

**National Academy of Social Insurance
2014 Summer Academy
Demystifying Medicare**

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Jack Ebeler
Health Policy Alternatives, Inc.

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Overview

- Primer on different metrics for assessing health care spending metrics – total health spending and Medicare
- Introduction to projection issue and policy issue: is the recent slowdown in spending sustainable - and what can be done?

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I. Primer on different health spending metrics

- Total health spending in dollars
- Spending as share of gross domestic product (GDP)
- Spending compared with other nations
- Premiums compared with wage growth
- Federal spending for health as share of GDP
- Actuarial balance in Hospital Insurance Trust fund
- Consumer spending as share of total and of income
- “Real” spending growth per capita

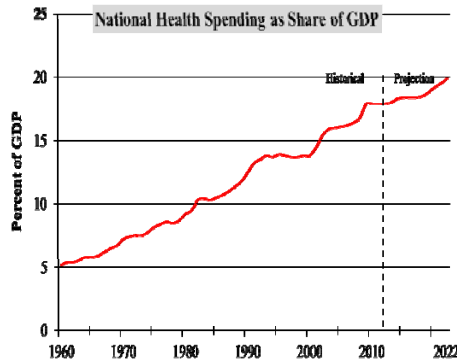
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Health spending trends and projections: different measures

- National health expenditures: were \$2.8 trillion in 2012 and are projected to reach \$5 trillion by 2022.
- Other than noting “that’s a whole lot” it is hard to understand those numbers – what they mean for the economy, health system, or you and me.
- Economists, actuaries and policy makers look at spending compared to broader references: spending as a portion of gross domestic product (GDP), spending growth compared to wage or taxable wage growth, spending compared with other countries.

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Total national health spending as share of gross domestic product (GDP)



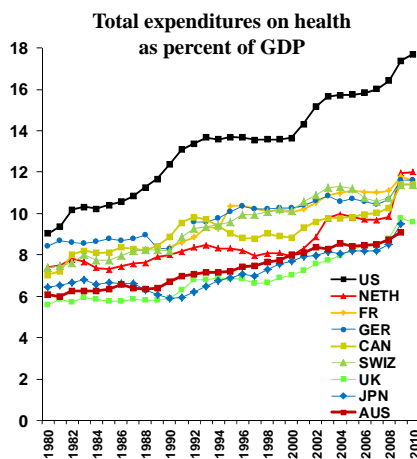
One measure is total spending (all: public programs, private insurance spending, individual spending) as a share of GDP.

That tells us health care spending trends in the context of the entire US economy.

Note: health is growing faster.

Centers for Medicare & Medicaid Services (CMS) Office of the Actuary (OACT), September, 2013; historical data and projections through 2022

International comparison of spending on health, 1980–2009

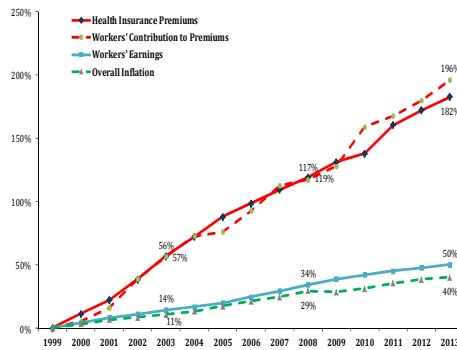


We can also reference other countries and compare U.S. spending (black line at the top) with other major industrialized nations.

Note: we're # 1! (But we aren't on health status indicators).

Source: Commonwealth Fund, based on OECD Health Data 2012.

Growth in health insurance premiums, workers' contributions to premiums compared to inflation, and workers' earnings, 1999-2013



Another reference is to look at trends in employer and employee contributions to health insurance premiums (the red lines) compared with earnings and overall inflation (the blue and green lines).

Note: workers contributions and health premiums growing faster.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2013. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2013; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2013 (April to April).

Federal health spending and total federal spending as a share of GDP

Federal spending, revenue as % GDP			
	2014	2024	2039
Revenues	17.6	18.3	19.4
Spending			
Social Security	4.9	5.6	6.3
Medicare	3.0	3.2	4.6
Medicaid, CHIP, Exchange	1.9	2.7	3.4
All other	9.3	7.3	6.9
Interest	1.3	3.3	4.7
Total Spending	20.4	22.1	25.9
Deficit: total	-2.8	-3.7	-6.4

Looking to federal spending, the Congressional Budget Office (CBO) long-term budget view looks at federal health spending as a share of the GDP (and as a share of the total budget). This drives federal policy decisions.

Note: health large and growing fastest.

CBO, 2014 Long-Term Budget Outlook, Extended Baseline Scenario; items may not add due to independent rounding

Actuarial balance in Medicare Part A Trust Fund: 2013 report (2014 due shortly)

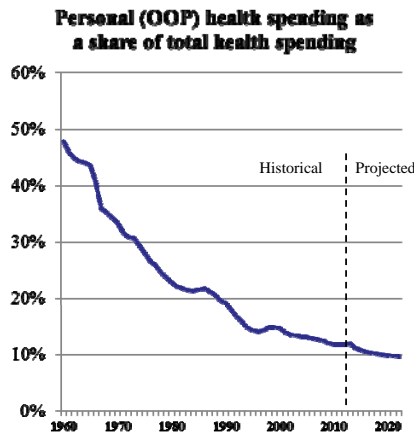
Medicare Part A, Actuarial Balances as % of Taxable Payroll			
	Projection years		
	25	50	75
Income rate	3.62%	3.73%	3.83%
Cost rate	4.20%	4.69%	4.94%
Actuarial balance	-0.58%	-0.97%	-1.11%

Social Security and the Centers for Medicare & Medicaid Services (CMS) Office of the Actuary (OACT) present actuarial balance, which is relevant only for Medicare Part A (Hospital Insurance): estimated program costs compared with dedicated income (taxable payroll that finances the program).

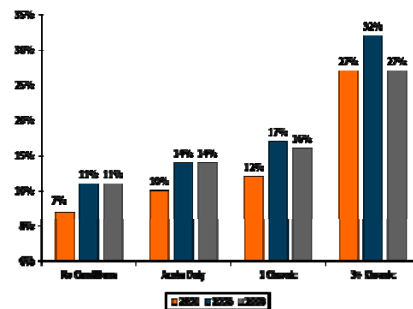
Note: cost rate exceeds income rate.

Source: 2013 Annual Report of the Board of Trustees of the Medicare Trust Funds

The personal out-of-pocket (OOP) share can be shown as a % of total spending and can be further categorized as a % of income

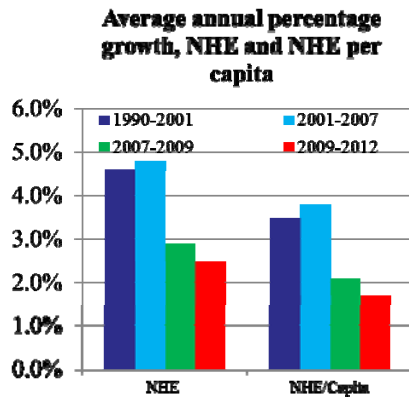


Percent of population under age 65 with out-of-pocket costs > 10% of income



Source: CMS Office of the Actuary, September, 2013; historical data and projections through 2022. Kaiser Family Foundation. Peter J. Cunningham, Center for Studying Health Systems Change, calculations using 2001, 2006, and 2008 Medical Expenditure Panel Surveys, presented at The National Academies Workshop on Measuring Medical Care Economic Risk, September 8, 2011.

II. Projection and policy issue: short-term versus longer term spending trends



National Bureau of Economic Research Working Paper: Chandra, Holmes and Skinner: Is this Time Different? The Slowdown in Healthcare Spending, December 2013.

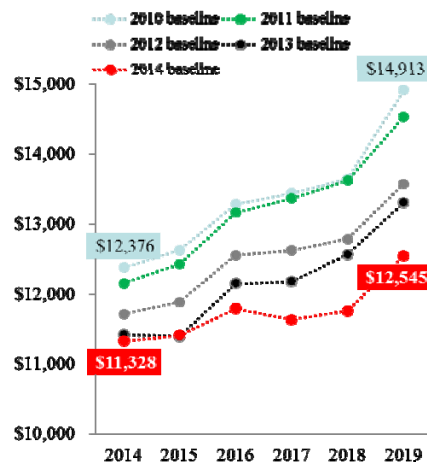
While the long-term trends have consistently pointed to higher spending growth, national health expenditure (NHE) growth has slowed in recent years.

As a result, health spending flattened at 17.9% of GDP from 2009-2013.

Issue is whether this will continue?

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CBO's annual projections of the increase in Medicare spending per beneficiary have declined each year for the last four years



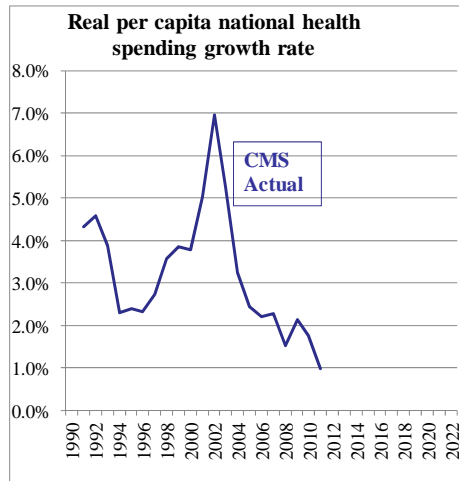
Kaiser Family Foundation, The Mystery of the Missing \$1,000 Per Person: Can Medicare's Spending Slowdown Continue? July 8, 2014.

The Kaiser Family Foundation analysis of CBO's 5 recent Medicare baselines illustrates a short-term slowing in spending growth compared with what had been anticipated.

While growth is slower, Kaiser points out the question of whether the slowdown is sustainable.

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CMS and CBO document lower recent cost trends since 2000 in real per capita spending growth

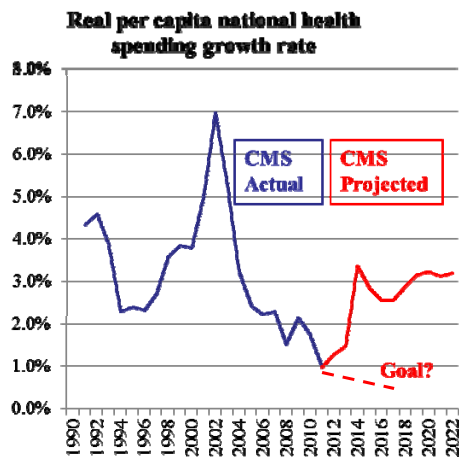


- CMS/OACT estimates of real, per capita growth in total national health expenditures illustrate decline from 2000 - 2011.
- CBO also estimates “excess health care cost growth” and finds that the annual growth rate declined from 1.4% (1985-2012) to 1.1% (1990-2012).

CMS, Office of the Actuary, 2013; CBO data from the 2014 Long-Term Budget Outlook, July, 2014

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CMS and CBO assume that growth rates increase



CMS/OACT estimates that the real, per capita growth will increase somewhat in the future, and CBO makes similar assumptions although with a different long-term glide path.

Given past trends, it is logical for the estimators to be skeptical of shorter-term trends.

CMS, Office of the Actuary, 2013; CBO data from the 2014 Long-Term Budget Outlook, July, 2014

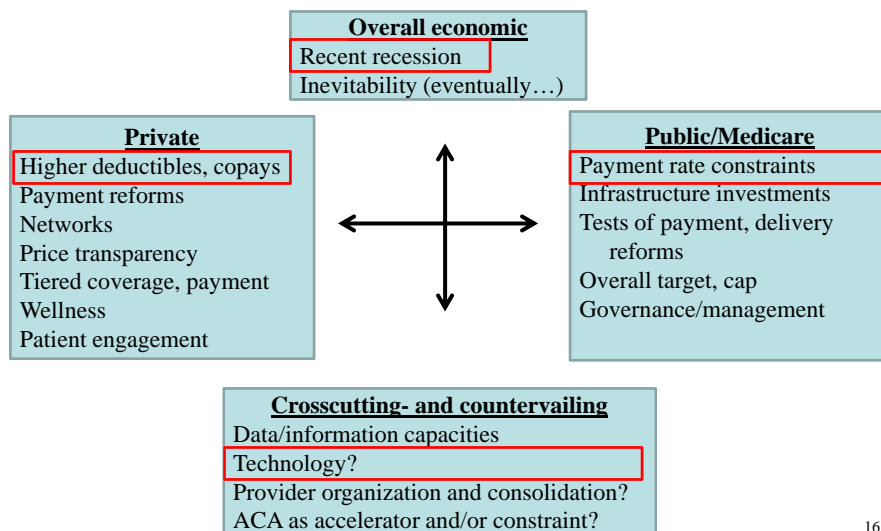
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Is slowdown sustainable?

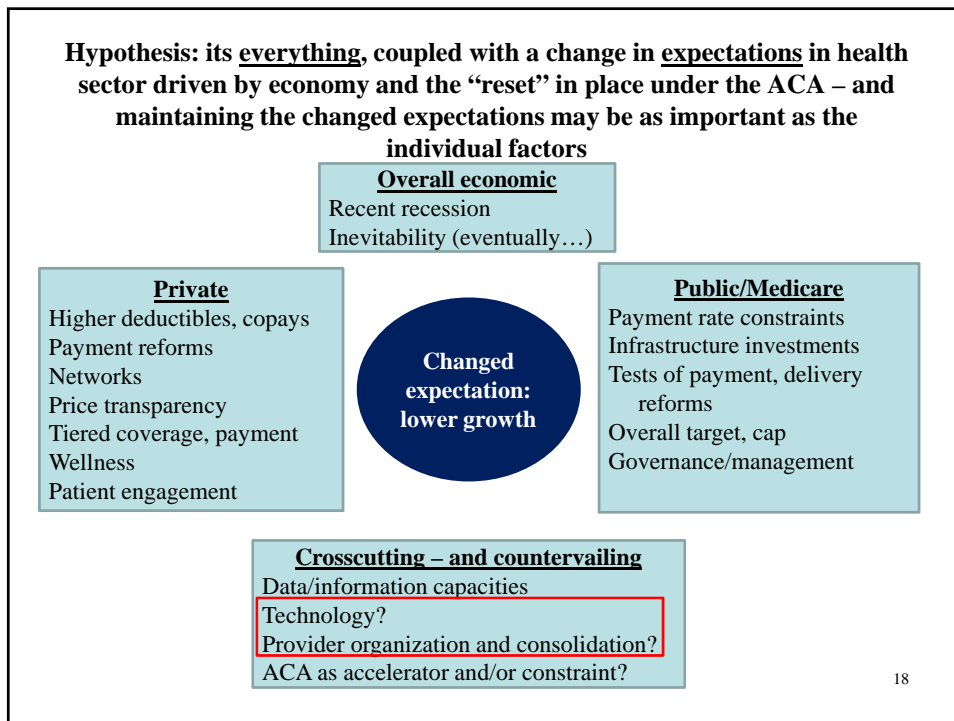
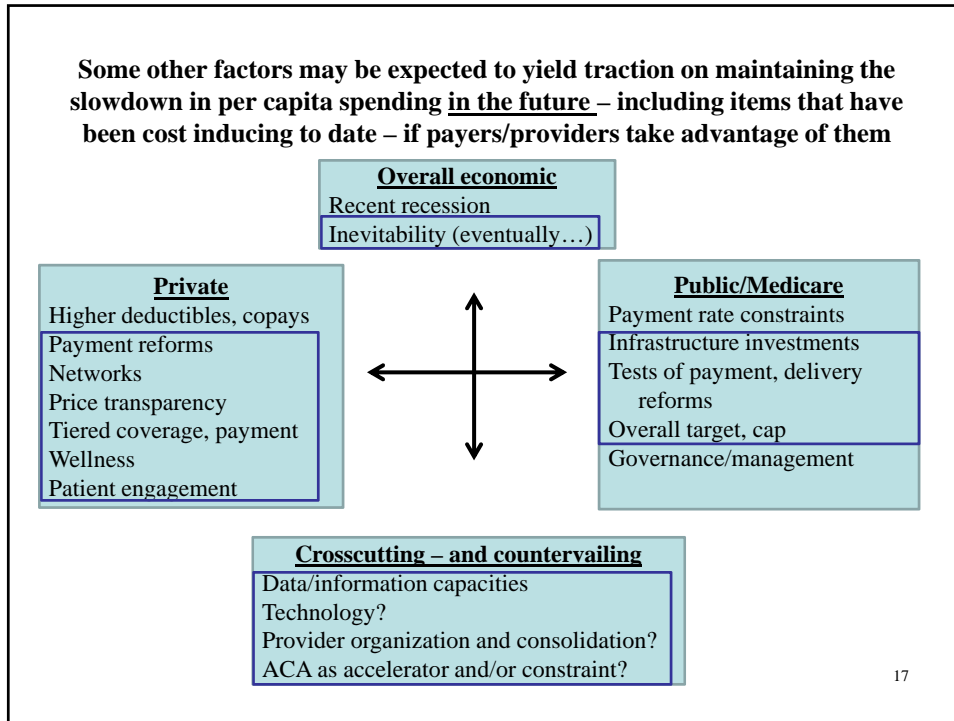
- Important issue because:
 - Reality of need to slow spending growth
 - Projections shape public views and policy (eventually...)
 - Spending changes are a result of public/private actions
- Debate about future trends driven by different analyses, perceptions and politics:
 - What has caused slowdown?
 - Whether those causes are sustainable?
 - What else is necessary?

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Different analyses and perspectives yield differing weights for the factors to date—and there are lots of analytic and personal favorites



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Thank you

Jack Ebeler
202-737-3390
Je.hpa@sso.org

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