Context for Medicare payment policy

Jennifer Podulka and Olivia Berci
September 6, 2018
Today’s presentation

- Health care spending growth
- Medicare spending trends in detail
- Medicare spending projections
- Medicare’s effect on the federal budget
- Burden of Medicare and health care spending on households
- Evidence of inefficient spending and challenges faced by Medicare
Health care spending growth rates have begun to gradually increase following recent slowdown.
Growth in Medicare spending per beneficiary was slow between 2009–2013 and mixed between 2013–2017.

Data are preliminary and subject to change.
Note: FFS (fee-for-service), MA (Medicare Advantage). Spending is on an incurred basis. Part D spending excludes total premiums paid to Part D plans by enrollees.
Source: MedPAC analysis of data from the 2018 annual report of the Boards of Trustees of the Medicare trust funds.
Per beneficiary spending growth remained high in some FFS settings despite slowdown

Data are preliminary and subject to change.

Note: FFS (fee-for-service). The “slowdown in growth of health care spending” period of 2009–2013 corresponds with the middle bar. Outpatient hospital services and outpatient lab services are combined in the figure because a large portion of outpatient laboratory services were bundled into the outpatient prospective payment system effective January 1, 2014.

Source: MedPAC analysis of data from the 2018 annual report of the Board of Trustees of the Medicare trust funds.
Per beneficiary spending growth and total Medicare spending growth projected to rise

Data are preliminary and subject to change.

Note: CBO (Congressional Budget Office). Average annual change in total spending may not appear to equal the sum of the average annual change in enrollment and spending per beneficiary due to rounding. Trustees numbers are reported as calendar year; CBO numbers are reported as fiscal year.

Source: 2018 annual report of the Boards of Trustees of the Medicare Trust Funds and CBO’s Medicare – April 2018 Baseline.
Trustees and CBO project Medicare spending to reach 1 trillion dollars by 2022

Data are preliminary and subject to change.
Note: CBO (Congressional Budget Office).
Source: 2018 annual report of the Boards of Trustees of the Medicare Trust Funds and CBO’s Medicare – April 2018 Baseline.
Medicare enrollment projected to grow rapidly while workers per HI beneficiary decline

Data are preliminary and subject to change.
Note: HI (Hospital Insurance).
Source: 2018 annual report of the Boards of Trustees of the Medicare Trust Funds
Medicare Trust Funds and their shares of total spending

- **Hospital Insurance (HI) Trust Fund (42%)**
  - Part A – inpatient hospital stays, skilled nursing facility
  - Financed by payroll tax
  - Insolvent in 2026 (projection)

- **Supplementary Medical Insurance (SMI) Trust Fund (58%)**
  - Part B – physician, hospital outpatient departments
  - Part D – prescription drug coverage
  - Financed by general tax revenues \(\frac{3}{4}\) and premiums \(\frac{1}{4}\)
  - SMI Trust Fund solvent only because income is increased each year to cover spending
General revenue paying for growing share of Medicare spending

Data are preliminary and subject to change.

Note: GDP (Gross domestic product).

Source: 2018 annual report of the Boards of Trustees of the Medicare Trust Funds
Spending on Medicare, other major health programs, Social Security, and net interest is projected to exceed total federal revenues by 2041.

Data are preliminary and subject to change.

Note: GDP (gross domestic product), CHIP (Children’s Health Insurance Program).
Source: Congressional Budget Office 2018 Long-Term Budget Outlook (published June 2018).
Medicare costs are a burden for some beneficiaries

- In 2018, Parts B and D premiums and cost sharing will consume 24% of the average Social Security benefit
  - Up from 7% in 1980
  - Will grow to 30% by 2035
- On average, Social Security benefits account for more than 60% of seniors’ income
- For more than 20% of seniors, Social Security benefits account for 100% of income

Source: 2018 annual report of the Board of Trustees of the Medicare Trust Funds and Social Security Administration 2016
Growth in health care spending and premiums outpaced growth in household income, 2006–2016

Data are preliminary and subject to change.

Note: Household income, health expenditures, and premiums are all measured in nominal dollars. Average premiums for individual and family coverage are for employer-sponsored health insurance and include contributions from workers and employers.

Over the last decade, cost of commercial insurance has grown twice as fast as Medicare costs.

Data are preliminary and subject to change.

Note: HMO (health maintenance organization), PPO (preferred provider organization), FFS (fee-for-service).

Evidence of health care inefficiency and misspending

- Geographic variation
  - Higher use ≠ improved patient outcomes
  - Low-value services continue to be provided

- International comparison
  - U.S. spends significantly more than any other country in the world, primarily due to higher prices
  - U.S. ranks below average on indicators of efficiency and outcomes
  - Life expectancy at 65 is lower and has increased more slowly than in other industrialized countries

Medicare’s challenges

- Medicare just one payer in the overall, multi-payer health care system
- Fragmented payment system (with different prices) across multiple settings
- Coverage of services delivered by any willing provider
- Benefit design
- Undervalued and overvalued services
- Vulnerability to patient selection and overuse of services
Discussion

- Questions?

- Comments on scope, substance, or tone