MEDPAC

Advising the Congress on Medicare issues

Context for Medicare payment policy

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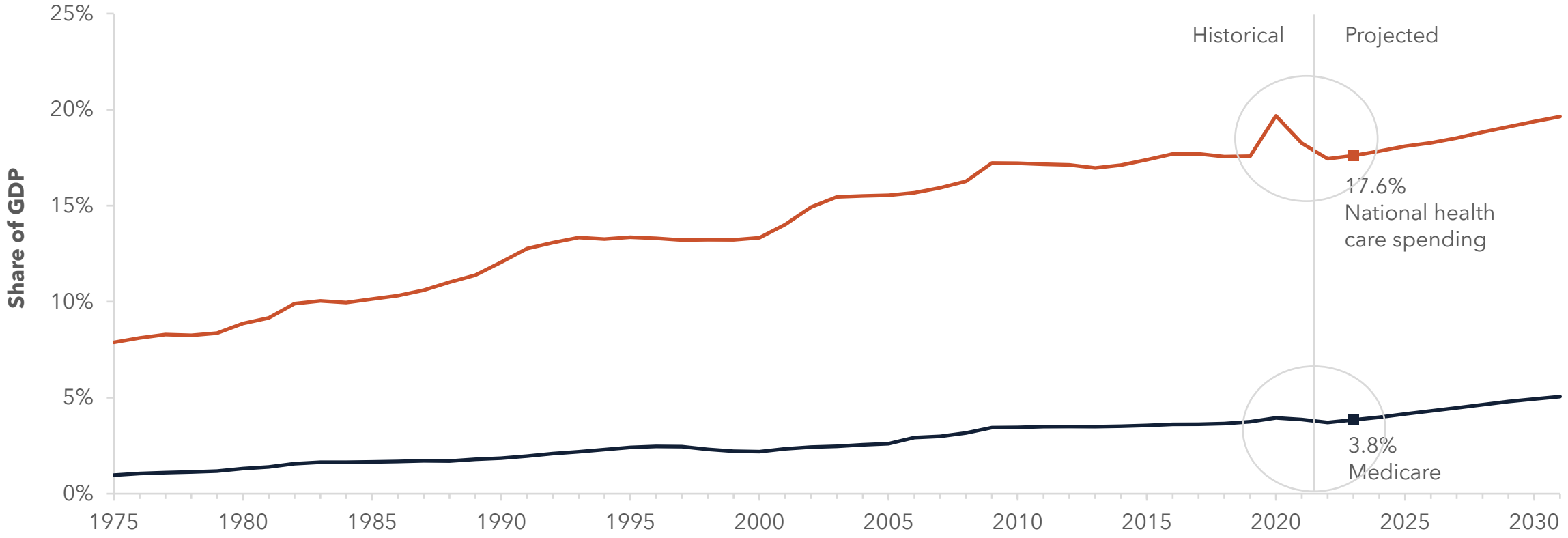
September 7, 2023

Presentation roadmap

1. Recent spending trends
2. Factors influencing Medicare's future spending
3. Financial status of Medicare's two trust funds
4. Affordability of beneficiary premiums and cost sharing

Recent trends in national health care and Medicare spending



Note: GDP (gross domestic product). First projected year in graph is 2022. Pandemic relief funds are counted as national health care spending, rather than Medicare spending, since they were meant to offset pandemic-related revenue losses from all payers, not just Medicare.

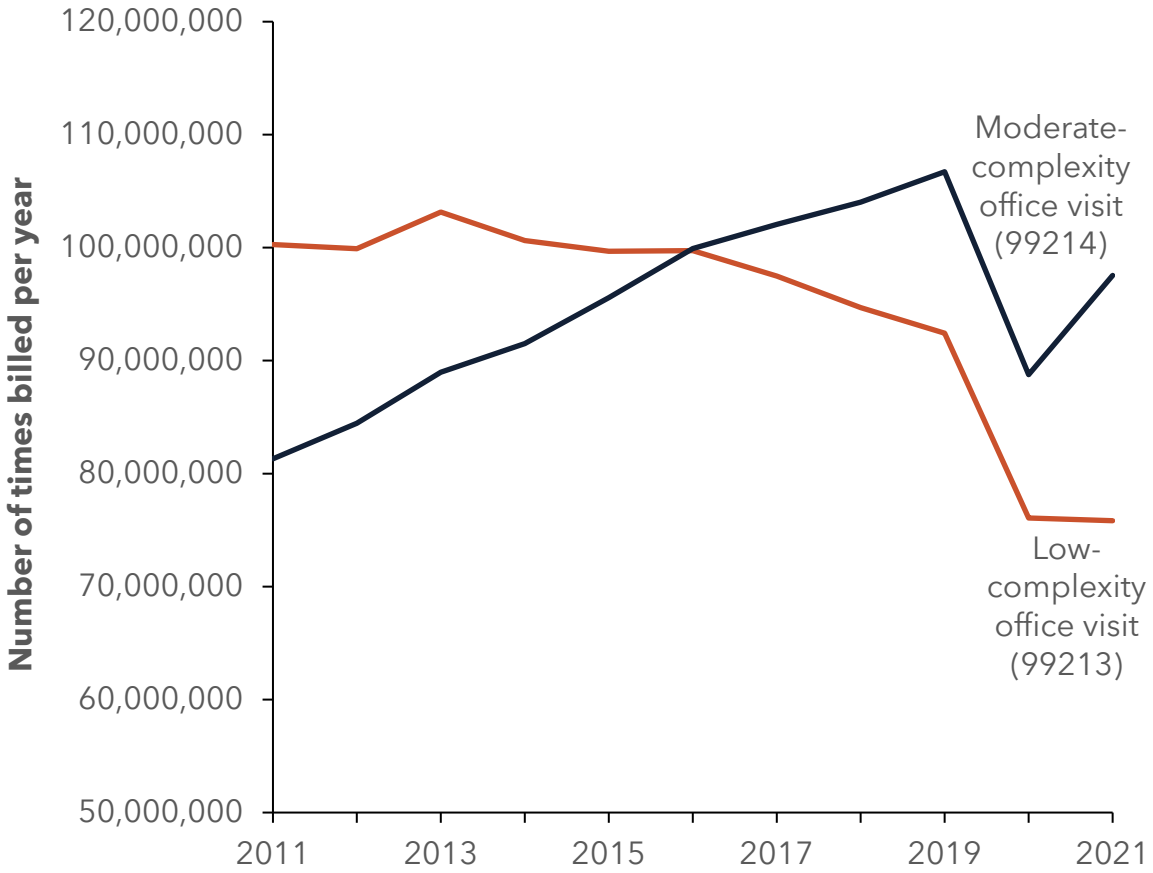
Source: MedPAC analysis of CMS's national health expenditure data (projected data released in July 2023 and historical data released in December 2022), https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html; CMS national health expenditures team's annual *Health Affairs* articles summarizing spending projections, released June 2023, https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2023.00403, and March 2022, https://www.healthaffairs.org/doi/10.1377/hlthaff.2022.00113.

Factors influencing Medicare's future spending

- Medicare spending is projected to grow by 7% to 8% per year, on average, from 2022 to 2031
  - Will grow from over $900 billion in 2022 to $1.8 trillion in 2031
- Medicare spending growth (Part A & Part B) driven by three factors:
  - Economy-wide price increases (inflation)
  - Growth in the number of Medicare beneficiaries
  - Growth in the volume and intensity of services delivered per beneficiary

Source: CMS national health expenditures team's annual *Health Affairs* article summarizing their spending projections, June 2023, https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2023.00403; 2023 annual report of the Boards of Trustees of the Medicare trust funds, https://www.cms.gov/oact/tr/2023.

One factor influencing Medicare's future spending: Medicare is paying for a more "intense" mix of services



- Service "intensity" increases when providers furnish more expensive services instead of less expensive ones
  - e.g., moderate-complexity office visits instead of low-complexity office visits

Note: Current Procedural Terminology (CPT) codes 99213 and 99214 refer to office/outpatient visits with established patients involving a medically appropriate history and/or examination; 99213 refers to visits involving a "low" level of medical decision making and/or 20-29 minutes of practitioner time, while 99214 refers to visits involving a "moderate" level of medical decision making and/or 30-39 minutes of clinician time.

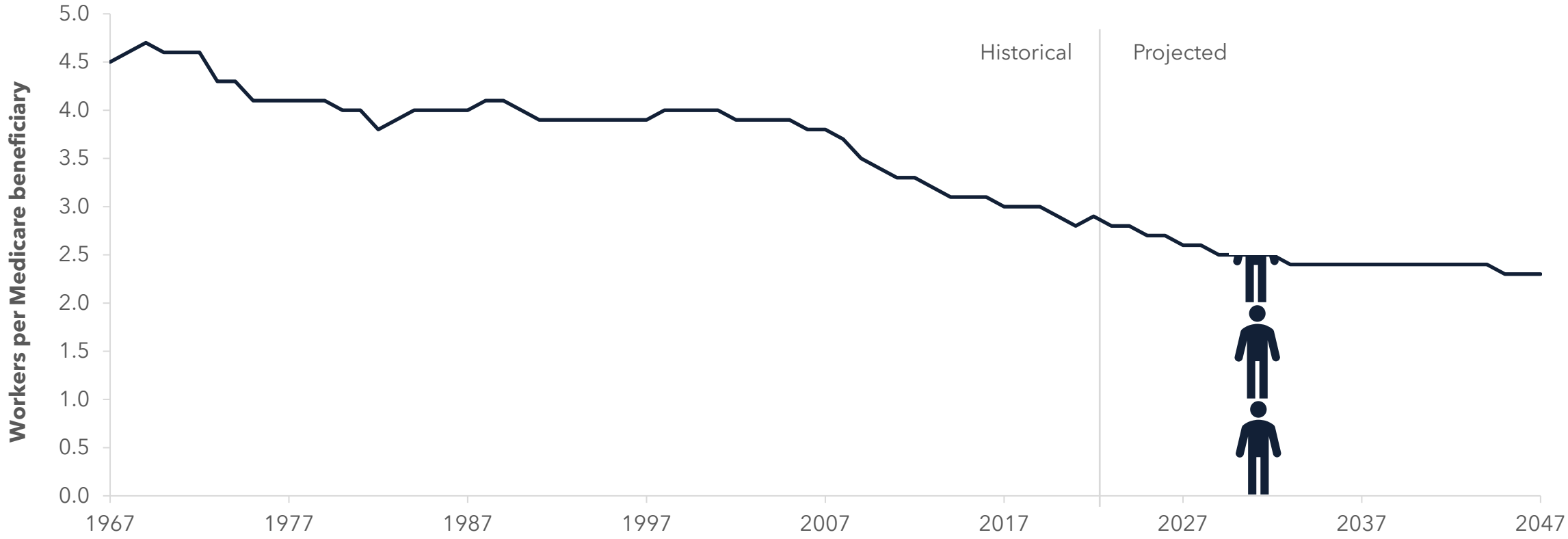
Source: Centers for Medicare and Medicaid Services. Part B National Summary Data Files, 2011-2021. https://www.cms.gov/Research-Statistics-Data-and-Systems/Downloadable-Public-Use-Files/Part-B-National-Summary-Data-File/Overview.

Medicare's Hospital Insurance Trust Fund

- Finances Part A services (e.g., inpatient hospital stays)
- In a better financial position than before the pandemic, according to the Medicare Trustees
  - Higher-than-expected Medicare payroll tax revenues
  - Lower-than-expected Medicare Part A spending, in part because:
    - Beneficiaries who survived the pandemic have lower average morbidity
    - Some hip and knee replacements now performed in (lower-cost) outpatient setting, after their removal from Medicare's "inpatient only" list
- Projected to have sufficient funds until 2031 (Medicare Trustees) or sometime after 2033 (Congressional Budget Office)

Source: 2023 annual report of the Boards of Trustees of the Medicare trust funds, https://www.cms.gov/oact/tr/2023; CBO's baseline projections of balances in the OASI, DI, and HI Trust Funds, released with *An update to the budget outlook: 2023 to 2033*, https://www.cbo.gov/system/files/2023-05/51136-2023-05-Trust-Fund.xlsx.

Medicare's Hospital Insurance Trust Fund: Financed by fewer workers per beneficiary over time

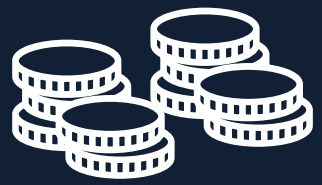


Note: "Medicare beneficiaries" are beneficiaries covered by Medicare Part A (including beneficiaries enrolled in Medicare Advantage plans). More beneficiaries have Part A than Part B because Part A is usually available to beneficiaries at no cost. Part A services are financed by Medicare's Hospital Insurance Trust Fund and beneficiary cost sharing. Workers and their employers split the cost of the 2.9% payroll tax (workers pay 1.45% and employers pay the remaining 1.45%). First projected year in graph is 2023.

Source: 2023 annual report of the Boards of Trustees of the Medicare trust funds, https://www.cms.gov/oact/tr/2023.

Medicare's Supplementary Medical Insurance Trust Fund constitutes a growing share of federal revenues

13%



of federal income taxes in 2022

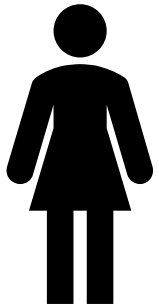
22%

of federal income taxes in 2030

Note: Medicare's Supplementary Medical Insurance Trust Fund helps pay for Part B clinician and outpatient services and Part D prescription drug coverage. General revenues collected by the federal government primarily consist of individual and corporate taxes but also include customs duties, leases of government-owned land and buildings, the sale of natural resources, usage and licensing fees, and payments to agencies (not included above).

Source: 2023 annual report of the Boards of Trustees of the Medicare trust funds, https://www.cms.gov/oact/tr/2023.

The median Medicare beneficiary has modest resources to draw on when paying for premiums and cost sharing



$30,000 annual income
+ $74,000 life savings

Median beneficiary in 2019

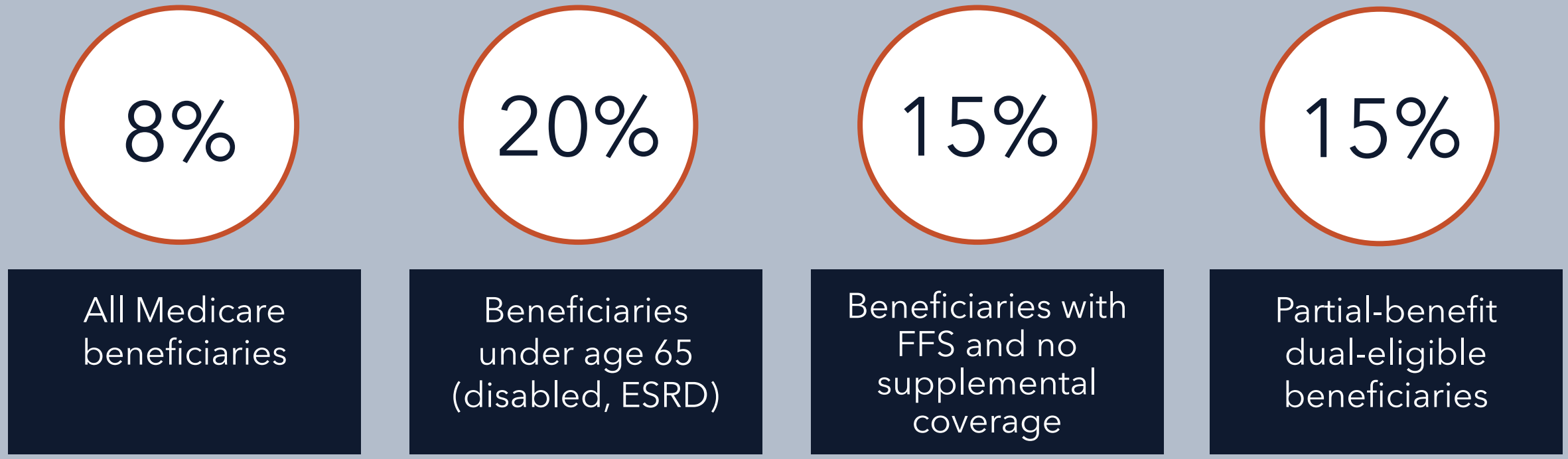
$2,000	Part B premiums (2023)
$500	Part D premiums (2023 avg.)
$400	Part A cost sharing (2021 avg.)
$1,600	Part B cost sharing (2021 avg.)
$450	Part D cost sharing (2021 avg.)

Note: Numbers have been rounded to nearest thousand for beneficiary income and savings and nearest fifty for annual premiums and cost sharing.

Source: Kaiser Family Foundation, "Medicare beneficiaries' financial security before the coronavirus pandemic," April 24, 2020, https://www.kff.org/medicare/issue-brief/medicare-beneficiaries-financial-security-before-the-coronavirus-pandemic/; MedPAC, *A Data Book: Health care spending and the Medicare program*, July 2023, https://www.medpac.gov/wp-content/uploads/2023/07/July2023_MedPAC_DataBook_SEC.pdf.

When Medicare increases payment rates for providers, it increases beneficiaries' premiums and cost sharing

Percent of Medicare beneficiaries who report trouble getting care due to cost



Note: ESRD (end-stage renal disease), FFS (fee-for-service). Partial-benefit dual-eligible beneficiaries receive Medicaid assistance with premiums and, in some cases, cost sharing, but do not qualify for additional Medicaid benefits that full-benefit dual-eligible beneficiaries receive, such as dental care and non-emergency medical transportation.

Source: MedPAC analysis of non-institutionalized beneficiaries' experiences in CMS's 2020 Medicare Current Beneficiary Survey.

Discussion

Discussion

- Does anything in the draft chapter need to be clarified?
  - Recent spending trends
  - Factors influencing Medicare's future spending
  - Financial status of Medicare's two trust funds
  - Affordability of beneficiary premiums and cost sharing
- Other questions, comments, or guidance for the chapter?

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