INSTITUTE FOR STATISTICAL POLICY ANALYSIS

COMPREHENSIVE MEDICARE REFORM

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TOPLINE: The Medicare trust fund is on track to become insolvent in 2033. Major reforms are needed to avoid insolvency while also improving health care affordability.

BACKGROUND: Medicare was the second largest spending item in the federal budget in fiscal year 2025, with more than 69 million enrollees and $997 billion in outlays The program is also the largest payer of health care services in the nation. For the past 20 years, Medicare has spent more than it has collected in payroll tax revenue. As a result of this worsening trend, the Medicare Hospital Insurance (HI) trust fund is expected to become insolvent by 2033. For Medicare to continue to exist and provide benefits to people in need, the program must be reformed to make it fiscally sustainable.

Action Items (Congress):

- **Convert to a Premium Support System.** Medicare should be reformed from a one-size-fits-all program to one that provides a defined contribution that beneficiaries can use for traditional Medicare or competing private health plans.
- **Align the Medicare age with Social Security.**
  - When Medicare was established in 1965, the age of eligibility was aligned with the Social Security age of eligibility of 65. Social Security's full retirement age has since risen to 67, while Medicare's eligibility age has stayed the same.
- **Index the Medicare age to life expectancy** to account for improvements in health and help maintain program solvency.
  - Since 1965, life expectancy in America has increased. Consequently, the number of years recipients receive benefits has also increased, while the ratio of taxpaying workers to recipients fell from 4.0 in 1980 to 2.7 in 2025.
- **Reduce Medicare subsidies for the wealthy.** Congress should expand means-testing in the Medicare program, reducing benefits to well-off beneficiaries who can more easily afford health care. This would extend program solvency and ensure that those truly in need of assistance can continue to receive benefits.

How It Would Make Life More Affordable:

- It would help prevent HI trust fund insolvency.
  - Insolvency could force substantial cuts to the program and undermine the nation's fiscal position, leading to higher interest rates and higher taxes.
- Letting Medicare beneficiaries choose among competing health plans would incentivize providers to compete for their business on price and quality. These cost reductions could carry over to the broader health care market, reducing medical costs.

BOTTOMLINE: Medicare's Hospital Insurance trust fund insolvency looms on the horizon. Congress should reform the Medicare program to reduce costs for patients and taxpayers alike and prevent further deterioration of America's finances.