Context for Medicare payment policy

Julie Somers
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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
- The next generation of Medicare beneficiaries
- Evidence of inefficient spending and challenges faced by Medicare
Recent historically low growth rates of health care spending are projected to gradually and modestly increase.
Recent growth in per beneficiary Medicare spending has been slow, but 2014 shows signs of acceleration.

Average annual change in per beneficiary Medicare spending

<table>
<thead>
<tr>
<th>Period</th>
<th>FFS</th>
<th>MA</th>
<th>Part D*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 - 2008</td>
<td>5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2008 - 2011</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>2011 - 2014</td>
<td>0</td>
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</tbody>
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Note: FFS (fee-for-service), MA (Medicare Advantage). * Part D average annual change from 2005 – 2008 is not shown since the program began in 2006.

Source: 2015 annual report of the Boards of Trustees of the Medicare Trust Funds.
Recent growth in per beneficiary Medicare spending has been slow, but 2014 shows signs of acceleration.

Average annual change in per beneficiary Medicare spending

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Note: FFS (fee-for-service), MA (Medicare Advantage). * Part D average annual change from 2005 – 2008 is not shown since the program began in 2006.

Source: 2015 annual report of the Boards of Trustees of the Medicare Trust Funds.
Per beneficiary spending growth in some FFS settings remained strong

Average annual change in per beneficiary spending by FFS setting

<table>
<thead>
<tr>
<th>In percent</th>
<th>2005 - 2008</th>
<th>2008 - 2011</th>
<th>2011 - 2014</th>
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<tbody>
<tr>
<td>Inpatient hospital</td>
<td>1</td>
<td>2</td>
<td>-1</td>
</tr>
<tr>
<td>Physician &amp; other health professional services</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Outpatient hospital and lab services</td>
<td>7</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Skilled nursing facility</td>
<td>7</td>
<td>10</td>
<td>-3</td>
</tr>
<tr>
<td>Home health</td>
<td>2</td>
<td>11</td>
<td>-2</td>
</tr>
<tr>
<td>Hospice</td>
<td>6</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>Durable medical equipment</td>
<td>-8</td>
<td>-3</td>
<td>5</td>
</tr>
<tr>
<td>Labs performed in physician offices and independent laboratories</td>
<td>2</td>
<td>6</td>
<td>9</td>
</tr>
</tbody>
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Note: FFS (fee-for-service).
Source: 2015 annual report of the Boards of Trustees of the Medicare Trust Funds.
Per beneficiary spending grew over the decade in almost all FFS settings

Cumulative change in GDP and per beneficiary spending by FFS setting from 2005 to 2014

Note: FFS (fee-for-service).
Source: 2015 annual report of the Boards of Trustees of the Medicare Trust Funds.
Despite recent slowdown in per beneficiary spending growth, total Medicare spending growth is projected to rise.
Trustees and CBO project Medicare spending to reach 1 trillion dollars by 2024 or 2026

Note: CBO (Congressional Budget Office), Trustees (Boards of Trustees of the Medicare Trust Funds).
Source: 2015 annual report of the Boards of Trustees of the Medicare Trust Funds and CBO 2015 long-term budget outlook.
Medicare enrollment projected to grow rapidly; workers per HI beneficiary projected to decline

Medicare enrollment (in millions)

Workers per HI beneficiary

Note: HI (Hospital Insurance, otherwise known as Medicare Part A).
Source: Boards of Trustees 2015.
Medicare Trust Funds and their shares of total spending

- **Hospital Insurance (HI) Trust Fund (44%)**
  - Part A - inpatient hospital stays, skilled nursing facility
  - Financed by payroll tax
  - Insolvent in 2030 (projection)

- **Supplementary Medical Insurance (SMI) Trust Fund (56%)**
  - Part B - physician, hospital outpatient departments
  - Part D – prescription drug coverage
  - Financed by general tax revenues (3/4) and premiums (1/4)
  - Solvency not an issue for SMI Trust Fund
General revenue paying for growing share of Medicare spending

Note: GDP (Gross domestic product).
Source: Boards of Trustees 2015.
Spending on Medicare, other major health programs, Social Security, and net interest is projected to exceed total Federal revenues in 25 years.

Note: CHIP (Children’s Health Insurance Program).
Next generation of Medicare beneficiaries: Baby boomers

- Medicare population growing by about 10,000 new beneficiaries per day
- Will increase from 54 m beneficiaries today to 80 m by 2030
- Will remain less diverse racially & ethnically
  - Medicare population will be 28% minority by 2030 versus a 49% minority under-age-65 population
- Health outlook uncertain
  - (+) Longer life expectancy & lower rate of smoking
  - (?) Higher rates of chronic conditions, but conditions better managed
  - (-) Higher rates of obesity and diabetes
Health insurance experience of baby boomers prior to Medicare enrollment

- Began working years in conventional plans
- Experienced the rise and fall of managed care in the 1990s
- Moved to PPO plans with broad provider networks
  - Faced rapidly rising premiums, deductibles, and co-payments
- Not much experience with: PPOs w/narrow networks, high-deductible plans, or ACA health insurance exchanges
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, but at a slower rate than in other OECD countries
Medicare’s challenges

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