Saving Medicare Money Through Raising Revenues, Beneficiary Costs, and Age of Eligibility: Options and Implications

NASI Medicare Academy

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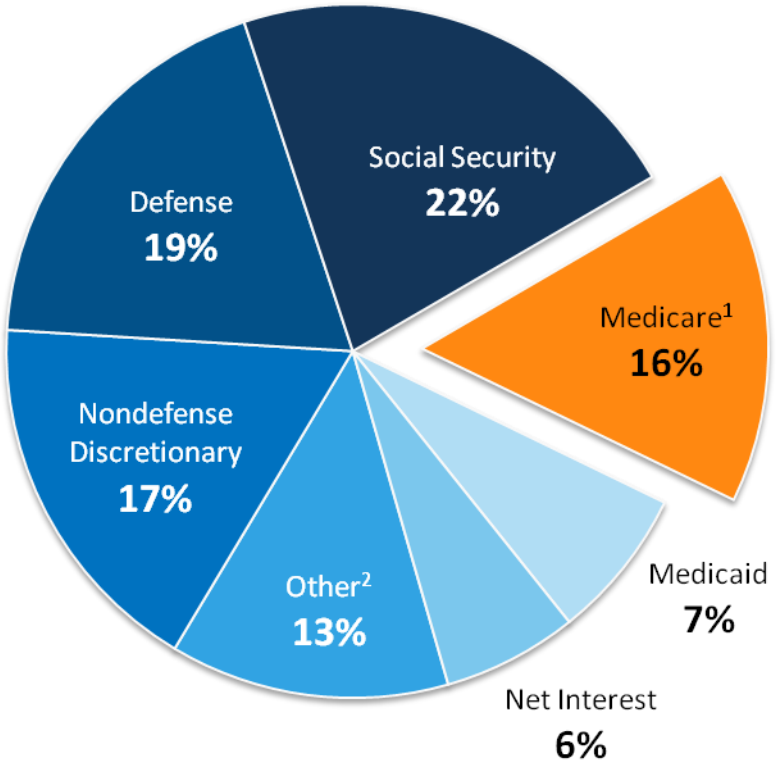
Exhibit 1

Why Medicare Proposals Are Under Discussion

- Medicare is now 16% of the federal budget, growing to 17% by 2020
- Medicare was 3.6% of the economy in 2010, growing to 3.9% by 2020, and 5.1% by 2030
- Medicare enrollment will grow from 50 million today to 88 million in 2040
- Over the long term, total Medicare spending is projected to grow faster than the economy, due to retirement of baby boomers and rising health care costs (affecting all payers)



Total Federal Spending, FY 2012: $3.5 Trillion

NOTE: FY is fiscal year. [1]Amount for Medicare is mandatory spending and excludes offsetting premium receipts (premiums paid by beneficiaries, amounts paid to providers and later recovered, and state contribution (clawback) payments to Medicare Part D).
[2]"Other" category includes other mandatory outlays and offsetting receipts.
SOURCE: Kaiser Family Foundation based on Congressional Budget Office, Historical Budget Data, February 2013.

Exhibit 2

Several Medicare Savings Options are Currently Under Consideration

- **Raise new revenues**
- **Raise Medicare premiums and cost-sharing requirements**
- **Raise the age of Medicare eligibility**
- Restructure Medicare's benefit design and restrict supplemental coverage
- Premium support
- Cap annual Medicare spending
- Improve care coordination for high-need beneficiaries
- Accelerate delivery system reforms
- Reduce payments for providers and plans
- Program integrity (i.e., reduce waste, fraud, and abuse)

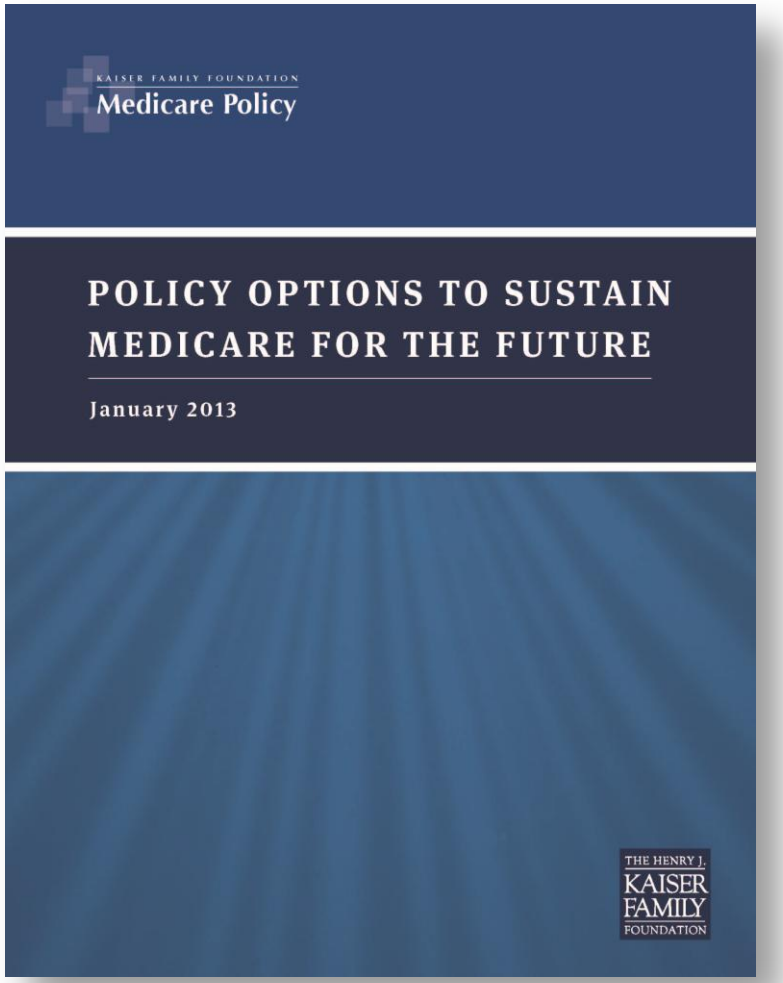
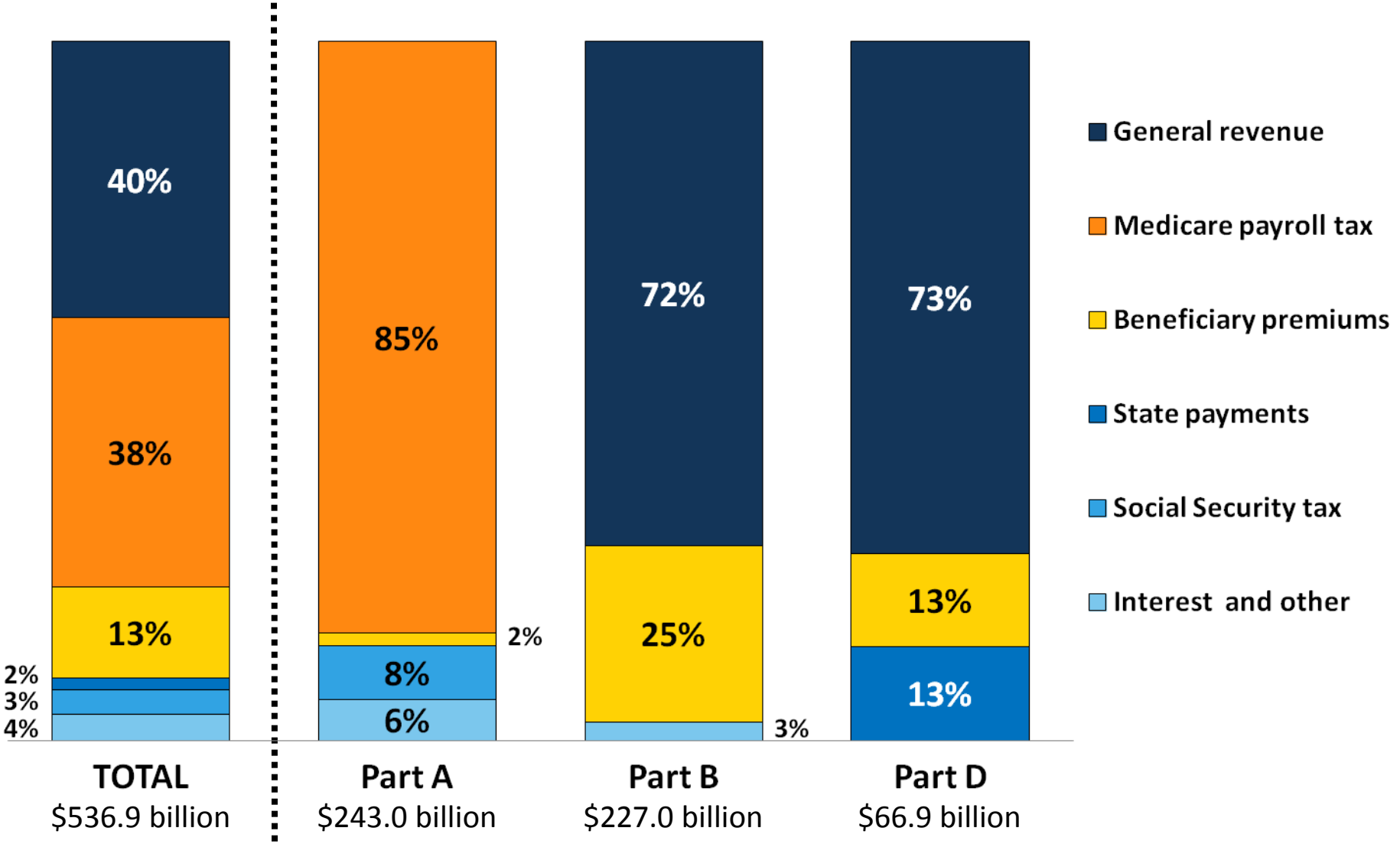


Exhibit 3

Sources of Medicare Funding, 2012



NOTE: Numbers may not sum due to rounding. Amounts are fiscal year totals.
SOURCE: 2013 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

Exhibit 4

Options to Increase the Medicare Payroll Tax

- **Under current law:**
  - The Medicare payroll tax rate is 2.9%, split equally between employers and workers (1.45% each)
  - An additional payroll tax of 0.9% is paid by high-wage earners (annual income greater than $200,000/individuals and $250,000/couples)
- **Options to increase the payroll tax:**
  - Replace the additional tax on high-wage earners with a 1 percentage point increase in payroll tax for all earners
    - ***Would generate $651 billion in new revenue (2012-2021)***
  - Increase the level of the additional tax on high-wage earners
  - Lower the income thresholds to which the additional tax is applied
- **Pros and cons:**
  - Would shore up an important source of financing for Medicare Part A, but would increase the tax burden on workers

Exhibit 5

Potential Sources of New Tax Revenue for Medicare

- **Any of the following new revenue sources could be dedicated to the Medicare Part A trust fund and/or add to general revenue financing for Medicare:**
  - Increase the federal tax on **alcohol products (e.g., beer, wine, spirits)**
    - CBO has estimated that increasing taxes on all alcoholic beverages to a uniform $16/proof gallon would generate ***$60 billion in new revenue (2012-2021)***
  - Increase the federal tax on **tobacco products**
    - CBO has estimated that a 50-cent per pack increase in the tax on cigarettes and small cigars would generate ***$41 billion in new revenue (2013-2021)***
  - Impose a new federal excise tax on **sugar-sweetened beverages (e.g., soda)**
    - CBO has estimated that an excise tax on sugar-sweetened beverages of 3 cents/12 ounces would generate ***$50 billion in new revenue (2009-2018)***
- **Pros and cons:**
  - These taxes have the potential to improve health, health outcomes, and longevity by reducing unhealthy behaviors, but in general such taxes are regressive (more burdensome for lower-income people than higher-income people)

Exhibit 6

Overview of Medicare's Current Structure and Cost Sharing

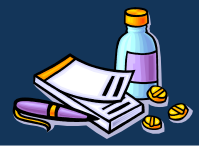
Part A (Hospital Insurance) 	Part B (Physician Services) 	Part D (Rx) Standard benefit 
Deductible $1,184/spell of illness **Inpatient hospital** No coinsurance, for days 1-60; $296/day, for days 61-90; $592/day, for days 91-150; No coverage after day 150 **Skilled nursing facility** No coinsurance, for days 1-20; $148/day for days 21-100; **Home health, hospice** No coinsurance	**Deductible** $147 in 2013 **Physician and other services** 20% coinsurance **Outpatient mental health** 35% coinsurance **Annual "wellness" visit, clinical laboratory services, home health care** No coinsurance **Preventive services** No coinsurance for many services, 20% for some	**Deductible** $325 in 2013 **Initial coverage** 25% coinsurance (up to $2,970 in total drug costs) **Coverage gap** 47.5% coinsurance for brands, 79% coinsurance for generics between $2,970 and $6,955 in total drug costs
No limit on cost-sharing for Part A services	**No limit on cost-sharing for Part B services**	**Catastrophic coverage** Minimum of $2.65/generic, $6.60/brand, or 5% coinsurance above $4,750 in out-of-pocket spending

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Exhibit 7

Under current law, higher-income Medicare beneficiaries now pay higher Medicare Part B and Part D premiums

If your income is..	Less than $85,000	$85,001 - $107,000	$107,001 - $160,000	$160,001 - $214,000	$214,001 or more
Your monthly Part B premium in 2013 is…	$105	$147	$210	$273	$336
Share of Part B beneficiaries in this income level	95%	2%	2%	1%	1%

SOURCE: Kaiser Family Foundation illustration of Income-Related Part B Medicare Premiums, 2013.

Exhibit 8

Options to Increase Beneficiary Cost Sharing

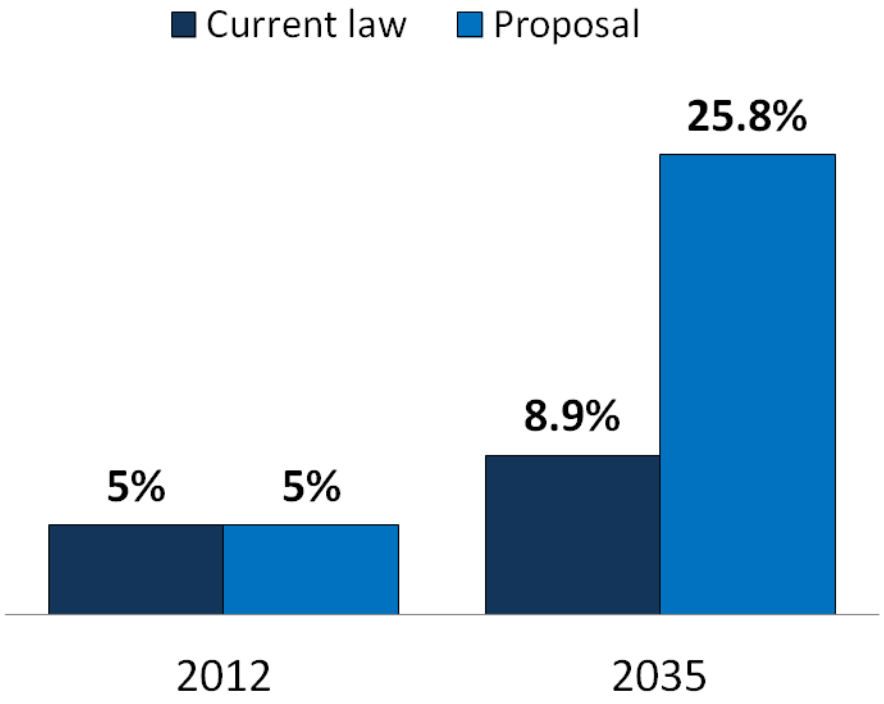
- **Increase Part B/Part D premiums**
  - For example, lower the income thresholds that determine who pays the higher-income premium
- **Increase the Part B deductible**
  - For example, increase the deductible by $75 for new beneficiaries only or for all beneficiaries
- **Increase cost sharing for Medicare-covered services**
  - Introduce cost sharing for home health services; e.g., impose a 10% coinsurance on all home health episodes; impose a $150 copayment per episode (5 or more visits)
  - Introduce cost sharing for the first 20 days of a skilled nursing facility (SNF) stay
  - Introduce cost sharing for clinical laboratory services

Exhibit 9

Implications of Freezing the Income Thresholds until 25% of Beneficiaries Pay Higher Medicare Premiums

If income thresholds remain fixed beyond 2019, a growing number and share of beneficiaries will pay the higher Medicare premiums

Share paying higher premiums:



When fully phased in (~2035), beneficiaries with incomes of $85,000 or more per individual or more would be subject to the higher premium

$85,000 in 2035 is equivalent to

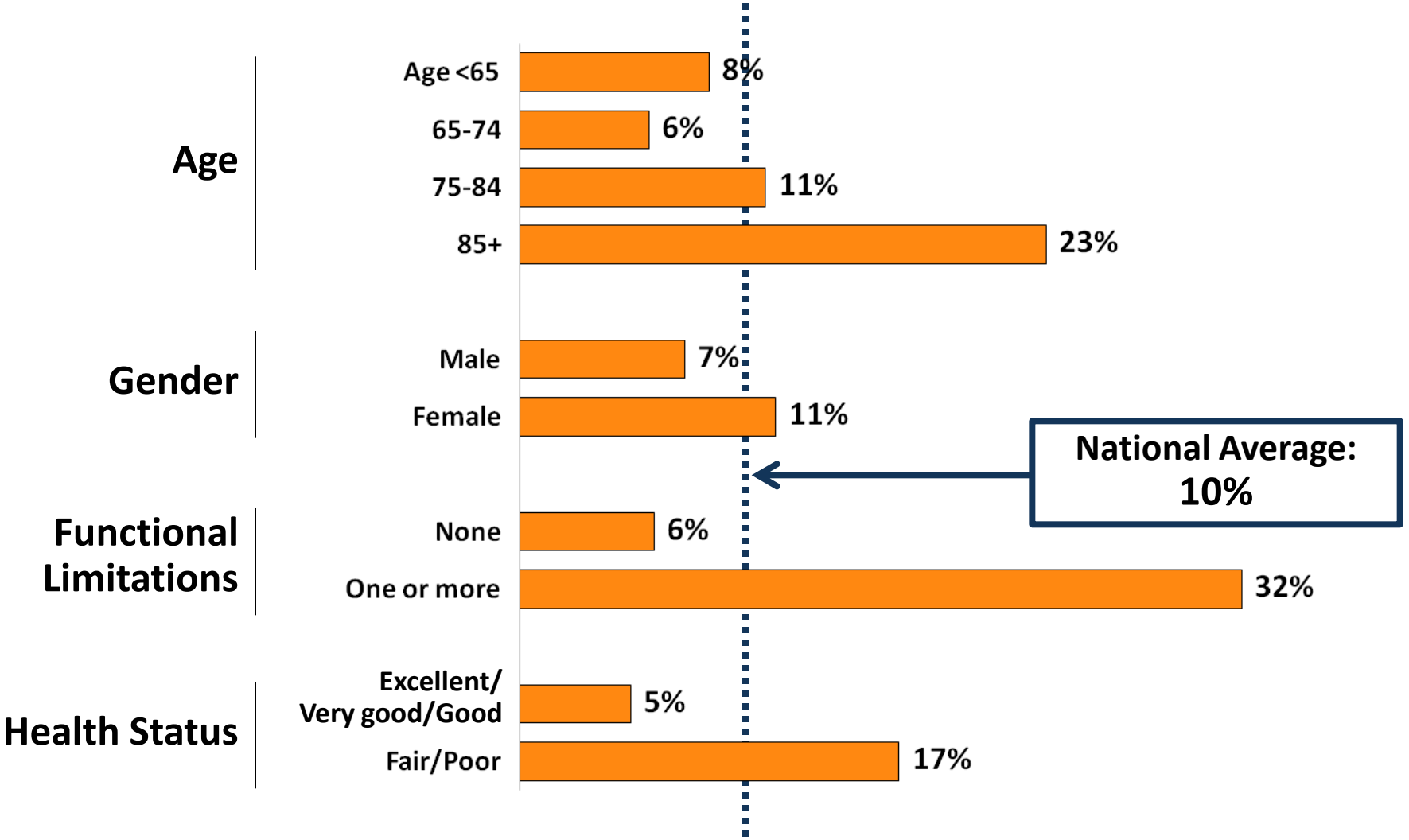
$47,000

for an individual in inflation-adjusted 2012 dollars

SOURCE: Kaiser Family Foundation, "Income-Relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals: What are the Implications for Beneficiaries?," February 2012.

Exhibit 10

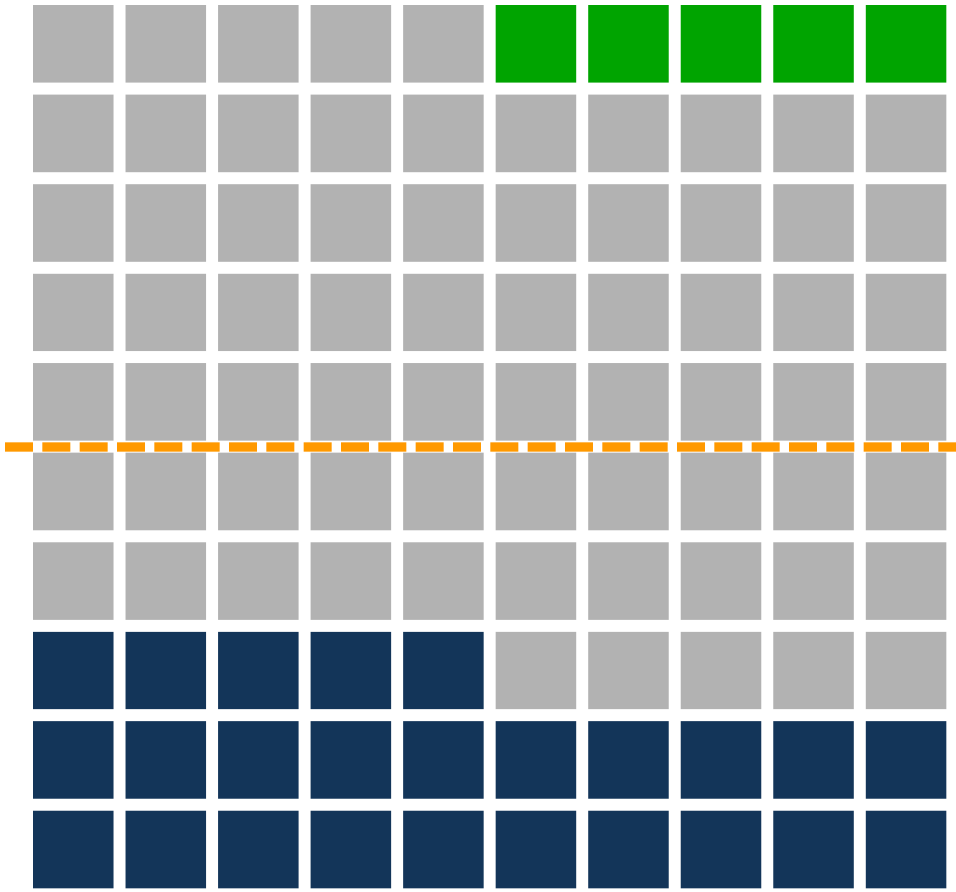
Percent of Beneficiaries Using Home Health Services Who Could Be Affected By New Cost-Sharing Requirements, 2014



NOTE: Functional limitations include problems with activities of daily living or instrumental activities of daily living.
SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, 2013.

Exhibit 11

Half of Medicare beneficiaries have incomes below $22,500



5% have incomes above **$88,900**

50% have incomes below **$22,500**

25% have incomes below **$14,000**

NOTE: Total household income for couples is split equally between husbands and wives to estimate income for married beneficiaries.
SOURCE: Urban Institute analysis of DYNASIM for the Kaiser Family Foundation.

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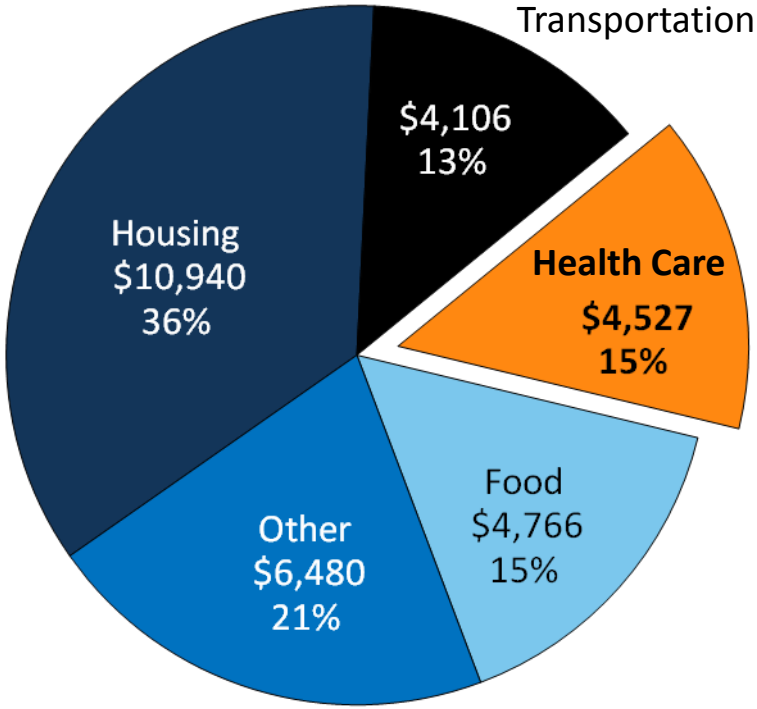
Exhibit 12

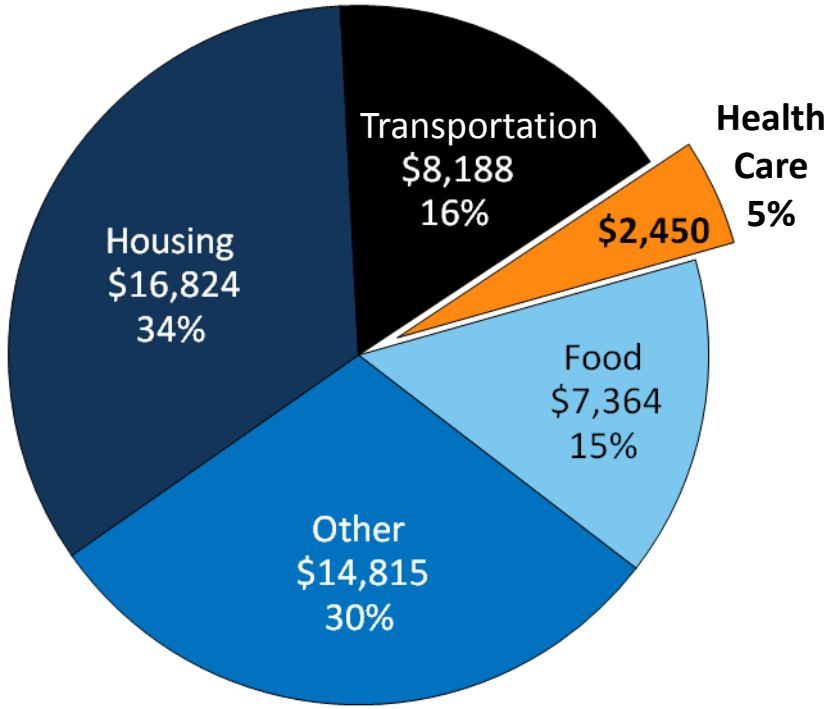
Distribution of Average Household Spending by Medicare and Non-Medicare Households, 2010

Medicare Household Spending



Average Household Spending = $30,818

Non-Medicare Household Spending



Average Household Spending = $49,641

SOURCE: Kaiser Family Foundation analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2010.

Exhibit 13

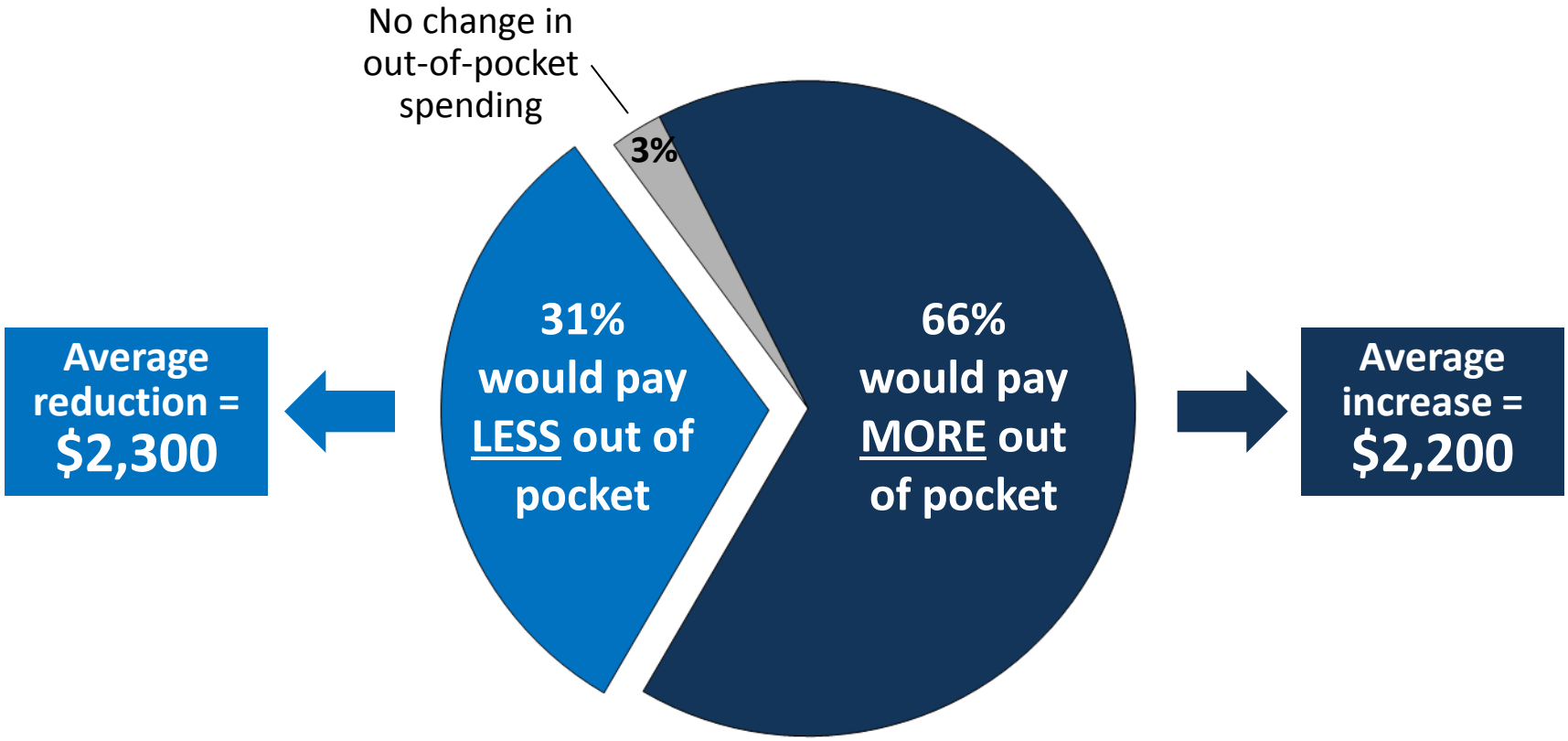
Raise the Age of Medicare Eligibility from 65 to 67

- **Why do it?**
  - Beneficiaries have longer life expectancy now than in 1965
  - The full retirement age for Social Security benefits is increasing to 67, so why not for Medicare?
  - Medicare saves money by covering somewhat fewer people
- **Why not?**
  - Earlier studies documented potential for large increase in uninsured 65 and 66 year olds if they were no longer eligible for Medicare
- **Why revisit the issue now?**
  - Health reform law will change the coverage landscape in 2014 (if fully implemented as passed)
  - People who lose access to Medicare would have access to other sources of coverage (e.g., Medicaid, employer, exchange)

Exhibit 14

Raising the age of Medicare eligibility to 67 is expected to reduce costs for some, but increase costs for most 65- and 66-year-olds

(Assuming full implementation of higher age and health reform in 2014)



Total Number of Full-Year Equivalent Medicare Beneficiaries Affected

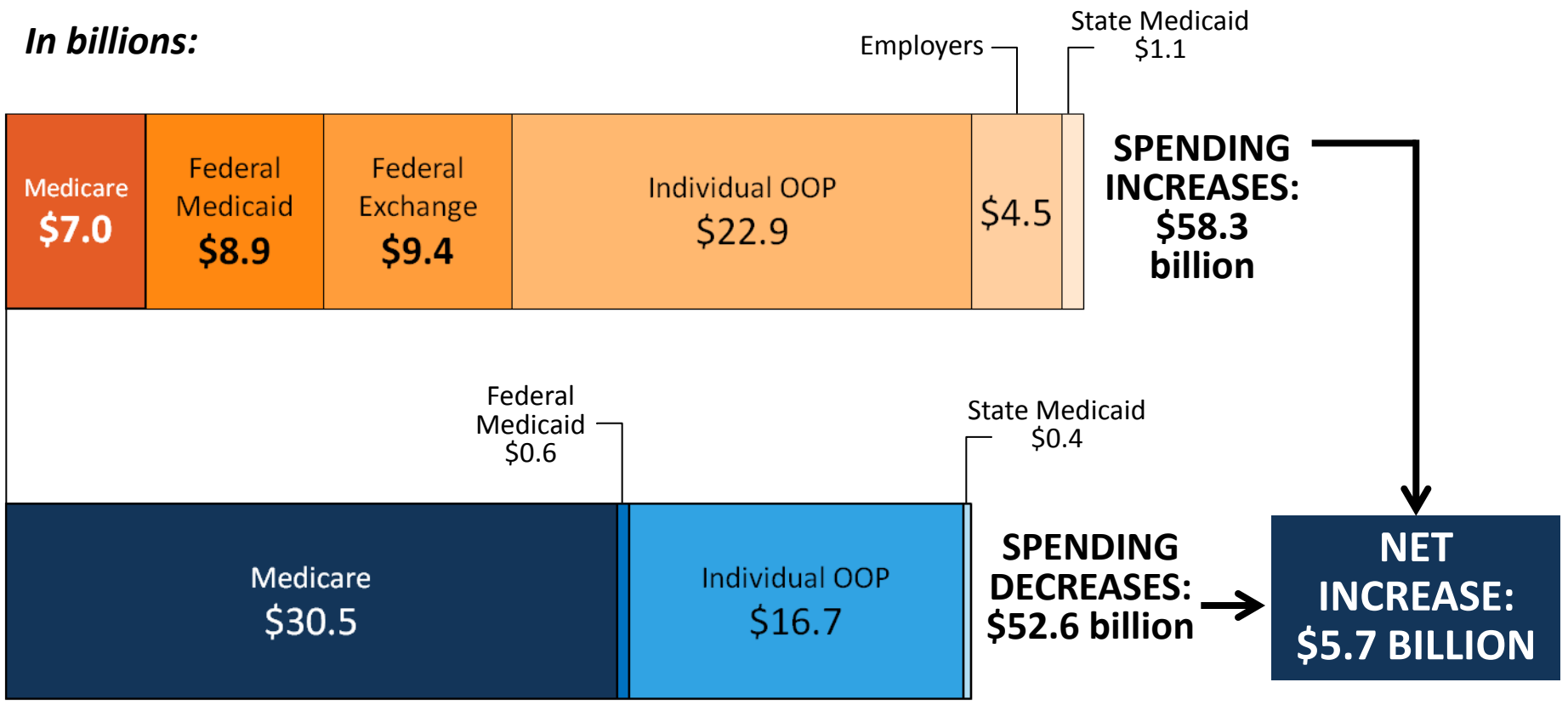
= 5.0 million

SOURCE: Kaiser Family Foundation, "Raising the Age of Medicare eligibility: A Fresh Look Following Implementation of Health Reform," July 2011.

Exhibit 15

Raising the Medicare age of eligibility to 67 would reduce Medicare spending, but result in a net increase in total health costs

(Assuming full implementation of higher age and health reform in 2014)



NOTES: Estimates do not reflect individual changes in out-of-pocket spending, but rather the average change for each group of individuals, based on new source of health insurance.
SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation.

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Exhibit 16

Selected Kaiser Family Foundation Medicare Resources

- ✓ Policy Options to Sustain Medicare for the Future
- ✓ Raising the Age of Medicare Eligibility
- ✓ Transforming Medicare into a Premium Support System
- ✓ Comparison of Medicare Provisions in Deficit and Debt Reduction Proposals
- ✓ Income-relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals
- ✓ A State-by-State Snapshot of Poverty Among Seniors
- ✓ Key Issues in Understanding the Economic and Health Security of Current and Future Generations of Seniors
- ✓ The Story of Medicare: A Timeline
- ✓ Health Care on a Budget
- ✓ Projecting Income and Assets

For more information,
visit www.kff.org/medicare

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