

The Strengthening the Medicare Trust Fund Act (S. 1422)

Background

The wealthiest Americans, individuals earning over \$200,000 and couples earning over \$250,000 annually, are subject to a 3.8 percent assessment on net investment income. Congress originally intended for the assessment to strengthen the Medicare Hospital Insurance Trust Fund (Trust Fund). The provision in law is titled, *Unearned Income Medicare Contribution* (P.L. 111-152, Section 1402). However, the proceeds from this 3.8 percent assessment on net investment income flows into the General Fund of the Treasury, not the Medicare Trust Fund. The Strengthening Medicare Act would fulfill Congressional intent by redirecting the current assessment on net investment income to the Medicare Trust Fund. This would help fund health care services provided to seniors and people with disabilities.

Wages are the tax base for the Trust Fund. However, growth in wages has been relatively flat in recent decades and demographic changes, including the aging of the Baby Boom generation, have contributed to a decline in labor force participation rates over time. At the same time, more of the labor force is retiring and will come to rely on the Medicare benefits and services they paid for through a lifetime of work. Expanding the tax base of the Trust Fund to include the revenue accrued by the net investment income will strengthen Medicare for future generations.

It makes sense to expand the tax base for the Medicare Trust Fund, particularly as the wealth of the highest income earners continues to grow, and a greater share of that income comes from investment (e.g., capital gains, interest or dividends) rather than wages. Based on estimates in 2017 by the Joint Committee on Taxation, shifting this revenue could bolster the Trust Fund by nearly \$158 billion over the next 10 years.

The legislation is based off of policy proposed in the FY2017 President's Budget Proposal.

What would the Strengthening Medicare Act do?

The Strengthening Medicare Act would fulfill Congressional intent by redirecting the current tax assessment on net investment income to the Medicare Trust Fund.