

Medicare: How Big is the Financing Problem and Implications for Beneficiaries

Tricia Neuman, Sc. D.

Director, Program on Medicare Policy, Kaiser Family Foundation

Demystifying Medicare: 2015 Summer Academy

National Academy of Social Insurance

July 23, 2015

Medicare and the Federal Budget: Context

On the one hand...

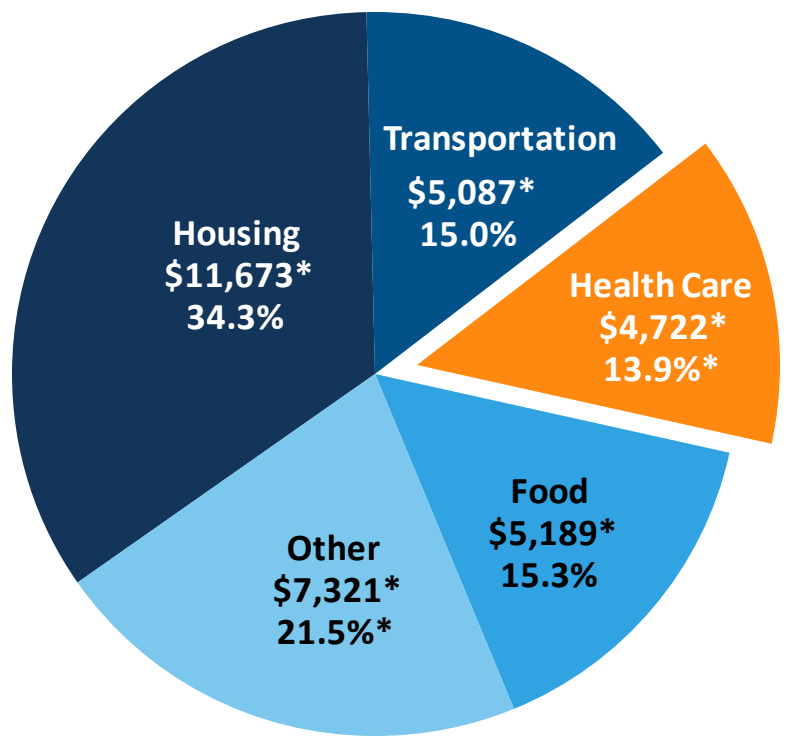
- Medicare is now 14% of the federal budget and growing
- Medicare population is expected to reach over 80 million by 2030
- Medicare as a share of GDP is projected to rise
- Ongoing concerns about Medicare in the context of the deficit and debt

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

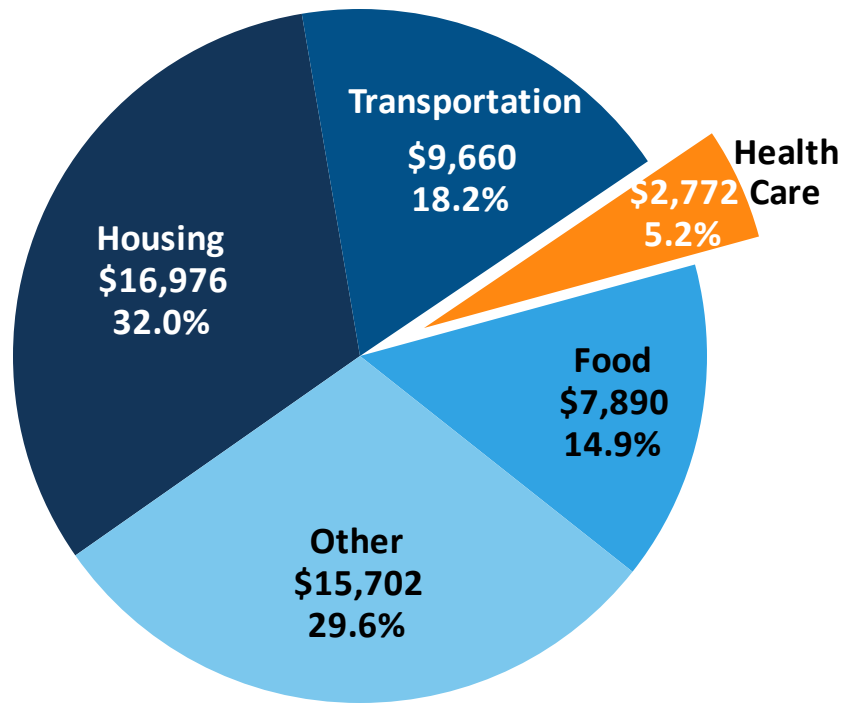
Medicare households spent far more than younger households on health expenses in 2012

Medicare Household Spending



Average Household Spending = **\$33,993***

Non-Medicare Household Spending

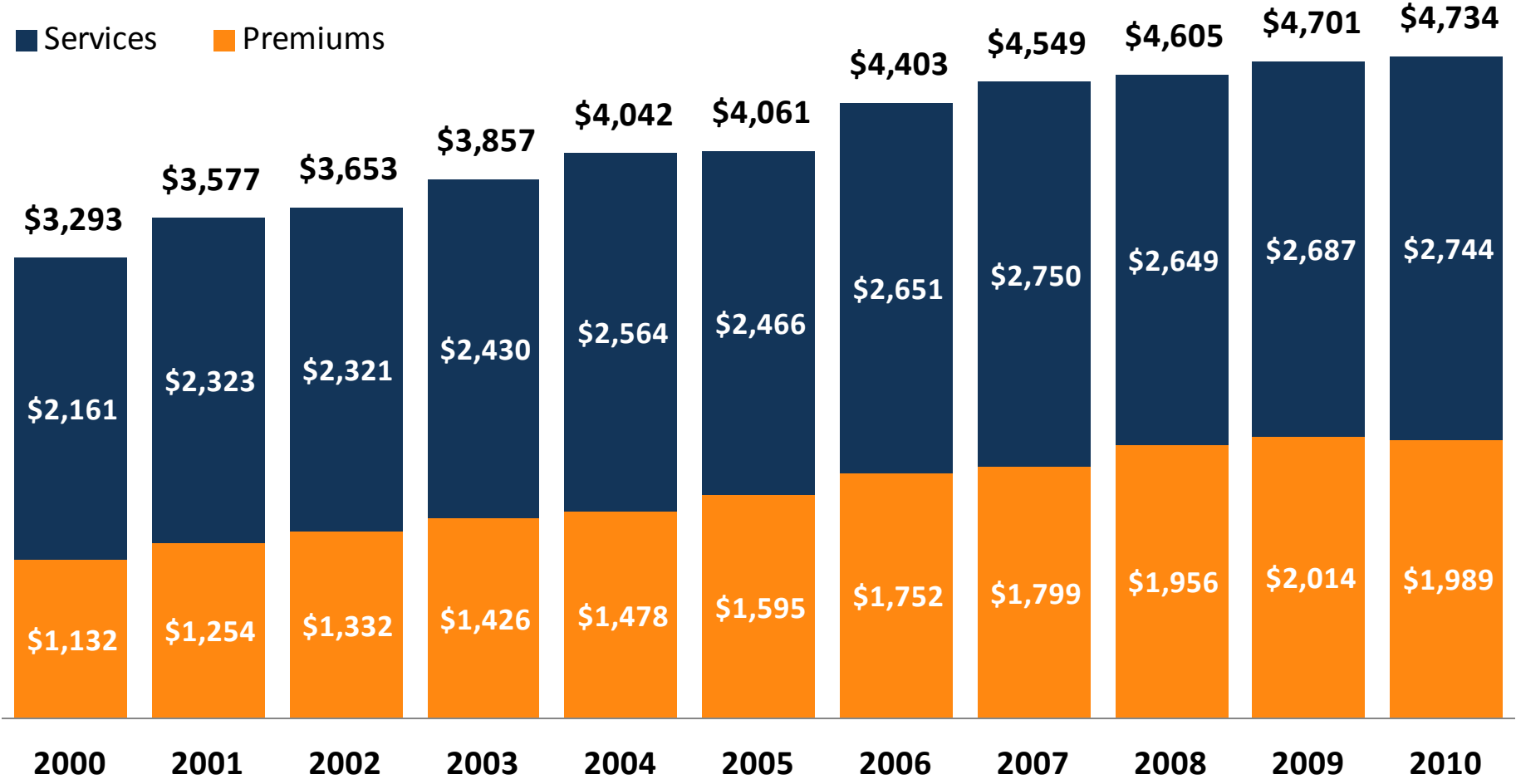


Average Household Spending = **\$53,000**

NOTE: *Estimate statistically significantly different from the non-Medicare household estimate at the 95 percent confidence level.
SOURCE: Kaiser Family Foundation analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2012.

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

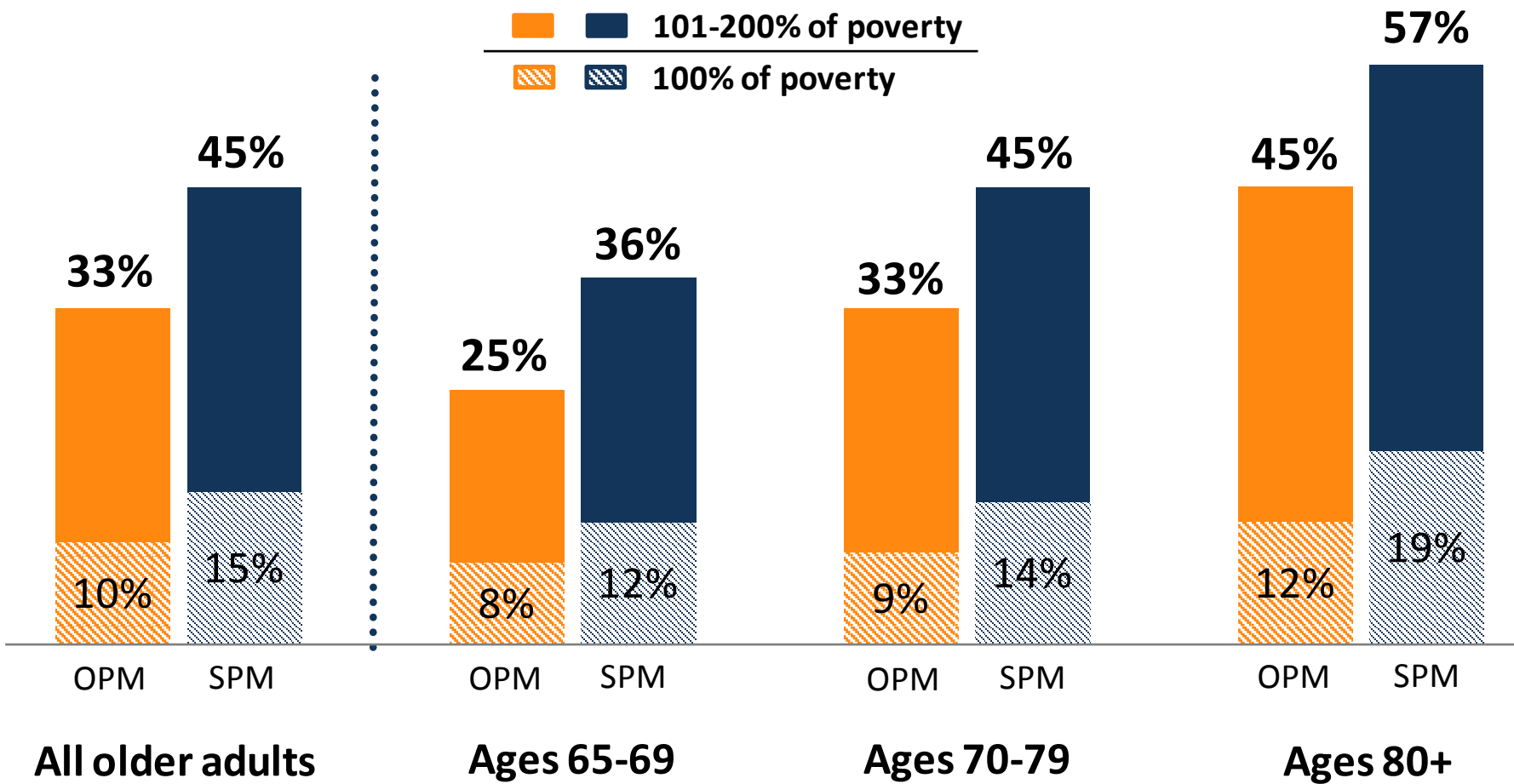
Medicare Beneficiaries' Average Total Out-of-Pocket Spending on Services and Premiums, 2000-2010



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). SOURCE: KFF, How Much Is Enough? Out-of-Pocket Spending Among Medicare Beneficiaries: A Chartbook, July 2014.

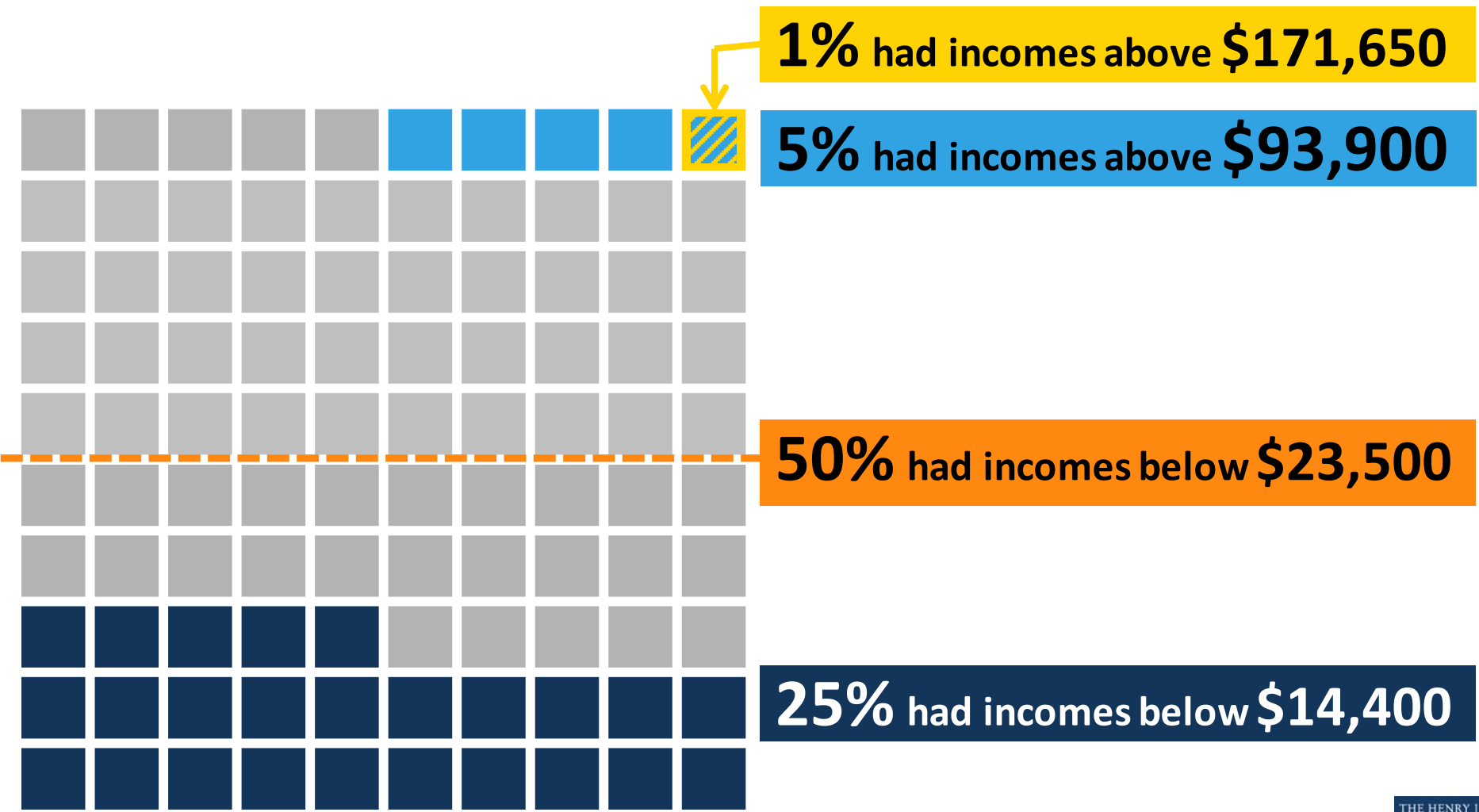
45% of people ages 65+ live below twice the poverty level, based on the Supplemental Poverty Measure, which takes into account health costs and other factors

Official Poverty Measure (OPM) and Supplemental Poverty Measure (SPM)



SOURCE: Kaiser Family Foundation, Poverty Among Seniors: An Updated Analysis of National and State Level Poverty Rates Under the Official and Supplemental Poverty Measures, June 2015.

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

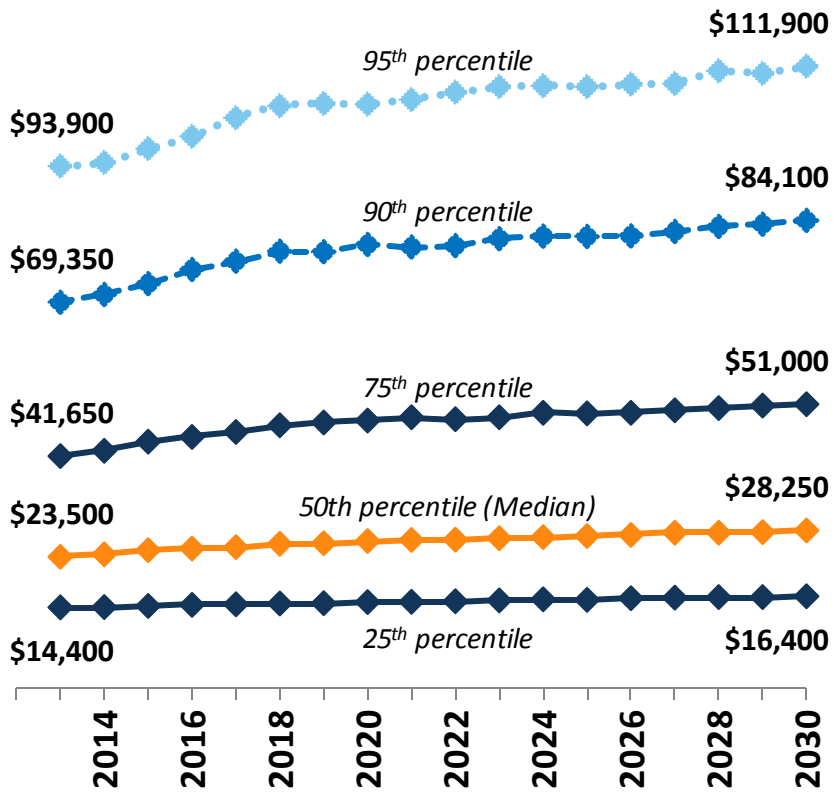


SOURCE: Urban Institute / Kaiser Family Foundation analysis of DYNASIM data 2013.

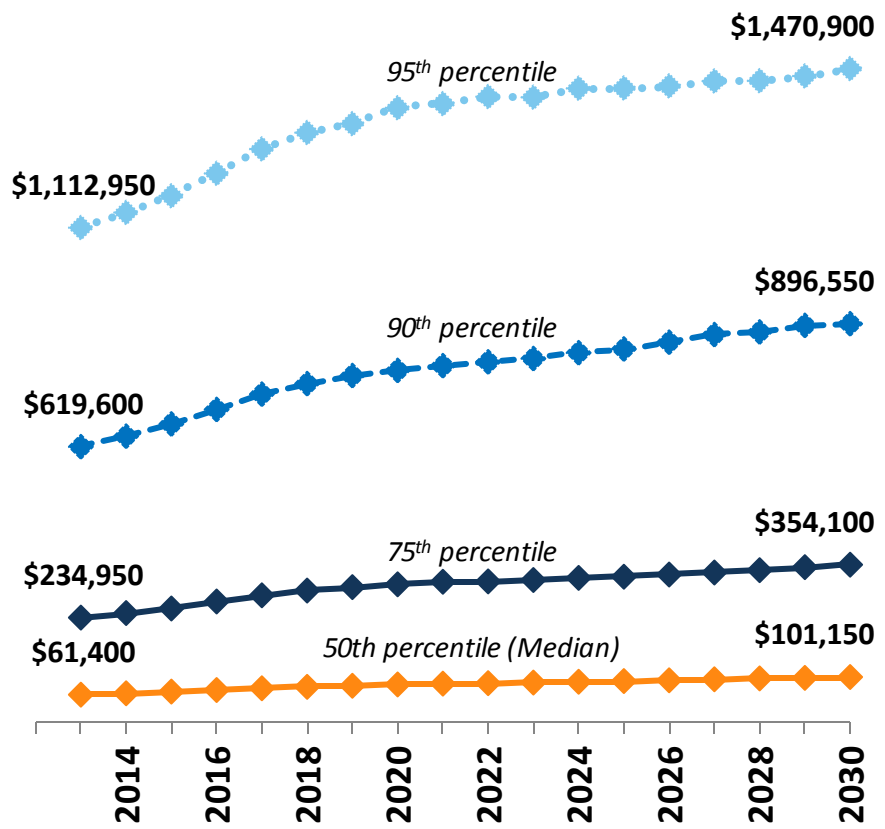
The next generation of Medicare beneficiaries can expect some gains in income and savings, but mainly at the top



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.

What factors could lead to higher out-of-pocket spending for Medicare beneficiaries in the future?

- **Erosion of supplemental coverage**
 - 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 could raise costs for some beneficiaries – even with Part D “donut hole” closing**
 - Especially unique drugs with few/no competitors



**POLICY OPTIONS TO SUSTAIN
MEDICARE FOR THE FUTURE**

January 2013

**Many, many proposals
could be considered to
reduce the future
growth in Medicare
spending...**

**...each of which
involves tradeoffs**

**...some of which would
directly or indirectly
affect beneficiaries**

Raise Premiums for "Wealthy" Beneficiaries

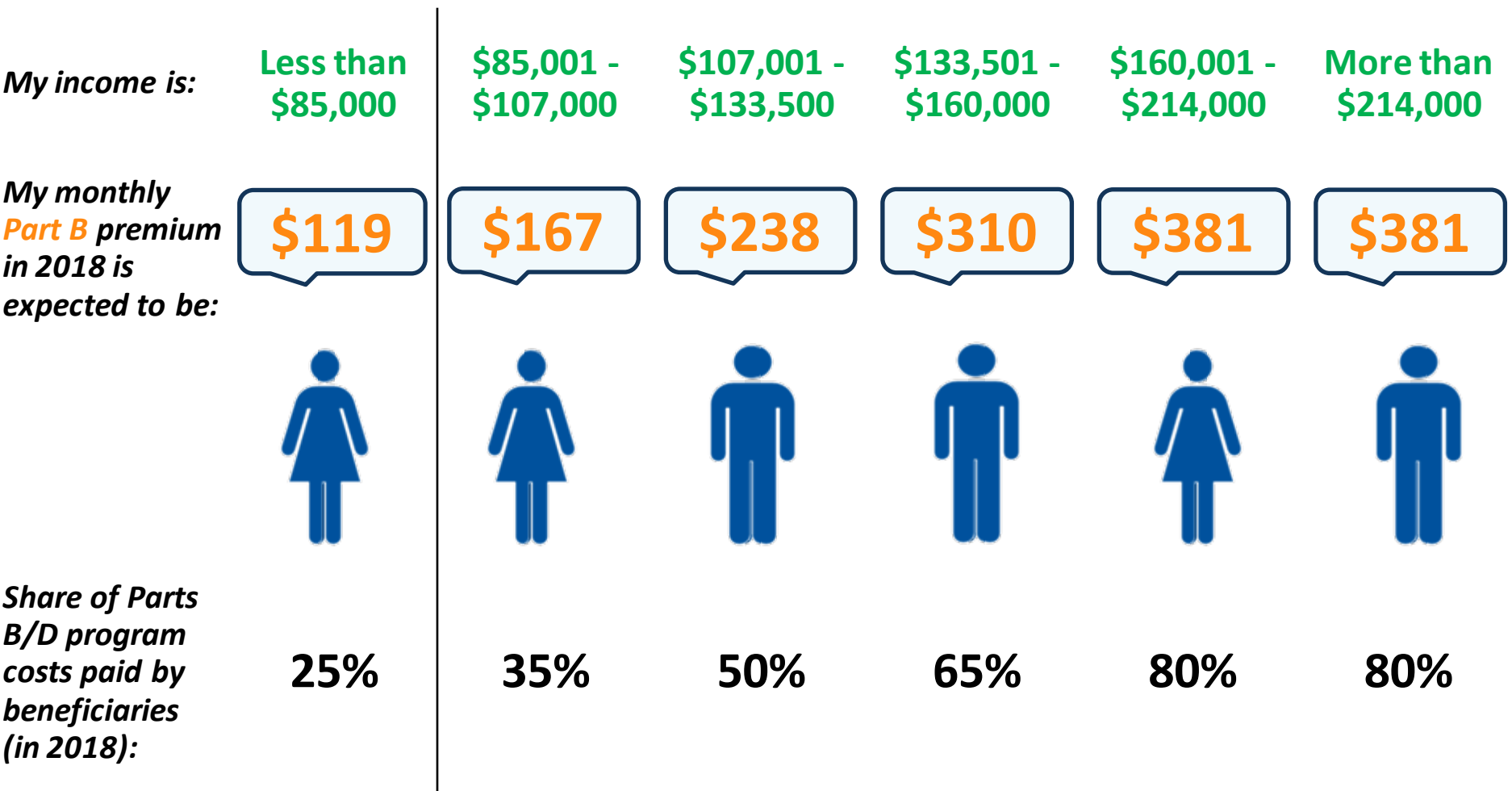
Why Do It?

- Reduce Medicare expenditures
- Protect beneficiaries who are not "wealthy"
- Public is generally favorable to policies that "soak the rich"
- Considered better than some of the alternatives

Trade-Offs

- This is already current law, thanks to MMA (2003), ACA (2010), and the SGR fix (2015)
- A relatively small share of Medicare beneficiaries are "wealthy"
- To get meaningful savings, the proposal would need to raise premiums for middle-income beneficiaries (less than \$85,000)

Medicare Parts B/D Premiums Starting in 2018



SOURCE: Kaiser Family Foundation, Medicare's Income-Related Premiums: A Data Note, June 2015.

Raise the Age of Medicare Eligibility to 67

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

Why Do It?

- Reduce Medicare spending
- Simplify benefits
- Help those with high out-of-pocket costs (and greatest medical needs)
- Minimize the need/use of supplemental coverage
- Coax beneficiaries toward high-value providers/services
- Improve financial protections for low-income beneficiaries

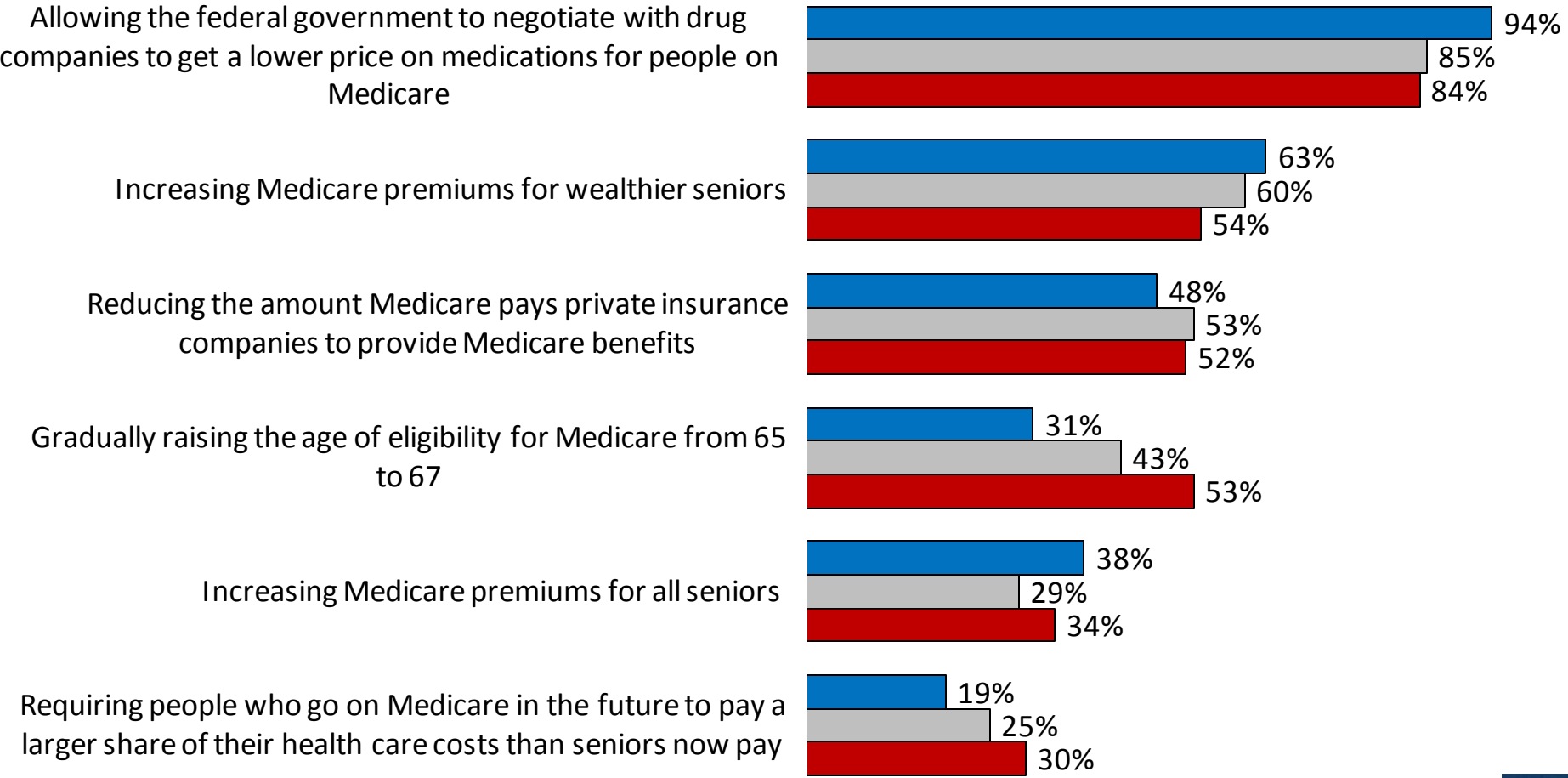
Trade-Offs

- Likely to increase costs for many beneficiaries due to higher unified deductible, while helping small share with catastrophic expenses
- Unclear if all goals can be achieved at once (e.g., Medicare savings, out-of-pocket limits and low-income protections)

Support for Various Medicare Savings Proposals by Political Party Affiliation

Percent who favor each of the following proposals to keep Medicare financially sound in the future:

■ Democrat ■ Independent ■ Republican



NOTE: Items based on half samples.

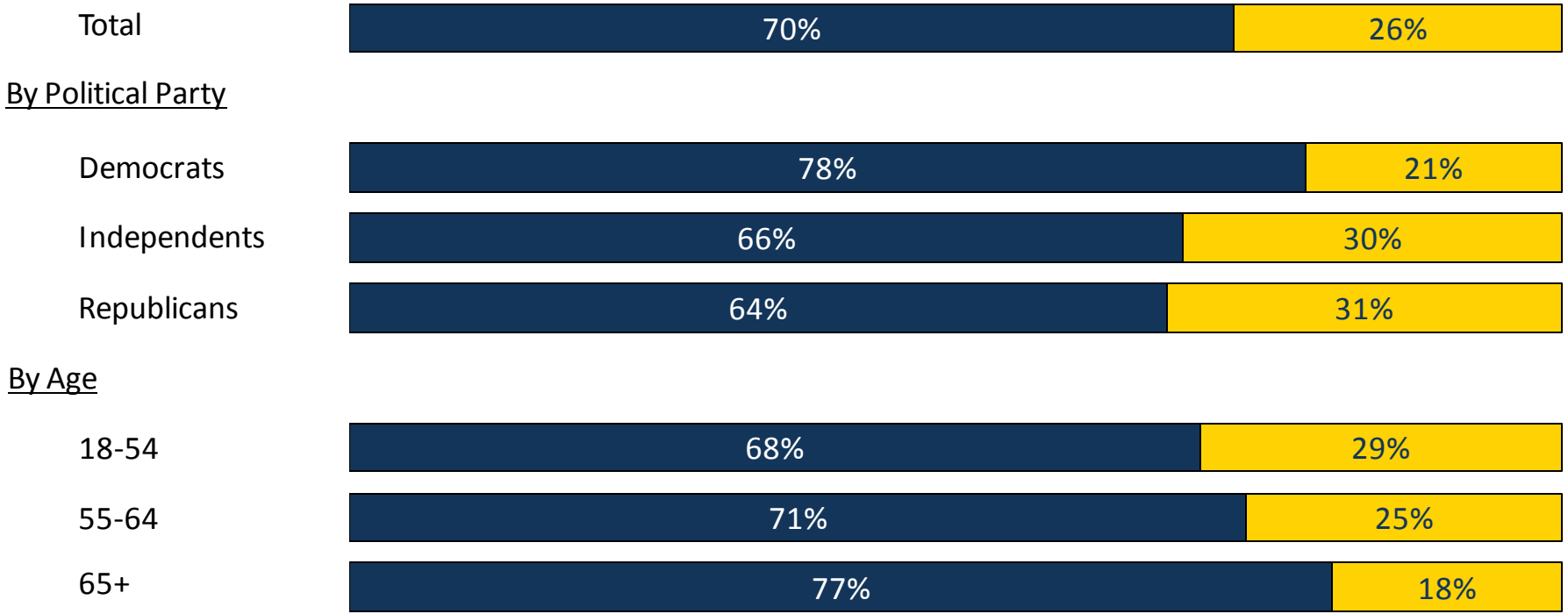
SOURCE: Kaiser Family Foundation Medicare and Medicaid at 50 Poll (conducted April 23-May 31, 2015).

Most think Medicare should continue as it is today; about a quarter prefer changing to a system of premium supports

Which of these two descriptions comes closer to your view of what Medicare should look like in the future?

■ Medicare should continue as it is today, with the government guaranteeing seniors health insurance and making sure that everyone can get the same defined set of benefits

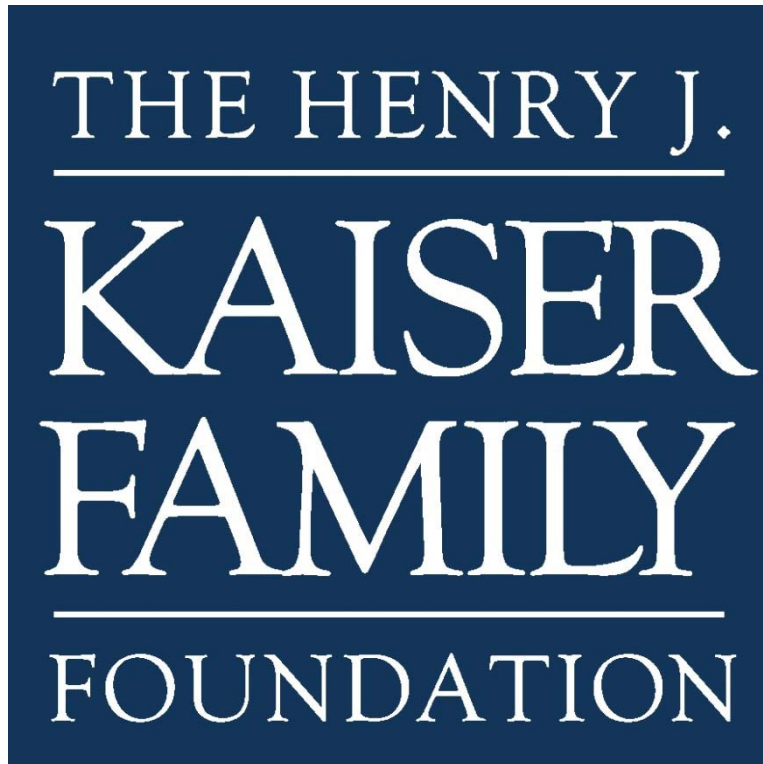
■ Medicare should be changed to a system in which the government would guarantee each senior a fixed contribution toward the cost of their health insurance. Seniors would apply that contribution toward the purchase of traditional Medicare or from a list of private health plans.



NOTE: Neither of these/Some other option and Don't know/Refused responses not shown.
SOURCE: Kaiser Family Foundation Medicare and Medicaid at 50 (conducted April 23-May 31, 2015)



Medicare Resources on [kff.org](https://www.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](https://www.kff.org/medicare)