



# The Financing of Medicare

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Avalere Health LLC

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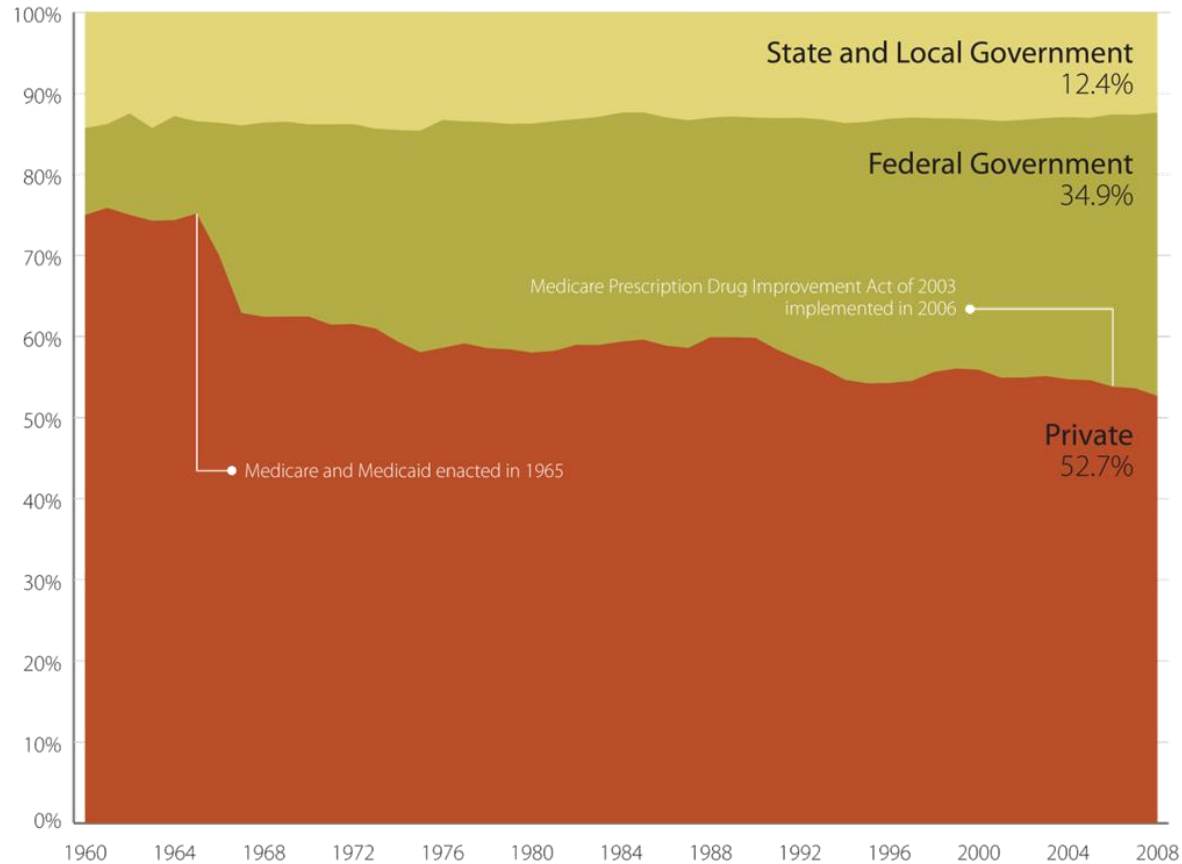
# The Healthcare Dollar



The intersection of business  
strategy and public policy

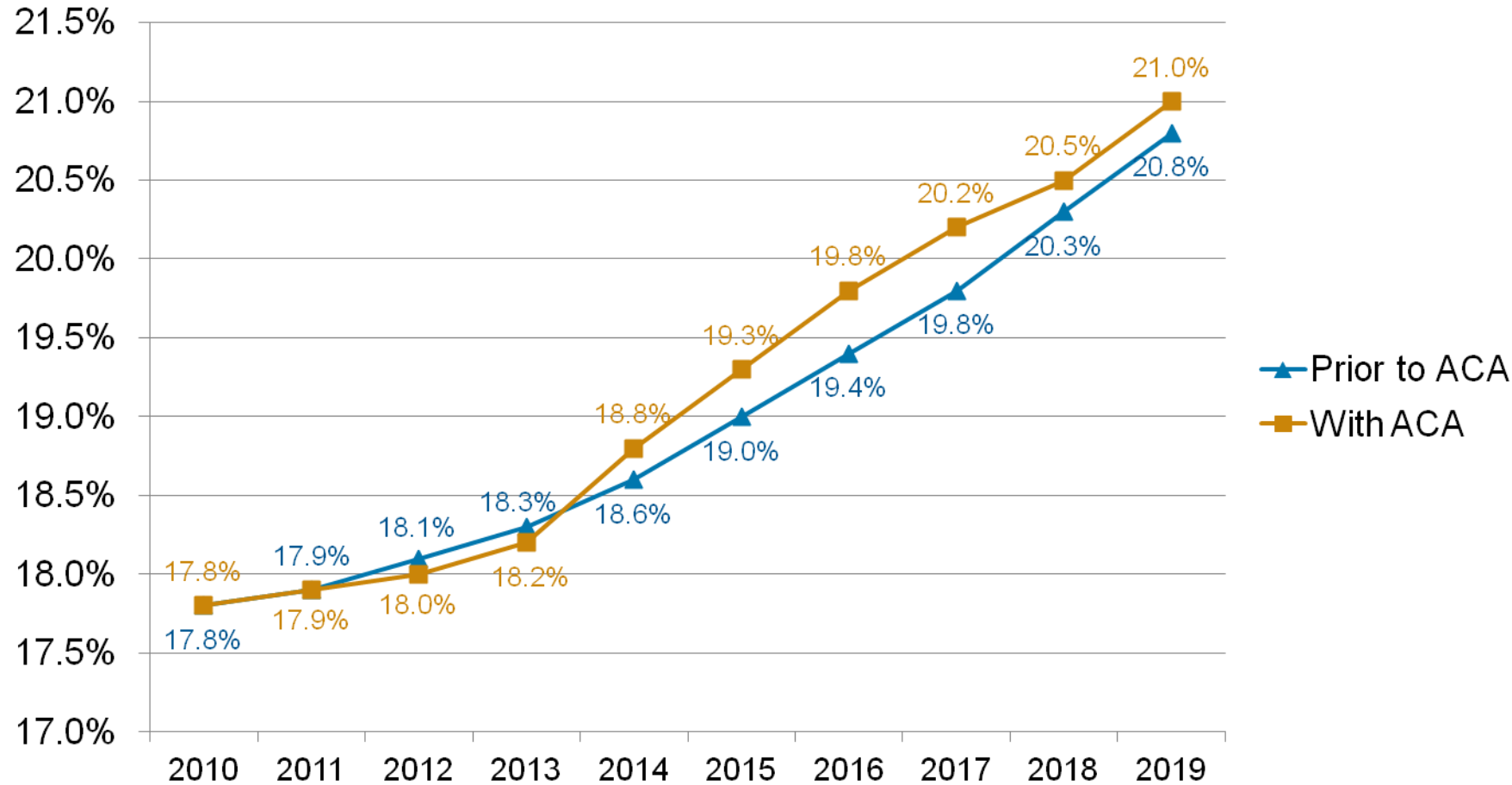
# The Federal Government Is a Payer of Health Care Services

## Sources of National Healthcare Expenditures, 1960-2008



Notes: Chart reflects national health expenditures (NHE) by source of funds. 2008 recession relief measure increased federal government's portion of Medicaid.  
Source: California Healthcare Foundation. *Snapshot Health Care Costs 101*, 2010.  
<http://www.chcf.org/~media/Files/PDF/H/HealthCareCosts10.pdf>.

# National Health Expenditures as Percent of GDP



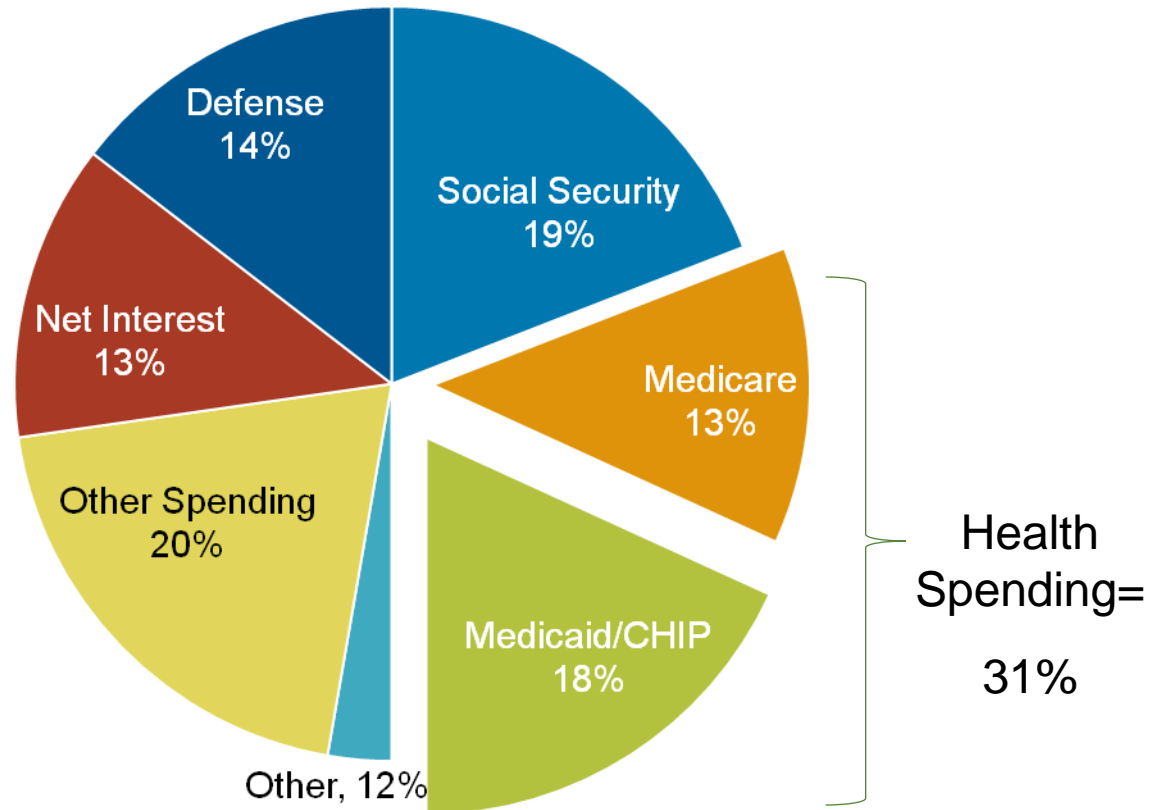
Source: OACT, Estimated Financial Effects of the "Patient Protection and Affordable Care Act," as Amended. April 22, 2010  
 Notes: In the prior-law baseline, other private health insurance includes private Medicare supplemental coverage and individual coverage. In the new-law estimates, other private health insurance includes only those with Medicare supplemental coverage. In the NHE accounts, other private spending includes philanthropic giving and income from non-patient sources, such as parking and investment income, for institutional providers.  
 GDP projections that accompanied the February 24, 2009 NHE projections release for 2008-2018.



# A Significant Proportion of the Federal Spending is Attributed to Health Care Programs

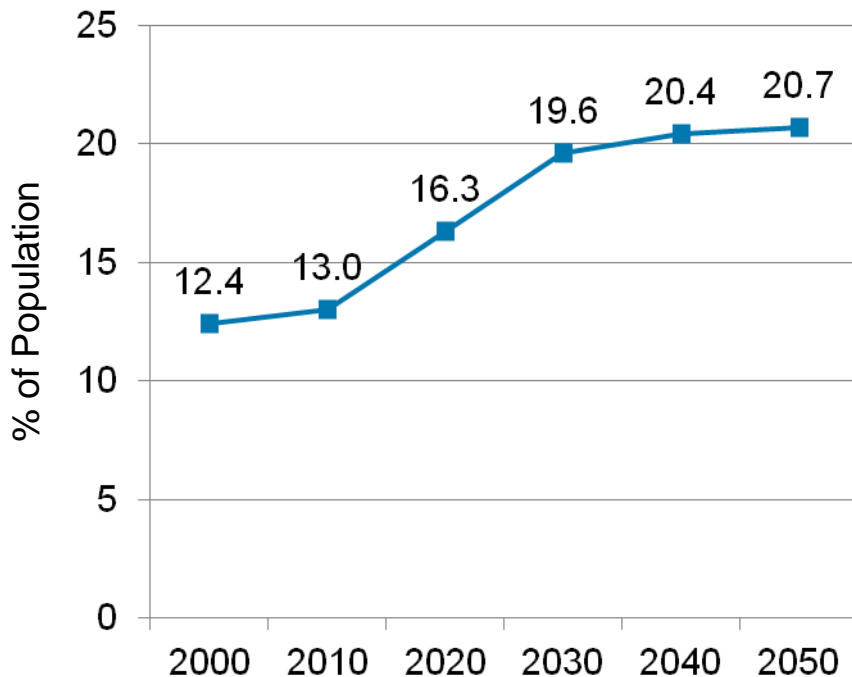
- Medicare spending is projected to increase from \$555 billion in 2011 to \$903 billion in 2020.

Projected Federal Spending in 2020

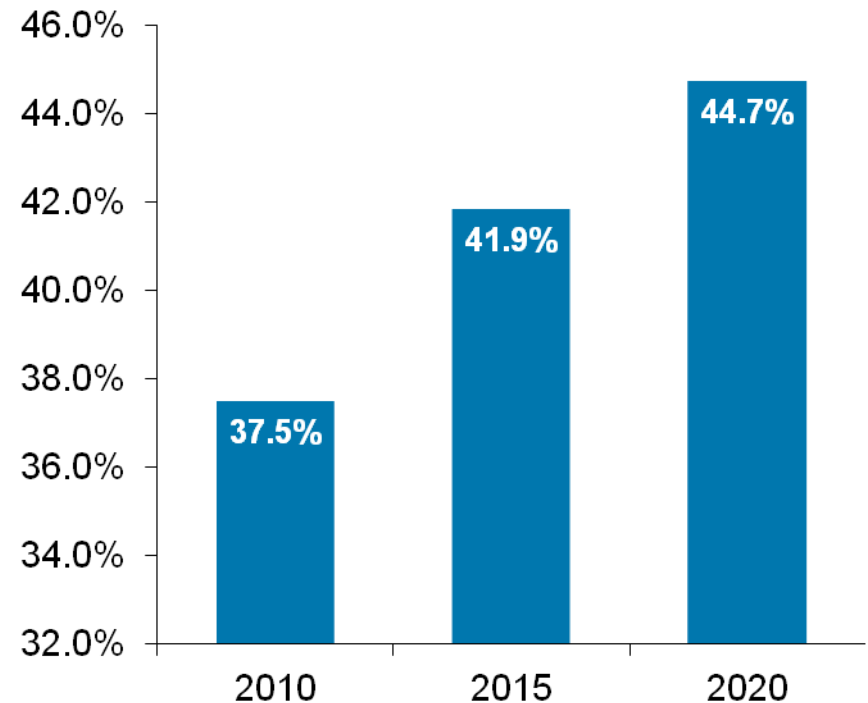


# A Graying Population and Spending Growth Will Increase Cost Pressures in Medicare

### Elderly (65+ years) in the United States as Percentage of Population



### Growth in Federal Medicare and Medicaid Spending as a Percent of Total Growth in Federal Outlays



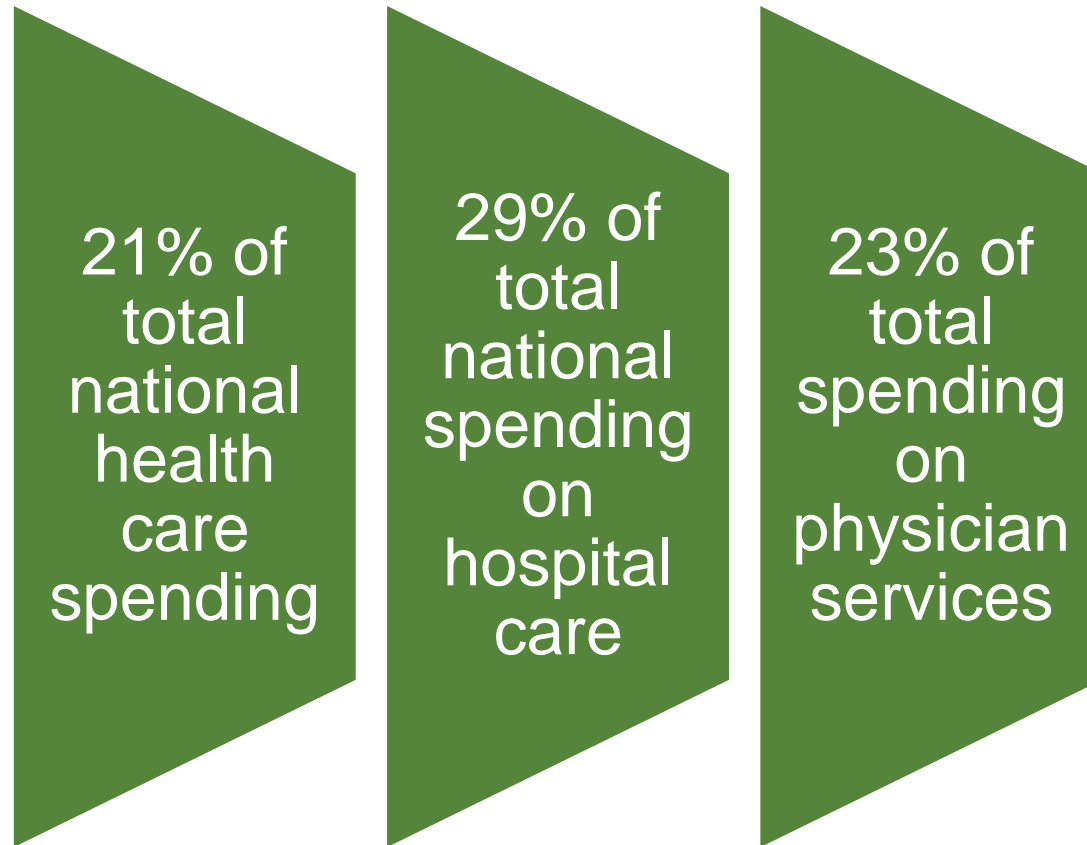
Source: U.S. Census Bureau, 2004, *U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin: 2000-2050*. <http://www.census.gov/population/www/projections/usinterimproj/>.

Source: The Budget and Economic Outlook: Fiscal Years 2010 to 2020, January 2010. CBO's Baseline Projections of Mandatory Spending. <http://www.cbo.gov/ftpdocs/108xx/doc10871/Frontmatter.shtml>

# In 2011, Spending on Medicare Accounts for 15% of the Federal Budget

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- Medicare accounts for:







# Medicare Financing Overview



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# Key Medicare Statistics

- In 2011, 48.7 million people were covered by Medicare
  - » 40.4 million aged 65 and older
  - » 8.3 million disabled
- About 25% of beneficiaries have chosen to enroll in Part C private health plans (Medicare Advantage managed care plans) that contract with Medicare to provide Part A and Part B health services
- Total benefits paid in 2011 were \$541 billion.

## Medicare Data for CY2011 (Dollar amounts in billions)

Total Income	\$530.0
Total Expenditure	\$549.1
Benefits Paid	\$541.3
Assets Held at Special Issue	\$324.9

# Medicare Consists of Four Programs

Program	Funding	Coverage
<b>Part A:</b> Hospital Insurance Program (Entitlement)	Federal Hospital Insurance Trust Fund	<ul style="list-style-type: none"> <li>Hospital inpatient, skilled nursing facility (SNF), and some home health care</li> </ul> <p><i>All Medicare beneficiaries are enrolled in Part A</i></p>
<b>Part B:</b> Medical Insurance (Voluntary; Opt Out)	Federal Supplementary Medical Insurance Trust Fund; General Revenue; Beneficiary Premiums	<ul style="list-style-type: none"> <li>Fee-for-service (FFS) payment for physician services including physician-administered drugs, hospital outpatient care, laboratory services, durable medical equipment, some home health care, outpatient mental health services, and physical, occupational, and speech therapy services</li> </ul> <p><i>Over 95% of beneficiaries are enrolled in Part B</i></p>
<b>Part C:</b> Managed Care (Medicare Advantage (MA)) (Voluntary; Opt In)	Payments to Managed Care Plans from Medicare Trust Funds; Beneficiary Premiums	<ul style="list-style-type: none"> <li>Part A and B services listed above (plus supplemental coverage that varies by plan)</li> </ul> <p><i>Approximately 22% of beneficiaries are enrolled in Part C</i></p>
<b>Part D:</b> Prescription Drug (Voluntary; Opt In)	Increased Payments to Medicare Trust Fund; Beneficiary Premiums	<ul style="list-style-type: none"> <li>Outpatient prescription drug benefit</li> </ul> <p><i>Approximately 60% of beneficiaries are enrolled in Part D</i></p>

# Medicare's Benefit Payments Vary Across its Parts

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Part A – Hospital Insurance (HI) = 35%

Part B – Supplementary Medical Insurance (SMI) = 29%

Part C – Medicare Advantage (private health plans) = 23%

Part D – Prescription drug benefit = 12%

# How is Medicare Financed?

- Medicare is funded primarily from three sources:
  - » General revenues (42%)
  - » Payroll tax contributions (37%)
  - » Beneficiary premiums (13%)

Funding Sources by Program	
Part A	<ul style="list-style-type: none"><li>■ 2.9% tax on earnings paid by employers and employees (84% of Part A revenue)</li><li>■ For higher-income taxpayers, the payroll tax on earnings will increase by 0.9% in 2013</li></ul>
Part B	<ul style="list-style-type: none"><li>■ General revenues (74%)</li><li>■ Beneficiary premiums (25%)</li><li>■ Beneficiaries with higher incomes pay a higher, income-related Part B premium ranging from 35% to 80%; the ACA froze the income thresholds through 2019</li></ul>
Part D	<ul style="list-style-type: none"><li>■ General revenues (83%)</li><li>■ Beneficiary premiums (11%)</li><li>■ State payments for dual eligibles (6%)</li><li>■ Similar to Part B, higher-income beneficiaries pay a larger share of the cost of standard drug coverage</li></ul>

# Medicare Part C (Medicare Advantage) Includes Both Parts A and B Services

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- MA plans are run by private insurance companies approved by and under contract with Medicare
- MA plans must cover all services provided by Medicare Parts A and B except hospice care
- Medicare pays a fixed, per beneficiary, monthly amount to companies offering MA Plans
- MA plans include: HMO, PPO, PFFS, MSA, and SNP
- Beneficiaries with Parts A and B may enroll in a MA plan; beneficiaries with ESRD may not newly enroll in a MA plan\*
- Participants pay the traditional Part B premium and may also pay a MA premium, and cost sharing for covered services

**Companies offering MA plans must follow rules set by Medicare but can charge different out-of-pocket costs and set different rules for obtaining services.**

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\*Except beneficiaries may enroll in an ESRD SNP demonstration plan, and beneficiaries who develop ESRD while enrolled in a MA plan may remain in their plan.

# Beneficiary Cost Sharing\* Varies by Coverage Option

	Premium	Deductible	Coinsurance/Copayment
<b>FFS</b>	<ul style="list-style-type: none"> <li>Most beneficiaries do not pay a premium for Part A services</li> <li>Part B premiums are income-adjusted</li> </ul>	<ul style="list-style-type: none"> <li>Inpatient hospital: \$1,100 deductible (first 60 days)</li> <li>Skilled Nursing Facility: \$0 deductible (first 20 days)</li> <li>Part B: \$155 per calendar year</li> </ul>	<ul style="list-style-type: none"> <li>Inpatient hospital: \$0/day copayment (1-60); \$275/day copayment (61-90); \$550/day copayment (91-150); all costs after 150 days</li> <li>Skilled Nursing Facility: \$137.50/day copayment (21 – 100); all costs after 100 days</li> <li>Most Part B services are subject to a 20% coinsurance**</li> </ul>
<b>FFS + Medigap</b>	<ul style="list-style-type: none"> <li>Beneficiaries pay a Medigap policy premium and a Part B premium</li> </ul>	<ul style="list-style-type: none"> <li>Varies by plan</li> </ul>	<ul style="list-style-type: none"> <li>Medigap often covers the coinsurance once the deductible is paid</li> </ul>
<b>Duals</b>	<ul style="list-style-type: none"> <li>Medicaid covers Part B premium</li> </ul>	<ul style="list-style-type: none"> <li>Medicaid covers deductible</li> </ul>	<ul style="list-style-type: none"> <li>Medicaid covers cost sharing</li> <li>When 80 percent of the Medicare rate for services exceeds the Medicaid rate, states do not have to pay the dual eligible's 20 percent cost sharing</li> </ul>
<b>MA</b>	Part B premium + any additional MA premium (Avg. is \$30.00 per month)	<ul style="list-style-type: none"> <li>Varies by plan</li> </ul>	<ul style="list-style-type: none"> <li>Varies by plan</li> </ul>
<b>Part D</b>	Varies by plan (Avg. is \$31.94 per month)	<ul style="list-style-type: none"> <li>\$0-\$310; varies by plan</li> </ul>	<ul style="list-style-type: none"> <li>Varies by plan</li> </ul>

\*Cost-sharing based on 2010 rates.

\*\*Manufacturers may assist low income beneficiaries by using third party vendors such as a foundation; however, they may not use manufacturer patient assistance programs.



# Financial Responsibilities Among Payers and Beneficiaries Vary by Benefit Option

	Part A and Part B	Part C	Part D
<b>CMS</b>	Pays providers based on set payment rates	Pays a fixed monthly amount per beneficiary to companies offering MA Plans	Pays a fixed monthly amount per beneficiary to Part D plans
<b>State Medicaid Agencies</b>	Pay providers for dual eligibles' cost sharing and non-Medicare covered items	Varies; may pay MA plans a monthly capitation amount or pay providers as under FFS	N/A
<b>Private Insurers</b>	<u>Medigap Plans:</u> <ul style="list-style-type: none"> <li>Receive premiums from Medigap policy holders</li> <li>Pay facilities and providers according to plan benefits</li> </ul>	<u>MA Plans:</u> <ul style="list-style-type: none"> <li>Receive a fixed monthly amount from CMS and premiums from enrollees</li> <li>Pay facilities and providers according to plan benefits</li> </ul>	<u>Part D Plans:</u> <ul style="list-style-type: none"> <li>Receive a fixed monthly amount from CMS and premiums from enrollees</li> <li>Pay pharmacists for drugs dispensed</li> </ul>
<b>Providers and Pharmacists</b>	Receive set payments from CMS	Receive payments from plans, as negotiated	<ul style="list-style-type: none"> <li>Receive payments from plans, as negotiated</li> </ul>
<b>Beneficiaries</b>	<ul style="list-style-type: none"> <li>Pay a deductible and cost sharing for covered services and supplies</li> <li>May pay a Medigap policy premium</li> </ul>	<ul style="list-style-type: none"> <li>Pay premium to private insurers (varies by plan)</li> <li>Pay cost sharing to providers (varies by plan)</li> </ul>	<ul style="list-style-type: none"> <li>Pay premium to Part D plan (varies by plan)</li> <li>Pay cost sharing to pharmacists (varies by plan)</li> </ul>



# Questions and More Information

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