

# CRS Report for Congress

Congressional Research Service • The Library of Congress

## Health Care Fact Sheet: Original Medicare Cost Estimates

Jennifer O'Sullivan  
Specialist in Social Legislation  
Bud Graves  
Technical Information Specialist  
Education and Public Welfare Division

Medicare is a nationwide health insurance program for the aged and certain disabled persons. It was enacted as part of the Social Security Amendments of 1965 (P.L. 89-97) and went into effect July 1, 1966. Medicare consists of two separately financed parts, the hospital insurance portion, Part A, and the supplementary medical insurance (SMI) portion, Part B. At the time the program was enacted, actuarial cost estimates were made for both parts, though long-term projections were made only for Part A. These initial Part A estimates fell considerably short of actual experience.

**Medicare Part A Projections.** Almost all persons over age 65 are automatically entitled to Medicare Part A. (Coverage for the disabled population was not added until 1973.) Original cost projections were based on the estimated costs of providing hospital and related services for the aged.

Part A is financed through payroll taxes levied on current workers and their employers. At the time of enactment, expenditures were projected well into the future so that a payroll tax rate could be established based on potential program costs. Table 1 shows the initial Part A projections for 1966-1990. Table 1 also shows actual expenditures for those years.

The divergence between actual and projected expenditures reflect a number of factors including coverage of the disabled population; expansions in benefits; inflation, particularly medical care inflation; and increased utilization induced by the program's enactment.

**Medicare Part B Projections.** Part B is financed through a combination of beneficiary premiums and Federal general revenues (i.e., tax dollars). Premium rates and Government contribution rates are set annually to meet current costs. Original Part B expenditure estimates were not made beyond the first 2 years of operation--calendar years 1966 and 1967.

Enrollment in Medicare Part B is voluntary. Therefore projections for Part B had to include estimates of the percentage of the aged population that would elect Part B coverage. Projections for Part B included both high and low-cost estimates at 80 and 95 percent enrollment. Expenditure estimates at 95 percent enrollment, which proved to be correct, are shown in table 2, together with actual expenditures for those years.



**TABLE 1. Hospital Insurance Expenditures Part A\***  
(in millions)

CY	1965 estimates			Actual HI expenditures		
	Benefit payments	Admin. costs	Total	Benefit payments	Admin. costs	Total
1966	\$ 987	\$ 50	\$1,037	\$ 891	\$108	\$ 999
1967	2,210	66	2,276	3,353	77	3,430
1968	2,406	72	2,478	4,179	99	4,277
1969	2,623	79	2,702	4,739	118	4,857
1970	2,860	86	2,946	5,124	157	5,281
1971	3,077	92	3,169	5,751	150	5,900
1972	3,303	99	3,402	6,318	185	6,503
1973	3,540	106	3,646	7,057	232	7,289
1974	3,788	114	3,902	9,099	272	9,372
1975	4,047	121	4,168	11,315	266	11,581
1980	5,307	159	5,466	25,064	512	25,577
1985	6,860	206	7,066	47,580	834	48,414
1990	8,797	264	9,061	66,239	758	66,997

\*Columns may not total due to rounding.

Source: (1965 estimates) House Ways and Means Comm. Prt. 51-291, *Actuarial Cost Estimates and Summary of Provisions of the Old-Age, Survivors, and Disability Insurance System as Modified by the Social Security Amendments of 1965 and Actuarial Cost Estimates and Summary of Provisions of the Hospital Insurance and Supplementary Medical Insurance Systems as Established by Such Act*, 89th Cong., 1st Sess.), p. 33. (Actual expenditures) House Doc. 102-89, *1991 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund*, p. 27.

**TABLE 2. Supplementary Medical Insurance Expenditures Part B**  
(in millions)

CY	1965 estimates (95 percent enrollment)			Actual SMI expenditures			
	Benefit payments	Admin. costs	Total	CY	Benefit payments	Admin. costs	Total
1966 <sup>a</sup>							
Low-cost	\$260	\$ 80	\$340				
High-cost	410	100	510	1966	\$ 128	\$ 75	\$ 203
1967							
Low-cost	\$1,060	\$ 90	\$1,150				
High-cost	1,260	110	1,370	1967	\$1,197	\$110	\$1,307

<sup>a</sup>Administrative expenses shown include 1965 and 1966.

Source: (1965 estimates) Same as table 1, at p. 39. (Actual expenditures) *1993 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund*, p. 10.