

Advising the Congress on Medicare issues

Context for Medicare Payment Policy

Kate Bloniarz and Evan Christman
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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

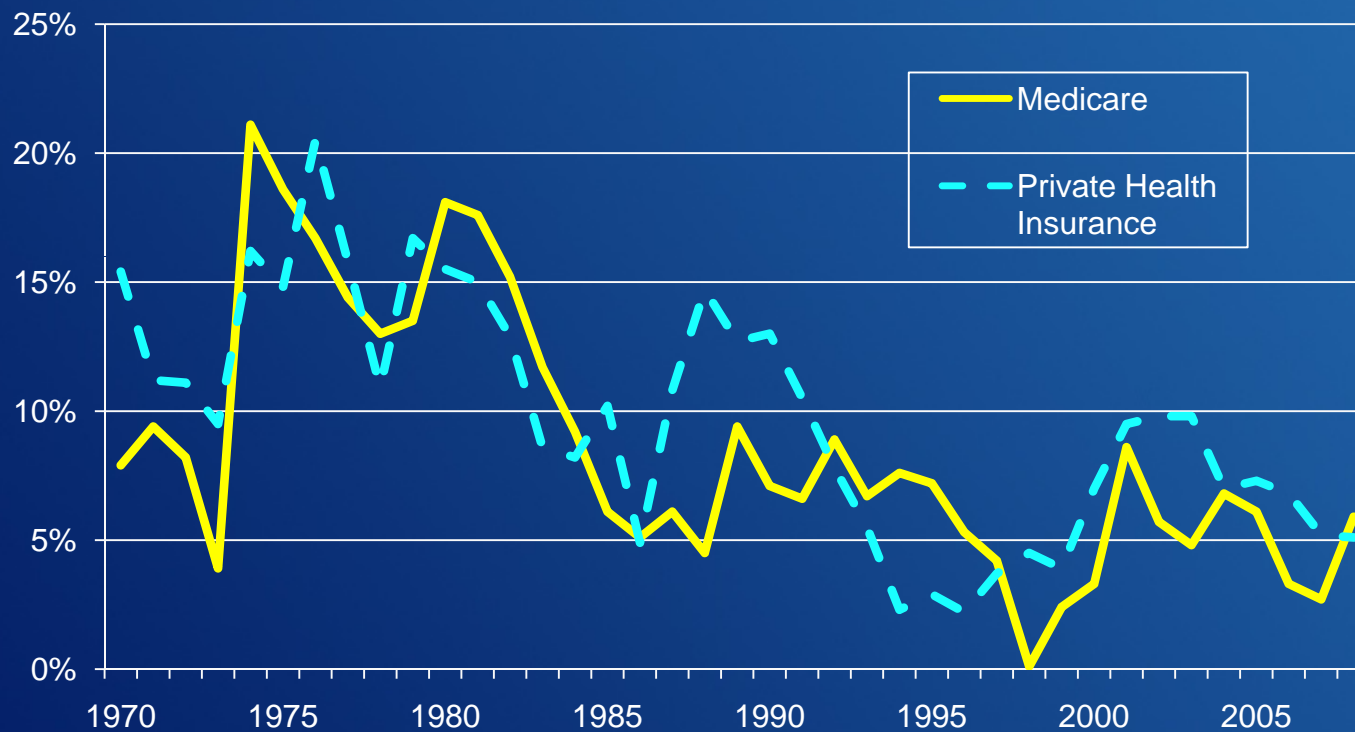
Excess growth in health care spending from 1975 through 2008

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.

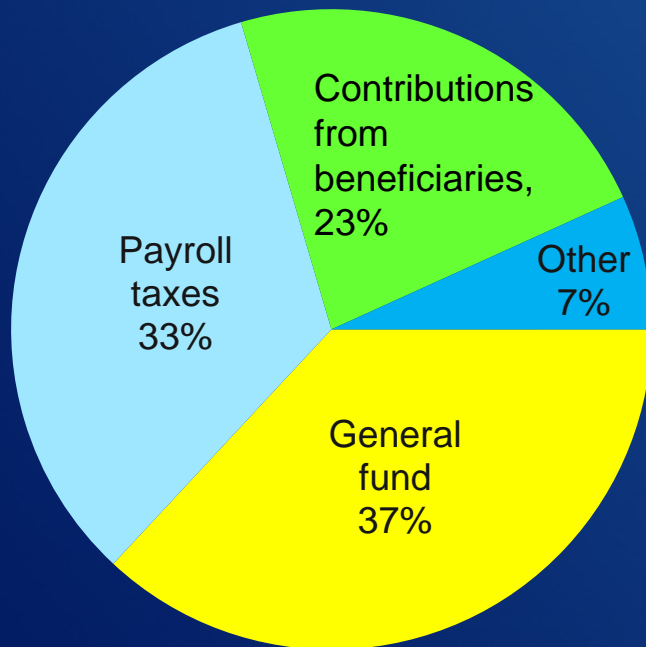
Source: Centers for Medicare and Medicaid Services Office of the Actuary National Health Statistics Group. 2009. National Health Expenditure Accounts.

Why do health care costs grow so fast?

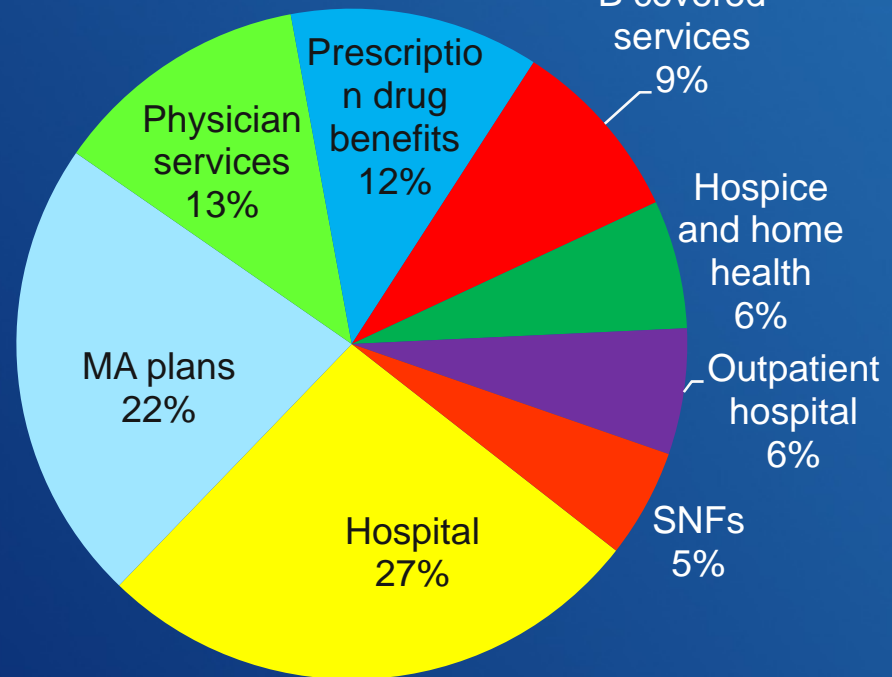
- Technological improvement
- Health insurance coverage
- Prices charged by providers
- Industry consolidation
- Professional liability/defensive medicine
- Payment incentives in fee for service
- Demographic changes
- Household income

How is Medicare funded, and what does it pay for?

In 2009, Medicare spending was \$509 billion, corresponding to \$11,700 per beneficiary



Funding



Expenditures

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?

	2010-2014 (Dollars in billions)	2010-2019 (Dollars in billions)
Market basket revisions and productivity adjustments	-30	-205
Modifications to Medicare Advantage plans	-41	-145
Other fee-for-service provisions	-23	-135
Tax provisions	-20	-90
Total	-114	-575

Source: Centers for Medicare and Medicaid Services Office of the Actuary. 2010. Estimated financial effects of the *Patient Protection and Affordable Care Act*, as amended. April 22.

What is Medicare's current fiscal picture?

Medicare's financial outlook			
	2009 Trustees Report	2010 Trustees Report, current law	2010 Trustees Report, alternative scenario
Total Medicare growth rate, 2010-2019	7.1 percent	5.8 percent	6.9 percent
Part A growth rate, 2010-2019	6.3 percent	4.6 percent	4.6 percent
Part B growth rate, 2010-2019	5.0 percent	5.9 percent	8.0 percent
Part D growth rate, 2010-2019	11.1 percent	9.4 percent	9.4 percent
HI Trust Fund exhaustion date	2017	2029	2028
Total Medicare share of GDP in 2084	11.18 percent	6.38 percent	10.75 percent

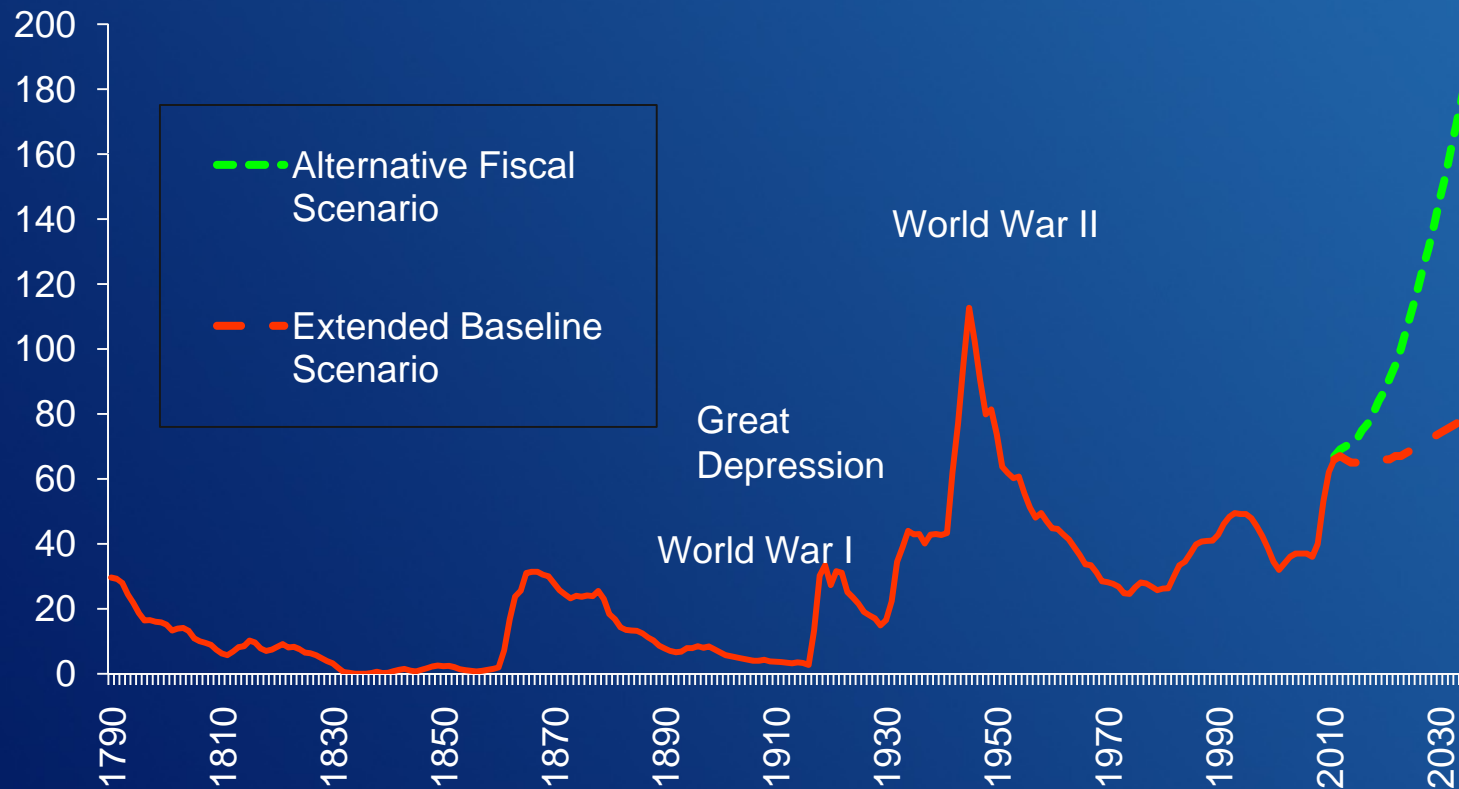
Source: Boards of the Medicare Trustees. 2009 and 2010 reports.

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

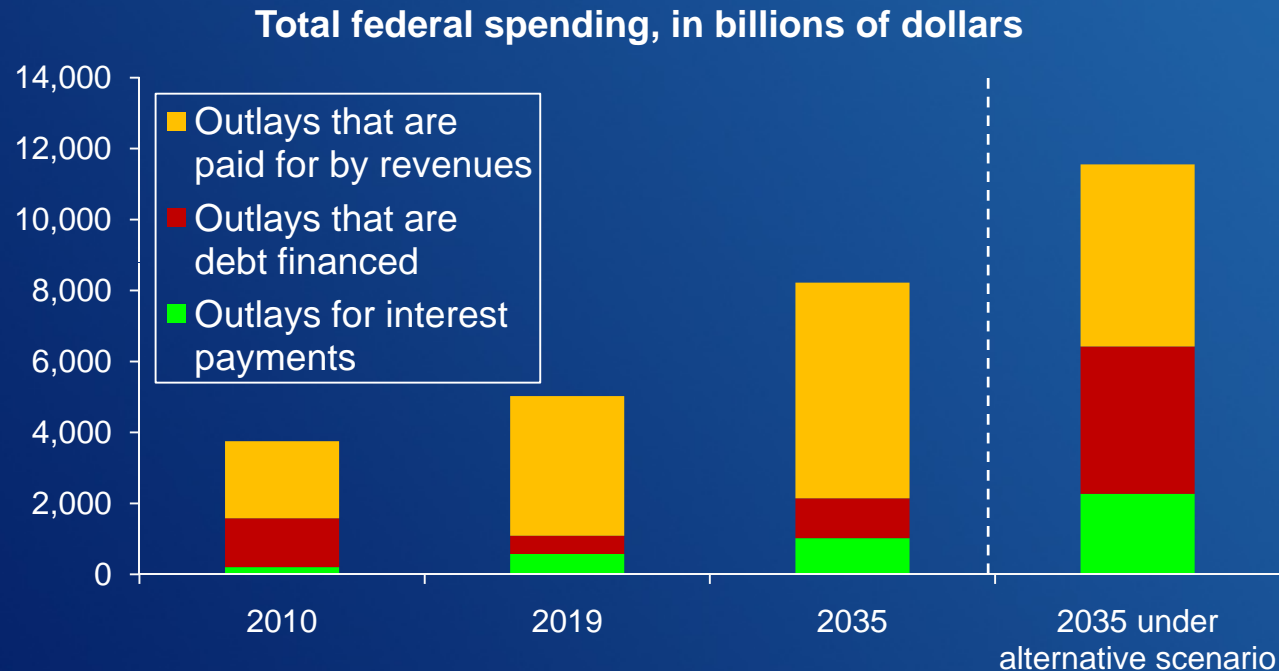
What is the fiscal outlook of the federal government?

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?



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.

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

Concluding questions

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