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Full Medicare Part A Funding Will Run Out in 2026, Two-Thirds of SNFs in the Red by 2040

By Alex Spanko | April 22, 2019

The trust fund that supports Medicare Part A coverage will run out of money to cover full benefits in just seven years, the federal government announced on Monday, with potentially devastating long-term effects for the majority of nursing home operators.

The Hospital Insurance (HI) Trust Fund, which directly supports Medicare Part A benefits — including skilled nursing services — will only be able to provide full coverage until 2026, [the Medicare Board of Trustees found](#). That’s the same conclusion the board made in last year’s report, and the bleak outlook remains despite expected declines in spending on SNFs moving forward.

“HI income is projected to be lower than last year’s estimates due to lower payroll taxes and lower income from the taxation of Social Security benefits,” the trustees concluded. “HI expenditures are projected to be slightly higher throughout the short-range period because of higher-than-projected 2018 spending and higher projected provider payment updates, factors that are mostly offset by the effect of lower assumed utilization of skilled nursing facility services.”

Not since 2004 has the board — which includes Department of Health and Human Services (HHS) secretary Alex Azar and secretary of the Treasury Steven Mnuchin — given the HI fund a clean bill of short-term health, and officials have never deemed it actuarially sound in the long term.

After posting two consecutive years of surpluses, the HI returned to deficits in 2018, and the Medicare board projects that the fund will lose money for each of the next 75 years.

“Notwithstanding recent favorable developments, current-law projections indicate that Medicare still faces a substantial financial shortfall that will need to be addressed with further legislation,” the trustees wrote. “Such legislation should be enacted sooner rather than later to minimize the impact on beneficiaries, providers, and taxpayers.”

The long-term impact on providers could be devastating: According to projections, two-thirds of skilled nursing facilities and 80% of home health agencies will have a negative margin by 2040, “raising the possibility of access and quality-of-care issues for Medicare beneficiaries,” the board noted.

The news came just a few days after the Centers for Medicare & Medicaid Services (CMS) [announced a 2.5% market-basket bump](#) for skilled nursing care in fiscal 2020, a move that if finalized will bring \$887 million more Medicare funding for the nation’s beleaguered SNFs.

While met with praise from industry leaders, the proposed increase still doesn’t solve the Medicaid math problem plaguing operators across the country. Medicare Part A only covers 100 days of skilled nursing care after a qualifying hospital stay, while the majority of nursing home residents are long-term patients covered under Medicaid. In turn, state-level Medicaid reimbursements generally represent half or more of a given SNF’s total income, and funding shortfalls have caused financial stress and closures from Massachusetts to Pennsylvania to Washington state.

The Medicare trustees’ prediction that two-thirds of nursing homes will be in the red by 2040 just reinforces what many in the industry already know: The average SNF [lost seven cents per patient day](#) in 2017, according to a February study from Marcum LLP, while an October 2018 study pegged the median operating margin for SNFs nationwide [at zero percent](#).

CMS administrator Seema Verma — who also serves as the board’s secretary — used the Medicare trustees’ report to take a swipe at progressive calls for a “Medicare for All” health care model.

“Stripping around 180 million Americans of private coverage and adding them to Medicare won’t fix the problem,” Verma said in a statement. “The Trump administration is working hard to protect and strengthen Medicare and lower costs while improving quality in order to protect the program for future generations of seniors who have paid into the program their whole lives. If we do not take the fiscal crisis in Medicare seriously, we will jeopardize access to health care for millions of seniors.”