Perspectives on Medicare Financing and Health Care Costs

National Academy of Social Insurance

Summer Academy for Interns

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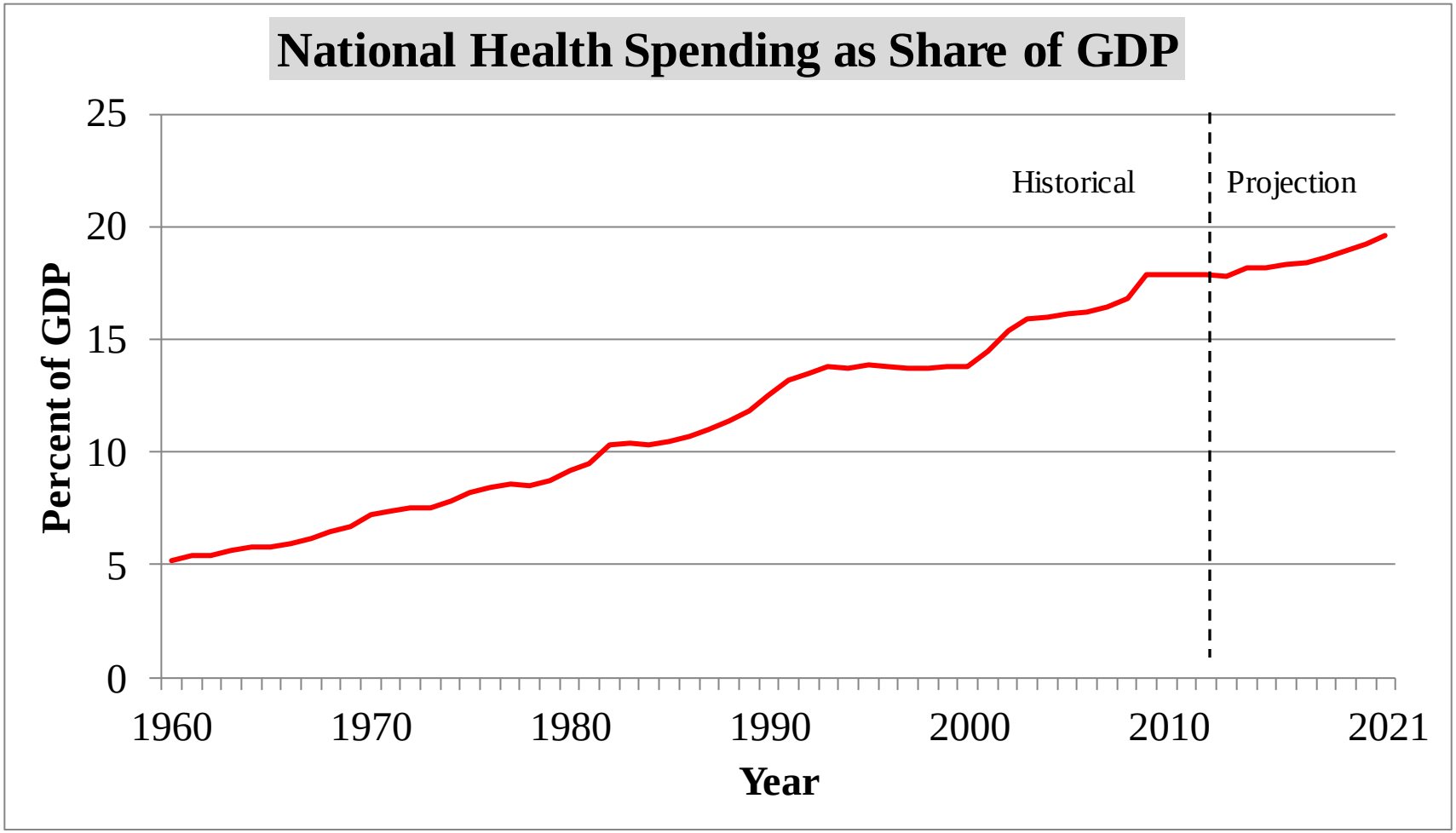
Health Policy Alternatives, Inc.

Outline

- Medicare financing in context
  - National health spending
  - Federal budget
- Health care spending issue
  - Key questions?
  - What are approaches?
  - Is recent slowdown sustainable?
- Medicare approaches: recent framework and potential options
- Return to policy questions

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



CMS Office of the Actuary; historical data and projections through 2021

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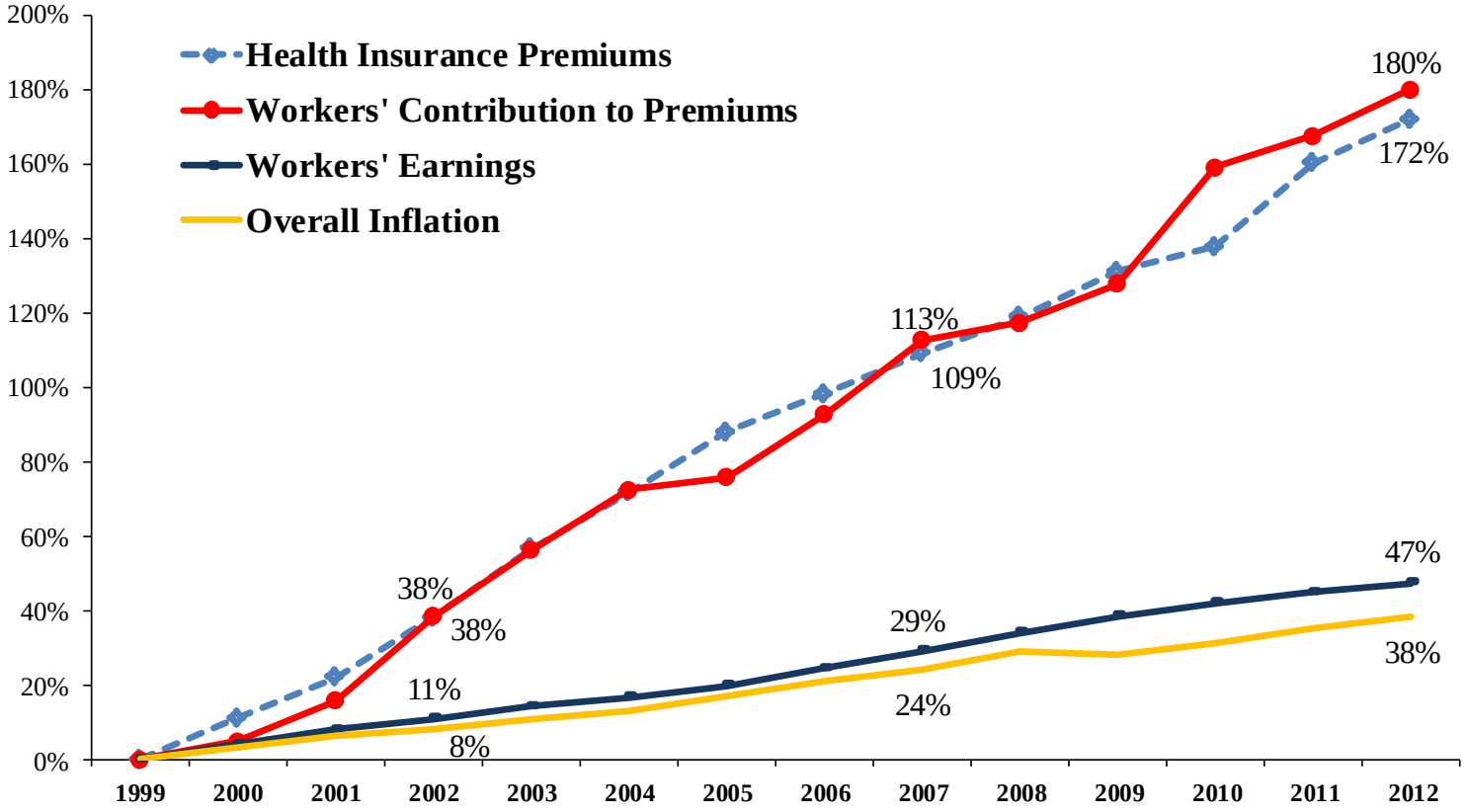
Increases in health insurance premiums, workers' contributions to premiums, inflation, and workers' earnings, 1999-2012



SOURCE: Taken from Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2012. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2012; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2012 (April to April).

Long-term federal projections: (next update this fall likely to show some slower health care growth)

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	+5.0
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	+4.1
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	

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

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Moving forward – focus on cost issue

- Medicare participates in, and is driver of, health care sector
- Can't address spending, with aging population, and (unknown) technologies, within reasonable social compact, without:
  - new revenue (yes, those are called taxes), and
  - some continuing constraint on growth in per capita spending in health care generally, including Medicare
- That overall constraint important for broader economy
- Key factors in moving forward:
  - Costs = Revenue
  - Price a key variable
  - Public wants and fears spending constraints
  - It is hard to do this

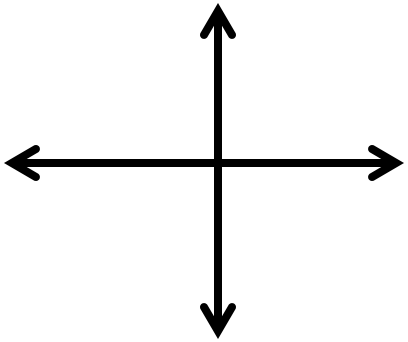
Some analytic and policy questions

- What are the approaches taken to slow spending growth?
- What are the causes of recent slowing?
- Could it be sustainable?
- What else can be done?
- What are consequences?
- How does the public respond?

What's going on to address costs? What are potential causes of recent slowdown?

Overall economic
Recent recession
Inevitability (eventually…)

Private
Insurance design
Higher deductibles, copays
Payment reforms
Networks
Tiered coverage, payment
Wellness
Patient engagement



Public/Medicare
Payment rate constraints
Infrastructure investments
Tests of payment, delivery reforms
Overall target, cap
Governance/management

Crosscutting, interactive
Data/information capacities
Technology?
Provider organization, consolidation?
ACA as accelerator and/or constraint?

Selected articles present differing views

- Roehing, et. al., "When the Cost Curve Bent–Pre-Recession Moderation in Health Care Spending" *NEJM*, August 16, 2012
- Ryu, et. al., "The Slowdown in Health Care Spending in 2009-11 Reflected Factors other than the Weak Economy and Thus May Persist," *Health Affairs*, May 2013
- Cutler and Sahni, "If Slow Rate of Health Care Spending Growth Persists, Projections May be Off by $770 Billion," *Health Affairs*, May 2013.
- Kaiser Family Foundation and Altarum Institute, "Assessing the Effects of the Economy on the Recent Slowdown in Health Spending," *Kaiser Family Foundation*, April 22, 2013
- Wilensky, "The Slowdown in Health Care Spending Persists and intrigues, *JAMA Forum:* May 31, 2013

Analytic, political and personal perspectives can yield differing weights for the factors

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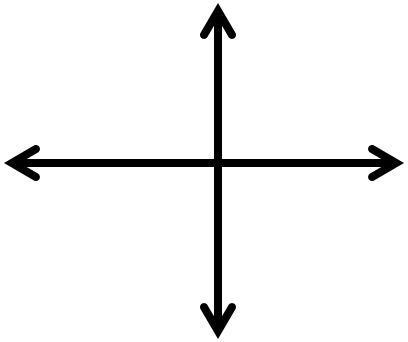

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How much is attributable to broader economic cycles, and the recent recession v. systemic changes in health care?

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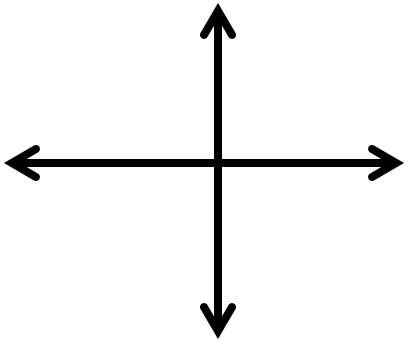

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How much is attributable to private sector insurance design, in particular higher deductibles and copays?

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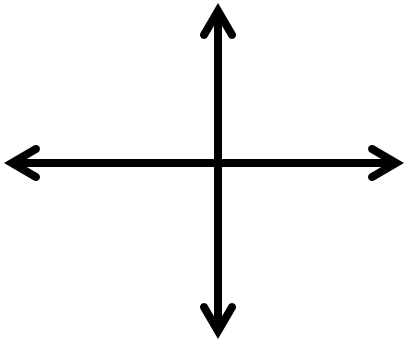

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How much is attributable to public/Medicare payment policies and constraints?

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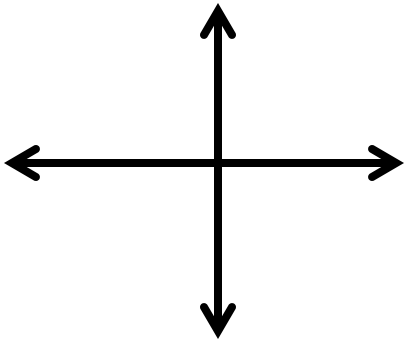

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How much is attributable to changes in drug/technology diffusion and changes in delivery – and what are the countervailing price impacts?

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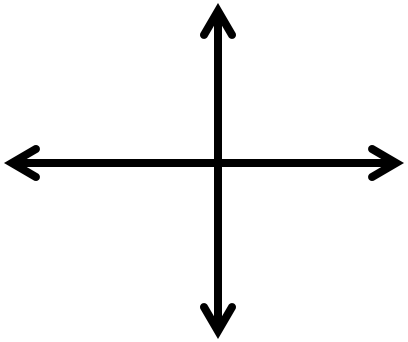

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Maybe its <u>everything?</u>

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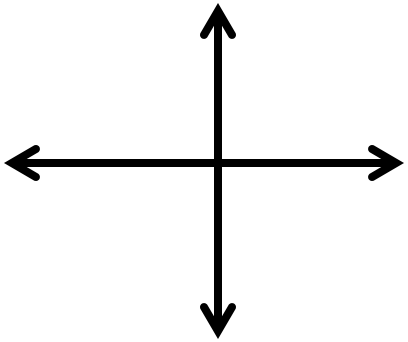

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Maybe its <u>everything</u>, coupled with a <u>change in expectations</u> (and plans) in health sector going forward?

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What are expectations?

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What is Medicare approach? Recent framework for Medicare reforms

Traditional Approaches	Crosscutting Tools/ Infrastructure	System Changes, Delivery Reforms
Payment policy, by provider type Managed care Fraud and abuse	<u>Infrastructure</u> Quality strategy HIT/EHRs Resource use feedback Admin. simplification <u>Initial steps</u> Pay for quality/value Readmissions reductions HAC reductions PCORI	<u>Approaches</u> Partial risk, risk-sharing Broader base of payment <u>Policy – "products"</u> Medical home Bundling ACOs <u>Gov/structure</u> CMMI IPAB – with target/cap

Derived and revised from MedPAC framework, 2008

Background - Medicare-driven delivery reform

Move to units of measurement, payment, risk and accountability

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

Build public, private infrastructure and test multiple approaches

- ACO, inpatient/post-acute bundling, medical homes
- Parallel play with States, private carriers (who can't set price)

When capacity in place, expand what works, limit $ growth

Additional Medicare alternatives to be considered:

- Eligibility (age, means-testing)
- Benefit design
- Defined contribution/premium support

Back to the analytic and policy questions, which remain questions …

- What are the approaches taken to slow spending growth?
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Thank you

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