Context for Medicare payment policy

Jennifer Podulka
September 5, 2019
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 has grown as a share of GDP

Growth in per beneficiary Medicare spending differs across the three program components

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 2019 annual report of the Boards of Trustees of the Medicare trust funds.

Results preliminary; subject to change
Per beneficiary FFS spending growth increased in most settings following the 2009-2013 slowdown.

Note: FFS (fee-for-service). 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 2019 annual report of the Board of Trustees of the Medicare trust funds.
Per beneficiary spending growth and total Medicare spending growth projected to rise

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: 2019 annual report of the Boards of Trustees of the Medicare Trust Funds and CBO’s Medicare May 2019 Baseline.

Results preliminary; subject to change.
Trustees and CBO project Medicare spending to more than double over the next decade

Note: CBO (Congressional Budget Office).
Source: 2019 annual report of the Boards of Trustees of the Medicare Trust Funds and CBO’s Medicare May 2019 Baseline.

Results preliminary; subject to change.
Medicare enrollment is rising rapidly while workers per HI beneficiary are declining.

Note: HI [Hospital Insurance].
Source: 2019 annual report of the Boards of Trustees of the Medicare Trust Funds.
Results preliminary; subject to change.
Medicare Trust Funds and their shares of total spending

- Hospital Insurance (HI) Trust Fund (41%)
  - Part A – e.g., inpatient hospital stays, post-acute care
  - Financed by payroll tax
  - Insolvent in 2026 (projection)

- Supplementary Medical Insurance (SMI) Trust Fund (59%)
  - Part B – e.g., physician, hospital outpatient departments
  - Part D – prescription drug coverage
  - Financed by general tax revenues (3/4) and premiums (1/4)
  - SMI Trust Fund solvent only because general tax revenue transfers and premiums are increased each year to cover spending

Source: MedPAC analysis of data from the 2019 annual report of the Boards of Trustees of the Medicare trust funds. Results preliminary; subject to change
General revenue paying for growing share of Medicare spending

Note: GDP (Gross domestic product).
Source: 2019 annual report of the Boards of Trustees of the Medicare Trust Funds

Results preliminary; subject to change
Medicare, other health programs, Social Security, and net interest to exceed total federal revenues by 2041

Note: GDP (gross domestic product); CHIP (Children’s Health Insurance Program).
Source: Congressional Budget Office 2019 Long-Term Budget Outlook (published June 2019).
Results preliminary; subject to change
Medicare costs are a burden for some beneficiaries

- In 2019, Parts B and D premiums and cost sharing will likely consume 23% of the average Social Security benefit
  - Up from 7% in 1980
  - Will grow to 31% by 2039
- 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: 2019 annual report of the Board of Trustees of the Medicare Trust Funds and Social Security Administration 2018

Results preliminary; subject to change
Health care spending and premiums for employer-sponsored health insurance grew faster than household income, 2007–2017

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.


Results preliminary; subject to change.
Over the last decade, premiums for employer-sponsored insurance have grown twice as fast as Medicare costs.

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

Results preliminary; subject to change.
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


Results preliminary; subject to change
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