part B premium to be related to income starting in 2007. By 2011, premiums will increase with income. Medicare beneficiaries with income under $80,000 ($160,000 for a married couple) will continue to be required to pay 25 percent of the cost of Part B. However, beneficiaries with income between $80,000 and $100,000 will be required to pay 35 percent of the premium, and beneficiaries with income of at least $200,000 will be responsible for 80 percent of the premium to enroll in Part B. These income levels will also be indexed to general inflation.

- *Premiums*—in 2009, the monthly premium are $96.40. By 2018, the monthly premium is estimated, under intermediate assumptions, to be $131.40.

- *Annual Deductible*—this is applied to all Part B services except home health care services. In 2009, the annual deductible is $135. By 2018, the annual deductible is estimated, under intermediate assumptions, to be $184.

- *Coinsurance*—Coinsurance payment in 2009 is 20 percent.

Supplementary Medical Insurance (SMI): Part D

- The Medicare Prescription Drug Improvement and Modernization Act of 2003 created Part D, a prescription drug benefit. Under current law, no more than 25.5 percent of Part D's revenues can come from premium payments.
- *2009 Cost-Sharing Provisions:*
  - *Premiums*—the base beneficiary premium is $30.36.
  - *Annual Deductible*— the annual deductible is $295.
  - *Initial Benefit Limit*— the initial benefit limit is $2,700. The catastrophic threshold limit is $4,350.
- *2018 Cost-Sharing Provisions Estimates* (based on intermediate assumptions):
  - *Premiums*—the base beneficiary premium is $55.60.
  - *Annual Deductible*—the annual deductible is $490.
  - *Initial Benefit Limit*—the initial benefit limit is $4,510. The catastrophic threshold limit is $7,250.

Supplementary Medical Insurance Costs Compared with Social Security Benefits

- The average Part B plus Part D premium in 2010 is estimated to equal 11 percent of the average Social Security benefit but would increase to an estimated 29 percent in 2080. Similarly, an average cost-sharing amount in 2010 would be equivalent to 14 percent of the Social Security benefit, increasing to 37 percent in 2080.

Medigap

- Although Medicare eases many financial worries for the elderly, it does not cover 100 percent of all medical services. Medicare's deductibles and co-payments can be high, particularly for long hospital stays.
- Medicare does not cover all medical services. Most notable are eye exams and glasses, hearing aids, and dental services.
- To help meet these additional expenses, Medicare beneficiaries frequently purchase what is known as Medigap policies. A Medigap policy is purchased in the individual market.
- In the 1970s and 1980s, Medicare enrollees encountered problems with purchasing health insurance to supplement Medicare. In the Omnibus Budget Reconciliation Act of 1990 (OBRA '90), Congress charged the National Association of Insurance Commissioners (NAIC) with developing a variety of Medigap policies. NAIC developed 10 policies ranging from a basic coverage plan, Plan A, to comprehensive coverage, Plan J. Insurance carriers are not required to offer all 10 policies, but if a carrier offers Medigap policies, they must be from the 10 policies designed by NAIC. Exceptions to this rule are for carriers in Massachusetts, Minnesota, and Wisconsin, states that had Medigap laws in place before OBRA '90.
- As of January 1, 2006, Medigap policies providing coverage for prescription drugs (Plans H, I, and J) cannot be sold or issued, though they can be renewed if an individual does not enroll in Medicare Part D.
- The Centers for Medicare & Medicaid Services maintains an interactive Web page designed to assist an enrollee in obtaining Medigap coverage, online at www.medicare.gov/MGCompare/Home.asp

Covered Services

- **Hospital Insurance (HI): Part A**
    - *Hospitalization*—Covered services include semiprivate room and board, general nursing, miscellaneous hospital services and supplies, inpatient psychiatric hospital care.
    - *Post-hospital Skilled Nursing Facility Care*—To receive this service, the individual must have been in the hospital for at least three days and enter facility within 30 days after hospital discharge.
    - *Home Health Care*—Covered services include part-time skilled nursing care, physical therapy, occupational therapy, speech-language therapy, home health aide services, medical social services, durable medical equipment (such as wheelchairs) and medical supplies.
    - *Hospice Care*—Covered services include medical and support services from a Medicare-approved hospice for people with a terminal illness, drugs for symptom control and pain relief, and other services not otherwise covered by Medicare. Hospice care is usually given in the home. However, short-term hospital and inpatient respite care (care given to a hospice patient by another caregiver so that the usual caregiver can rest) are covered when needed.
    - *Blood*—Covered services include pints of blood received at a hospital or skilled nursing facility during a covered stay.
- **Supplementary Medical Insurance (SMI): Part B**
    - *Medical and Other Services*—Covered services include doctors' services (not routine medical exams), outpatient medical and surgical services and supplies, diagnostic tests, ambulatory surgery center facility fees for approved procedures, and durable medical equipment (such as wheelchairs). Part B covers second surgical opinions, outpatient mental health care, outpatient physical and occupational therapy, including speech-language therapy.
    - *Clinical Laboratory Services*—Services include blood tests, urinalysis, and more.
    - *Home Health Care*—Services include part-time skilled nursing care, physical therapy, occupational therapy, speech-language therapy, home health aide services, medical social services, durable medical equipment (such as wheelchairs) and medical supplies, and other services.
    - *Outpatient Hospital Services*—Services include hospital services and supplies received as an outpatient as part of a doctor's care.
    - *Blood*—Covered services include pints of blood received as an outpatient or as part of a Part B covered service.
- **Supplementary Medical Insurance (SMI): Part D**
    - Provides subsidized access to drug insurance coverage on a voluntary basis for all beneficiaries and premium and cost-sharing subsidies for low-income beneficiaries.

Medicare Advantage

- The Medicare Prescription Drug Improvement and Modernization Act of 2003 changed the name of the Medicare+Choice program to Medicare Advantage.
- The Medicare Advantage program was created by Congress in the Balanced Budget Act of 1997 to allow more types of health insurance plans, including managed care plans, to serve Medicare beneficiaries. As of April 2009, 10.2 million Medicare beneficiaries (22.0 percent of Medicare beneficiaries) were enrolled in a Medicare Managed Care

program, according to a study from the Kaiser Family Foundation. Since 1998, most managed care contracts with the Centers for Medicare & Medicaid Services have operated under the Medicare Advantage program. www.kff.org/medicare/upload/2052-12.pdf

Trustees in 2009

- Treasury Secretary Timothy F. Geithner acts as the managing trustee of the OASDI trust funds. The other trustees include: Hilda Solis, secretary of Labor; Kathleen Sebelius, secretary of Health and Human Services; Michael J. Astrue, commissioner of Social Security; Charlene M. Frizzera, administrator of the Centers for Medicare & Medicaid Statistics and secretary, Board of Trustees; the two public trustee positions are currently vacant.

- A copy of the 2009 trustees report is online at www.cms.hhs.gov/ReportsTrustFunds/

Recent EBRI Research on Medicare and Retiree Health

- "Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model," *EBRI Issue Brief* no. 317 (May 2008): www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3933

- "Savings Needed to Cover Health Insurance and Health Care Expenses in Retirement," *EBRI Issue Brief, no. 295* (July 2006): www.ebri.org/pdf/briefspdf/EBRI_IB_07-20061.pdf

- "The Impact of the Erosion of Retiree Health Benefits on Workers and Retirees," *EBRI Issue Brief,* no. 279 (March 2005): www.ebri.org/pdf/briefspdf/0305ib.pdf

- "Controlling Health Costs and Improving Health Care Quality for Retirees," *EBRI Issue Brief,* no. 278 (February 2005): www.ebri.org/pdf/briefspdf/0205ib1.pdf

- "Health Care Expenses in Retirement and the Use of Health Savings Accounts," *EBRI Issue Brief,* no. 271 (July 2004): www.ebri.org/pdf/briefspdf/0704ib1.pdf

- "Medicare Program Takes on More Income-Related Features," *EBRI Notes,* no. 5 (May 2004): www.ebri.org/pdf/notespdf/0504notes.pdf

For additional detailed information on the Medicare program, go to www.medicare.gov/ which is maintained by the Centers for Medicare & Medicaid Services, part of the U.S. Department of Health and Human Services.

Source: U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services, *2009 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Fund* (Washington, DC: U.S. Government Printing Office, 2009).

[1] Other income includes recoveries of amounts reimbursed from the trust fund that are not obligations of the trust fund, receipts from the fraud and abuse control program, and a small amount of miscellaneous income.

New Publications and Internet Sites

Employee Benefits

United Benefit Advisors, LLC. *2009 UBA Employer Benefit Perspectives Survey*. Cost and ordering information is online at www.benefits.com

Health Care

Buck Consultants. *National Health Care Trend Survey*. Twentieth Edition, First Half 2009. $100. Buck Consultants, An ACS Company, Attn: Global Survey Resources, 500 Plaza Dr., Secaucus, NJ 07096-1533, (800) 887-0509: www.bucksurveys.com

International Foundation of Employee Benefit Plans. *Health Care Plans: Impact of the Financial Crisis*. IFEBP members, free; nonmembers, $50. International Foundation of Employee Benefit Plans, Publications Department, P.O. Box 68-9953, Milwaukee, WI 53268-9953, (888) 334-3327, option 4; fax: (262) 786-8780, e-mail: bookstore@ifebp.org, Web site: www.ifebp.org/books.asp?6696E

Pension Plans/Retirement

Watson Wyatt Worldwide. *Accounting for Pensions and Other Postretirement Benefits 2008*. $49. Watson Wyatt Worldwide, 901 N. Glebe Rd., Arlington, VA 22203, (703) 258-8000, fax: (703) 258-8585 www.watsonwyatt.com

Health Care Reform: Web Sites

Alliance for Health Reform: www.allhealth.org/issues.asp?wi=16

Center on Budget and Policy Priorities: www.cbpp.org/research/index.cfm?fa=topic&id=71

Congressional Budget Office—Health: www.cbo.gov/publications/collections/health.cfm

International Foundation of Employee Benefit Plans:
www.ifebp.org/Resources/News/TopicsInDepth/Health+Care+Reform+Discussion/default.htm

Kaiser Family Foundation Health Reform Gateway: http://healthreform.kff.org/

National Journal Expert Blogs—Health Care: http://healthcare.nationaljournal.com/

U.S. Senate Committee on Finance—Call to Action: Health Reform 2009:
http://finance.senate.gov/healthreform2009/home.html

The White House—HealthReform.gov: www.healthreform.gov/

Selected Government Documents on Health Care Reform

U.S. House Committees on Ways and Means, Energy and Commerce, and Education and Labor: Key Features of the Tri-Committee Health Reform Draft Proposal in the U.S. House of Representatives, June 9, 2009:
http://waysandmeans.house.gov/media/pdf/111/tri.pdf

U.S. Joint Committee on Taxation: Estimates of the Revenue Effects of Several Proposals to Cap the Income Tax Exclusion for Employer-Provided Health Care as well as Other Proposals [Very Preliminary]:
http://benefitslink.com/articles/guests/2009_06_JCT_estimates_on_Health_Care_Exclusion.pdf

U.S. Senate Committee on Health, Education, Labor and Pensions: "Affordable Health Choices Act":
http://help.senate.gov/BAI09A84_xml.pdf

Washington Watch

Congressional Hearings of Note

House Education and Labor Health, Employment, Labor, and Pensions Subcommittee: *Examining the Single Payer Health Care Option (June 10):* http://edlabor.house.gov/hearings/2009/06/examining-the-single-payer-hea.shtml

Senate Health, Education, Labor, and Pensions Committee: *Health Care Reform (June 11):* http://help.senate.gov/Hearings/2009_06_11/2009_06_11.html

Senate Special Committee on Aging: *Boon or Bane: Examining the Value of Long-Term Care Insurance (June 3):* http://aging.senate.gov/hearing_detail.cfm?id=313934&

House Education and Labor Health, Employment, Labor, and Pensions Subcommittee: *401(k) Fair Disclosure for Retirement Security Act of 2009 (April 22):* http://edlabor.house.gov/hearings/2009/04/401k-fair-disclosure-for-retir.shtml

House Ways and Means Committee: *Health Reform in the 21st Century: Employer Sponsored Insurance (April 29):* http://waysandmeans.house.gov/hearings.asp?formmode=detail&hearing=675

Senate Special Committee on Aging: *No Guarantees: As Pension Plans Crumble, Can PBGC Deliver? (May 20)* http://aging.senate.gov/hearing_detail.cfm?id=313310&

Documents of Note Available Online

Congressional Budget Office: *The Budgetary Treatment of Proposals to Change the Nation's Health Insurance System:* http://cbo.gov/ftpdocs/102xx/doc10243/05-27-HealthInsuranceProposals.pdf

Congressional Research Service: *How Would Medicare Part B Premiums Be Affected If There Is No Social Security COLA?* http://opencrs.com/document/R40561/

Department of the Treasury: *General Explanations of the Administration's Fiscal Year 2010 Revenue Proposals:* http://www.treas.gov/offices/tax-policy/library/grnbk09.pdf

Federal Reserve Board: *New Evidence of 401(k) Borrowing and Household Balance Sheets:* http://www.federalreserve.gov/Pubs/feds/2009/200919/200919pap.pdf

Government Accountability Office: *Financial Audit: Federal Deposit Insurance Corporation Funds' 2008 and 2007 Financial Statements:* www.gao.gov/new.items/d09535.pdf

U.S. House of Representatives: *Retirement Security Needs Lifetime Pay Act of 2009, H.R. 2748* [This legislation would create incentives for retirees to purchase lifetime annuities.]: http://thomas.loc.gov/home/gpoxmlc111/h2748_ih.xml

EBRI Activity/Fast Facts

EBRI President and CEO Dallas Salisbury has been named to an advisory committee designed to give investors a greater voice in the work of the Securities and Exchange Commission (SEC). Formation of the advisory committee was announced June 3 by SEC Chairman Mary Schapiro. SEC press release: www.sec.gov/news/press/2009/2009-126.htm

FastFacts from EBRI #125: *Sources of Income for Those Age 65 and Older in 2007:* www.ebri.org/pdf/FFE125.4June09.Final.pdf

FastFacts from EBRI #126: *How Much Confidence Do Americans Have in Financial Institutions?* www.ebri.org/pdf/FFE126.11June09.Final.pdf

Notes

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