



Advising the Congress on Medicare issues

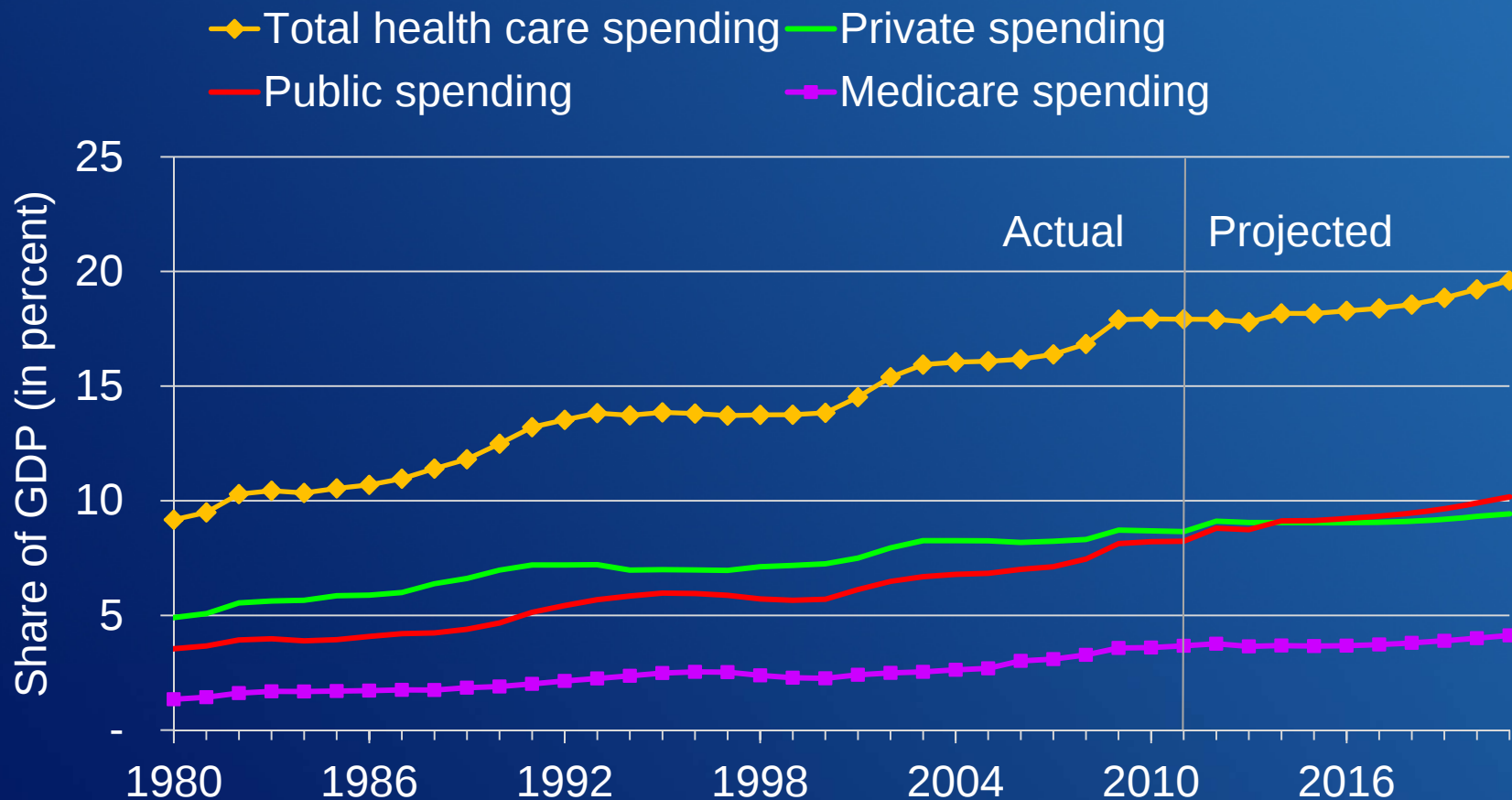
Context for Medicare payment policy

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September 12, 2013

Today's presentation

- Health care spending growth
- Recent slowdown in spending
- Projections for the Medicare program
- Medicare's impact on the federal budget
- Demographic changes and health trends
- Effect of health care costs on families and beneficiaries
- Misallocation of resources

Health care spending has risen as a share of GDP



Note: Gross domestic product (GDP).
Source: National Health Expenditure Accounts 2013.

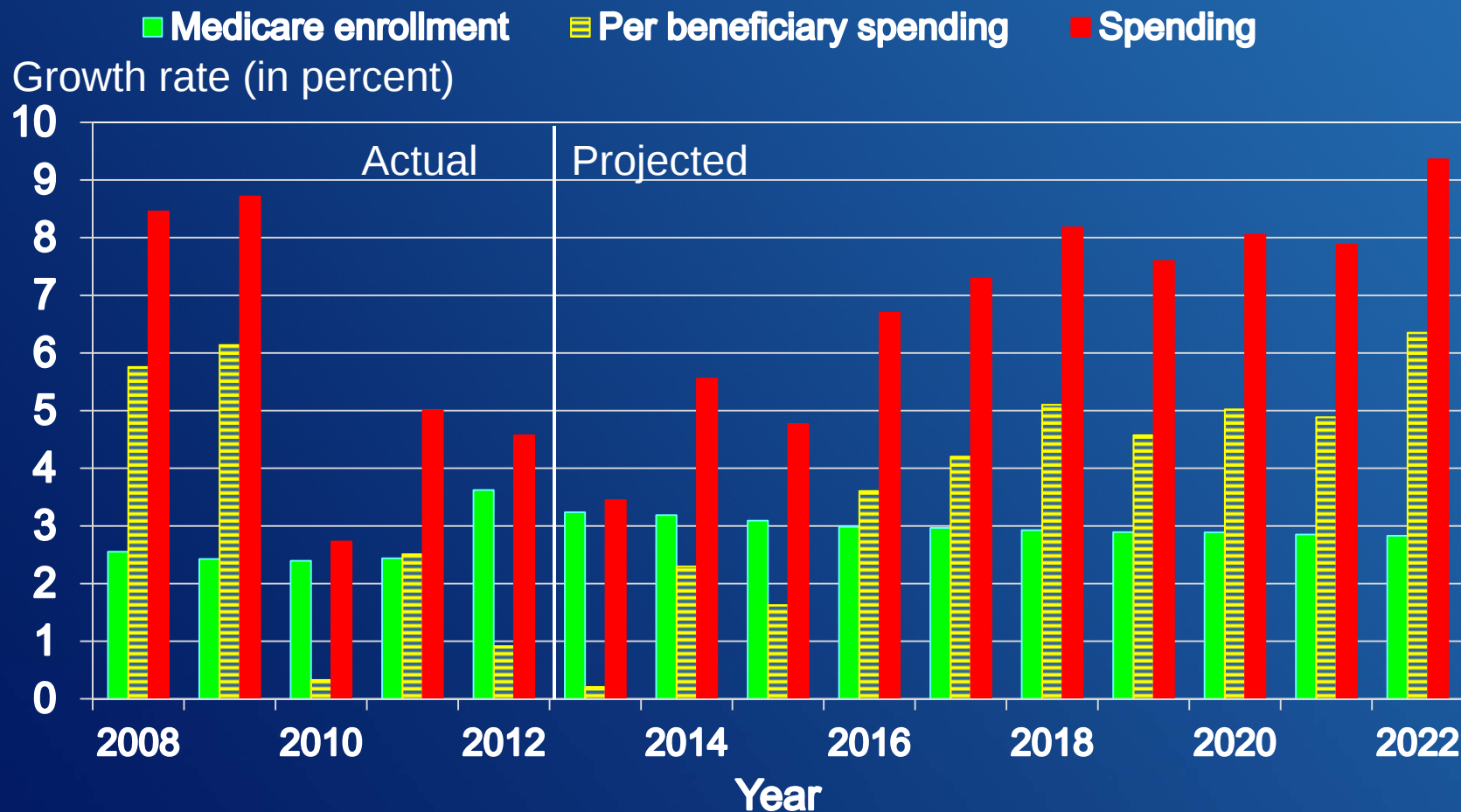
Recent slowdown in spending

- Health care spending as a share of GDP remained constant from 2009 to 2011
- Potential drivers
 - Recent recession
 - Structural changes
 - Slow economic growth for a decade
 - Decline in real incomes
 - Shift to less generous insurance coverage
- Implications for the future

Private sector trends

- Slowdown in use of services
- Price increases continue
 - Driving private sector per capita spending growth of 4.6 percent in 2011
 - Compared to FFS Medicare per capita spending growth of less than 1 percent that same year
- Increasing provider consolidation
- Provider market power

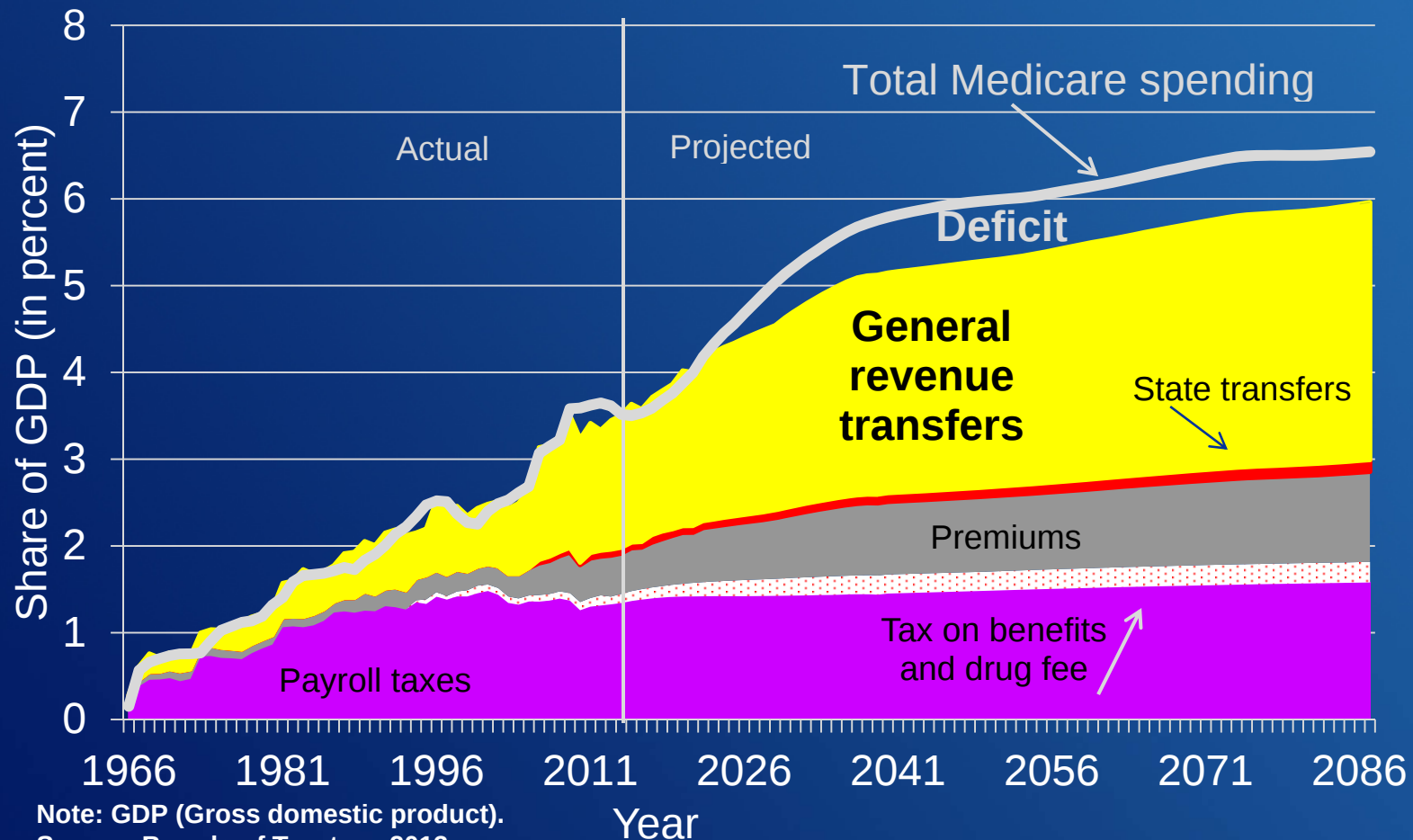
Components of Medicare spending growth



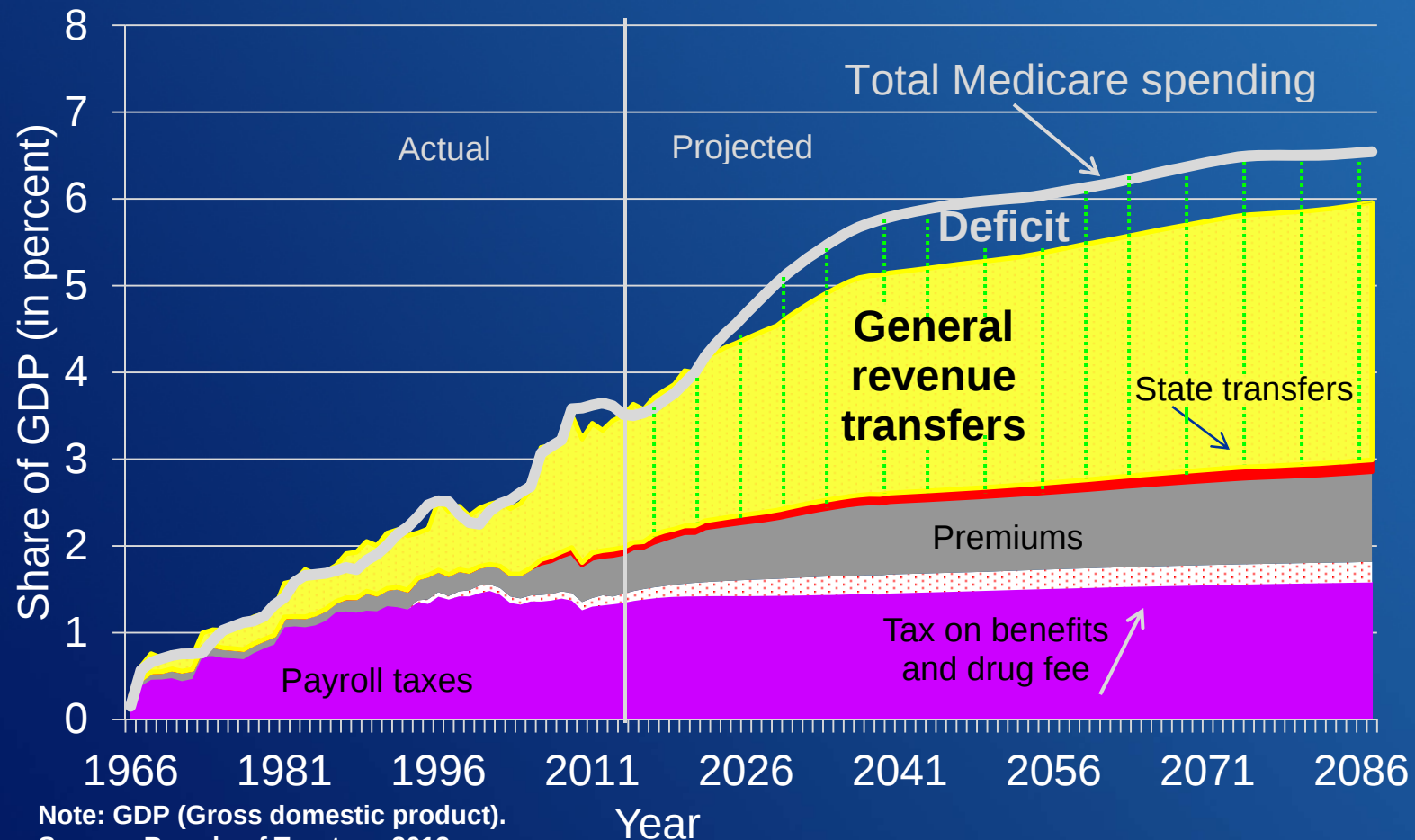
Note: Assumes physician fees are increased by 0.7 percent per year beginning in 2014.

Source: Boards of Trustees 2013.

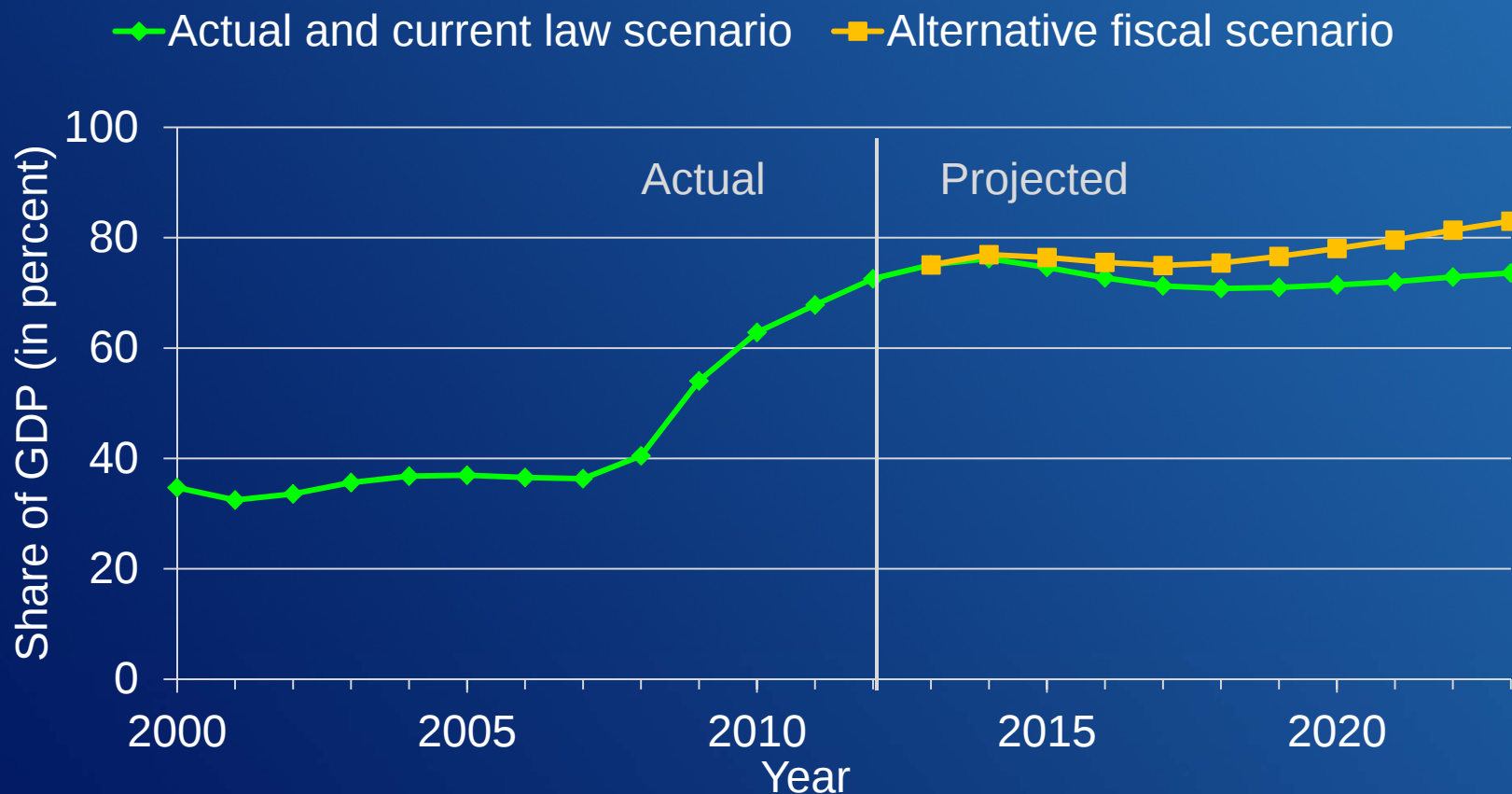
Medicare's long-term financing challenge



Medicare's long-term financing challenge



Federal debt as a share of GDP



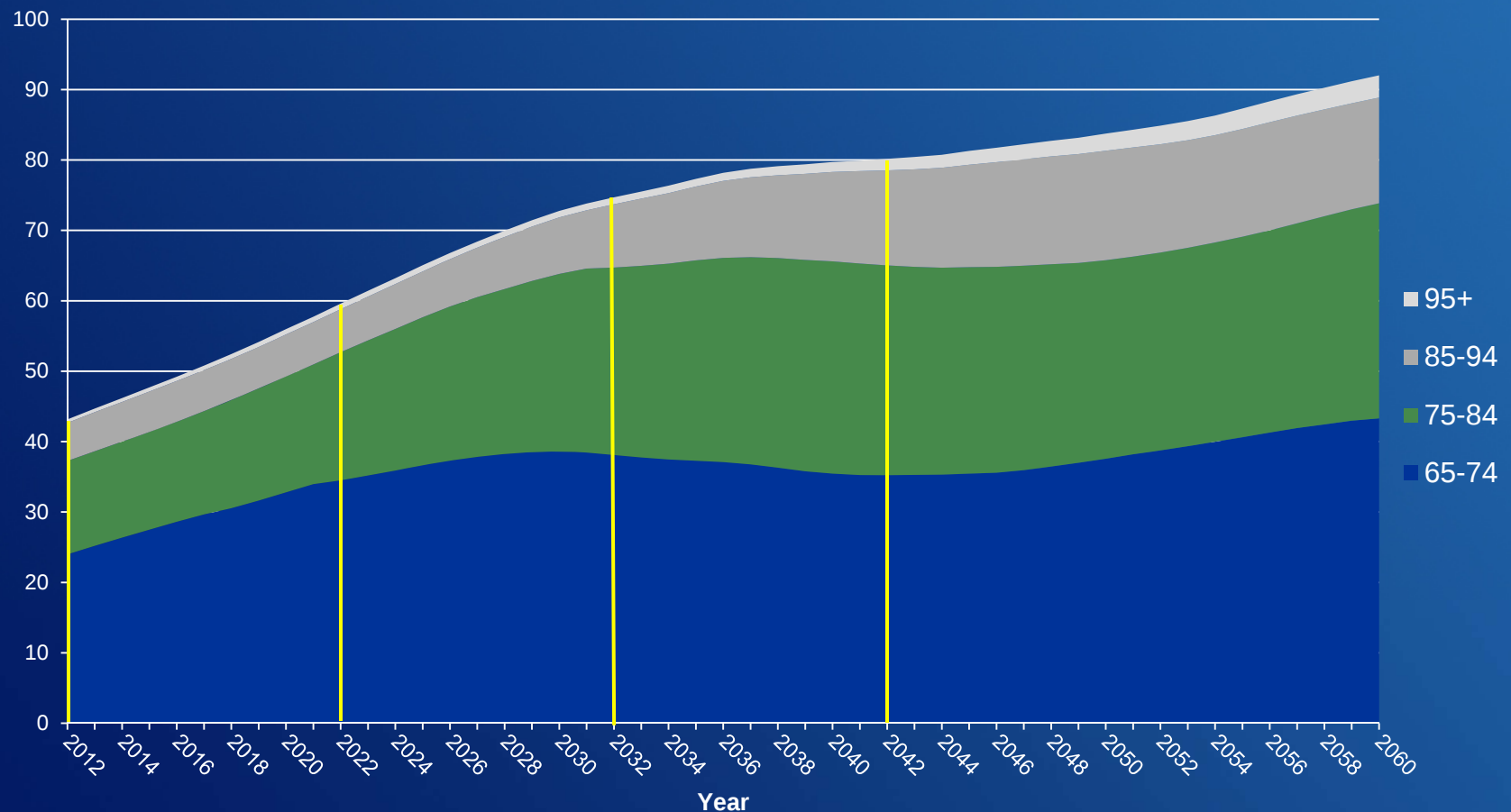
Note: GDP (Gross domestic product).
Source: CBO May 2013.

Demographic, health, and insurance trends of Medicare beneficiaries

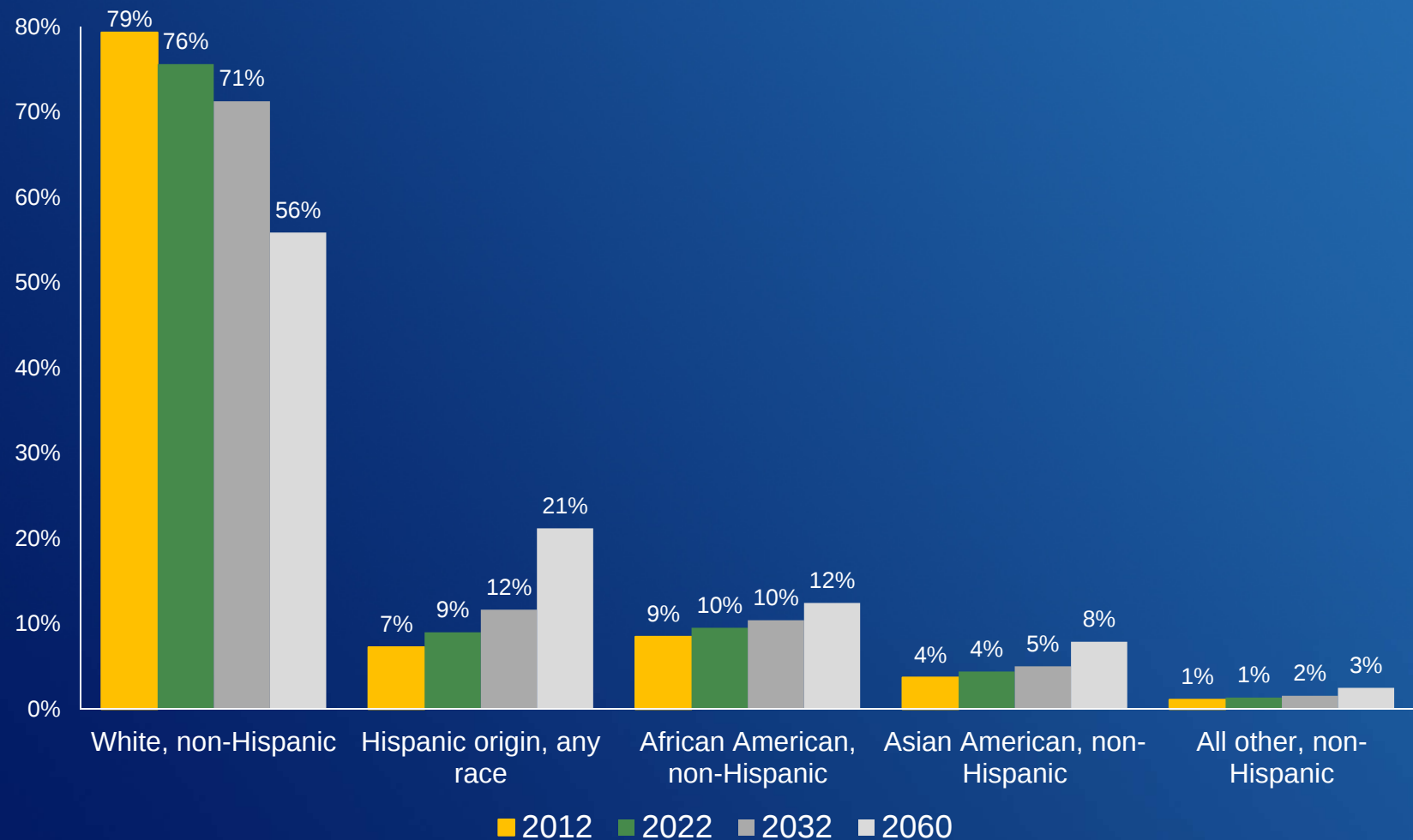
- Demographics of 65-and-older population
 - Large increase in enrollment and age profile
 - Significant changes in racial/ethnic diversity
- Population health
 - Increased prevalence of costly multiple chronic conditions
- Insurance coverage and design
 - Less ESI coverage before and after enrollment
 - Increase in non-FFS plan designs and plans with higher cost sharing

Growth of Medicare 65+ population

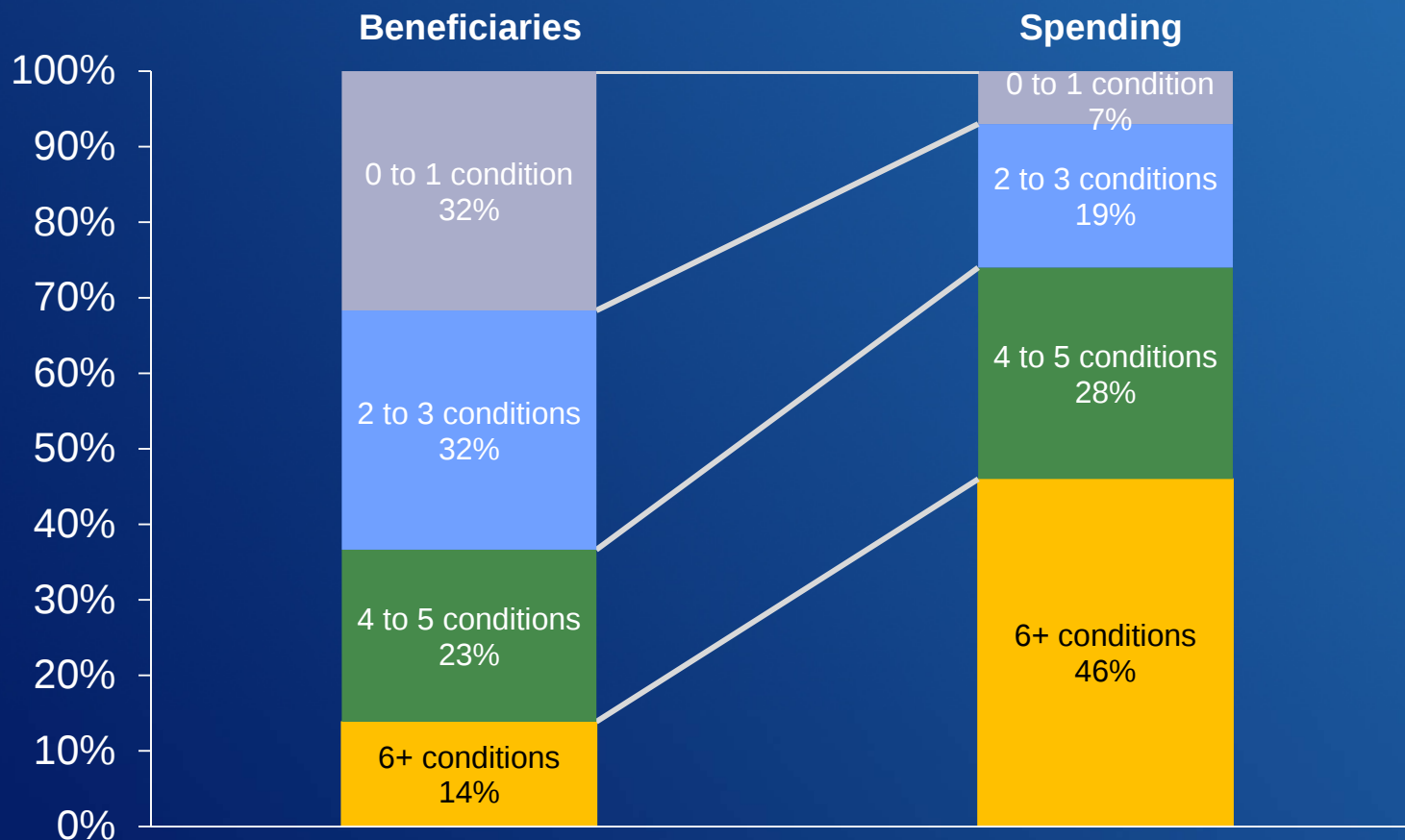
Population in millions



Projected change in racial/ethnic diversity of 65-and-older population



Beneficiaries with multiple chronic conditions contribute most to Medicare spending, 2010



Note: Data based on Chronic Condition Warehouse definitions of chronic conditions. Data are for FFS beneficiaries.
Source: CMS 2012.

Unfavorable trends in prevalence of multiple chronic conditions

- Prevalence among adults aged 45 to 64:
 - Percentage with 2 or 3 chronic conditions increased from 2007 to 2010 (28.1 percent in 2010)
 - Percentage with 4+ chronic conditions increased from 2001 to 2010 (5.7 percent in 2010)
- Older beneficiaries likely to have higher number of chronic conditions
 - Age 65-74: 63 percent with 2 or 3; 9 percent with 6+
 - Age 75-84: 77 percent with 2 or 3; 18 percent with 6+

New beneficiaries may have had less coverage, more cost sharing

- Changes in private health insurance market mean greater numbers exposed to:
 - Less generous employer-sponsored insurance
 - Less comprehensive coverage before Medicare enrollment
 - Less supplemental coverage after Medicare enrollment
 - Restricted provider networks
 - High cost sharing liabilities from high-deductible health plans (typically with health savings account)

Effects of Medicare spending growth on beneficiaries

- Higher premiums and cost-sharing liability
 - Less income available for other household consumption
- Part B and D premiums and cost sharing projected to consume increasing share of Social Security income
 - 23% of average Social Security benefit in 2012
 - 31% of average Social Security benefit in 2032

Patterns of inefficiency that fuel Medicare spending growth

- Variation in service use and spending
 - Regional within U.S.
 - International among OECD countries
- Factors contributing to inefficiency
 - Fraud vulnerability of FFS Medicare
 - Low or unclear value of some services
 - Poorly targeted payment policies
 - Disparities in care for beneficiaries living in predominantly minority, low-income areas

Summation

- Medicare spending growth will outpace growth in economy
 - Slowdown in per beneficiary spending
 - But, enrollment growth accelerates
- Congress under continued pressure to find savings
 - Medicare is significant share of federal budget
 - Seek savings for deficit and debt reduction
 - Seek offsets for new initiatives

Discussion

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