



DEMYSTIFYING MEDICARE: 2012 INTERN ACADEMY POLICY DISCUSSION

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NATIONAL
ACADEMY
OF SOCIAL
INSURANCE

SOCIAL INSURANCE PRINCIPLES

- 1) Universal**
- 2) Earned Right**
- 3) Wage Related**
- 4) Contributory and Self-Financed**
- 5) Redistributive**
- 6) Not Means-Tested**
- 7) Wage Indexed**
- 8) Inflation Protected Compulsory**



RAISE MEDICARE'S AGE OF ELIGIBILITY

- **Since the creation of the program, Medicare's age of eligibility has been 65.**
- **Proposals would raise by two years, to 67.**



REDESIGN MEDICARE'S CO-PAYS AND DEDUCTIBLES



- **“Benefit design” has remain unchanged since 1965**
- **Significant gaps leave beneficiaries vulnerable to sizeable financial burdens from out-of-pocket costs.**
 - High deductible for inpatient stays, a relatively low deductible for physician and outpatient care, and
 - No upper limit exists on the amount of Medicare cost-sharing expenses a beneficiary can incur.
- **Proposal include:**
 - 1) A combined deductible and coinsurance for Part A and Part B
 - 2) A cap on out-of-pocket costs
 - 3) A tax on supplemental coverage



REQUIRE DRUG COMPANIES TO GIVE REBATES OR DISCOUNTS TO MEDICARE

- Medicare Part D, voluntary prescription drug benefit, established in 2003.
- Dual eligibles used to receive care from Medicaid, now Medicare.
- Drug companies required to give rebates of 23.1 percent to Medicaid; rebate for Medicare is 8.1 percent.



GENERATE NEW SOURCE OF REVENUE BY INCREASING THE PAYROLL TAX

- Reform could come from combination of tax increases and spending cuts
- Main source of funding for Medicare Part A = 1.45% payroll tax (2.9% altogether)
- Trustees estimate that funds HI Trust Fund are not sufficient to fully cover benefits past 2024
- Proposal to raise Medicare payroll tax to 1.95% (3.9% altogether) – a 1% increase



GENERATE NEW SOURCE OF REVENUE THROUGH A VALUE ADDED TAX

- **Value Added Tax (VAT)** applied incrementally at each stage of the production process
- As opposed to a sales tax that is levied only at the final retail stage
 - For example, the production of a loaf of bread involves contributions from the farmer who grows the wheat, the baker who bakes the bread, and the grocer who sells it to the consumer.
 - The U.S. is one of the few members of the Organization for Economic Co-operation and Development (OECD) not to have a VAT at the national level.



RAISING MEDICARE PREMIUMS FOR HIGHER-INCOME BENEFICIARIES

- **MMA introduced an element of means-testing --**
 - **Part B premiums in 2012 = \$99.90/month (25% of costs)**
 - **Part B premiums in 2012 for higher-income individuals = anywhere from \$139.90 to \$319.70/ month (35% to 80% of costs)**
- **Policy Option 1: Increase premiums for high-income beneficiaries by an add'l 15%**
- **Policy Option 2: Increase premiums for all beneficiaries so cover 35% of program costs**



QUESTIONS TO CONSIDER

- How does this affect the cost of the program?
- How does this affect beneficiaries' access to care?
- How does this affect the quality of care?
- Does this slow the growth in health spending or just shift costs from one payer to another?
- Does this give health care providers and their patients incentives that encourage the kind of integrated and coordinated care that could help both control costs and improve quality?

