



*Advising the Congress on Medicare issues*

# Context for Medicare payment policy

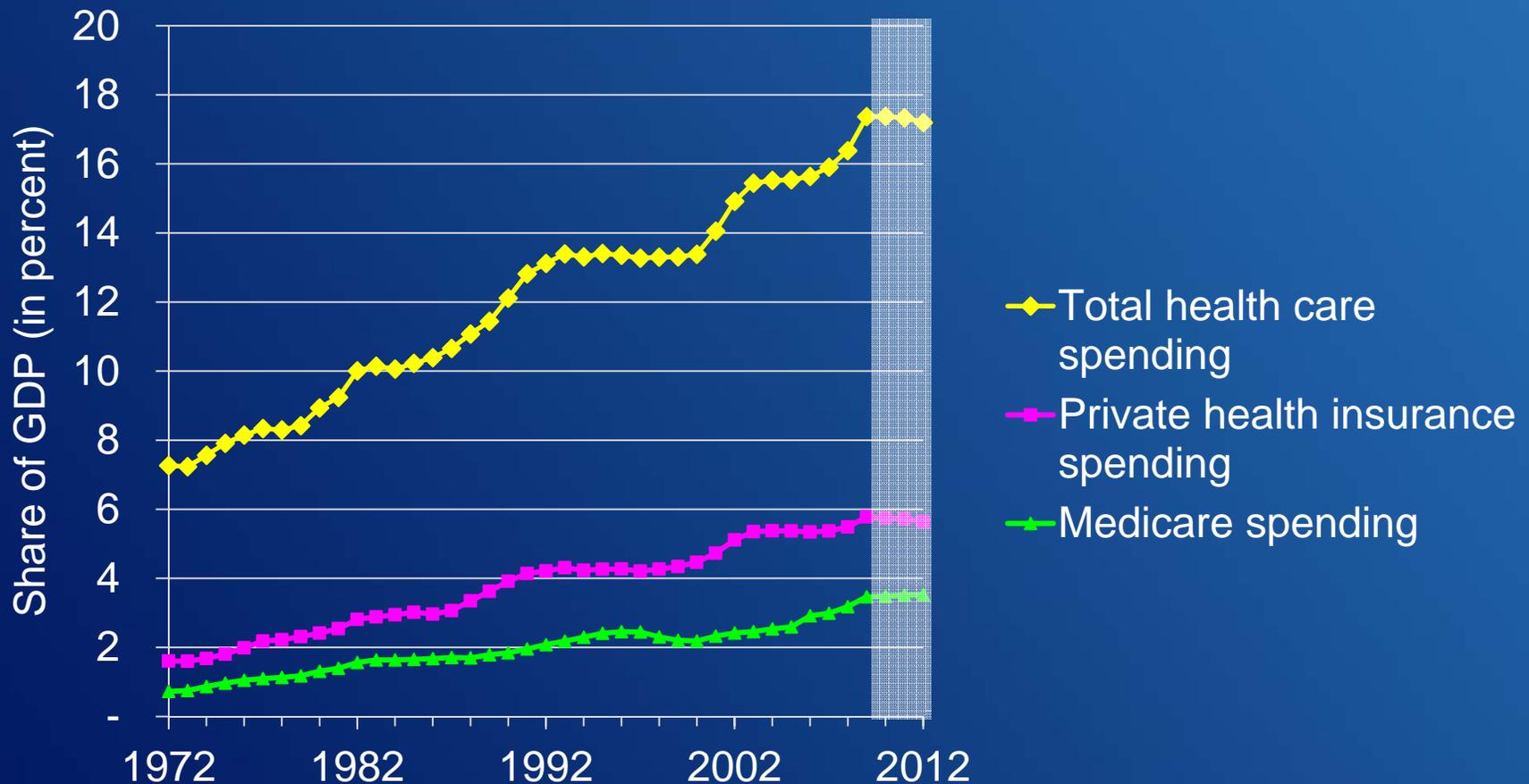
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September 11, 2014

# Today's presentation

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- Health care spending growth and slowdown
- Medicare spending trends in detail
- Medicare spending projections
- Medicare's effect on the federal budget
- Drivers of health care spending and evidence of inefficient spending

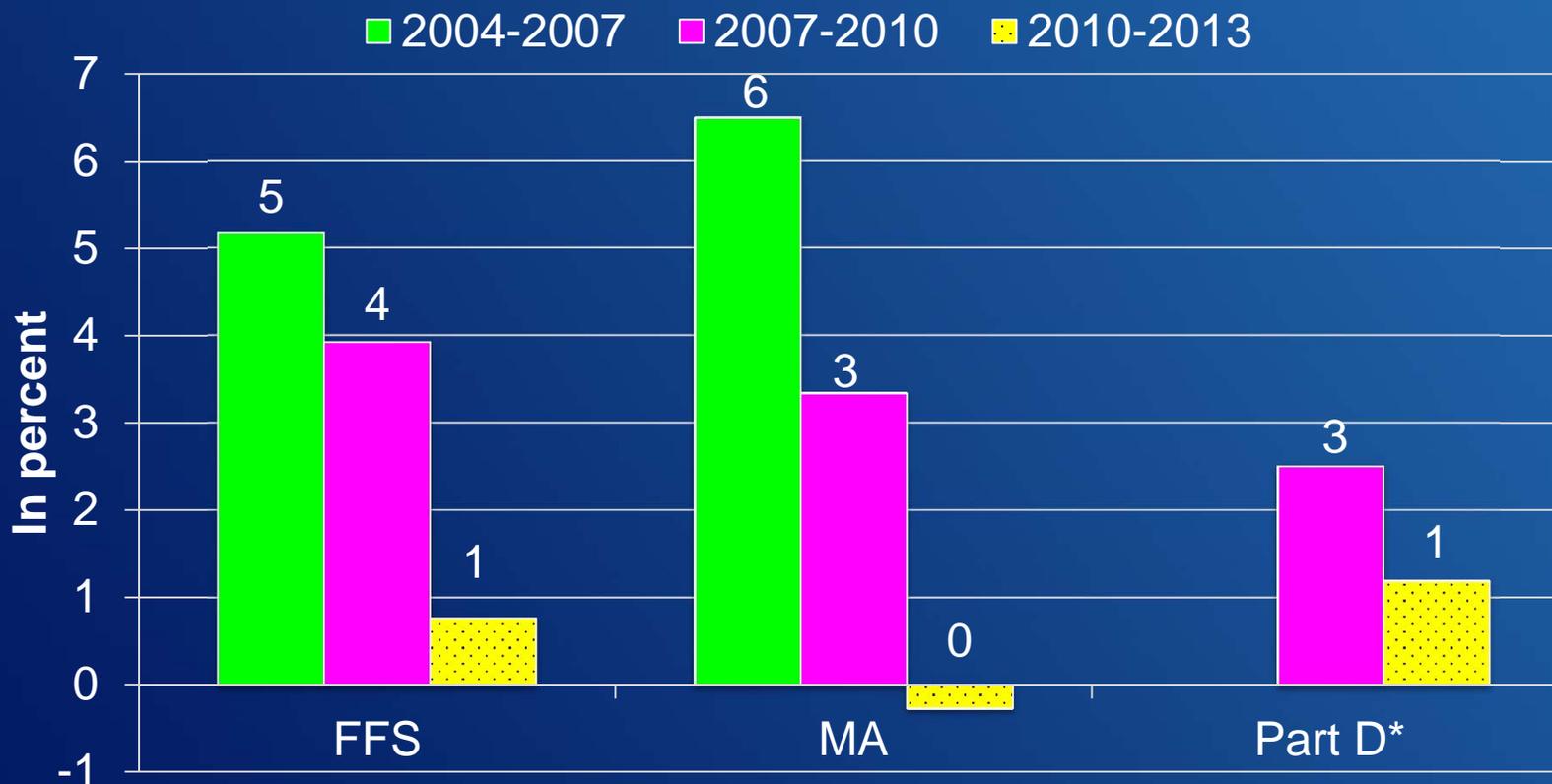
# Historically health care spending has risen as a share of GDP, recently its growth has slowed



Note: Gross domestic product (GDP).  
Source: National Health Expenditure Accounts 2014.

# Medicare: Per beneficiary spending growth slowed in FFS, MA, and Part D

Average annual growth in per beneficiary spending

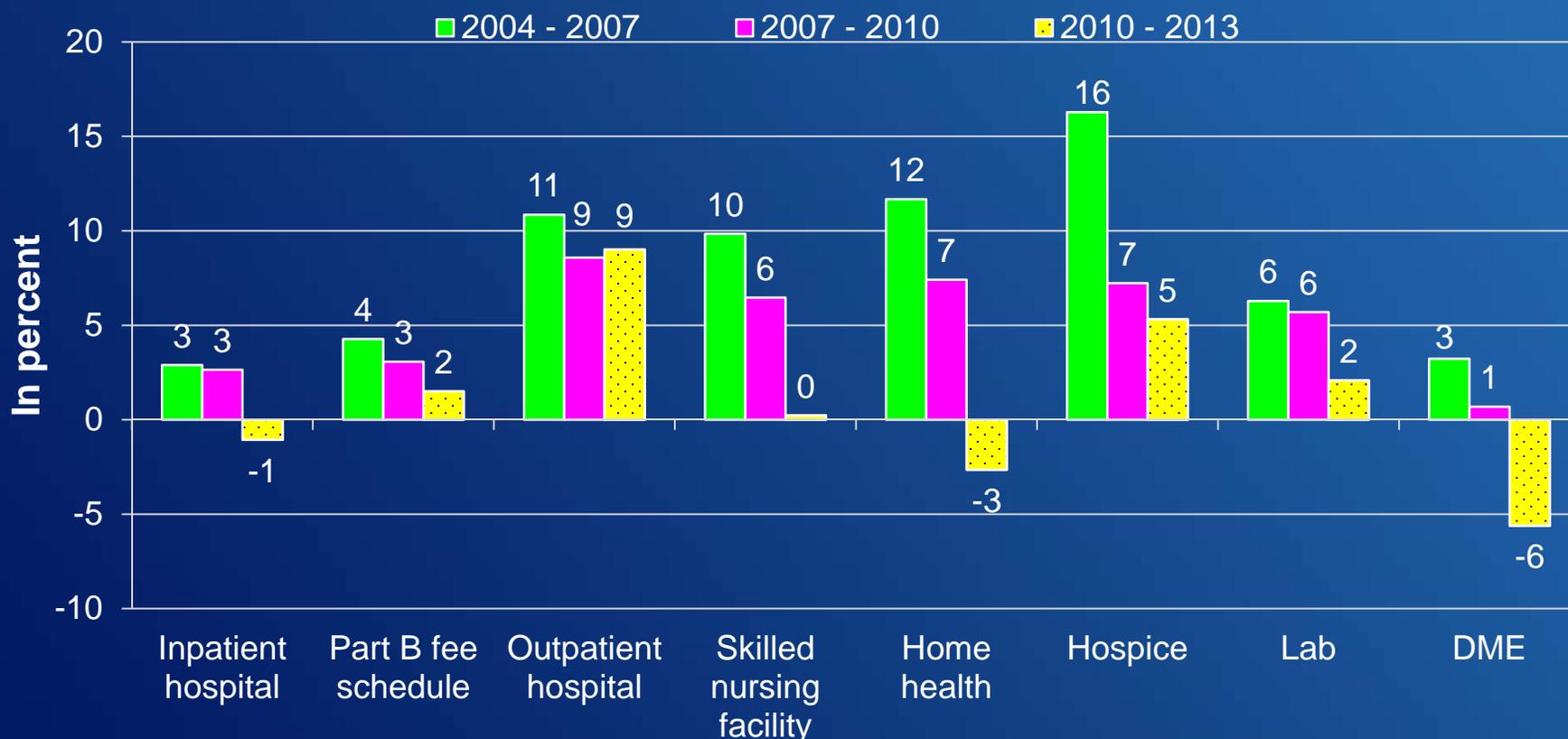


Note: FFS (Fee-for-Service), MA (Medicare Advantage). \* Part D average annual change from 2004 – 2007 is not shown since the program began in 2006.

Source: 2014 annual report of the Boards of Trustees of the Medicare Trust Funds.

# Medicare: Per beneficiary spending growth in some FFS settings remained strong

Average annual growth in per beneficiary spending by FFS setting

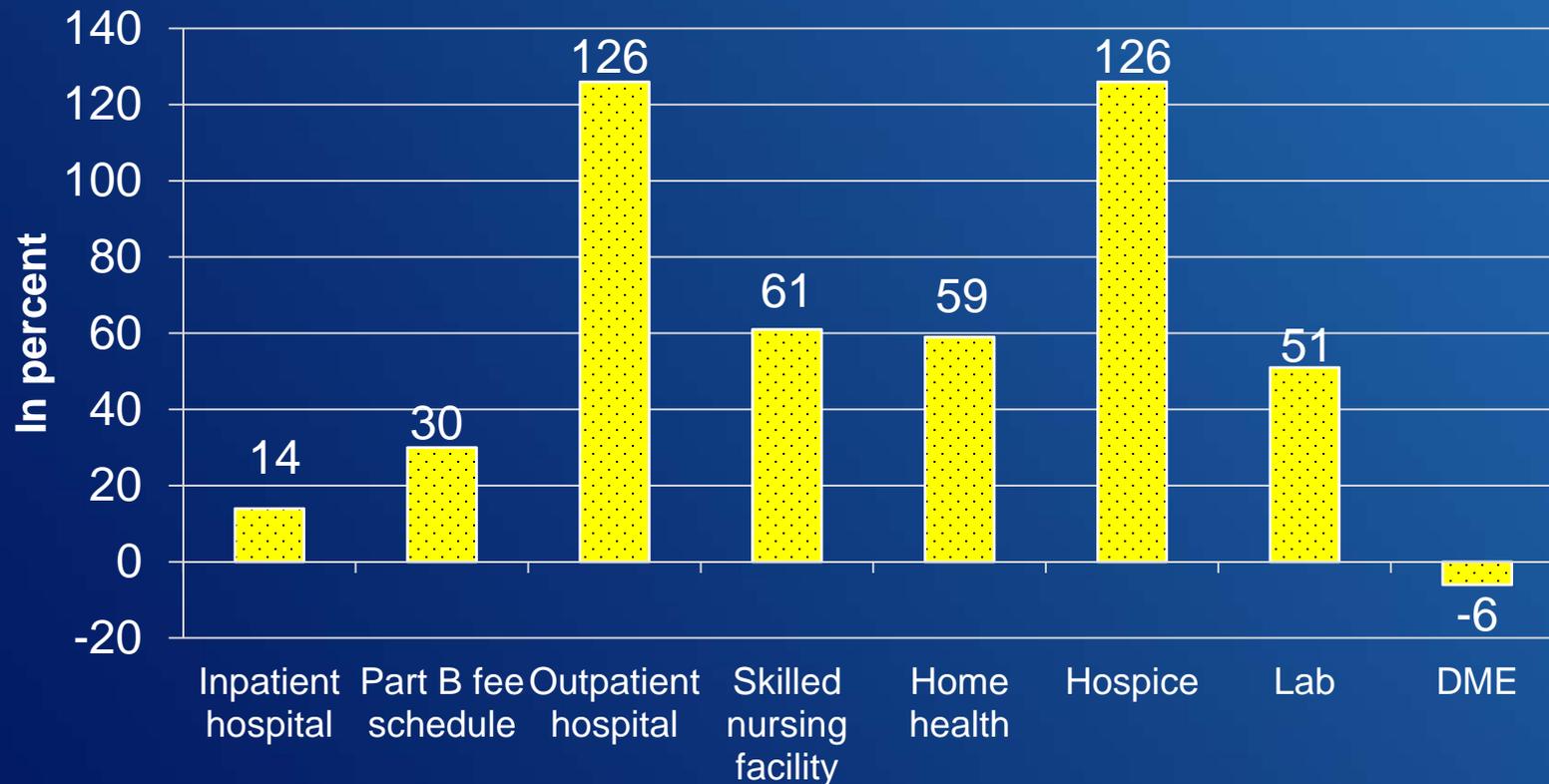


Note: FFS (fee-for-service), DME (durable medical equipment).

Source: 2014 annual report of the Boards of Trustees of the Medicare Trust Funds.

# Medicare: Per beneficiary spending grew over the decade in almost all settings

## Cumulative change from 2004 to 2013



Note: FFS (fee-for-service), DME (durable medical equipment).

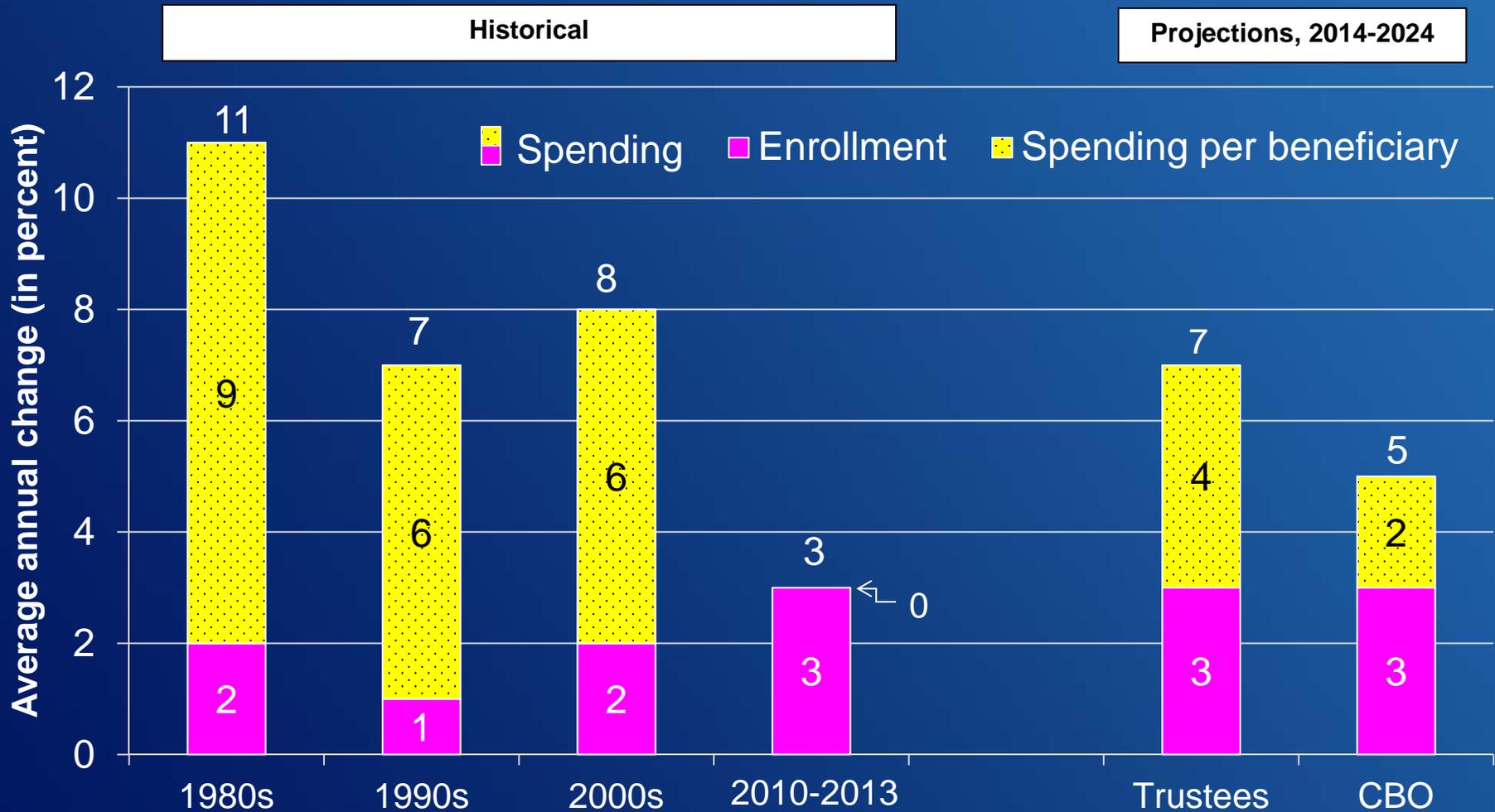
Source: 2014 annual report of the Boards of Trustees of the Medicare Trust Funds.

# Medicare compared to private sector— recent trends similar for both

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- Per capita spending slowed for private payers too
  - But primarily due to slowdown in use of services
  - Price growth remains—key drivers include increasing provider consolidation and provider market power
  - Per capita spending growth for private payers of about 4% annually from 2009 – 2012, compared to 1% in Medicare
- Inpatient hospital—per capita spending growth for private payers slowed too
- Outpatient hospital—per capita spending growth for private payers still robust

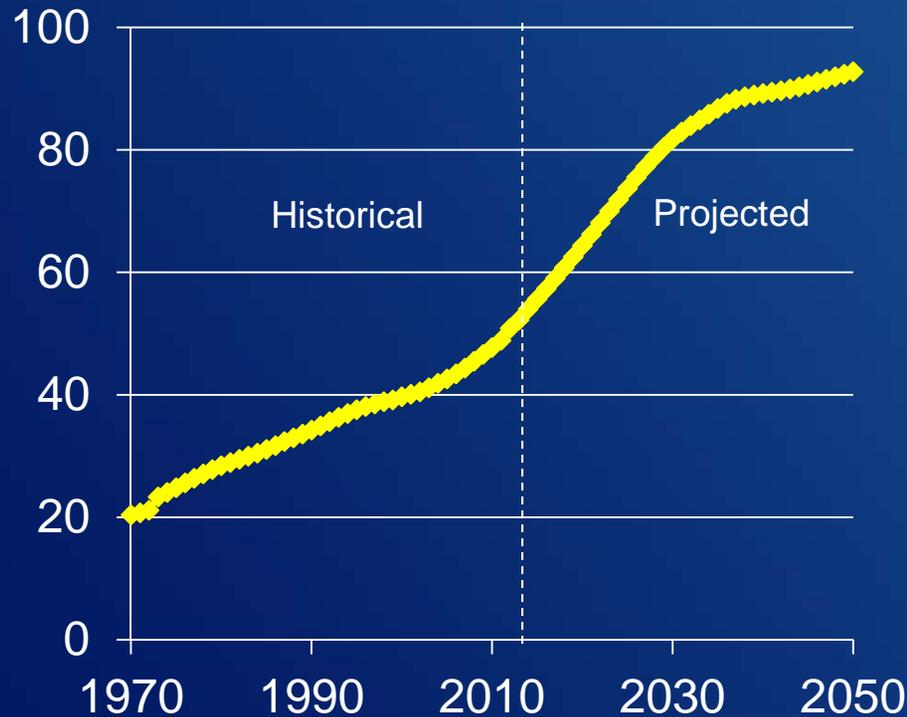
# Despite slowdown in per beneficiary spending, total Medicare spending continues to rise



# Medicare enrollment projected to grow rapidly

## Workers per HI beneficiary projected to decline

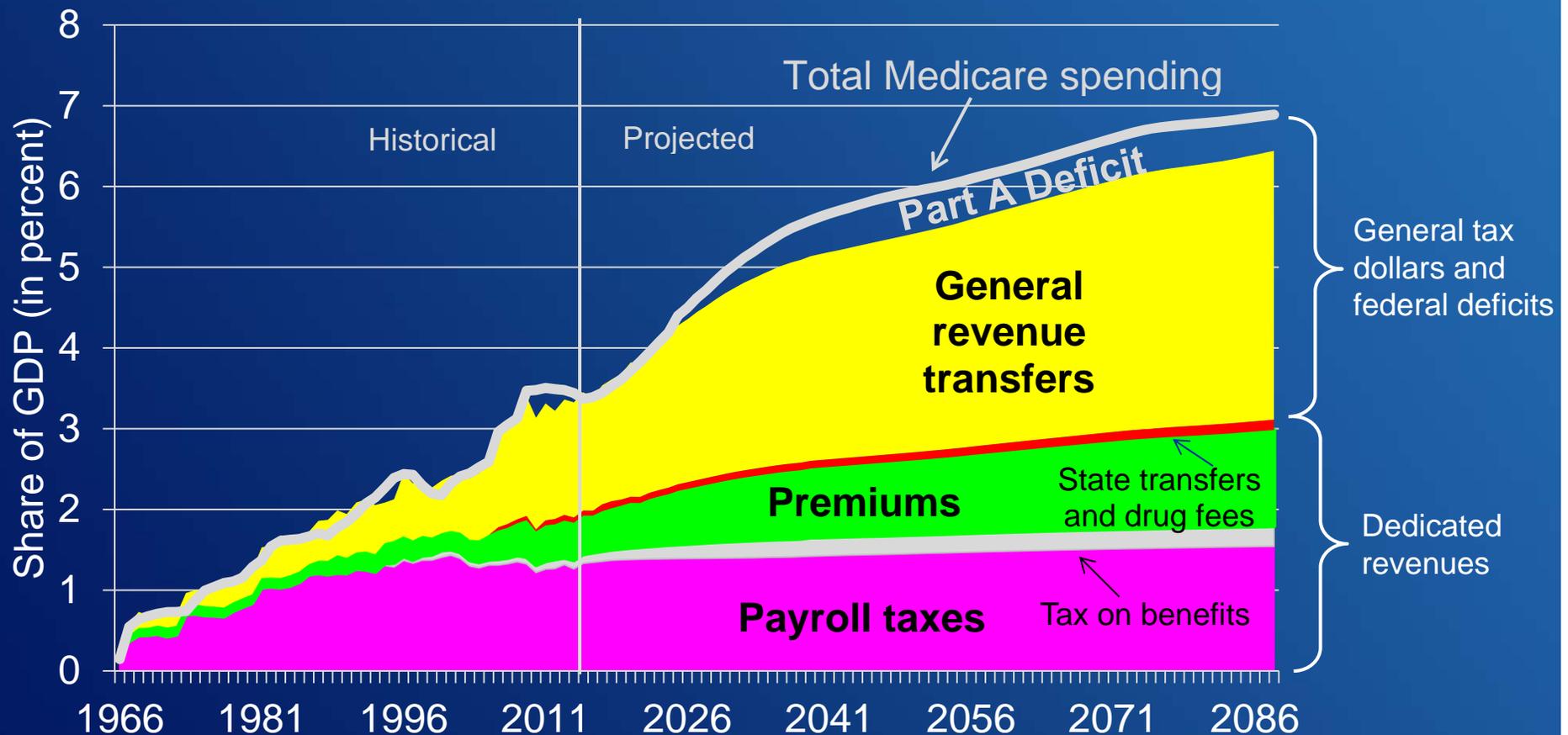
### Medicare enrollment (in millions)



### Workers per HI beneficiary



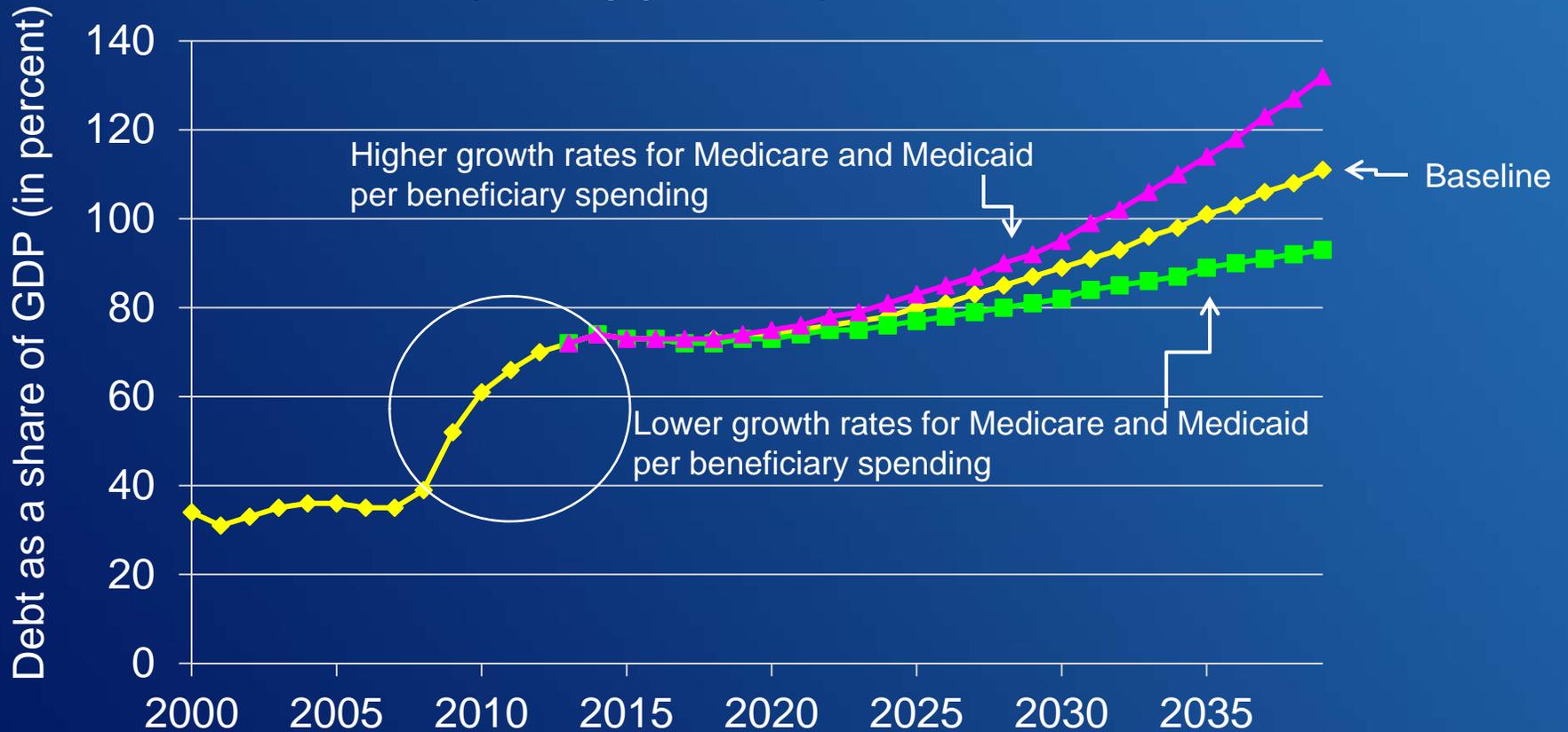
# General revenue paying for growing share of Medicare spending



Note: GDP (Gross domestic product).  
Source: Boards of Trustees 2014.

# The debt is projected to reach 100% of GDP by 2035 under baseline assumptions

Health care spending growth impacts future debt levels



Note: GDP (Gross domestic product).  
Source: CBO May 2014.

# What do we expect about future health care spending?

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- Official projections assume spending growth will rebound, but not to historical levels
- Health care spending growth depends on myriad of factors
- Despite the slowdown, some spending is inefficient and wasteful, and may be possible to eliminate without harming patients

# Drivers of health care growth

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- Historically, health care spending is affected by:
  - Technological change (in the practice of medicine)
  - Income (GDP—national income—in particular)
  - Insurance coverage
  - Other factors
- The relative importance of these drivers may vary for Medicare
  - But still the same health care delivery system

# Evidence of health care inefficiency and misspending

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- Geographic variation
  - Differences in utilization, no effect on outcomes
  - Differences in prices, no effect on outcomes
- International comparison
  - U.S. spends significantly more than all other OECD countries
  - In particular, prices in the U.S. are higher
  - Little evidence that the higher spending leads to better outcomes or improved access

# Medicare's challenges and the Commission's approach

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- Medicare challenges
  - Fragmented payment systems
  - Limited tools to restrain fraud/overuse
  - Benefit design
  - Different prices across settings
  - Undervalued and over-valued services
- Commission's approach
  - Payment accuracy and efficiency
  - Quality and coordination
  - Information for beneficiaries and providers
  - Aligned health care workforce
  - Engaged beneficiaries

# Discussion

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