What Does Medicare Reform Mean For Retirement Security?

Tricia Neuman, Sc. D.
Director, Program on Medicare Policy, Kaiser Family Foundation

Medicare and Medicaid at 50
National Academy of Social Insurance

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Medicare savings proposals could be on the table

On the one hand...

- Medicare is now 14% of the federal budget and growing
- Medicare population is expected to reach over 80 million by 2030
- Medicare as a share of GDP is projected to rise
- Ongoing concerns about Medicare in the context of the deficit and debt

But on the other hand...

- ACA included Medicare savings and other payment reforms
- Medicare spending is growing at historically low rates
- The recent slowdown creates some breathing room...
- ...and time to address affordability concerns for current and future generations
Exhibit 2

When health costs and other factors are taken into account, 45% of people ages 65+ live below twice the poverty level.

Supplemental Poverty Measure Reflects Impact of Health Spending and Other Factors

<table>
<thead>
<tr>
<th></th>
<th>OPM</th>
<th>SPM</th>
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<th>OPM</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Ages 65-69</td>
<td>10%</td>
<td>15%</td>
<td>8%</td>
<td>12%</td>
<td>9%</td>
<td>14%</td>
<td>12%</td>
<td>19%</td>
</tr>
<tr>
<td>Ages 70-79</td>
<td>33%</td>
<td>45%</td>
<td>25%</td>
<td>36%</td>
<td>36%</td>
<td>45%</td>
<td>45%</td>
<td>57%</td>
</tr>
<tr>
<td>Ages 80+</td>
<td>57%</td>
<td>57%</td>
<td>57%</td>
<td>57%</td>
<td>57%</td>
<td>57%</td>
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</table>

Income is highly skewed: half of all Medicare beneficiaries live on incomes below $24,000 per person

- 25% had incomes below $14,400
- 50% had incomes below $23,500
- 5% had incomes above $93,900
- 1% had incomes above $171,650

Average total out-of-pocket spending increased each year between 2000 and 2010, and was 44% higher in 2010 than in 2000.

Medicare Beneficiaries’ Average Total Out-of-Pocket Spending on Services and Premiums, 2000-2010

NOTE: Analysis excludes beneficiaries enrolled in Medicare Advantage plans. Premiums includes Medicare Parts A and B and other types of health insurance beneficiaries may have (Medigap, employer-sponsored insurance, and other public and private sources).

Medicare households spent far more than younger households on health expenses in 2012.

NOTE: *Estimate statistically significantly different from the non-Medicare household estimate at the 95 percent confidence level. SOURCES: Kaiser Family Foundation analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2012.
What factors could lead to higher out-of-pocket spending for Medicare beneficiaries in the future?

- Erosion of supplemental coverage leads to higher out-of-pocket costs
  - Employer-sponsored retiree health benefits – fading
  - Medicare Advantage plans – raising out-of-pocket limits

- If Medicare per capita spending grows more rapidly in the future, premiums and cost-sharing would rise more rapidly than in recent years
  - ACA repeal would increase Medicare spending by $800 billion over ten years, which would increase premiums and cost-sharing

- New high-priced drugs coming to market can be expected to raise costs for beneficiaries – even with Part D
  - Unique drugs with few/no competitors and others
Many Medicare Savings Options... ...and Trade-offs

1. Raise premiums (more) for higher-income beneficiaries

2. Raise Medicare eligibility age from 65 to 67

3. Redesign benefits under Parts A and B, add cap on out-of-pocket spending, restrict supplemental coverage, and provide low-income protections

4. Transform Medicare to system of premium supports/defined contribution

5. Limit Rx prices for unique, high cost drugs

6. Accelerate successful payment and delivery system reforms
Medicare Part B Premiums Starting in 2018

<table>
<thead>
<tr>
<th>My income is:</th>
<th>Less than $85,000</th>
<th>$85,001 - $107,000</th>
<th>$107,001 - $133,500</th>
<th>$133,501 - $160,000</th>
<th>$160,001 - $214,000</th>
<th>More than $214,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>My monthly Part B premium in 2018 is expected to be:</td>
<td>$119</td>
<td>$167</td>
<td>$238</td>
<td>$310</td>
<td>$381</td>
<td>$381</td>
</tr>
<tr>
<td>Share of program costs paid by beneficiaries (in 2018):</td>
<td>25%</td>
<td>35%</td>
<td>50%</td>
<td>65%</td>
<td>80%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Why Do It?

- Reduce Medicare spending
- Reflect improvements in life expectancy since 1965
- Conform to full retirement age for Social Security (increasing to age 67)
- Concerns about 65-/66-year-olds becoming uninsured are, for the most part, but not entirely, addressed by ACA

Trade-Offs

- Medicare premiums would rise, if healthier 65-/66-year-olds are not eligible
- Marketplace premiums would rise if 65-/66-year-olds are included with younger adults
- Total health care costs would rise
- Some 65-/66-year-olds could be uninsured in states w/out Medicaid expansion
Medicare Parts A/B Benefit Redesign

<table>
<thead>
<tr>
<th>Why Do It?</th>
<th>Trade-Offs</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Reduce Medicare spending</td>
<td>- Likely to increase costs for many beneficiaries due to higher unified deductible, while helping small share with catastrophic expenses</td>
</tr>
<tr>
<td>- Simplify benefits</td>
<td>- Unclear if all goals can be achieved at once (e.g., Medicare savings, out-of-pocket limits and low-income protections)</td>
</tr>
<tr>
<td>- Help those with high out-of-pocket costs (and greatest medical needs)</td>
<td></td>
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<tr>
<td>- Minimize the need/use of supplemental coverage</td>
<td></td>
</tr>
<tr>
<td>- Coax beneficiaries toward high-value providers/services</td>
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<tr>
<td>- Improve financial protections for low-income beneficiaries</td>
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</table>
The next generation of Medicare beneficiaries can expect some gains in income and savings, but mainly at the top.

<table>
<thead>
<tr>
<th>Year</th>
<th>25th percentile</th>
<th>50th percentile (Median)</th>
<th>75th percentile</th>
<th>90th percentile</th>
<th>95th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$14,400</td>
<td>$23,500</td>
<td>$41,650</td>
<td>$69,350</td>
<td>$93,900</td>
</tr>
<tr>
<td>2016</td>
<td>$16,400</td>
<td>$28,250</td>
<td>$51,000</td>
<td>$84,100</td>
<td>$111,900</td>
</tr>
<tr>
<td>2018</td>
<td>$61,400</td>
<td>$619,600</td>
<td>$896,550</td>
<td>$1,011,550</td>
<td>$1,470,900</td>
</tr>
</tbody>
</table>

**Per Capita Total Income**

**Per Capita Total Savings**

NOTE: All income and savings are adjusted to 2013 dollars. Savings is among all beneficiaries. SOURCE: Urban Institute / Kaiser Family Foundation analysis, 2013.
Medicare Resources on kff.org

- Medicare and Medicaid at 50 (video)
- Medicare Primer, 2015
- Medicare Timeline (interactive)
- The Story of Medicare (animated timeline)
- Income and Assets of Medicare Beneficiaries, 2013 – 2030
- Health Care on a Budget: The Financial Burden of Health Spending by Medicare Households
- How Much Is Enough? Out-of-Pocket Spending Among Medicare Beneficiaries: A Chartbook

For more information, visit kff.org/medicare