

Economy:

Protecting and Expanding Medicare

August 2026



Top Line

1. Medicare is a vital source of health insurance for Americans, especially those 65 and over, and it works well.
2. Medicare is currently facing severe risks and challenges which make Medicare unsustainable in its current form.
3. Policy proposals to protect Medicare include increasing revenues and reducing costs.
 - Close the Medicare Income Tax loophole
 - Increase payroll taxes on high earners
 - Reduce Medicare Advantage overpayments
 - Adopt site neutral payment reforms
 - Lower prescription drug and device prices
4. There is also strong support for expanding Medicare to cover more people, even going as far as “Medicare for All”. These proposals involve significant challenges, but also hold the potential to reduce costs, increase health insurance coverage, and improve the health of more Americans.

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Backup

1. Medicare is a vital source of health insurance for Americans, especially those 65 and over, and it works well.

- a. Medicare was created by the Social Security Amendments of 1965, signed into law on July 30, 1965, to guarantee health insurance access for older adults who often faced exclusion from private coverage in retirement. Its basic purpose was to reduce financial barriers to medically necessary care for people age 65 and older, later expanding to some younger people with disabilities and certain serious conditions. (1)
- b. Currently **over 70 million people** are enrolled in Medicare, including over 90% of Americans aged 65 and over. (2) (some older Americans are covered by other programs such as private insurance or veteran's programs).
- c. Medicare consists of four main components, and each part is funded differently:
 - **Part A** covers inpatient hospital, skilled nursing facility, hospice, and some home health care. (3)
 - Medicare Part A (Hospital Insurance) is funded mainly by a 1.45% payroll tax on employees and a matching 1.45% tax on employers (2.9% for the self-employed). (4)
 - Unlike Social Security there is no wage cap on Medicare taxes.
 - **Part B** covers physician, outpatient, durable medical equipment, and preventive services. (3)
 - Medicare Part B is funded mainly by monthly premiums paid by enrollees (income-related for higher earners) and general federal revenues, with a small share from late-enrollment penalties. (4)
 - **Part C** covers private insurers through **Medicare Advantage** (3)
 - Part C is funded by a combination of federal payments that are essentially a rerouting of what Medicare would otherwise spend on a beneficiary under Parts A and B, plus any additional premiums paid by the enrollee to the private plan. (4)
 - Medicare Part C, commonly called Medicare Advantage, is an "all-in-one" alternative to Original Medicare. It allows you to receive your Medicare benefits through a private insurance company approved by the federal government instead of directly from the government. (5)

- If you join a Medicare Advantage Plan, the plan will provide all your Part A (Hospital Insurance) and Part B (Medical Insurance) coverage. Medicare Advantage Plans may offer extra coverage, such as vision, hearing, dental, and/or health and wellness programs. Most include Medicare prescription drug coverage (Part D). (5)
 - Medicare pays a fixed amount for your care every month to the companies offering Medicare Advantage Plans. These companies must follow rules set by Medicare. (5)
 - **Part D covers prescription drugs** through private plans (3)
 - Medicare Part D is funded by general federal revenues, beneficiary premiums (which can be income-related for higher earners), and payments from state governments, along with some contributions from employers and other sources. (4)
- d. In 2024, Medicare spending, net of income from premiums and other offsetting receipts, **totaled \$910 billion and accounted for 13% of the federal budget.** (6)
- Of this, 39%, or about \$350 billion, is for Part A
 - Another 50%, or about \$450 billion, is for Part B
 - And the remaining 11%, or about \$100 billion, is for Part D
 - Part C is funded from Parts A and B. Essentially, Part C, or Medicare Advantage, is a method of paying Parts A and B through private insurers. In 2024, payments to Medicare Advantage plans for Part A and Part B benefits were \$462 billion, over half of total Part A and Part B spending. (7)
 - Medicare Advantage has grown rapidly as a share of total Medicare spending, from 30% in 2014 to over 50% by 2024. (7)
- e. **Medicaid performs well, both in terms of how participants rate it, and how it reduces costs.**
- 92% of Medicare participants aged 65+ rate Medicare Excellent or Good. Only 7% rate it Fair or Poor. (20)
 - Medicare helps to reduce healthcare costs. A 2024 RAND study found that in 2022 employers and private insurers paid hospitals an average of **254%**

more than Medicare would have paid for the same inpatient and outpatient services. (21)

- This is not really surprising, given that all other advanced countries provide government-run health insurance to all of their citizens, and do it at a cost per person that is **less than half** what we spend in the US (See our paper “Fixing Our Broken Health Care System”, [here](#), page 4).

2. Medicare is currently facing severe risks and challenges which make Medicare unsustainable in its current form.

- a. Rapidly increasing spending** – from \$920 billion in 2024, Medicare is expected to more than double in the next 10 years, reaching \$2.2 trillion by 2034. (7)
 - This is driven by an aging US population, which increases Medicare enrollment, and increasing costs of the medical services that Medicare covers. (8)
 - The Congressional Budget Office projects that the over 65 population will grow much faster than the 25 – 64 population, meaning an increase in the number of Medicare recipients relative to the number of workers paying into Medicare. (9)
- b. Healthcare costs continue to rise rapidly** – in addition to rapidly expanding enrollment, the underlying medical costs which Medicare covers are increasing rapidly.
 - Some of the factors driving this are increased supply and use of advanced pharmaceuticals (for example, GLP-1’s for weight loss), advances in cutting edge gene therapies, and more effective (and expensive) treatments for chronic health conditions such as cancer. (10)
 - As medical science develops new and better solutions to health problems, patients benefit, but costs go up.
- c. As a result, Medicare faces an impending funding shortfall.** Part A is funded by The Hospital Insurance Trust Fund, which is projected to become insolvent by 2033, at which point it could only pay about 89 cents for every dollar promised, requiring either cuts in benefits, new tax revenues, or premium increases. (11)
- d. And costs for individuals and the Federal government will go up.** Parts B and D are financed by a mix of beneficiary premiums and general revenues which are required

to cover projected costs each year. Rapid growth means steadily higher premiums and cost sharing for enrollees and ever-larger federal taxpayer subsidies. (11)

- Medicare officials and independent analysts project that standard Part B premiums could roughly double over the next decade, while average premiums for Parts C and D are also expected to rise steadily. (12)
- Medicare is one of the largest and fastest-growing drivers of federal spending, and under current law it is projected to add many trillions of dollars to federal deficits over the coming decades unless either revenues rise or benefits and payments are curtailed. (13)

According to updated projections from the Congressional Budget Office, federal debt is on track to almost double over the next decade because spending is rising much faster than tax revenues, and some of the main drivers of this growth are Social Security and Medicare. (14)

3. Policy proposals to protect Medicare include increasing revenues and reducing costs.

- a. Close the Medicare Income Tax loophole** - Roughly \$1 trillion in active pass-through business income is currently not subject to the taxes that fund Medicare (the Hospital Insurance (HI) payroll tax or the Net Investment Income Tax (NIIT))
 - That untaxed income is heavily concentrated among top-income households, especially the top 1 percent.
 - Applying Medicare-related taxes to this income by extending the NIIT or expanding the Self-Employed Contributions Act (SECA) base is estimated to raise about \$330 billion to \$540 billion over 10 years.
 - This would primarily be paid by high-income owners of partnerships, S-corporations, and similar pass-through businesses who currently benefit from the loophole. (15)
- b. Increase payroll taxes on high earners** - The HI trust fund is financed mainly through Medicare payroll taxes on earnings, and policy options that add surtaxes or higher HI tax rates only above high-income thresholds could generate large new revenues without raising taxes on typical workers.
 - The Tax Policy Center estimates summarized by the Committee for a Responsible Federal Budget show that high-earner payroll tax options can raise several

hundred billion dollars over 10 years, depending on the thresholds and rates used.

- Estimated 10-year revenue: approximately \$200 billion to more than \$600 billion, depending on design. (16)

c. Reduce Medicare Advantage overpayments - Estimates show that Medicare Advantage plans will be paid about 14 percent more than traditional Medicare for comparable beneficiaries in 2026, which amounts to about \$76 billion in extra payments in 2026 alone.

- Over 10 years, proposals to tighten risk adjustment, lower benchmarks, and reduce excess plan payments are commonly estimated to save tens to hundreds of billions of dollars, depending on the scope of reform.
- Estimated 10-year savings: roughly \$100 billion to \$500 billion across major reform packages. (17)

d. Adopt site neutral payment reforms - Large hospital systems and outpatient facilities currently receive higher-than-necessary reimbursement for routine services.

- Medicare often pays more for the same service when it is billed in a hospital outpatient department rather than a physician office, even when the service is clinically similar, creating incentives for consolidation and higher spending.
- Site-neutral payment reforms would align those rates more closely and are regularly estimated to save tens of billions over a decade while preserving benefits and access to medically necessary care.
- Estimated 10-year savings: roughly \$50 billion to \$150 billion, depending on how broadly site-neutral payment rules are applied. (18)

e. Lower prescription drug and device prices - Reports on Medicare sustainability consistently identify direct action on drug prices as one of the fairest ways to slow spending growth, especially in Parts B and D, because it targets high prices with drug manufacturers, device makers, and intermediaries with pricing power, rather than shifting costs onto beneficiaries.

- Savings can come from stronger Medicare drug price negotiation, tighter rules on price hikes, faster uptake of generics and biosimilars, and payment reforms for high-cost drugs and devices.
- Estimated 10-year savings: tens to hundreds of billions of dollars, depending on how aggressive the pricing reforms are. (19)

4. There is also strong support for expanding Medicare to cover more people, even going as far as “Medicare for All”.

a. All other advanced countries essentially have a form of Medicare for All – i.e, a single-payer, universal health care plan. As shown in the table below, compared to the US, these countries:

- Cover all their citizens, vs. only 91% in the US.
- Spend less than half as much per person, and far less as a percentage of their GDP.
- Have satisfaction scores equal to the US, and in many cases higher.
- On average, have longer life expectancy, more doctors, and lower Maternal Mortality rates.

Bottom line, we are paying a lot more and getting a lot less.

Health Metrics by Country

	Health Insurance Coverage	US\$ Per Capita on Health Care	% of GDP spent on Health Care	Life Expectancy (Years)	% Satisfied with Availability of Quality Care	Practicing Doctors per 1,000 People	Maternal Mortality per 100,000 Live Births
Australia	All	\$6,372	9.60%	83.3	71%	4	2
Austria	All	\$7,275	11.40%	81.3	84%	5.4	6
Belgium	Almost All	\$6,600	10.90%	81.9	90%	3.3	4
Canada	All	\$6,319	11.20%	81.6	56%	2.8	12
Czechia	All	\$4,512	9.10%	77.2	77%	4.3	3
France	All	\$6,630	12.10%	82.4	71%	3.2	7
Germany	All	\$8,011	12.70%	80.8	85%	4.5	4
Israel	All	\$3,444	7.40%	82.6	69%	3.4	2
Italy	All	\$4,291	9.00%	82.7	55%	4.1	6
Japan	All	\$5,251	11.50%	84.5	76%	2.6	3
Korea (Republic of)	All	\$4,570	9.70%	83.6	78%	2.6	4
Netherlands	All	\$6,729	10.20%	81.4	83%	3.9	4
Spain	All	\$4,432	10.40%	83.3	64%	4.5	3
Sweden	All	\$6,438	10.70%	83.1	74%	4.3	4
Switzerland	All	\$8,049	11.30%	83.9	94%	4.4	5
United Kingdom	All	\$5,493	11.30%	80.4	67%	3.2	8
United States	91%	\$12,555	16.60%	76.4	75%	2.7	17
US Rank	17	17	17	17	9	15	17
Average Excluding US	All	\$5,901	10.50%	82.1	75%	3.8	4.8

Source: OECD, Healthcare at a Glance, 2023, 11/7/23, https://www.oecd.org/en/publications/health-at-a-glance-2023_7a7afb35-en.html
 Except Maternal Mortality, which is from Unicef, <https://data.unicef.org/topic/maternal-health/maternal-mortality/>

b. A recent analysis by Yale School of Public Health analysis found that a single-payer universal health care system could “cover every American, save more than 100,000 lives a year, and still cost \$1 trillion less than the system it would replace”. (22)

- The researchers modeled what would happen if the United States adopted a national public insurance program like the one proposed in the Medicare for All Act.
 - Using 2024 spending, insurance coverage, and mortality data, they estimate that the universal coverage would reduce annual health expenditures by \$1.04 trillion, or nearly 20%, **even after accounting for the additional care that uninsured and underinsured people would receive.**
 - **The study identified five major sources of cost savings:** lower pharmaceutical prices, Medicare-level payments to providers, reduced administrative overhead, less fraudulent billing, and fewer avoidable emergency department visits and hospitalizations.
 - **The lives saved come from greater access to preventive care, catching problems earlier when they are more treatable.** This applies to people currently without any health insurance, as well as those who are underinsured.
- c. **While a single-payer, universal plan has the potential for major benefits, these proposals involve significant challenges.** These challenges include how to define benefits, what role the private sector will play, how to transition from the current system, and how the financing would work. (23) The complexity of this proposal has been one of the major barriers to its implementation, despite the enormous potential benefits.

More Information

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