Context for Medicare Payment Policy

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Outline

- National health care spending
- Reasons for health care cost growth
- Effect of PPACA
- Medicare’s financing challenges
- Medicare in the context of the federal budget
What are the components of health care spending? What are the trends over time?

- Health care spending by public and private payers
  - 47 percent of the spending comes from public sources
  - 53 percent comes from private sources, with private health insurance providing the largest single share
- The health care sector comprises a large part of the national economy
  - 14.3 million individuals employed in the health care sector
  - 590,000 discrete settings: doctor’s offices, hospitals, nursing homes, labs
- Over time, health care growth exceeds GDP growth for both public and private payers

| Excess growth in health care spending from 1975 through 2008 |
|---------------|----------------|
| Medicare      | 2.5 percent    |
| Medicaid      | 2.0 percent    |
| All Other     | 1.8 percent    |
| Total         | 1.9 percent    |

Note: Excess growth measured as per-capita health care spending growth minus GDP growth.
Source: Congressional Budget Office. 2010. Long-term budget outlook.
How does per capita spending compare between Medicare and private health insurance?

Notes: The chart shows growth in common benefits—hospital services, physician and clinical services, other professional services and durable medical products.
Why do health care costs grow so fast?

- Technological improvement
- Health insurance coverage
- Prices charged by providers
- Industry consolidation
- Professional liability/defensive medicine
- Payment incentives in fee for service
- Demographic changes
- Household income
How is Medicare funded, and what does it pay for?

In 2009, Medicare spending was $509 billion, corresponding to $11,700 per beneficiary.
What are PPACA’s Medicare provisions?

- Adjustments to payments for most providers
  - Yearly adjustments within the next ten years
  - Permanent productivity adjustment
  - Independent Payment Advisory Board
- Adjustments to Medicare Advantage payments
- Changes to beneficiary and taxpayer provisions
  - Phasing out the Part D coverage gap
  - Changes to Part B and D premiums for higher-income beneficiaries
  - Additional Medicare payroll tax for higher-income workers
- Pilots and provisions on delivery system reform
What is the effect of PPACA on Medicare spending?

<table>
<thead>
<tr>
<th>Category</th>
<th>2010-2014 (Dollars in billions)</th>
<th>2010-2019 (Dollars in billions)</th>
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</thead>
<tbody>
<tr>
<td>Market basket revisions and productivity adjustments</td>
<td>-30</td>
<td>-205</td>
</tr>
<tr>
<td>Modifications to Medicare Advantage plans</td>
<td>-41</td>
<td>-145</td>
</tr>
<tr>
<td>Other fee-for-service provisions</td>
<td>-23</td>
<td>-135</td>
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<tr>
<td>Tax provisions</td>
<td>-20</td>
<td>-90</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>-114</strong></td>
<td><strong>-575</strong></td>
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</tbody>
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What is Medicare’s current fiscal picture?

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<tr>
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</thead>
<tbody>
<tr>
<td>Total Medicare growth rate, 2010-2019</td>
<td>7.1 percent</td>
<td>5.8 percent</td>
<td>6.9 percent</td>
</tr>
<tr>
<td>Part A growth rate, 2010-2019</td>
<td>6.3 percent</td>
<td>4.6 percent</td>
<td>4.6 percent</td>
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<tr>
<td>Part B growth rate, 2010-2019</td>
<td>5.0 percent</td>
<td>5.9 percent</td>
<td>8.0 percent</td>
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<tr>
<td>Part D growth rate, 2010-2019</td>
<td>11.1 percent</td>
<td>9.4 percent</td>
<td>9.4 percent</td>
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<tr>
<td>HI Trust Fund exhaustion date</td>
<td>2017</td>
<td>2029</td>
<td>2028</td>
</tr>
<tr>
<td>Total Medicare share of GDP in 2084</td>
<td>11.18 percent</td>
<td>6.38 percent</td>
<td>10.75 percent</td>
</tr>
</tbody>
</table>

Source: Boards of the Medicare Trustees. 2009 and 2010 reports.
Why is constraining Medicare’s growth so important?

- **Effect on beneficiaries**
  - Growth in Medicare cost sharing is faster than retirement income
  - Cost sharing for Parts B and D consumes 27% of Social Security benefits today, 50% by 2030

- **Effect on all taxpayers**
  - Limits ability of the federal government to spend money on other priorities
What is the fiscal outlook of the federal government?

Debt held by the public as a share of GDP

Source: Congressional Budget Office. 2010. Historical data on the federal debt; and Long-term budget outlook.
What happens with this level of debt?

Source: Congressional Budget Office. 2010. Long-term budget outlook.

Notes: First three columns from left assume current law. Alternative scenario assumes that the 2001/2003 tax cuts are extended, AMT thresholds are adjusted for inflation, Medicare payments to physicians grow over time, Medicare productivity adjustments are phased out, and the health insurance subsidies are indexed to health growth after 2019.
Concluding questions

- Are there comments or questions about the material covered in the context chapter?
- Are there additional topics we should cover?