

# How Is Medicare Funded? Medicare's Trust Funds, Premiums, and More

- **Medicare is primarily funded through the Federal Insurance Contributions Act (FICA).**
- **Taxes from FICA contribute to two trust funds that cover Medicare expenditures.**
- **The Medicare Hospital Insurance (HI) trust fund covers Medicare Part A costs.**
- **The Supplementary Medical Insurance (SMI) trust fund covers Medicare Part B and Part D costs.**
- **Other Medicare costs are funded by plan premiums, trust fund interest, and other government-approved funds.**

Medicare is a government-funded health insurance option that offers coverage for millions of Americans ages 65 and over, as well as individuals with certain conditions. Even though some Medicare plans are advertised as “free,” Medicare expenditures total hundreds of billions of dollars each year.

So, who pays for Medicare? Medicare is financed by multiple tax-funded trust funds, trust fund interest, beneficiary premiums, and additional money approved by Congress.

This article will explore the various ways each part of Medicare is funded and the costs associated with enrolling in a Medicare plan.

In [2017](#), Medicare covered over 58 million beneficiaries, and total expenditures for coverage exceeded \$705 billion.

Medicare expenditures are paid for primarily by two trust funds:

- Medicare Hospital Insurance (HI) trust fund
- Supplementary Medical Insurance (SMI) trust fund

Before we dive into how each of these trust funds pays for Medicare, we should first understand how they're financed.

In 1935, the [Federal Insurance Contributions Act \(FICA\)](#) was enacted. This tax provision ensures funding for both the Medicare and Social Security programs through payroll and income taxes. Here's how it works:

- Of your gross wages, 6.2 percent are withheld for Social Security.
- In addition, 1.45 percent of your gross wages are withheld for Medicare.
- If you are employed by a company, your employer matches the 6.2 percent for Social Security and the 1.45 percent for Medicare, for a total of 7.65 percent.
- If you are self-employed, you will pay the additional 7.65 percent in taxes.

The 2.9 percent tax provision for Medicare goes directly into the two trust funds that

provide coverage for Medicare expenditures. All individuals currently working in the United States contribute FICA taxes to fund the current Medicare program.

Additional sources of Medicare funding include:

- taxes paid on Social Security income
- interest from the two trust funds
- funds approved by Congress
- premiums from Medicare parts A, B, and D

The **Medicare HI trust fund** primarily provides funding for Medicare [Part A](#). Under Part A, beneficiaries are covered for hospital services, including:

- inpatient hospital care
- inpatient rehabilitation care
- nursing facility care
- home health care
- hospice care

The **SMI trust fund** primarily provides funding for Medicare [Part B](#) and Medicare [Part D](#). Under Part B, beneficiaries receive [coverage for medical services](#), including:

- preventive services
- diagnostic services
- treatment services
- mental health services
- certain prescription drugs and vaccines
- durable medical equipment
- clinical trials

Both trust funds also help cover Medicare administration costs, such as collecting Medicare taxes, paying out for benefits, and dealing with cases of Medicare fraud and abuse.

Although Medicare Part D receives some funding from the SMI trust fund, a portion of the funding for both Medicare Part D and [Medicare Advantage](#) (Part C) comes from [beneficiary premiums](#). For Medicare Advantage plans in particular, any costs not covered by Medicare funding must be paid for with other funds.

There are different costs associated with enrolling in Medicare. Here are some that you will notice in your Medicare plan:

- **Premiums.** A premium is the amount you pay to stay enrolled in Medicare. Parts A and B, which make up original Medicare, both have monthly premiums. Some Medicare Part C (Advantage) plans have a separate premium, in addition to the original Medicare costs. Part D plans and [Medigap](#) plans also charge a monthly premium.
- **Deductibles.** A deductible is the amount of money that you pay before Medicare will cover your services. Part A has a deductible per benefits period, whereas Part B has a deductible per year. Some Part D plans and Medicare Advantage plans with drug coverage also have a drug deductible.

- **Copayments.** Copayments are up-front fees that you pay each time you visit a doctor or specialist. Medicare Advantage plans, especially [Health Maintenance Organization \(HMO\)](#) and [Preferred Provider Organization \(PPO\)](#) plans, charge different amounts for these visits. Medicare Part D plans charge varied copayments based on the medications you take.
- **Coinsurance.** Coinsurance is the percentage of the cost of services that you must pay out of pocket. For Medicare Part A, the coinsurance increases the longer you use hospital services. For Medicare Part B, the coinsurance is a set percentage amount. Medicare Part D charges either a coinsurance or copayment for your medications.
- **Out-of-pocket maximums.** All Medicare Advantage plans place a cap on how much money you will spend out of pocket; this is called the out-of-pocket maximum. This amount varies depending on your Advantage plan.
- **Costs for services not covered by your plan.** If you are enrolled in a Medicare plan that doesn't cover the services you need, you will be responsible for paying these costs out of pocket.

Each Medicare part has a different set of [costs](#), as listed above. Along with the two trust funds that have been set up for each Medicare part, some of these monthly costs also help pay for Medicare services.

The Part A premium is \$0 for some people, but it can be as high as \$458 for others, depending on how long you worked.

The Part A deductible is \$1,408 per benefits period, which begins the moment you are admitted to the hospital and ends once you have been released for 60 days.

The Part A coinsurance is \$0 for the first 60 days of your hospital stay. After day 60, your coinsurance can range from \$352 per day for days 61 through 90 to \$704 for “lifetime reserve” days after day 90. It can even go all the way up to 100 percent of the costs, depending on the length of your stay.

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The Part B premium starts at \$144.60 and increases based on your yearly gross income level.

The Part B deductible is \$198 for 2020. Unlike the Part A deductible, this amount is per year rather than per benefits period.

The Part B coinsurance is 20 percent of the cost of your [Medicare-approved amount](#). This is the amount that Medicare has agreed to pay your provider for your medical services. In some cases, you may also owe a Part B [excess charge](#).

In addition to the costs of original Medicare (parts A and B), some Medicare Advantage plans also charge a monthly premium to stay enrolled. If you are enrolled in a Part C plan that covers prescription drugs, you may also have to pay a drug

deductible, copayments, and coinsurance. Plus, you will be responsible for copayment amounts when you visit your doctor or a specialist.

The Part D premium varies depending on the plan you choose, which can be affected by your location and the company selling the plan. If you're late enrolling in your Part D plan, this premium may be [higher](#).

The Part D deductible also differs depending on which plan you enroll in. The maximum deductible amount that any Part D plan can charge you is [\\$435](#) in 2020.

The Part D copayment and coinsurance amounts depend entirely on the drugs you are taking within your drug plan's [formulary](#). All plans have a formulary, which is a grouping of all the medications the plan covers.

The Medigap premium varies depending on the type of coverage you enroll in. For example, Medigap plans with less enrollees and more coverage may cost more than Medigap plans that cover less.

Just remember that once you enroll in a Medigap plan, some of the original Medicare costs will now be covered by your plan.

Medicare is funded primarily through trust funds, monthly beneficiary premiums, Congress-approved funds, and trust fund interest. Medicare parts A, B, and D all utilize trust fund money to help pay for services. Additional Medicare Advantage coverage is funded with the help of monthly premiums.

The costs associated with Medicare can add up, so it's important to know what you will be paying out of pocket once you enroll in a Medicare plan.

To shop around for Medicare plans in your area, visit [Medicare.gov](https://www.Medicare.gov) to compare the options near you.