Perspectives on Medicare Financing

National Academy of Social Insurance
Summer Academy for Interns

July 26, 2012

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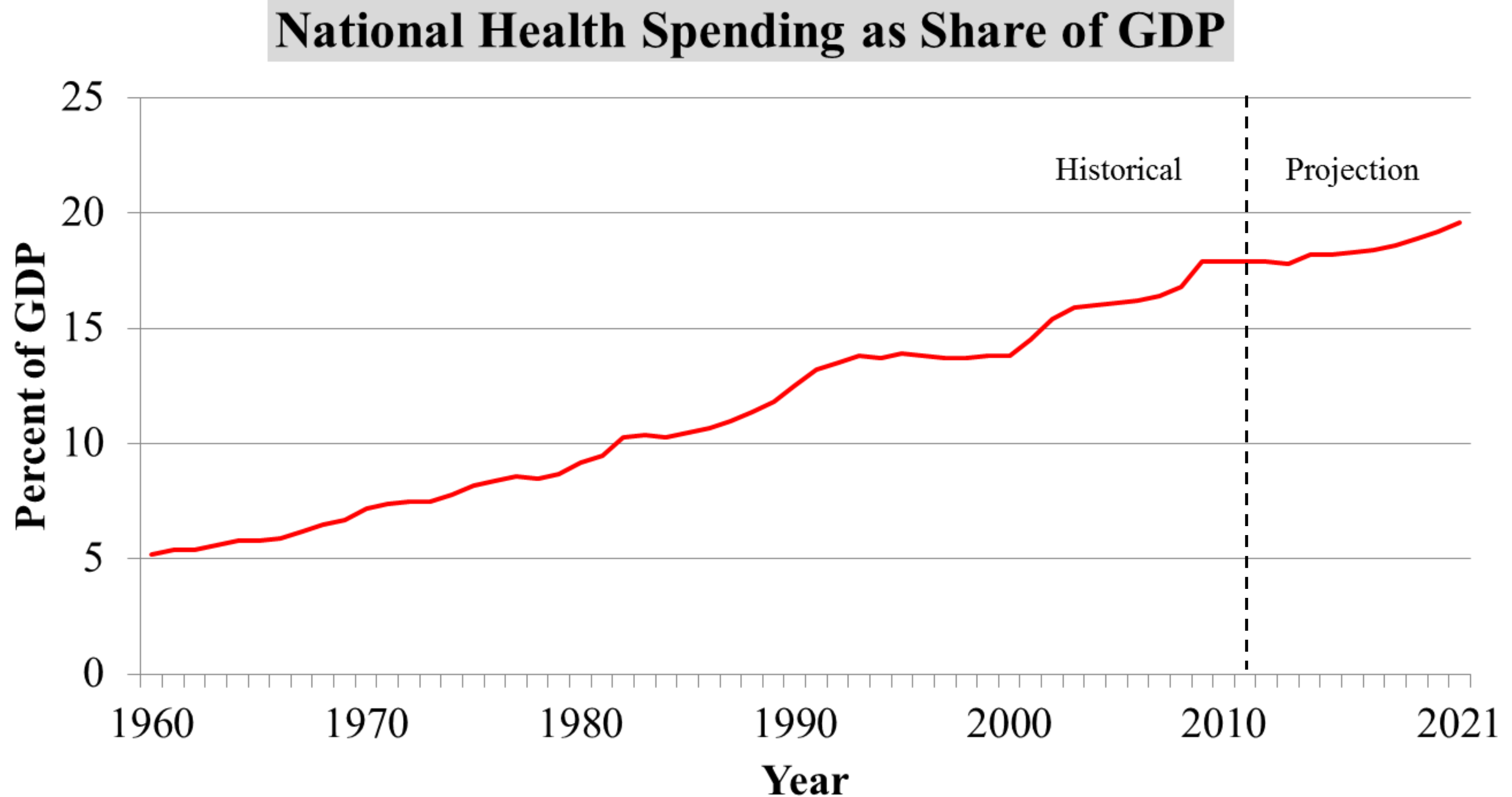
Outline

Medicare financing in context

- National health spending
- Federal budget
- Beneficiary finances

Framework(s) for moving forward

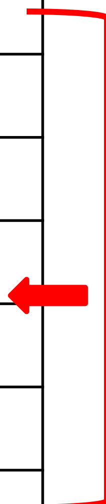
Total national health spending (public and private) grows as share of GDP



CMS Office of the Actuary; historical data and projections

Long-term federal budget projections

Federal spending, revenue as % GDP,			
	2012	**2022**	**2037**
Revenues	15.7	18.5	18.5
Spending			
Social Security	5.0	5.4	6.2
Medicare	3.7	4.5	6.7
Medicaid, CHIP, Exchange	1.7	3.0	3.7
All other	11.6	7.8	9.6
"Primary" Spending	22.0	20.7	26.1
Interest	1.4	3.7	9.5
Total Spending	23.4	24.3	35.7
Deficit: primary (net of interest)	-6.3	-2.2	-7.7
Deficit: total	-7.7	-5.9	-17.2



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CBO, 2012 Long-Term Budget Outlook, Alternative Fiscal Scenario

Effects of aging and rising health costs on federal spending projections

CBO projects that, through 2037:

- Aging accounts for about one-half (52%) of the growth in major federal health care programs
- "Excess cost growth" accounts for the other half (48%)
- After 2037, excess cost growth is increasingly dominant factor

Aging: The number of beneficiaries will increase by about:

- One-third between 2011 and 2021
- Nearly two-thirds between 2011 and 2030
- Nearly 90 percent between 2011 and 2050

CBO 2012 Long-Term Budget Outlook; CMS OACT

Excess cost growth in spending for health care

	Medicare	Medicaid	Other	Overall
1975-2010	2.1%	1.8%	2.0%	2.0%
1980-2010	1.8%	1.4%	1.9%	1.8%
1985-2010	1.5%	0.9%	1.7%	1.6%
1990-2010	1.4%	0.3%	1.4%	1.3%

Excess cost growth: extent to which health spending per capita exceeds growth in GDP per capita.

Two observations:

- Lower growth in recent time periods
- Medicare, "other" and "overall" generally track each other

CBO, 2012 Long-Term Budget Outlook

Beneficiary finances

- Medicare beneficiaries spend about 15% of household income on health expenses, including premiums – that is about triple the non-Medicare age group. That is due to:
  - Household income about 60% lower
  - Health spending about 80% higher
- Those with income between 100% - 300% of FPL, and the oldest, particularly impacted by the health spending
- About half of Medicare beneficiaries have income below $22,000 – and with limited assets. Improvements are projected, but skewed to the higher income cohorts

Kaiser Family Foundation: Medicare Policy Data Spotlight, June 2011 and March 2012

Moving forward

- Cannot address overall projected budget gap, especially with aging population, with any reasonable social compact, without:
  - new revenue (yes, those are called taxes), and
  - some continuing constraint on growth in per capita spending in health programs

- There are multiple approaches to consider:
  - Limit federal obligations: payment, benefits, caps
  - Use Medicare to leverage delivery reform for longer-term total health system cost savings – recognizing scoring issue
  - Do both

Background - Medicare-driven delivery reform

Move to units of measurement, payment and accountability

- For clinically relevant conditions or episodes
- Across providers and over time; or for population(s)
- Care management capacity (systems and people) used by providers, at (partial) risk, rather than imposed on them

Build infrastructure and test multiple approaches:

- ACO, inpatient/post-acute bundling, medical homes
- Different approaches will work in different communities
- Parallel play with private carriers (who can't set price), states

When federal, private capacity in place, expand, and limit payment growth

Categories of Medicare Program Changes

Limit Federal $		Attempt to limit growth in underlying costs	
Eligibility/ Benefits/ Caps	**Typical M'Care**	**Crosscutting Tools**	**System Changes**
Eligibility age Means testing Benefits, cost sharing Medigap Defined contribution Capped growth	By provider type - payment policy Rebate policy (Rx) Fraud and abuse	Quality strategy HIT Disclosure PCORI Pay for quality/value Resource use information Readmissions reductions HAI reductions Gain sharing	**Policy** Medical home Bundling ACOs MA Policy Changes Premium support **Gov/structure** CMMI IPAB

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Thank you

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