Overview of Options to Modify the Medicare Program

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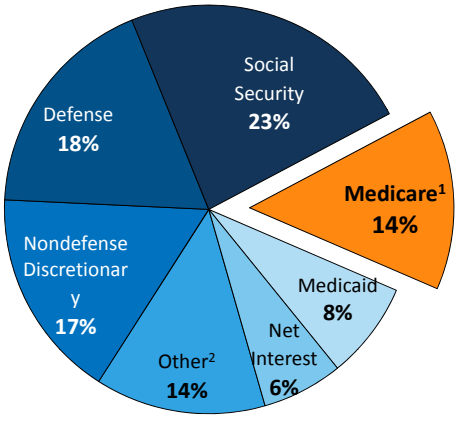
Exhibit 1

Why Medicare Matters in Federal Budget Discussions

- Medicare is now 14% of the federal budget and 3.0% of the economy
- Medicare enrollment will grow from 54 million today to nearly 90 million in 2040
- Over the long term, total Medicare spending is projected to grow faster than the economy, due to the aging population and rising health care costs (affecting all payers)



Total Federal Outlays, 2013 = $3.5 Trillion
Net Federal Medicare Outlays, 2013 = $492 Billion

NOTE: All amounts are for federal fiscal year 2013. [1]Consists of Medicare spending minus income from premiums and other offsetting receipts. [2]Other category includes spending on other mandatory outlays minus income from offsetting receipts).
SOURCE: Kaiser Family Foundation based on Congressional Budget Office, Updated Budget Projections: 2014 to 2024 (April 2014).

Exhibit 2

Categories of Medicare Reforms

- Leverage Medicare's current role as a large payer in the health care system to create stronger incentives to promote "value" over volume; e.g., accelerate payment and delivery system reforms through the Innovation Center
- Leave the current program structure largely intact but modify features of it; e.g., raise eligibility age; increase premiums and cost sharing
- Change the fundamental structure of Medicare from defined benefit program to one that provides entitlement to a government payment for the purchase of insurance coverage

Exhibit 3

There Are Many Ways to Achieve Medicare Savings

- **Raise the age of Medicare eligibility**
- **Raise Medicare premiums**
- **Restructure Medicare's benefit design; raise deductibles and/or cost-sharing for Medicare-covered services**
- **Premium support**
- 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)
- Require drug companies to provide rebates/discounts
- New revenues
- And so on…

Exhibit 4

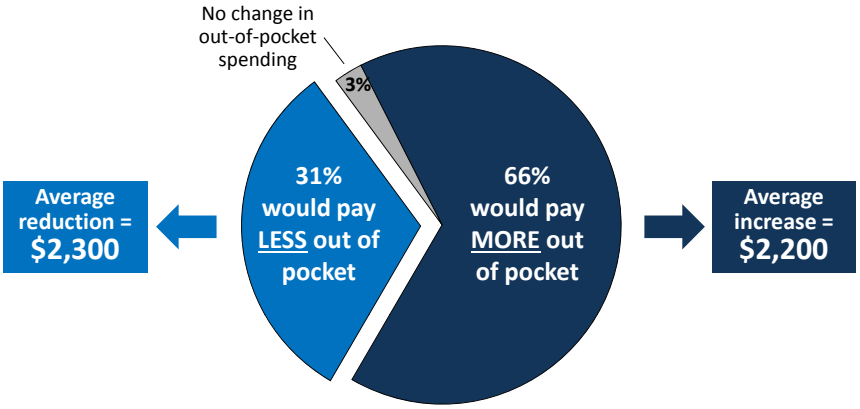
Raise the Age of Medicare Eligibility from 65 to 67

- **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?**
  - The Affordable Care Act has changed the coverage landscape
  - People who lose access to Medicare would have access to other sources of coverage (e.g., Medicaid, employer, exchange)

Exhibit 5

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

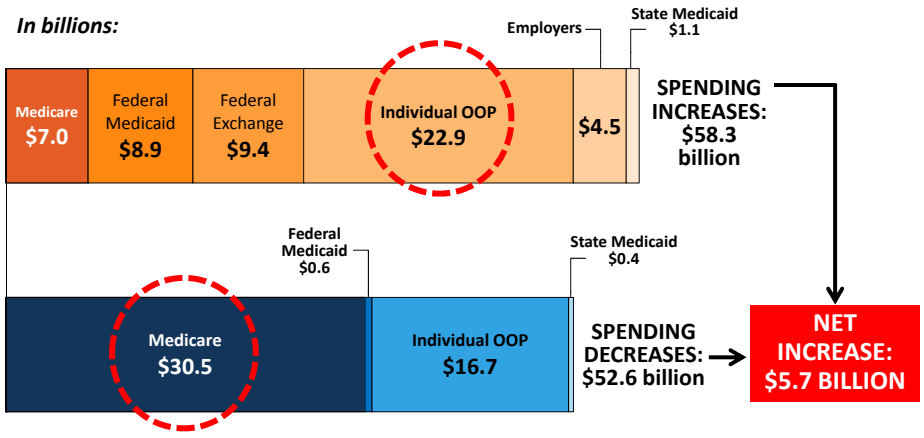
= 5.0 million

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

Exhibit 6

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.

Exhibit 7

Overview of Medicare's Current Structure and Cost Sharing

Part A (Hospital Insurance)	Part B (Physician Services)	Part D (Rx) Standard benefit
Deductible $1,216/spell of illness **Inpatient hospital** No coinsurance, for days 1-60; $304/day, for days 61-90; $608/day, for days 91-150; No coverage after day 150 **Skilled nursing facility** No coinsurance, for days 1-20; $152/day for days 21-100; **Home health, hospice** No coinsurance	**Deductible** $147 in 2014 **Physician and other services** 20% coinsurance **Outpatient mental health** 20% coinsurance **Annual "wellness" visit, clinical laboratory services, home health care** No coinsurance **Preventive services** No coinsurance for many services, 20% for some	**Deductible** $310 in 2014 **Initial coverage** 25% coinsurance (up to $2,850 in total drug costs) **Coverage gap** 47.5% coinsurance for brands, 72% coinsurance for generics between $2,850 and $6,691 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 $2.55/generic, $6.35/brand, or 5% coinsurance above $4,550 in out-of-pocket spending

Exhibit 8

Overview of Medicare Part B Premiums Under Current Law

If your income is..	Less than $85,000	$85,001 - $107,000	$107,001 - $160,000	$160,001 - $214,000	More than $214,000
Your monthly Part B premium in 2014 is…	$105	$147	$210	$273	$336
Share of program costs paid by beneficiaries	25%	35%	50%	65%	80%
Share of Part B beneficiaries in this income level	95%	2%	2%	< 1%	< 1%

SOURCE: Kaiser Family Foundation illustration of 2014 Income-Related Medicare Part B Premiums. Share of Part B beneficiaries from Urban institute analysis of DYNASIM for the Kaiser Family Foundation.

Exhibit 9

Options to Increase Beneficiary Costs

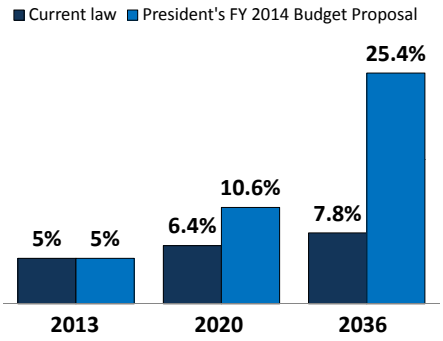
- **Increase the Part B deductible**
  - For example, increase the deductible by $75 for new beneficiaries only or for all beneficiaries
- **Increase cost sharing for Medicare-covered services**
  - Introduce cost sharing for home health services; e.g., impose a 10% coinsurance on all home health episodes; 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
- **Increase Part B/Part D premiums**
  - For example, lower the income thresholds that determine who pays the higher-income premium
- **Overall restructuring of Medicare cost sharing**

Exhibit 10

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

If current-law income thresholds are modified and remain fixed beyond 2019, a growing share of beneficiaries will pay higher Medicare premiums

Share paying higher premiums:



According to projections, 25% of people will be paying the income-related premium by 2036

$85,000 in 2036
is equivalent to
$45,600
for an individual in inflation-adjusted 2013 dollars

SOURCE: Urban Institute analysis of DYNASIM for the Kaiser Family Foundation.

Exhibit 11

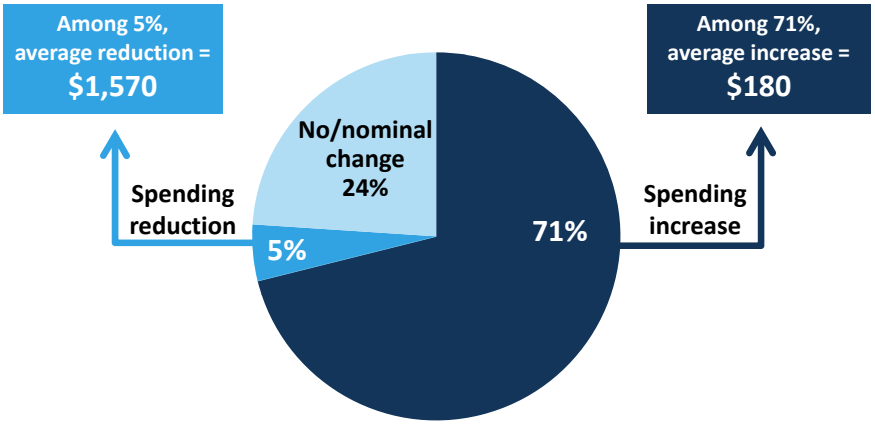
Restructure Medicare's Benefit Design

- **Why do it?**
  - Medicare has a relatively outdated cost-sharing structure
    - Separate deductibles for Part A and Part B
    - Cost-sharing requirements for covered services vary
    - No limit on out-of-pocket spending
  - Nearly 90 percent of Medicare beneficiaries have supplemental insurance which helps cover these costs (and many pay premiums for this coverage)
    - Concern that supplemental coverage leads to "overutilization"
  - Medicare could save money (depending on the structure of the new design)
- **CBO has modeled a restructuring option**
  - One deductible = $550
  - Uniform coinsurance for all Medicare-covered services = 20%
  - Annual limit on out-of-pocket spending = $5,500

Exhibit 12

Under new cost-sharing rules, most beneficiaries would face somewhat higher costs; a small share would save a lot

$550 deductible, 20% coinsurance for all services, $5,500 cost-sharing limit



Total Medicare FFS Beneficiaries, 2013 = 40.8 million

SOURCE: Kaiser Family Foundation, "Restructuring Medicare's Benefit Design: Implications for Beneficiaries and Spending," Nov 2011.

Exhibit 13

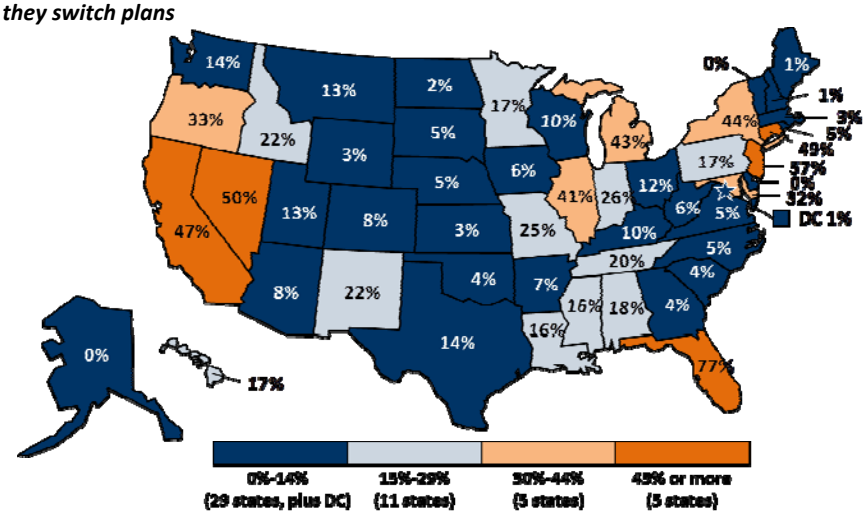
Premium Support, Broadly Defined

- **Under current law, Medicare beneficiaries are entitled to a defined benefit package**
  - Most beneficiaries get that defined benefit through traditional fee-for-service Medicare; roughly one-quarter through private plans (Medicare Advantage)
- **Under premium support, Medicare beneficiaries would be entitled to a defined federal contribution to be used towards the purchase of a health plan**
  - Some proposals would keep traditional FFS Medicare as a competitor to private plan offerings

Exhibit 14

Most beneficiaries projected to pay higher Medicare premiums unless they switch plans; effect varies across states

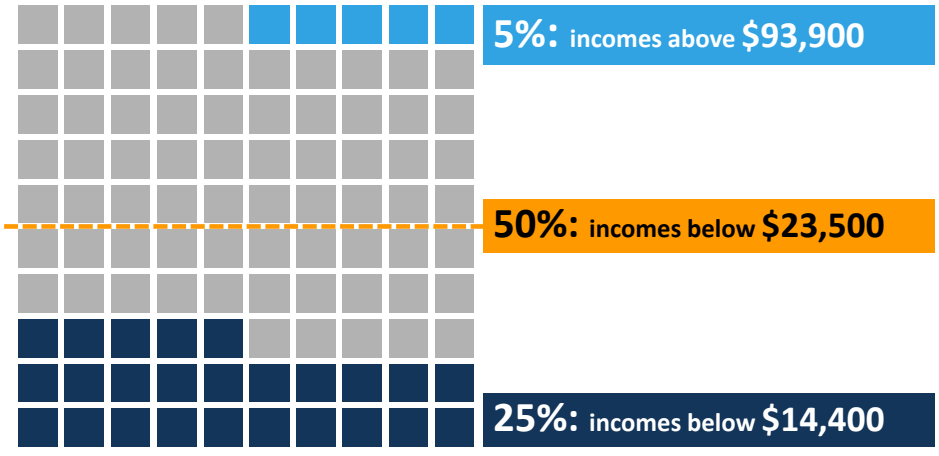
One in four beneficiaries projected to see Medicare premiums rise by more than $100 unless they switch plans



NOTE: Assumes all private plans reduce bids by 5%. Assumes full implementation in 2010.
SOURCE: Kaiser Family Foundation, 2012

Exhibit 15

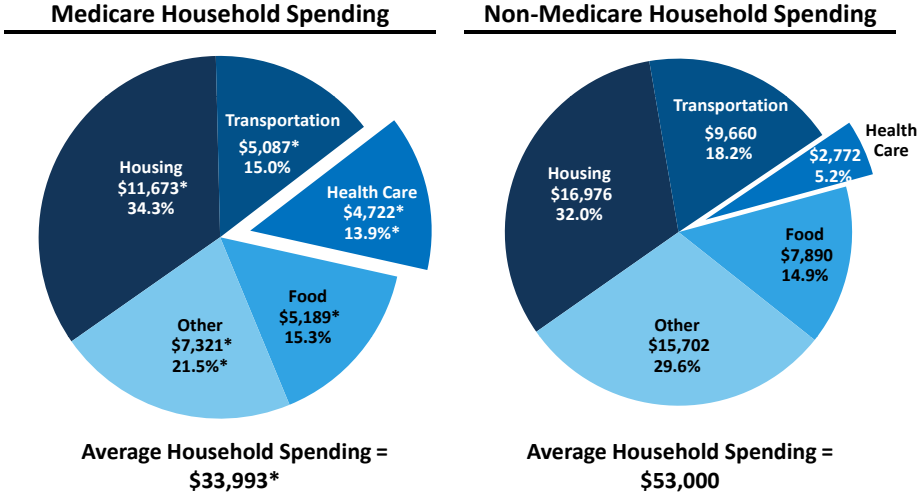
Half of Medicare beneficiaries have incomes below $23,500



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.

Exhibit 16

Distribution of Average Household Spending by Medicare and Non-Medicare Households, 2012



Average Household Spending = $33,993*

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.

Exhibit 17

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