



Advising the Congress on Medicare issues

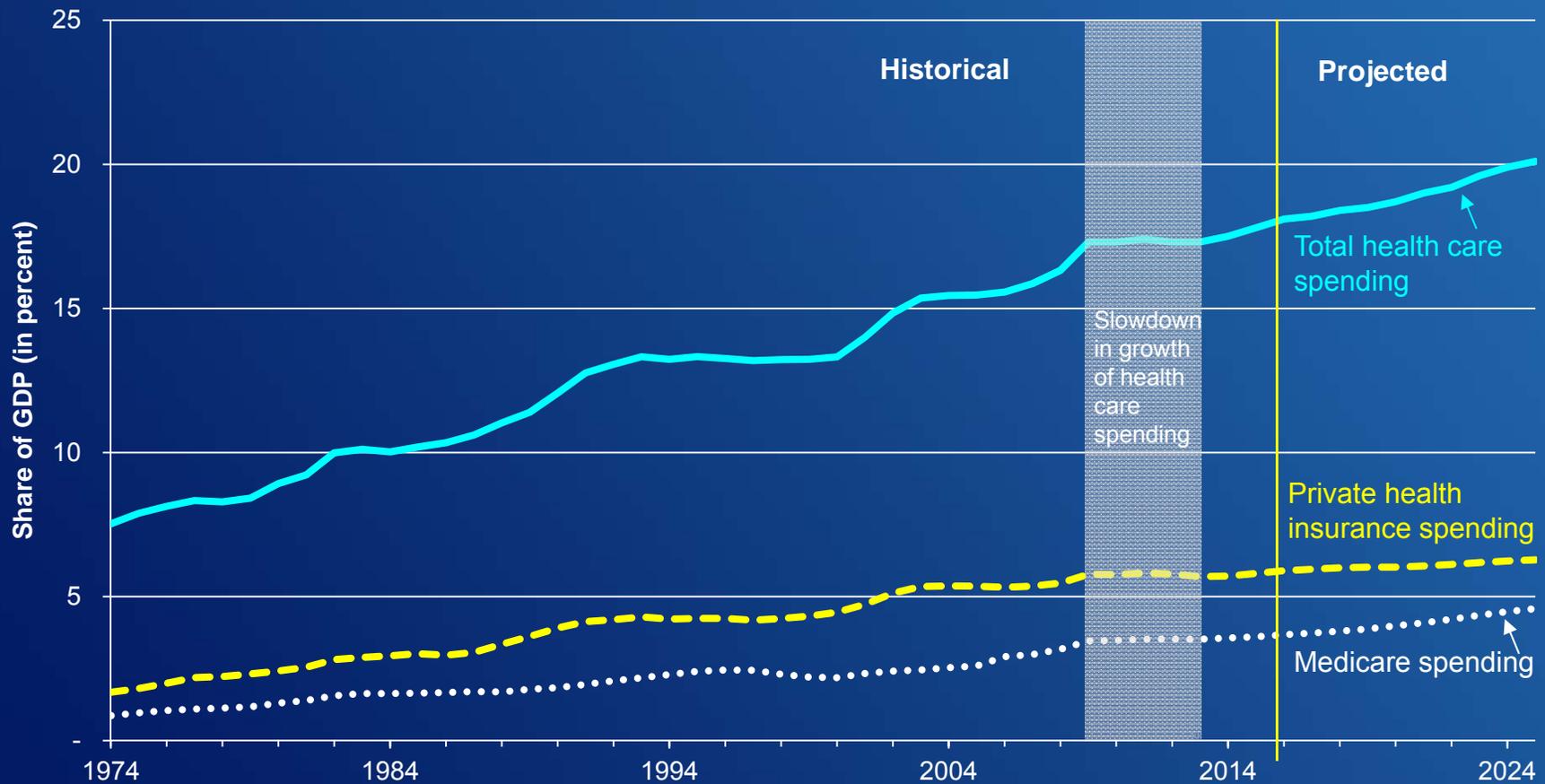
Context for Medicare payment policy

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September 8, 2016

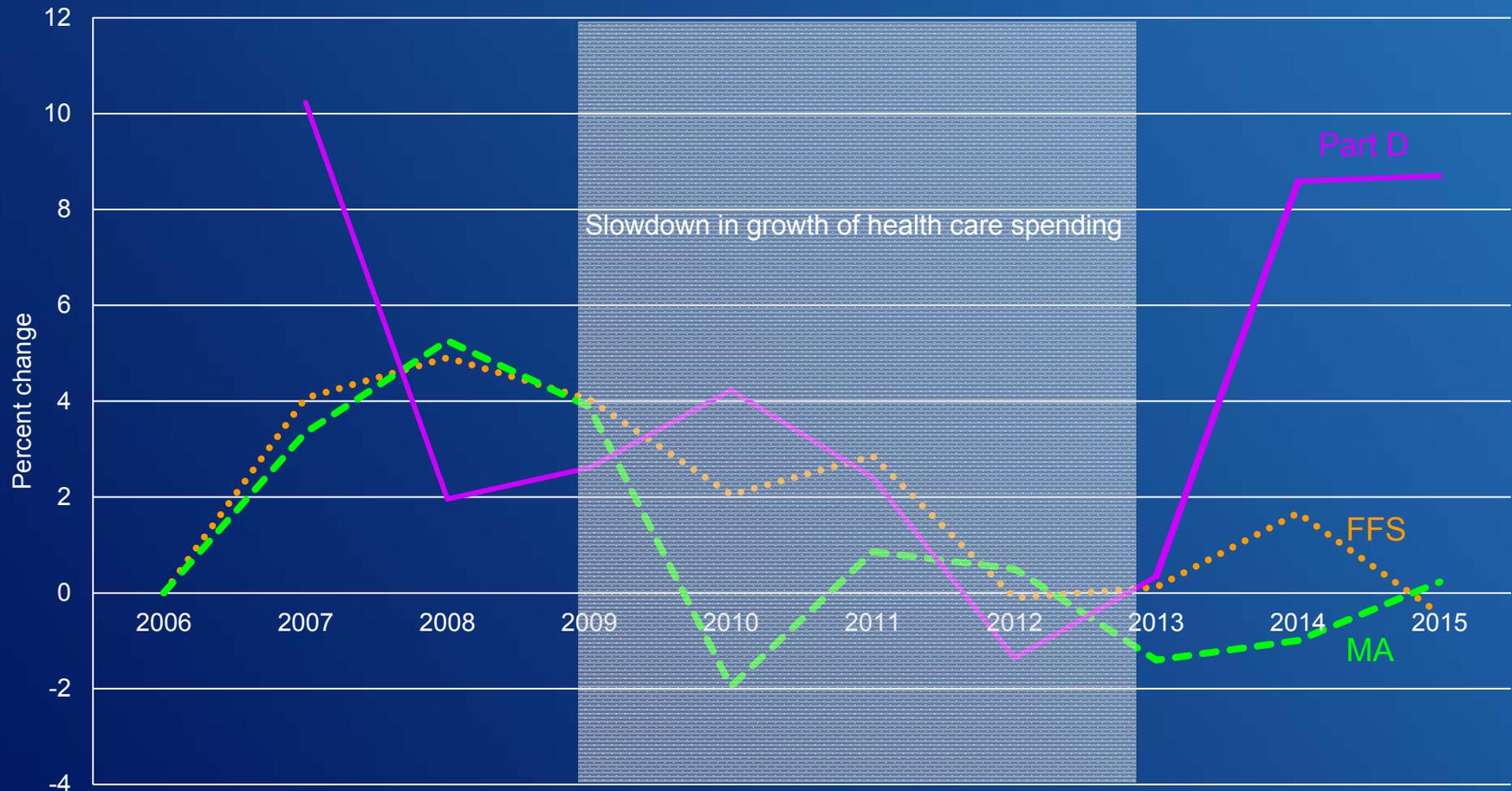
Today's presentation

- Health care spending growth and recent slowdown
- Medicare spending trends in detail
- Medicare spending projections
- Medicare's effect on the federal budget
- Future Medicare beneficiaries and burden of Medicare and health care spending on households
- Evidence of inefficient spending and challenges faced by Medicare

Recent historically low growth rates of health care spending have begun to gradually increase

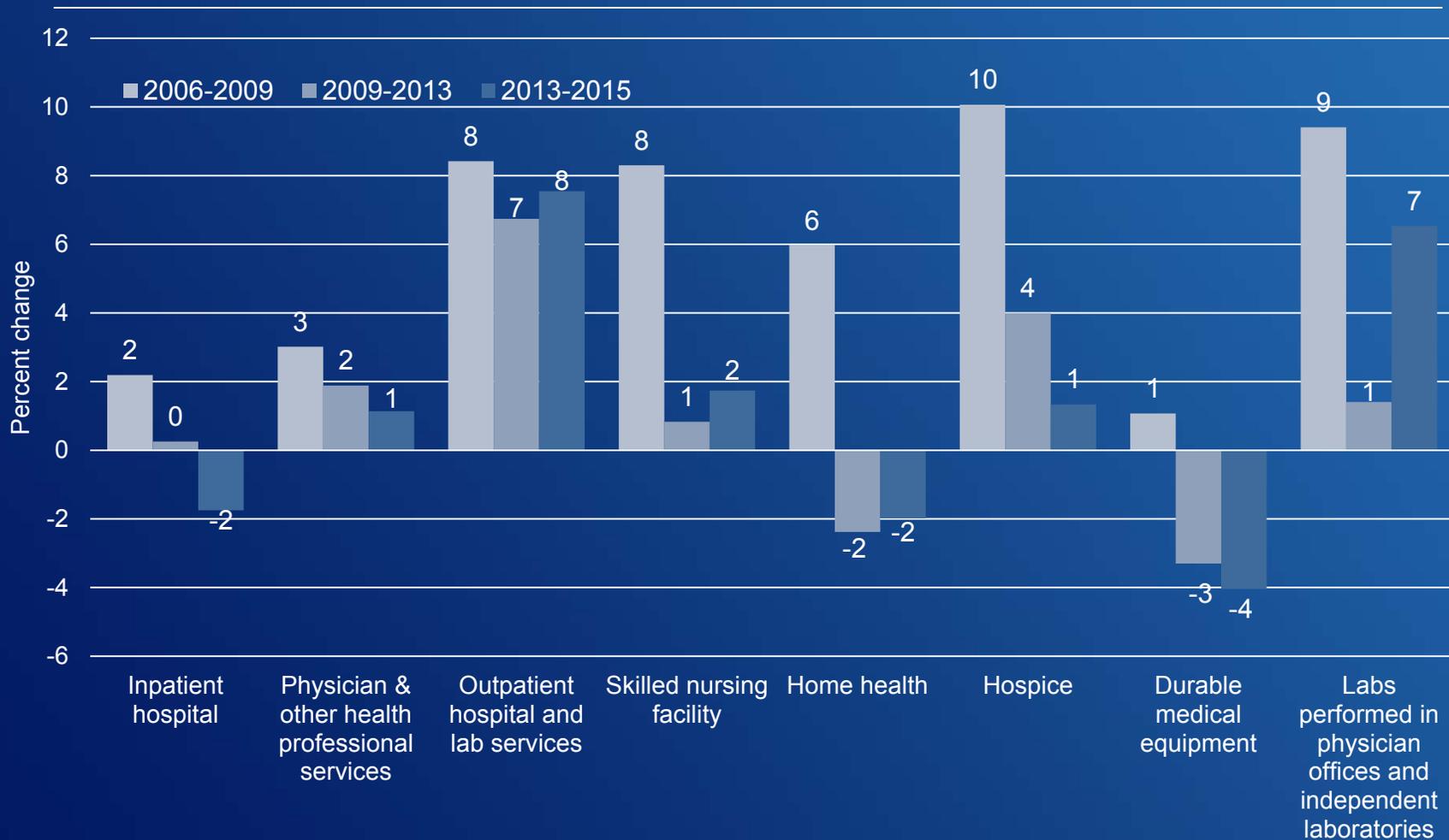


Year-to-year change in per beneficiary Medicare spending, 2006–2015

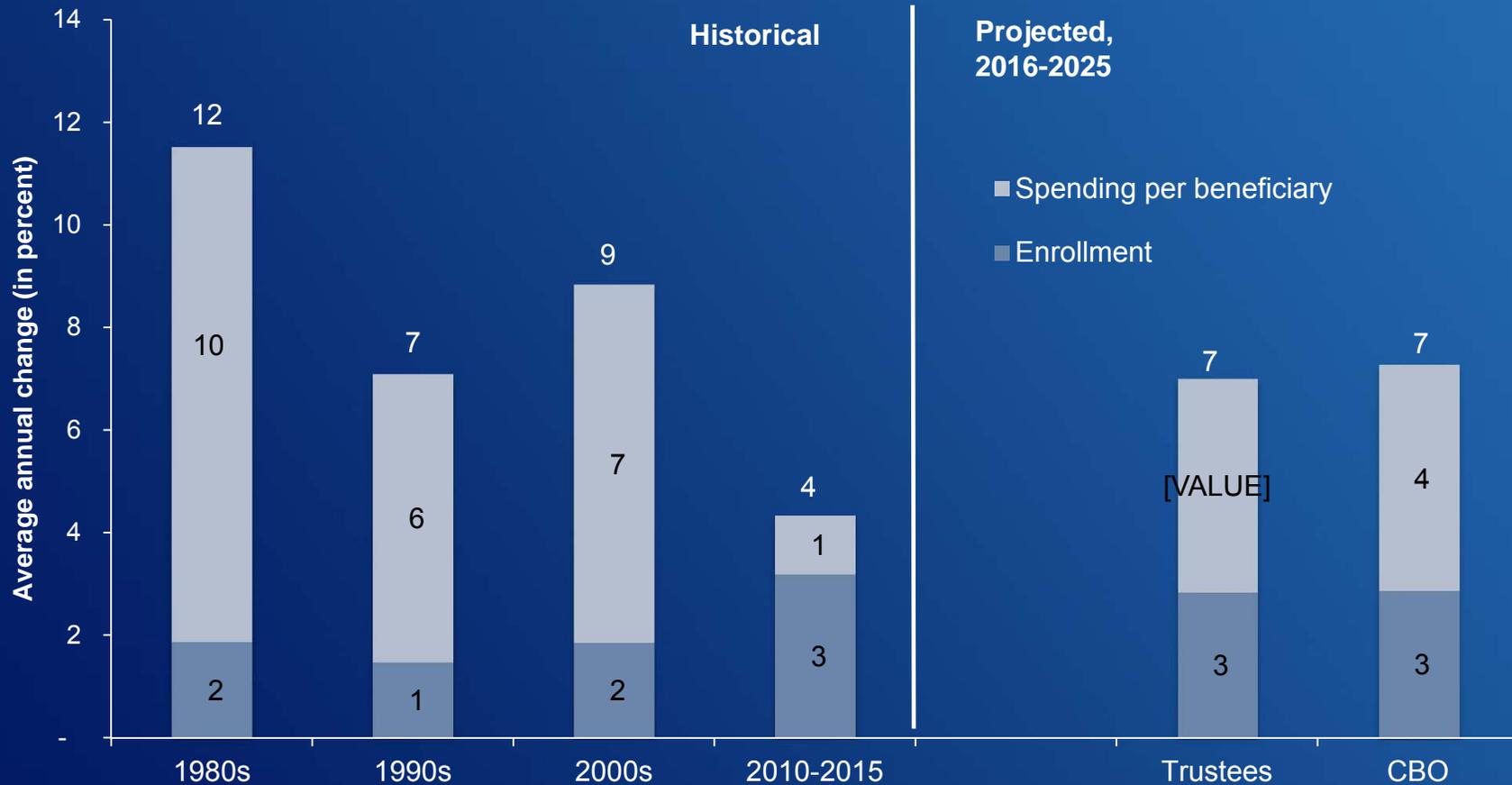


MEDPAC Note: FFS (fee-for-service), MA (Medicare Advantage). Part D annual change for 2006 is not shown because the program began in 2006.
 Source: 2016 annual report of the Boards of Trustees of the Medicare trust funds.

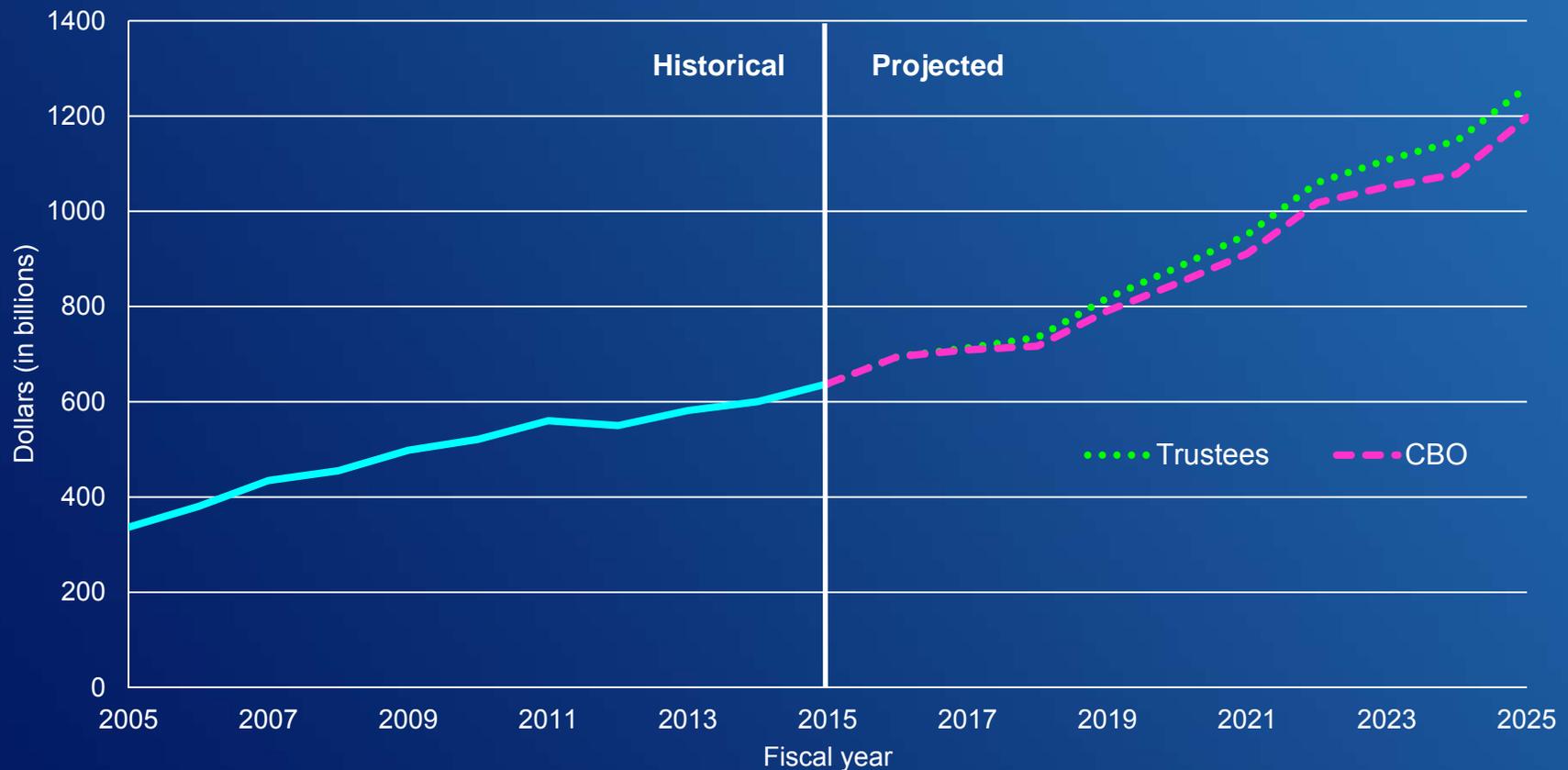
Per beneficiary spending growth remained high in some FFS settings despite slowdown



Per beneficiary spending growth and total Medicare spending growth projected to rise

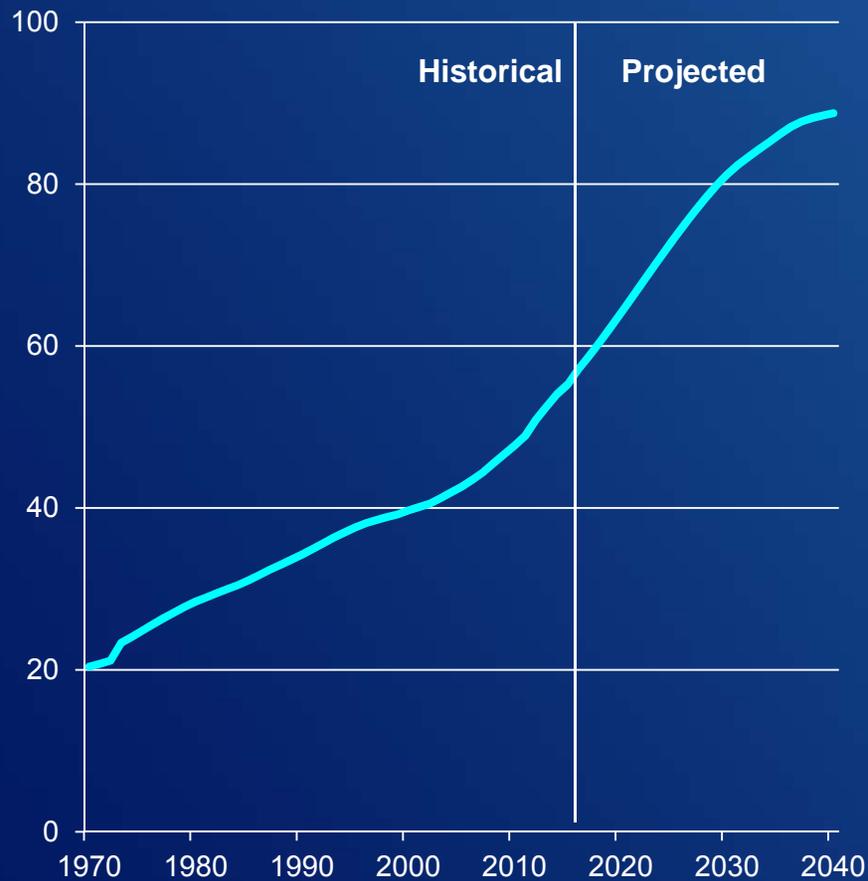


Trustees and CBO project Medicare spending to reach 1 trillion dollars by 2022

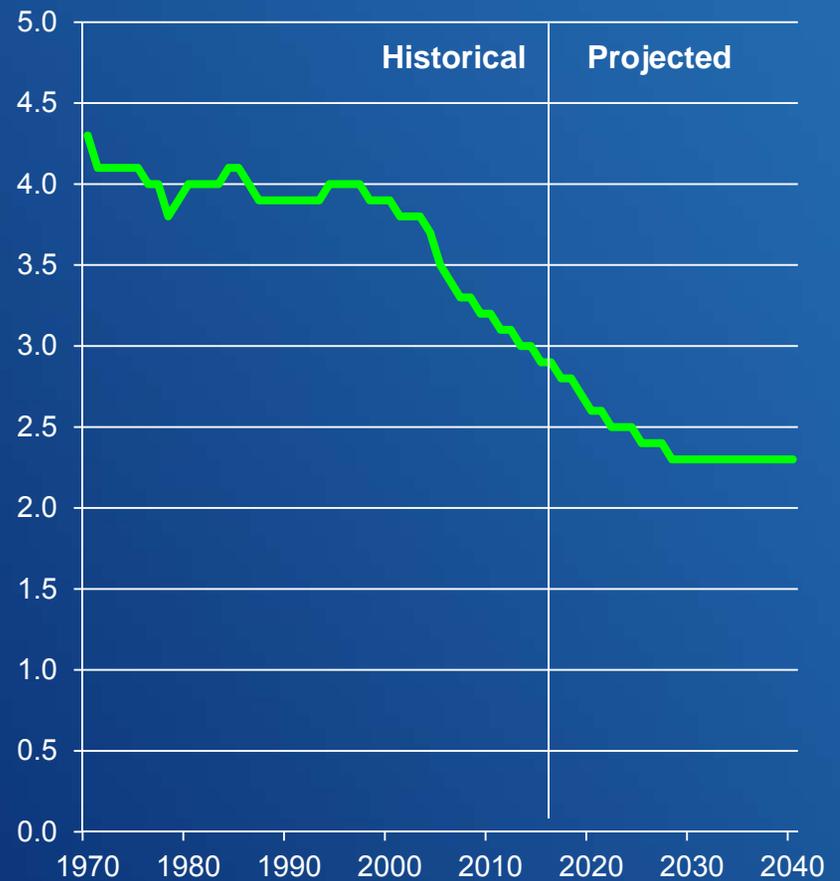


Medicare enrollment projected to grow rapidly while workers per HI beneficiary decline

Medicare HI enrollment (in millions)



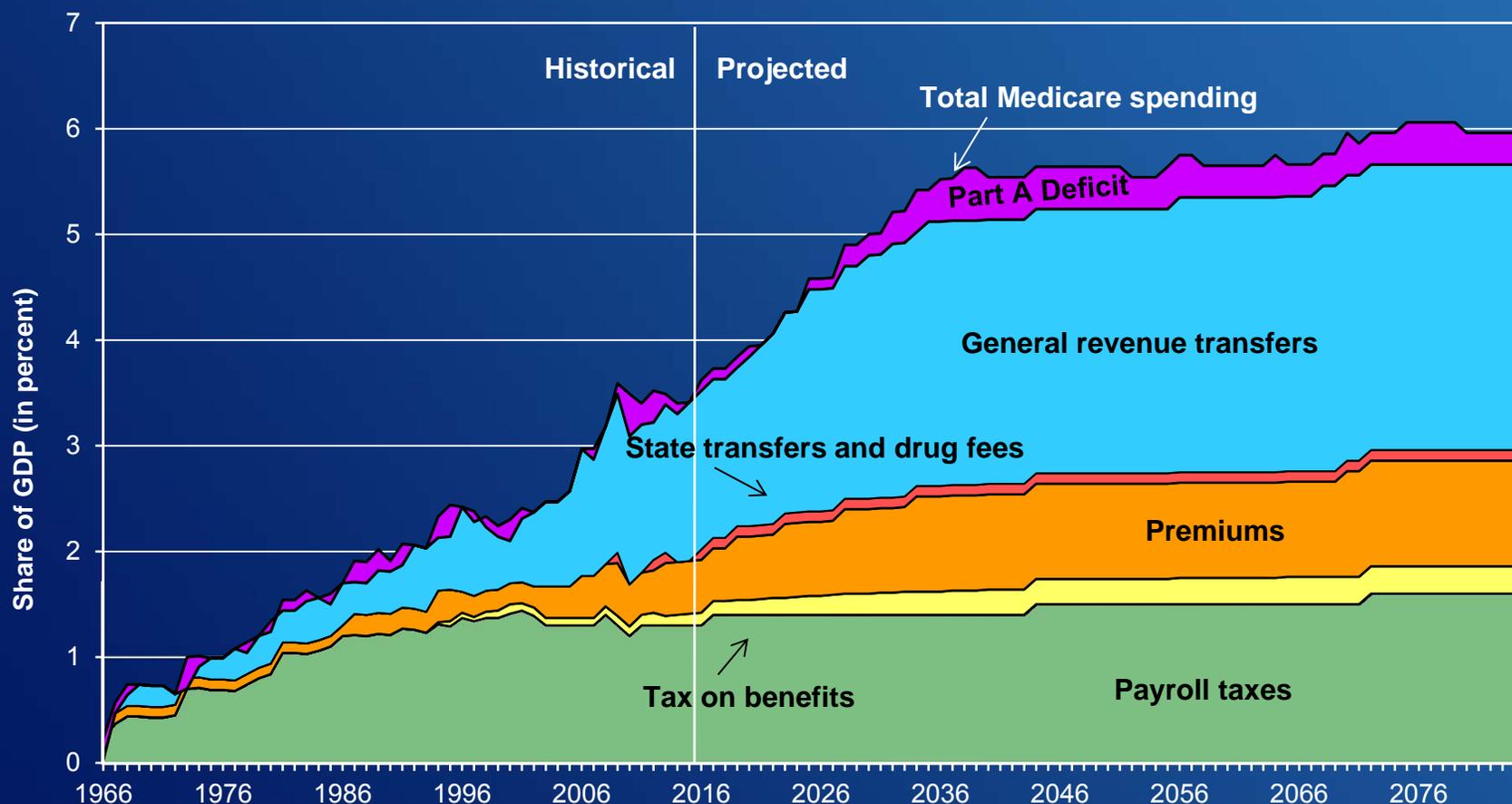
Workers per HI beneficiary



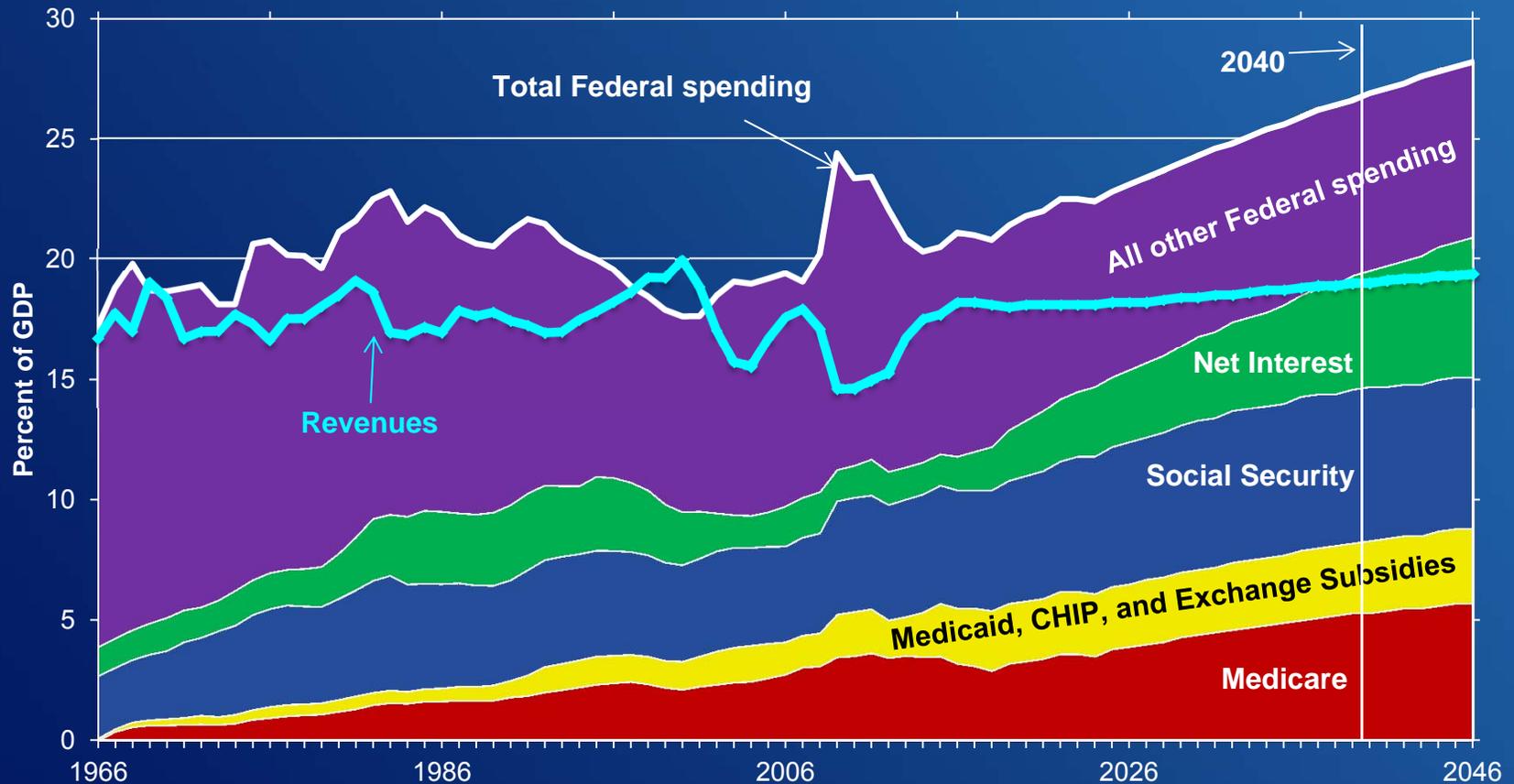
Medicare Trust Funds and their shares of total spending

- Hospital Insurance (HI) Trust Fund (43%)
 - Part A – inpatient hospital stays, skilled nursing facility
 - Financed by payroll tax
 - Insolvent in 2028 (projection)
- Supplementary Medical Insurance (SMI) Trust Fund (57%)
 - Part B – physician, hospital outpatient departments
 - Part D – prescription drug coverage
 - Financed by general tax revenues ($\frac{3}{4}$) and premiums ($\frac{1}{4}$)
 - Solvency not an issue for SMI Trust Fund

General revenue paying for growing share of Medicare spending



Spending on Medicare, other major health programs, Social Security, and net interest is projected to exceed total federal revenues in 25 years (by 2040)



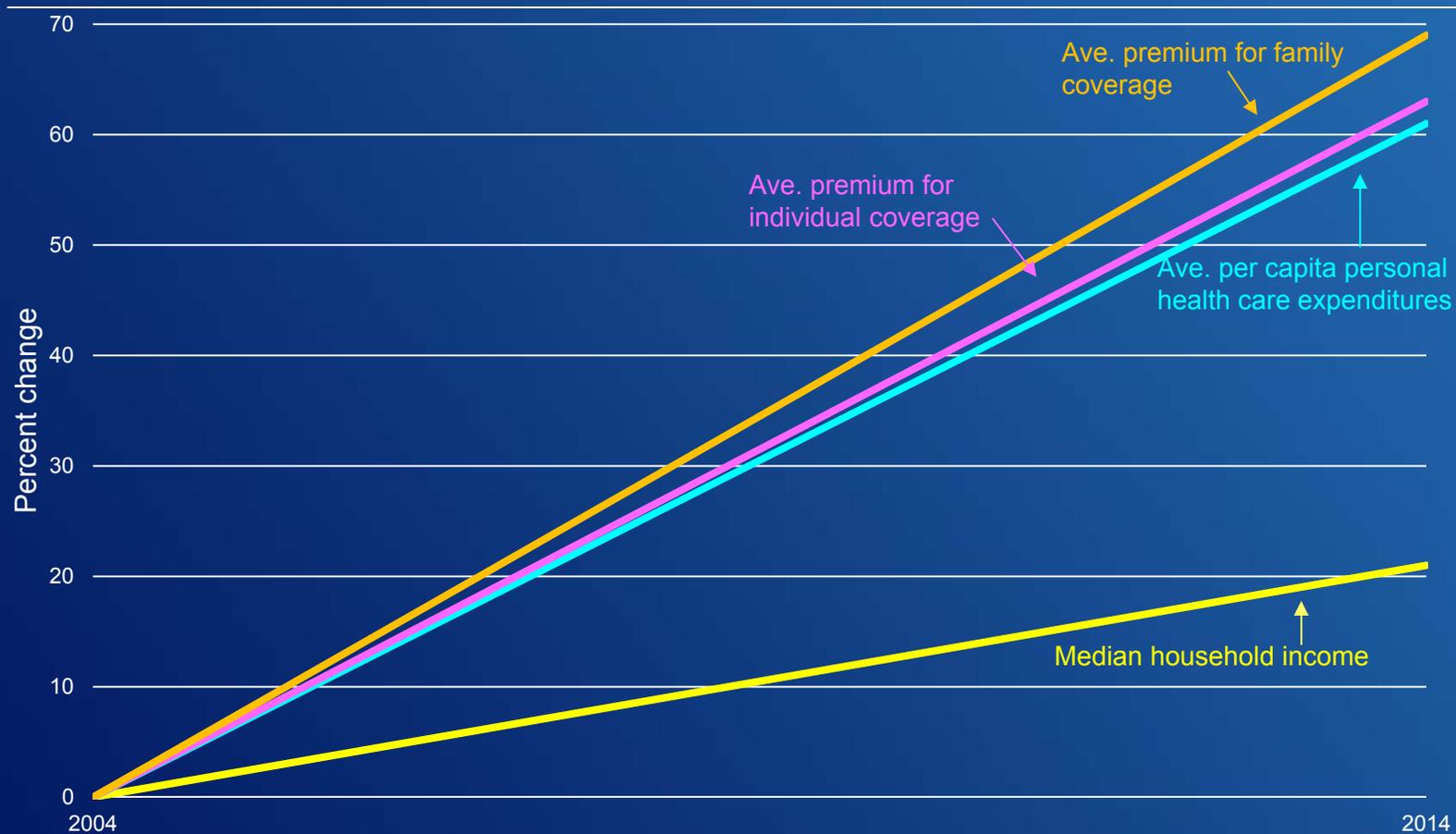
Future Medicare beneficiaries

- Health status of 50–64 year olds in 2014 compared to their predecessors:
 - + Smoke 50% less,
 - 55% higher prevalence of diabetes,
 - 25% higher prevalence of obesity, and
 - 9% lower prevalence of very good or excellent health status
- ≈ higher rates of some diseases and chronic conditions, but more likely under control

Burden of out-of-pocket Medicare spending on households

- New Medicare beneficiaries may be less financially secure than their predecessors
 - In 2014, 55–64 year olds' real median household income had fallen 4% over the decade
 - In 2013, 55–64 year olds' real median family net worth had fallen 42% over the previous 6 years
- Out-of-pocket costs for Medicare beneficiaries growing faster than Social Security benefits

Burden of out-of-pocket health care spending on households



Note: Household income, health expenditures, and premiums all measured in nominal dollars. Average premiums for individual and family coverage are for employer-sponsored health insurance and include contributions from workers and employers.

Sources: MedPAC analysis of Census Bureau, Current Population Survey, Annual Social and Economic Supplements 2015, National Health Expenditure Accounts from CMS 2015, Kaiser Family Foundation and Health Research & Educational Trust 2015.

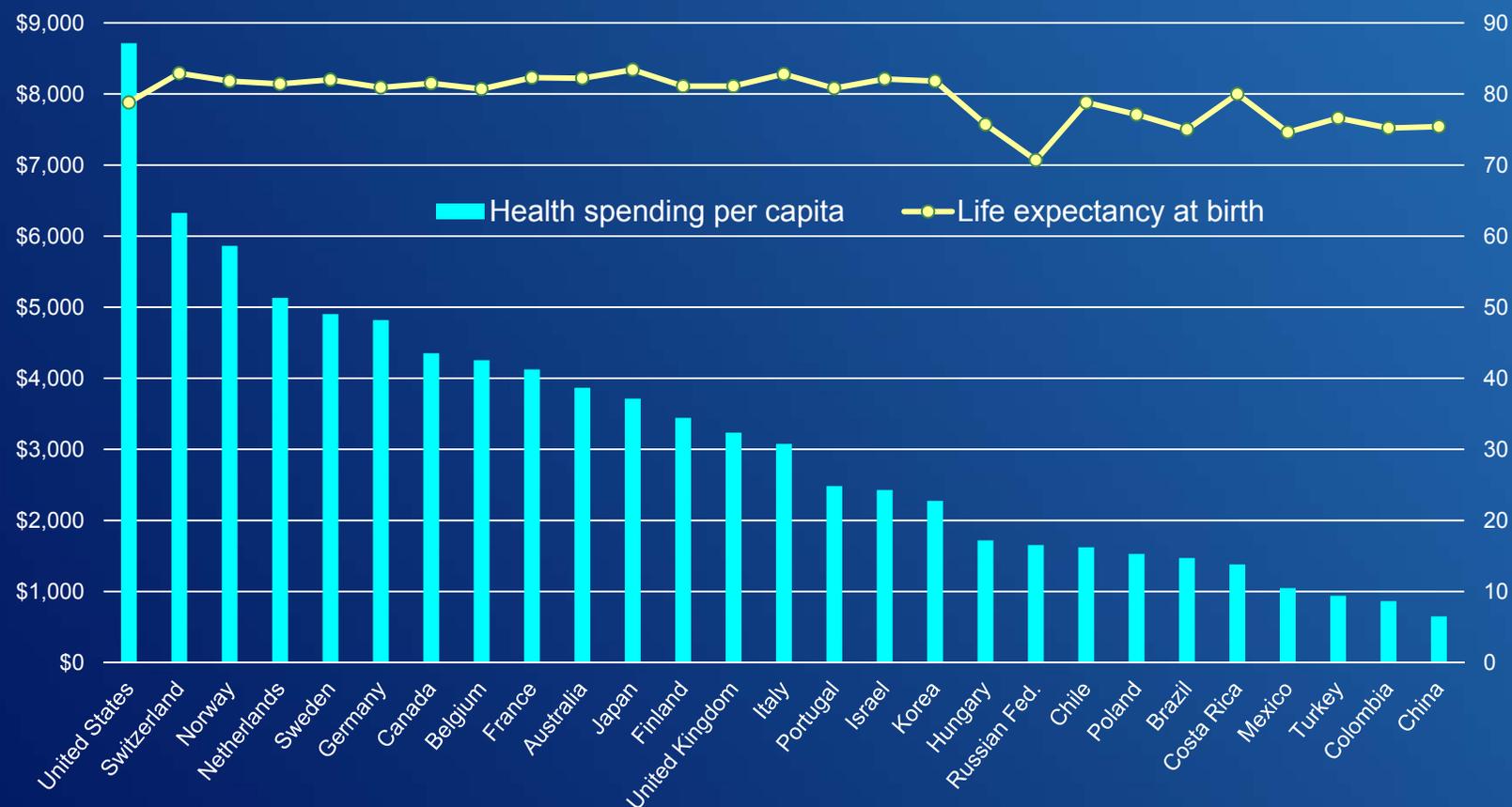
The Independent Payment Advisory Board (IPAB)

Who?	15 appointed expert advisors
What?	IPAB would have broad authority to propose Medicare payment policies to reduce Medicare spending growth
When?	The IPAB process is triggered in a year that the Medicare actuaries determine that projected Medicare spending growth exceeds a specified target.
And Then?	The IPAB (or Secretary's) savings proposal automatically becomes law unless Congress acts under specified circumstances and within a set time period. Congress' alternative must produce at least as much savings.

Evidence of health care inefficiency and misspending

- Geographic variation
 - Higher use ≠ improved patient outcomes
 - Low-value services continue to be performed
- International comparison
 - U.S. spends significantly more than any other country in the world
 - U.S. ranks poorly on indicators of efficiency and outcomes
 - Life expectancy has increased more slowly than in other OECD countries

Out of 44 OECD and related countries, the United States ranks first on health care spending but 28th on life expectancy, 2013



Note: OECD (Organisation for Economic Co-operation and Development). In addition to the 34 OECD countries, there are 10 candidate and key partner countries (Brazil, China, Colombia, Costa Rica, India, Indonesia, Latvia, Lithuania, the Russian Federation, and South Africa). Selected OECD and related countries shown. Health care spending data for Australia as of 2012. Life expectancy for Canada as of 2011.

Medicare's challenges

- Fragmented payment system
- Limited tools to restrain fraud/overuse
- Benefit design
- Different prices across settings
- Undervalued and overvalued services

The Commission's approach to addressing challenges

- Payment accuracy and efficiency
- Quality and coordination
- Information for beneficiaries and providers
- Aligned health care workforce
- Engaged beneficiaries

Discussion

- Questions?
- Comments on scope, substance, or tone