



Advising the Congress on Medicare issues

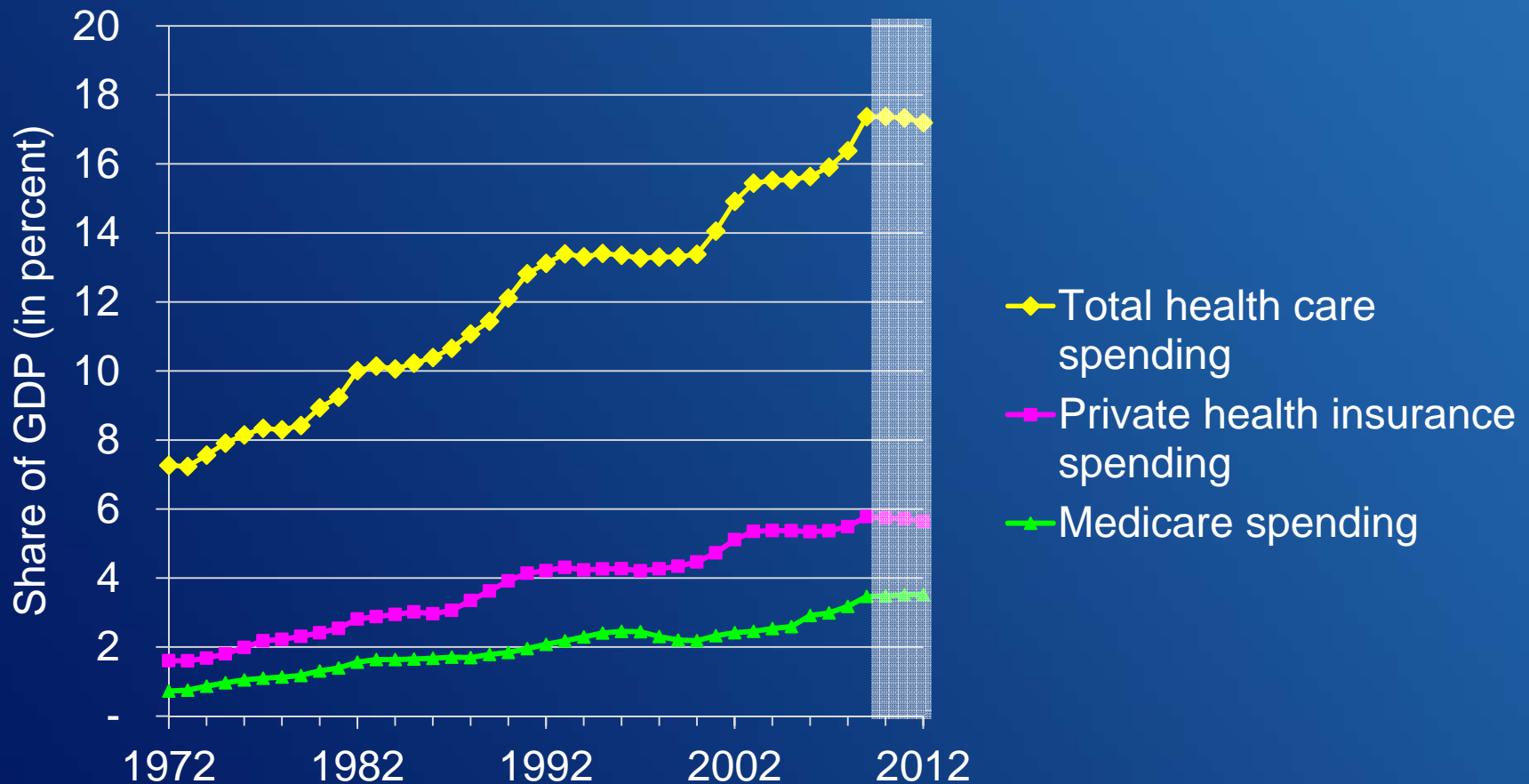
Context for Medicare payment policy

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September 11, 2014

Today's presentation

- Health care spending growth and slowdown
- Medicare spending trends in detail
- Medicare spending projections
- Medicare's effect on the federal budget
- Drivers of health care spending and evidence of inefficient spending

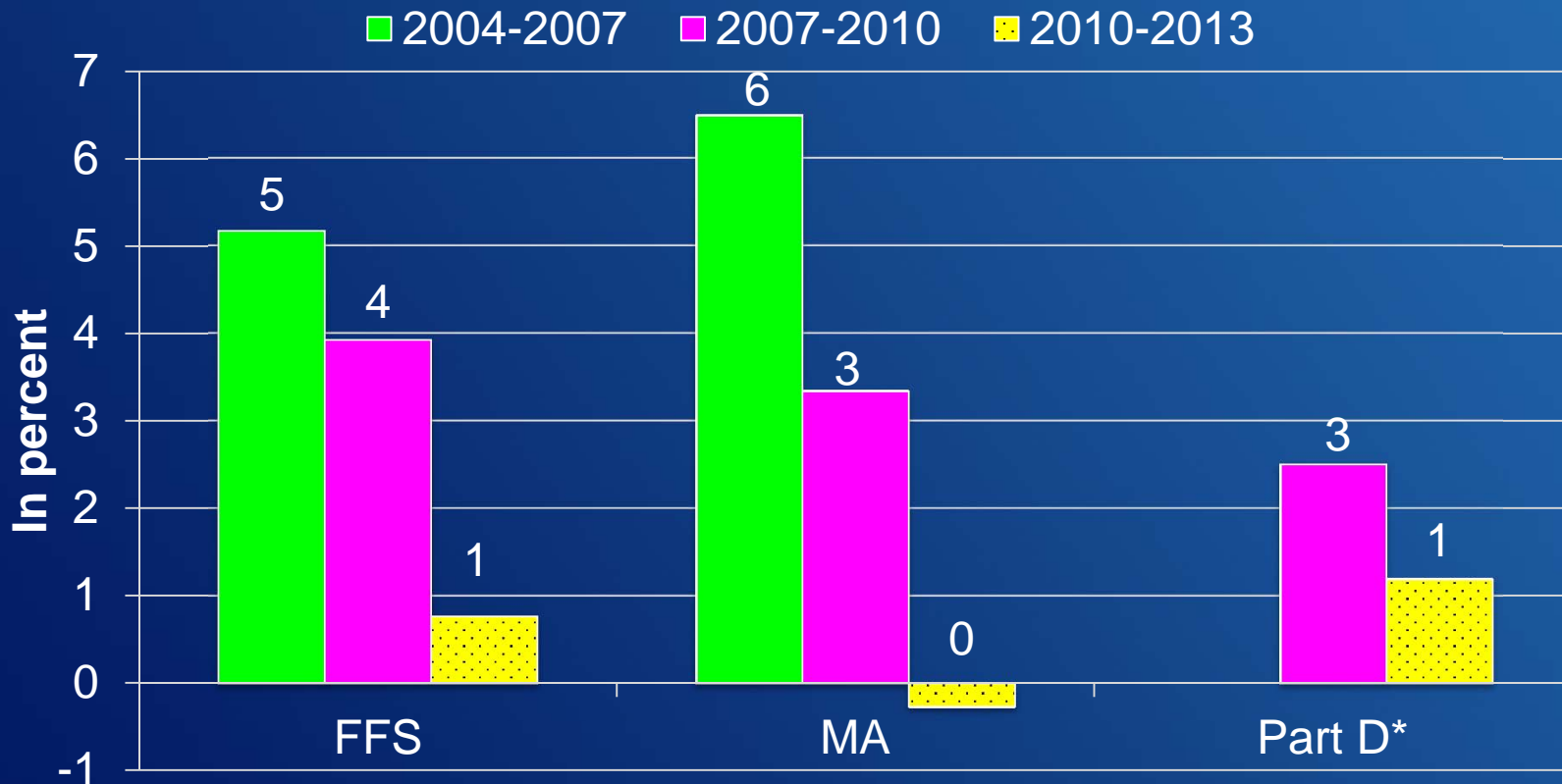
Historically health care spending has risen as a share of GDP, recently its growth has slowed



Note: Gross domestic product (GDP).
Source: National Health Expenditure Accounts 2014.

Medicare: Per beneficiary spending growth slowed in FFS, MA, and Part D

Average annual growth in per beneficiary spending

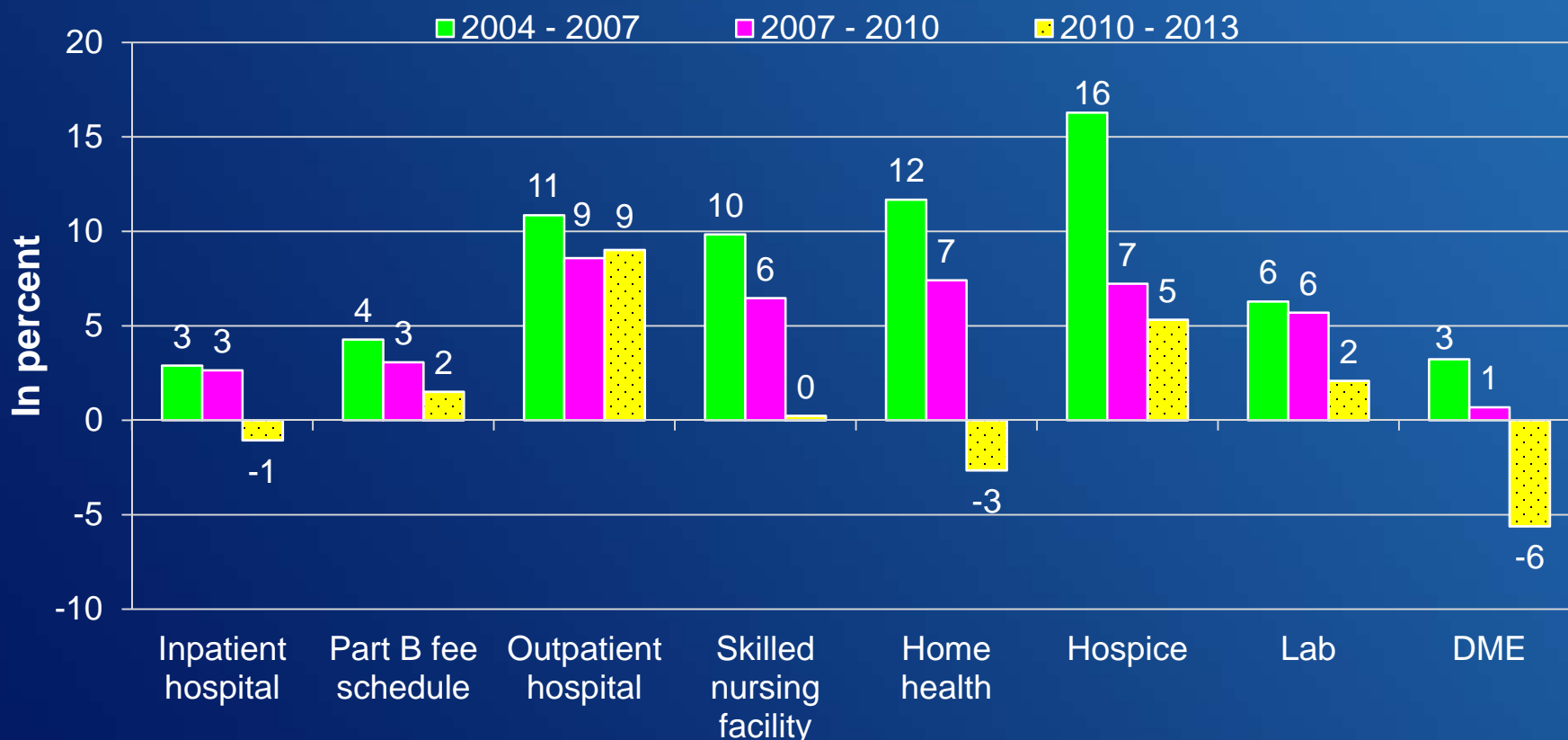


Note: FFS (Fee-for-Service), MA (Medicare Advantage). * Part D average annual change from 2004 – 2007 is not shown since the program began in 2006.

Source: 2014 annual report of the Boards of Trustees of the Medicare Trust Funds.

Medicare: Per beneficiary spending growth in some FFS settings remained strong

Average annual growth in per beneficiary spending by FFS setting

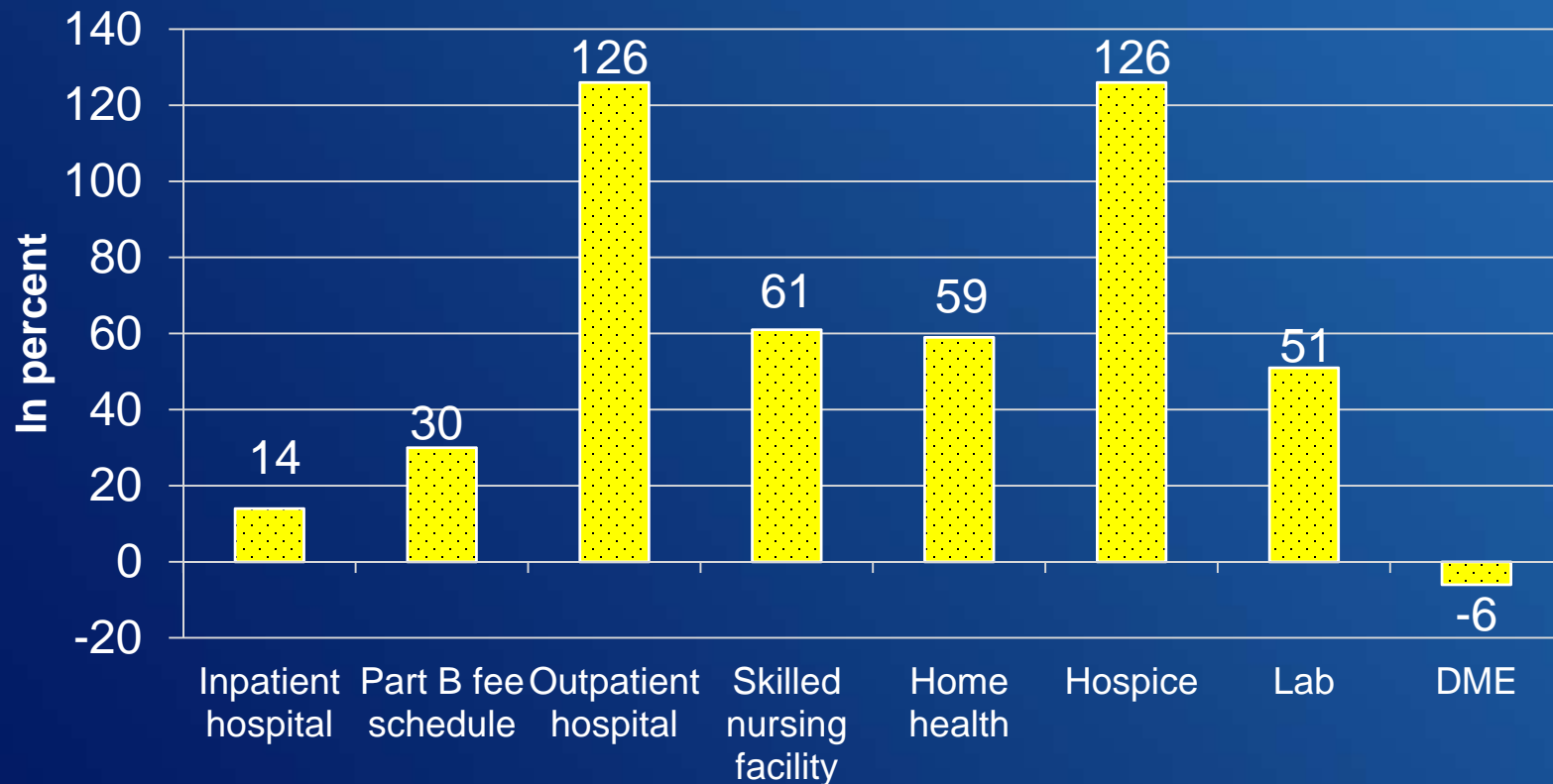


Note: FFS (fee-for-service), DME (durable medical equipment).

Source: 2014 annual report of the Boards of Trustees of the Medicare Trust Funds.

Medicare: Per beneficiary spending grew over the decade in almost all settings

Cumulative change from 2004 to 2013



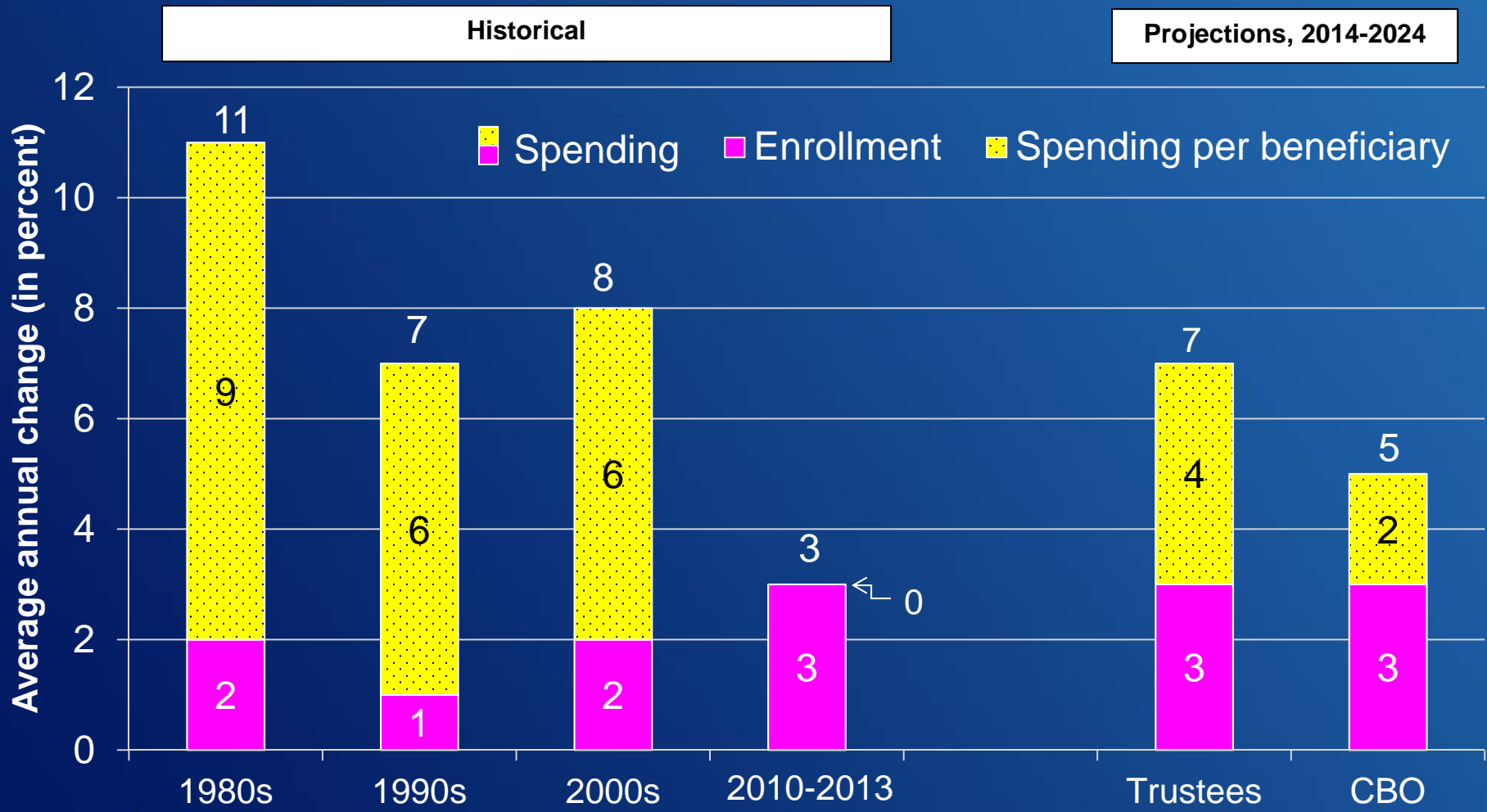
Note: FFS (fee-for-service), DME (durable medical equipment).

Source: 2014 annual report of the Boards of Trustees of the Medicare Trust Funds.

Medicare compared to private sector— recent trends similar for both

- Per capita spending slowed for private payers too
 - But primarily due to slowdown in use of services
 - Price growth remains—key drivers include increasing provider consolidation and provider market power
 - Per capita spending growth for private payers of about 4% annually from 2009 – 2012, compared to 1% in Medicare
- Inpatient hospital—per capita spending growth for private payers slowed too
- Outpatient hospital—per capita spending growth for private payers still robust

Despite slowdown in per beneficiary spending, total Medicare spending continues to rise

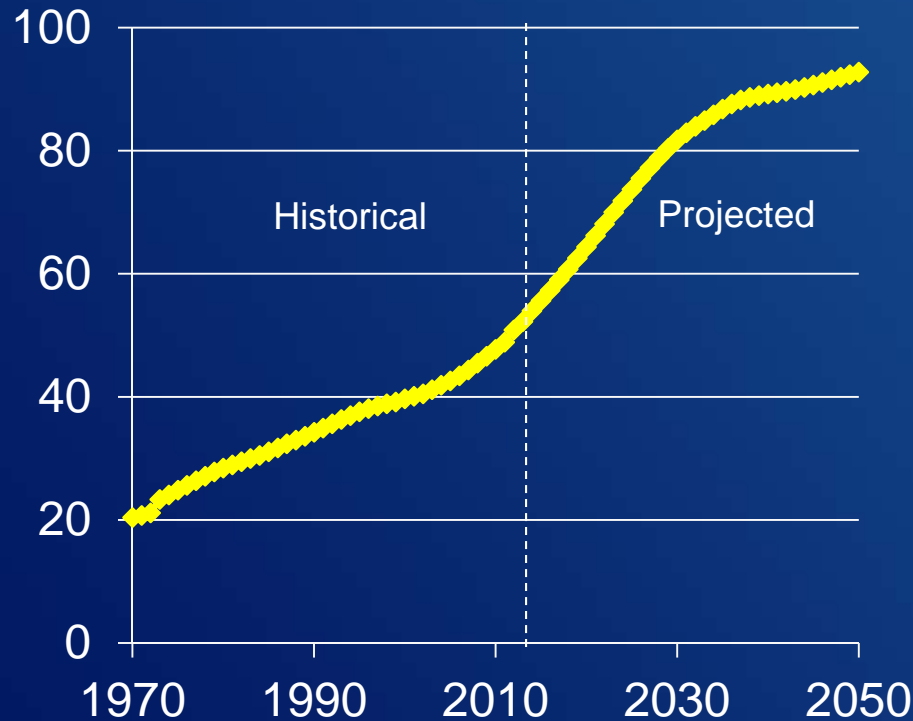


Note: CBO's 10-year projection is based on current law (as required by its mandate) which includes a scheduled payment rate reduction for services furnished by physicians and other health professionals of about 20 percent in April 2015. The Trustees assume the payment rate update for physicians and other health professionals will equal the recent historical average (0.6 percent per year).

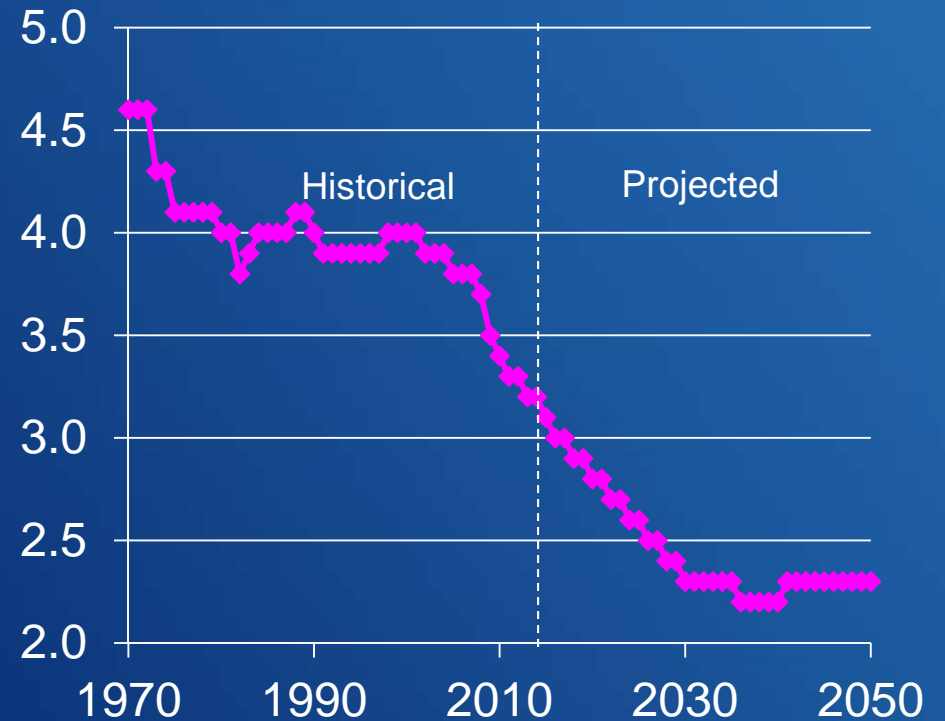
Medicare enrollment projected to grow rapidly

Workers per HI beneficiary projected to decline

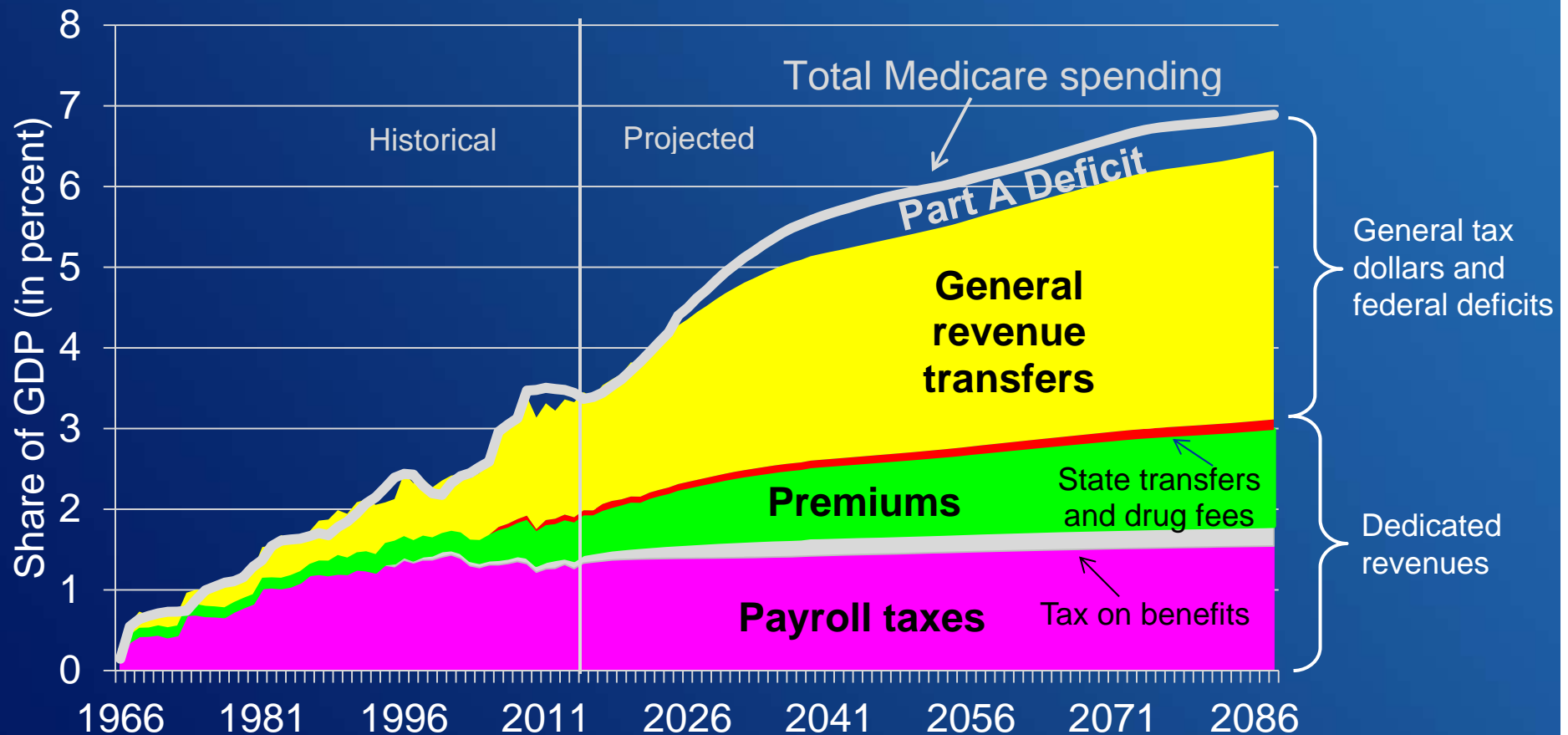
Medicare enrollment (in millions)



Workers per HI beneficiary



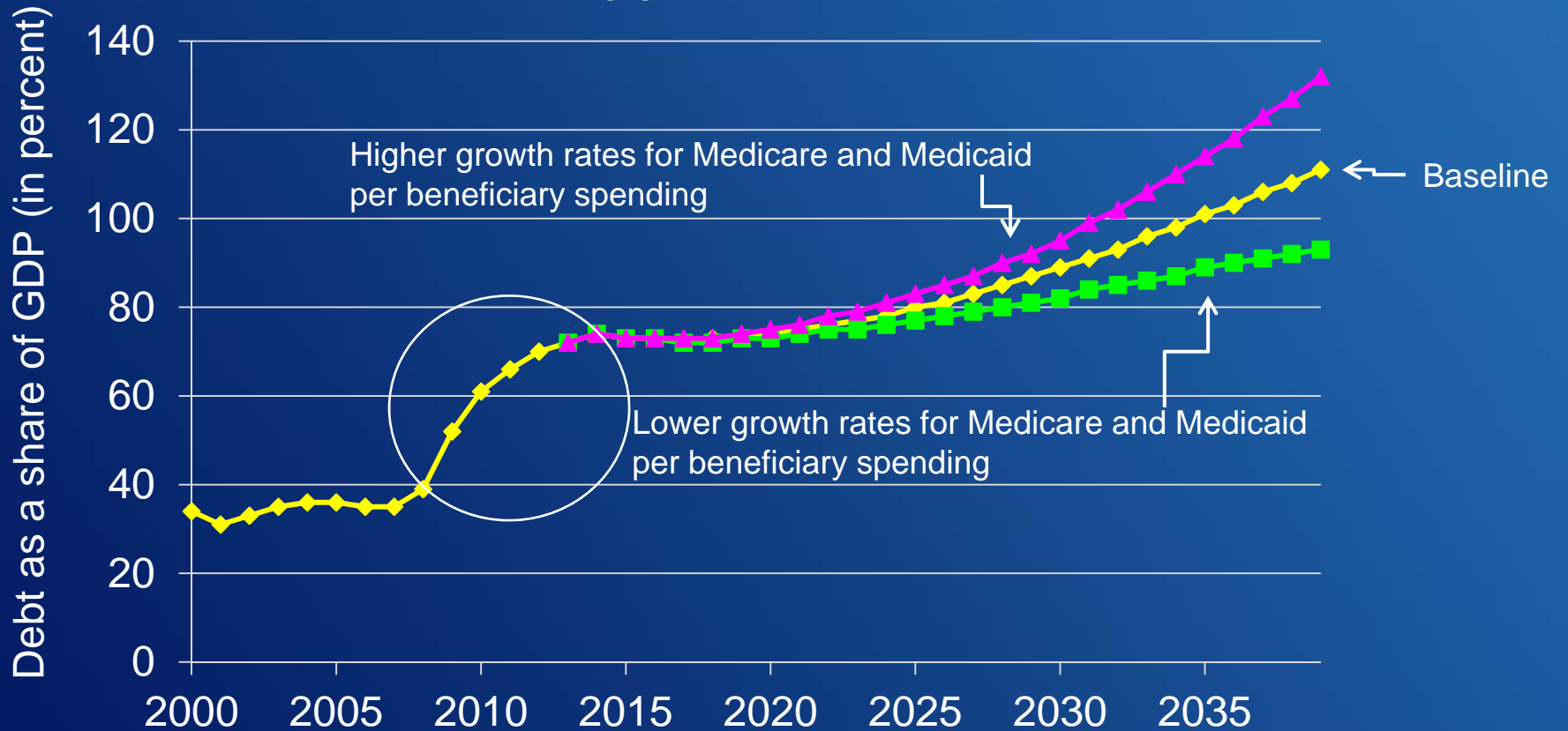
General revenue paying for growing share of Medicare spending



Note: GDP (Gross domestic product).
Source: Boards of Trustees 2014.

The debt is projected to reach 100% of GDP by 2035 under baseline assumptions

Health care spending growth impacts future debt levels



Note: GDP (Gross domestic product).
Source: CBO May 2014.

What do we expect about future health care spending?

- Official projections assume spending growth will rebound, but not to historical levels
- Health care spending growth depends on myriad of factors
- Despite the slowdown, some spending is inefficient and wasteful, and may be possible to eliminate without harming patients

Drivers of health care growth

- Historically, health care spending is affected by:
 - Technological change (in the practice of medicine)
 - Income (GDP—national income—in particular)
 - Insurance coverage
 - Other factors
- The relative importance of these drivers may vary for Medicare
 - But still the same health care delivery system

Evidence of health care inefficiency and misspending

- Geographic variation
 - Differences in utilization, no effect on outcomes
 - Differences in prices, no effect on outcomes
- International comparison
 - U.S. spends significantly more than all other OECD countries
 - In particular, prices in the U.S. are higher
 - Little evidence that the higher spending leads to better outcomes or improved access

Medicare's challenges and the Commission's approach

- Medicare challenges
 - Fragmented payment systems
 - Limited tools to restrain fraud/overuse
 - Benefit design
 - Different prices across settings
 - Undervalued and over-valued services
- Commission's approach
 - Payment accuracy and efficiency
 - Quality and coordination
 - Information for beneficiaries and providers
 - Aligned health care workforce
 - Engaged beneficiaries

Discussion

- Questions?
- Comments on scope, substance, or tone