



*Advising the Congress on Medicare issues*

# Context for Medicare payment policy

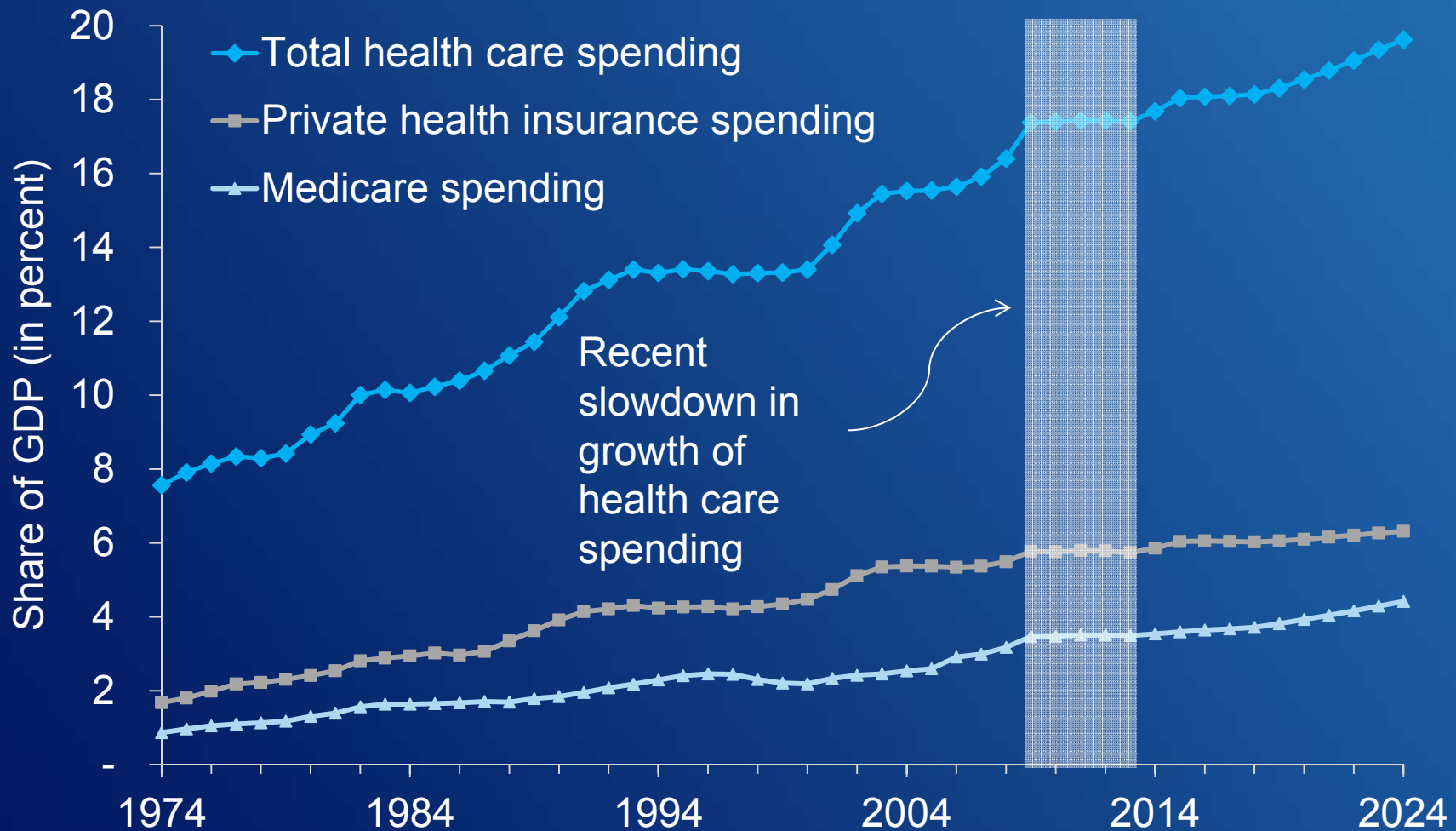
Julie Somers  
September 10, 2015

# Today's presentation

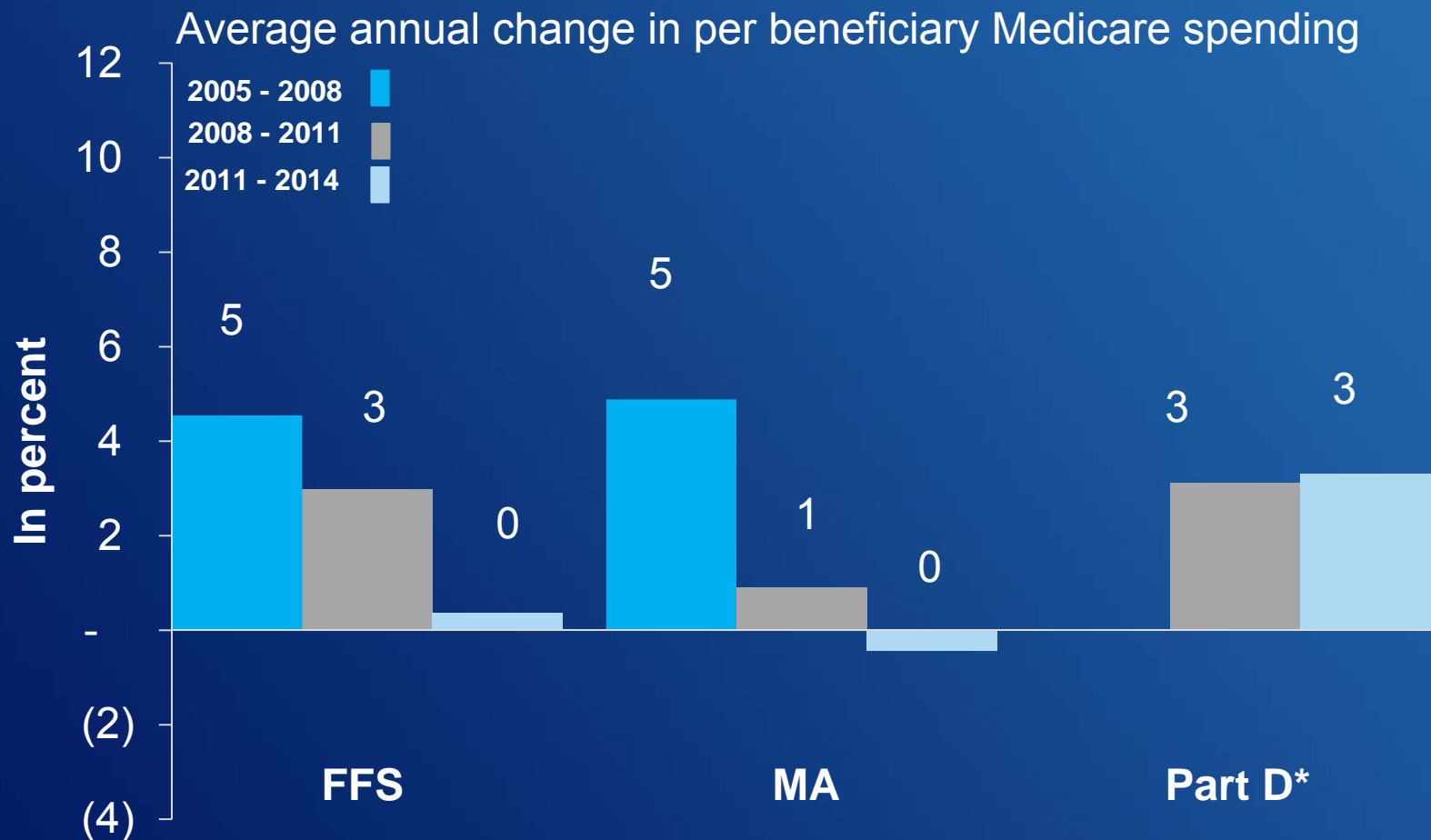
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- Health care spending growth and recent slowdown
- Medicare spending trends in detail
- Medicare spending projections
- Medicare's effect on the federal budget
- The next generation of Medicare beneficiaries
- Evidence of inefficient spending and challenges faced by Medicare

# Recent historically low growth rates of health care spending are projected to gradually and modestly increase



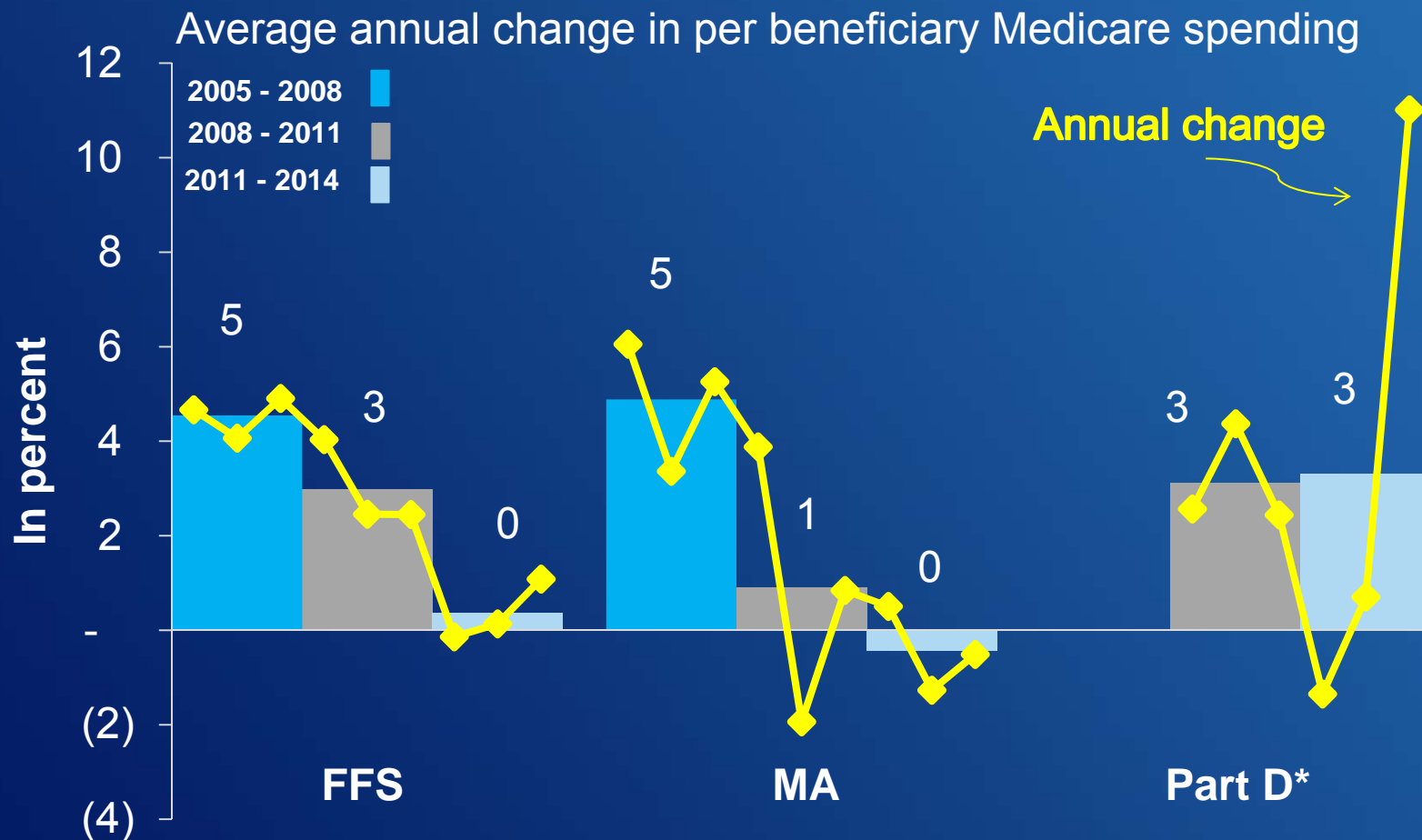
# Recent growth in per beneficiary Medicare spending has been slow, but 2014 shows signs of acceleration



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.

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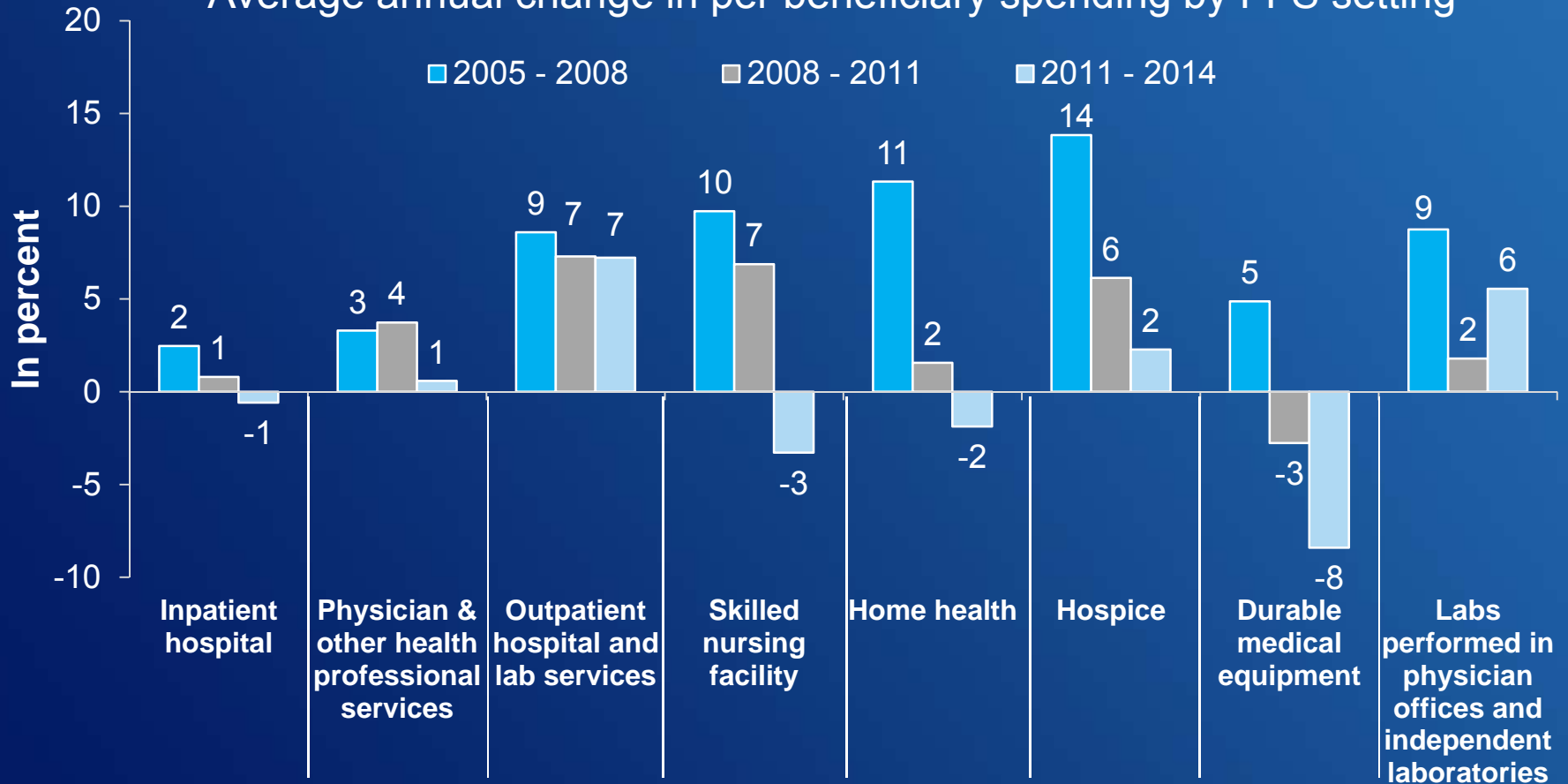


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Source: 2015 annual report of the Boards of Trustees of the Medicare Trust Funds.

# Per beneficiary spending growth in some FFS settings remained strong

Average annual change in per beneficiary spending by FFS setting

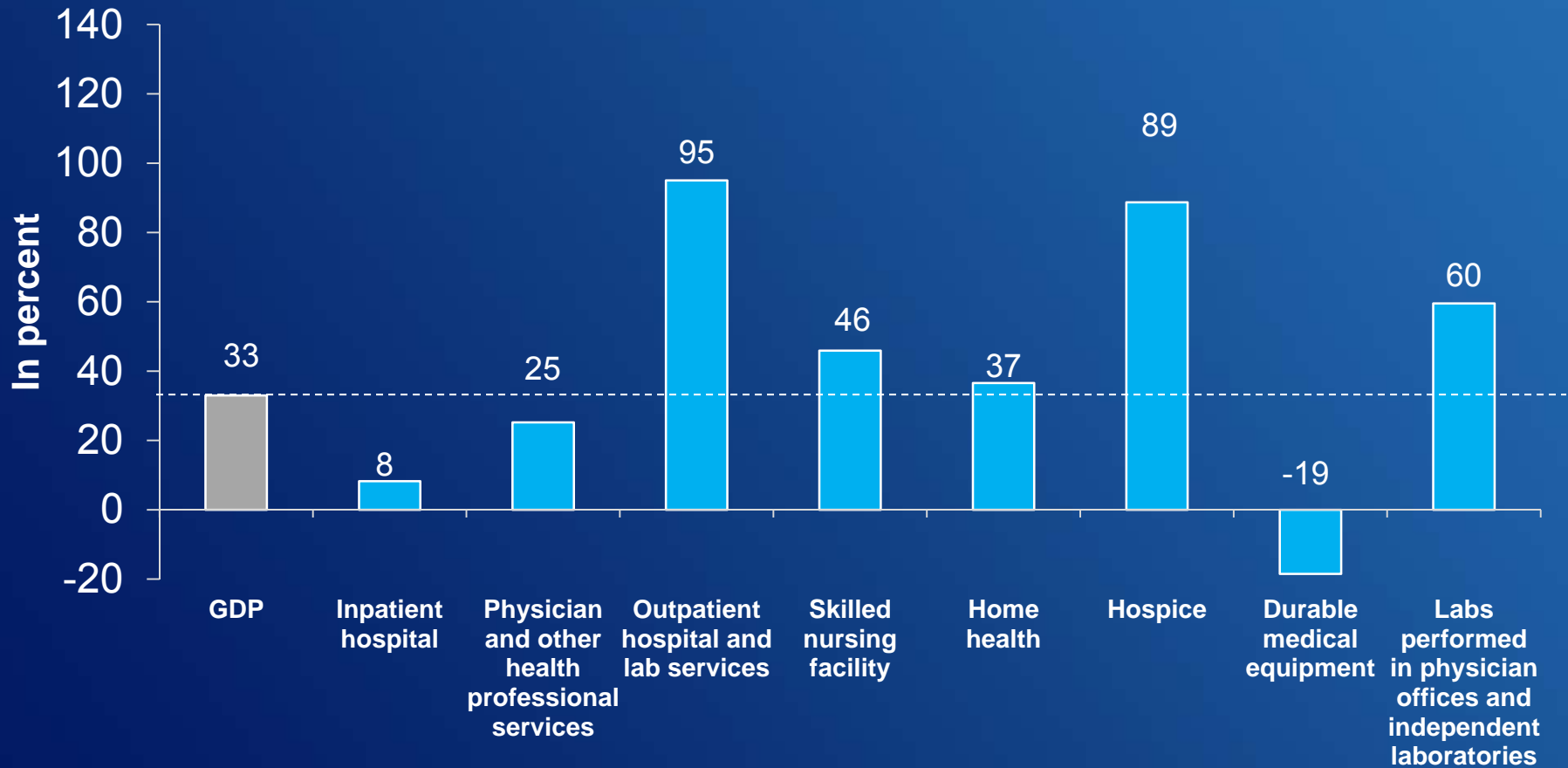


Note: FFS (fee-for-service).

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

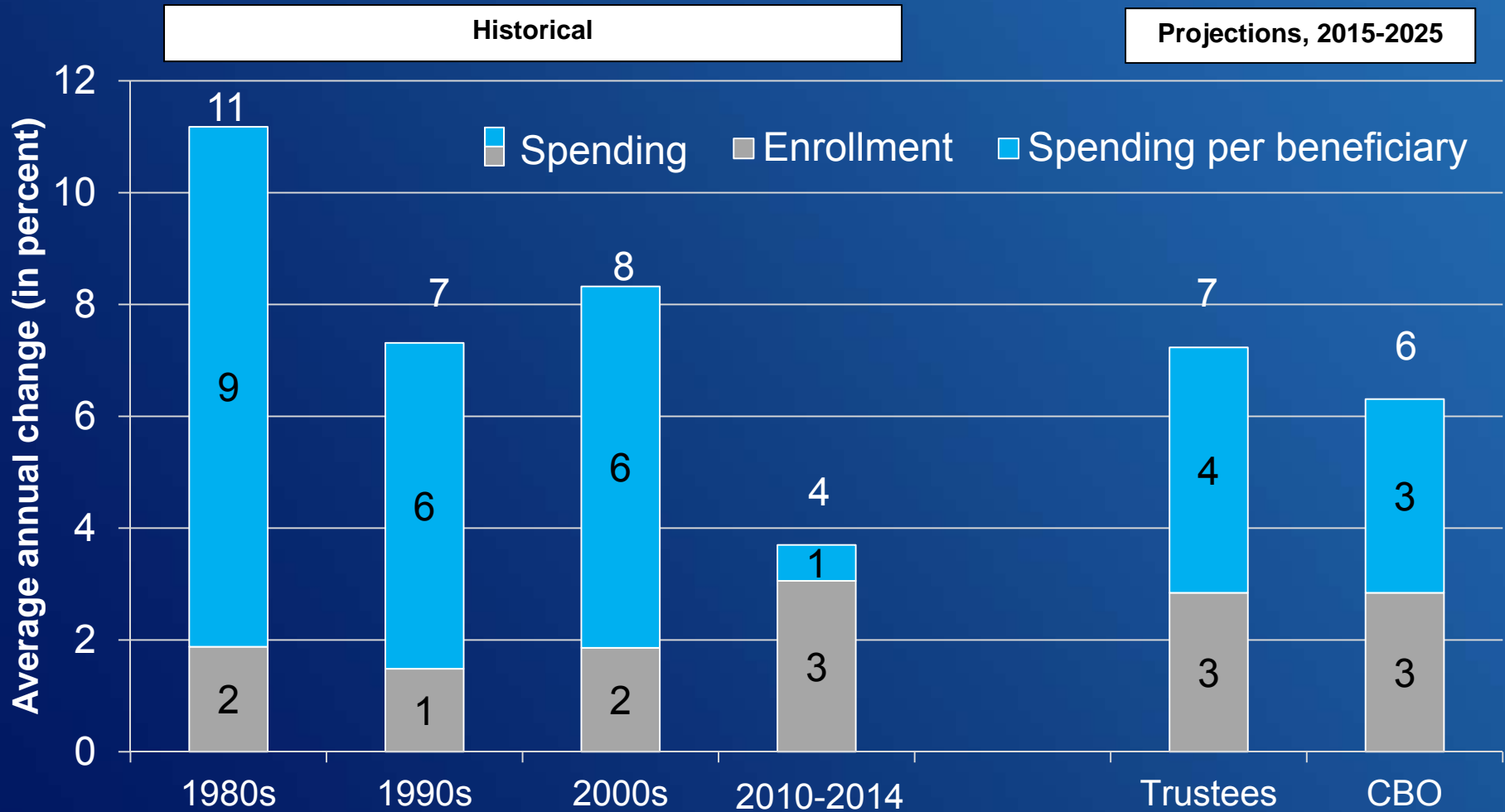
Cumulative change in GDP and per beneficiary spending by FFS setting from 2005 to 2014



Note: FFS (fee-for-service).

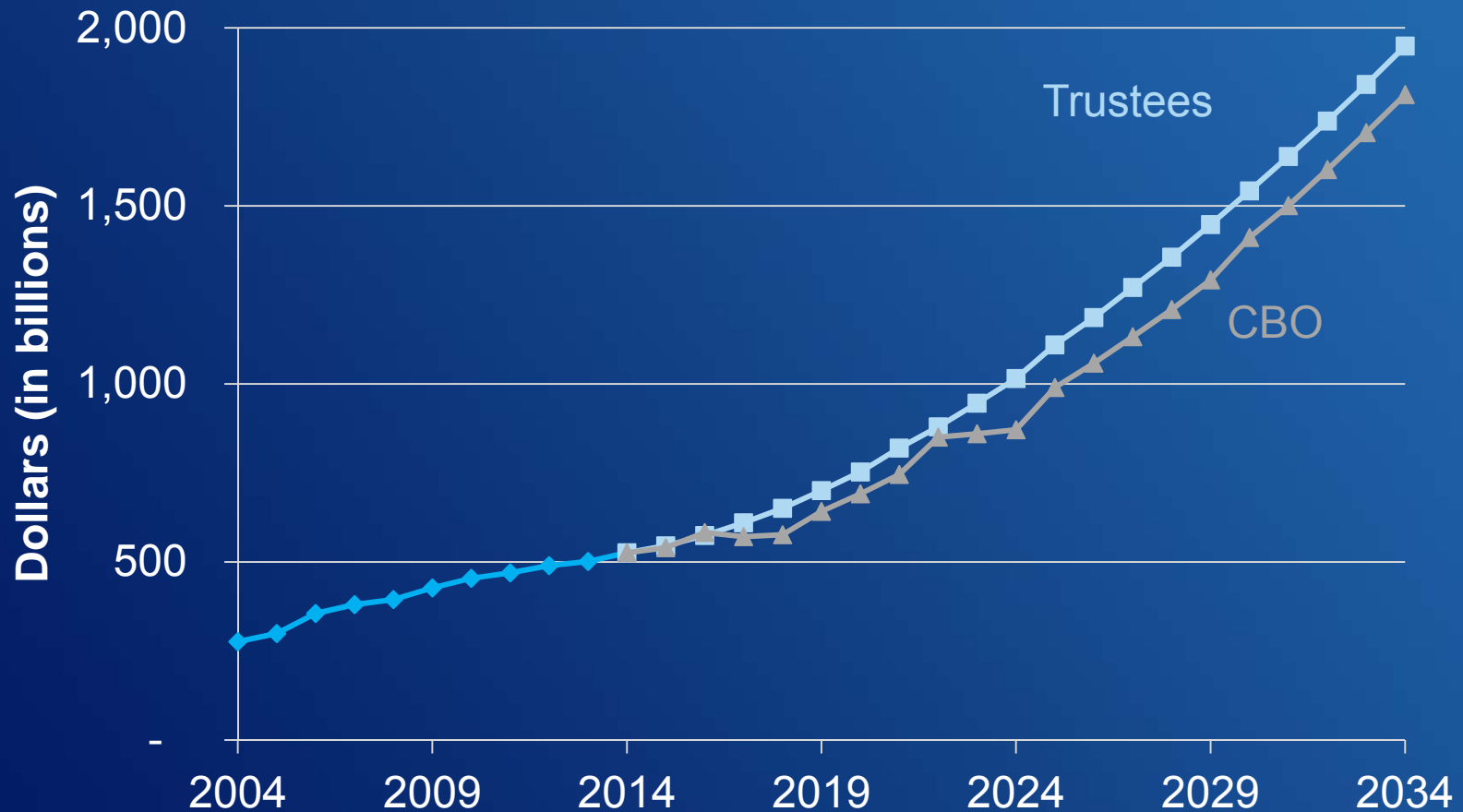
Source: 2015 annual report of the Boards of Trustees of the Medicare Trust Funds.

# Despite recent slowdown in per beneficiary spending growth, total Medicare spending growth is projected to rise



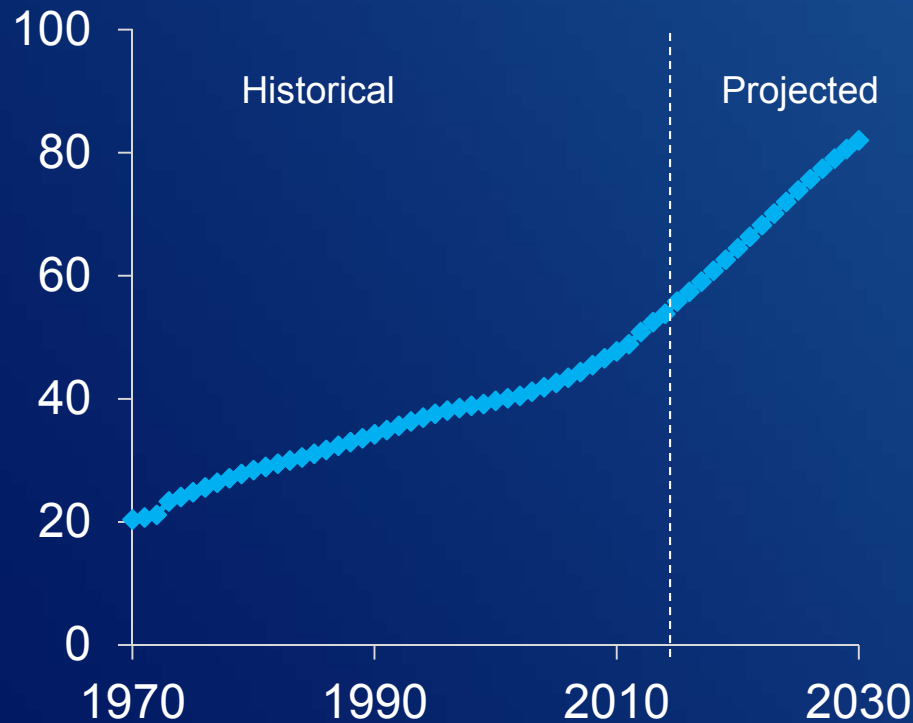


# Trustees and CBO project Medicare spending to reach 1 trillion dollars by 2024 or 2026

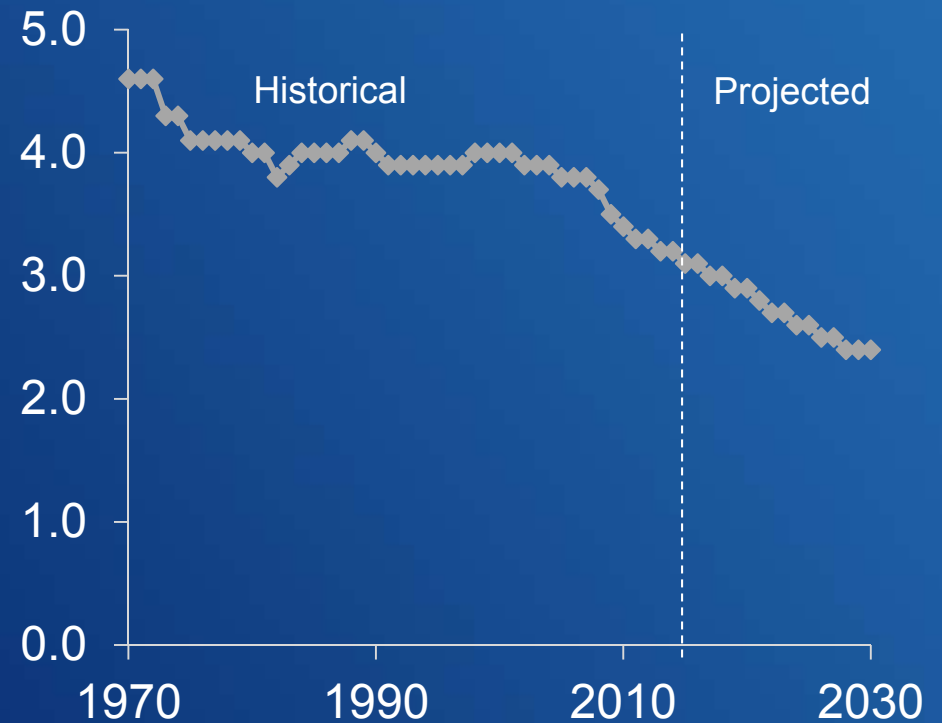


# Medicare enrollment projected to grow rapidly; workers per HI beneficiary projected to decline

## Medicare enrollment (in millions)



## Workers per HI beneficiary

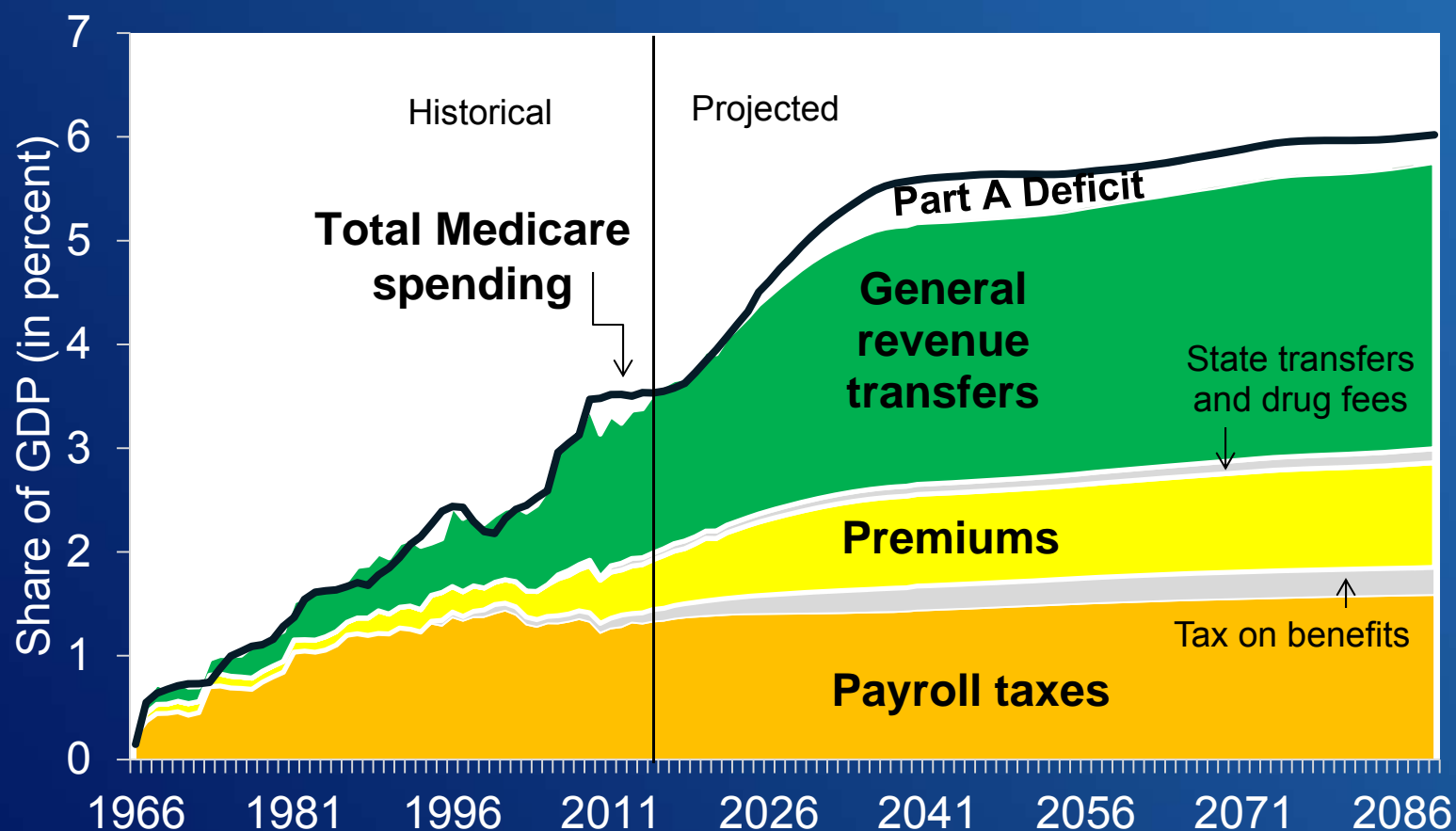


# Medicare Trust Funds and their shares of total spending

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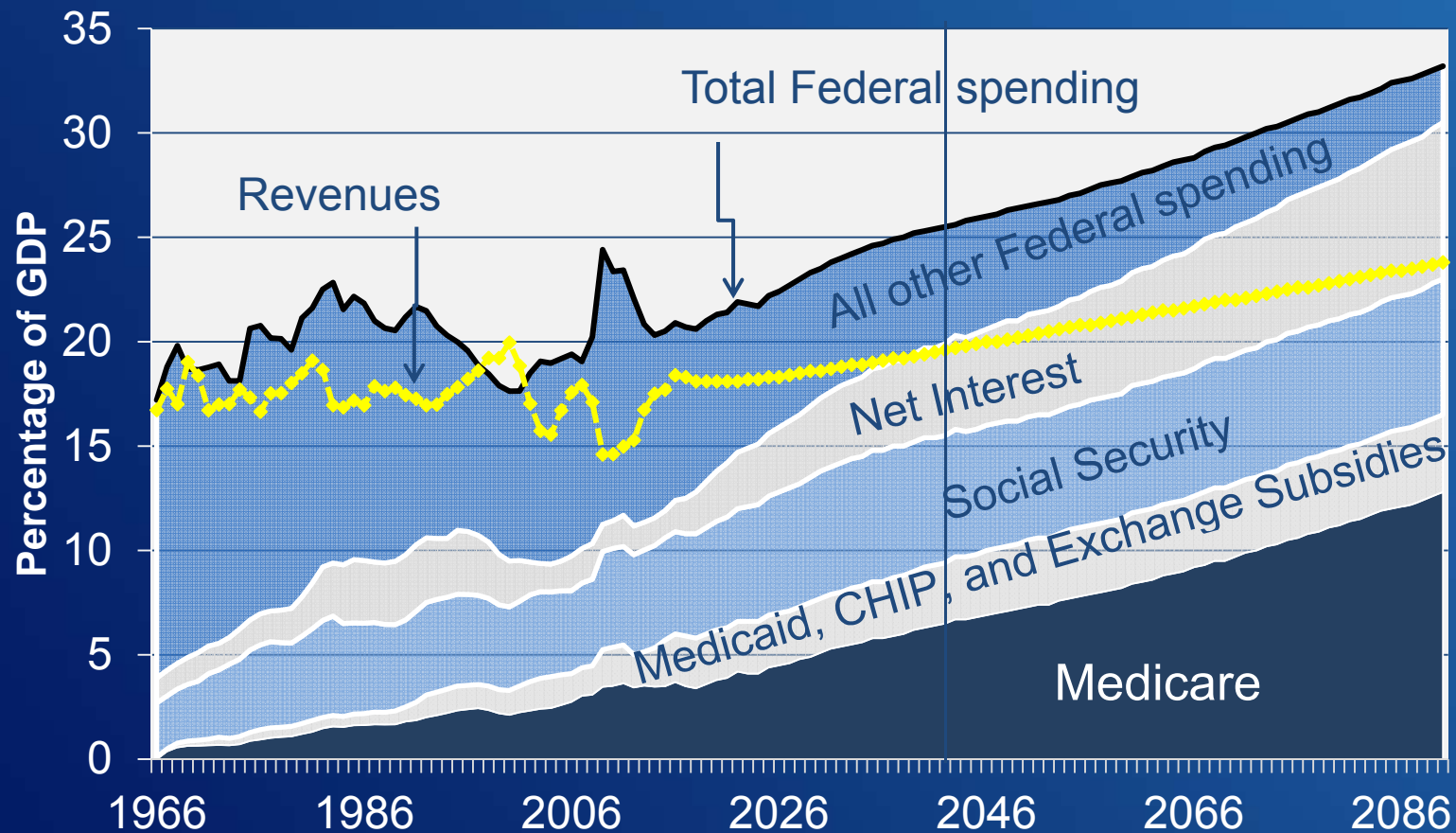
- Hospital Insurance (HI) Trust Fund (44%)
  - Part A - inpatient hospital stays, skilled nursing facility
  - Financed by payroll tax
  - Insolvent in 2030 (projection)
- Supplementary Medical Insurance (SMI) Trust Fund (56%)
  - Part B - physician, hospital outpatient departments
  - Part D – prescription 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).  
Source: CBO 2015. The 2015 Long-term Budget Outlook

# Next generation of Medicare beneficiaries: Baby boomers

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- 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

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- 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

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- 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

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- 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

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- 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

