

A Brief Introduction to Medicare

Health Economics
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Introduction

- Social insurance
 - Government run insurance programs
 - Typically
 - have subsidized premiums
 - have redistributive component
- Type of social insurance
 - Poverty programs
 - Old age (Social Security)
 - Disability
 - Health care/insurance
 - Unemployment

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Definitions

- Entitlements
 - Available to all who qualify
 - For example, if you qualify for Medicaid (and enroll), you receive benefits
 - In contrast, federally subsidized housing has a limited number of units, once units are gone, 'benefit' used up
- Mean tested
 - Eligibility is determined by income/asset limits

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- Federal government is the largest single provider of health insurance in the country
 - Medicare
 - Medicaid
 - Veteran's Benefits
 - Military Insurance
- In these next 2 weeks, we will discuss the first two
- Size of these programs make them important to consider

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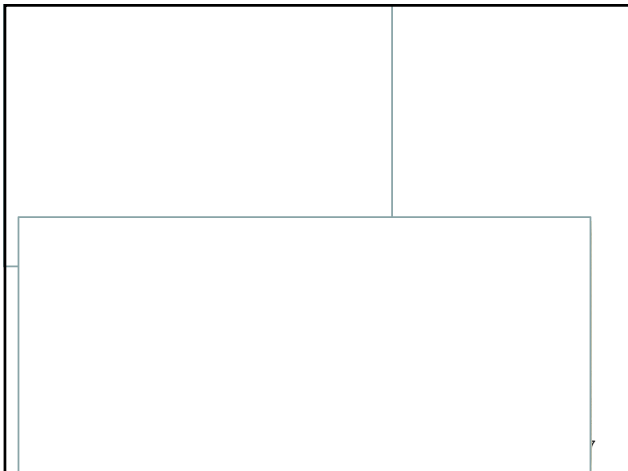
- Medicare – insurance for
 - Elderly
 - Disabled
 - End stage renal disease (dialysis)
- Medicaid -- Insurance for people with medical needs and limited income
 - Poor and their children/ pregnant women
 - Low income elderly
 - Blind/Disabled
 - Long term care

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Political Economy

- Long fought battles
 - Medicare originally proposed by Truman in 1945
 - Medicaid was originally proposed to be part of original Social Security act of 1935
 - Was opposed by medical groups and private insurers
- Successful adoption as part of Johnson's 'war on poverty'
 - Medicare signed into law July 31, 1965
 - Medicaid Established in 1965

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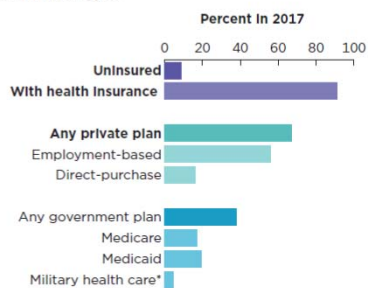


Importance of M&M

- Large fraction of Federal/State spending
- Large fraction of Health care spending
- Large Fraction of all people with insurance

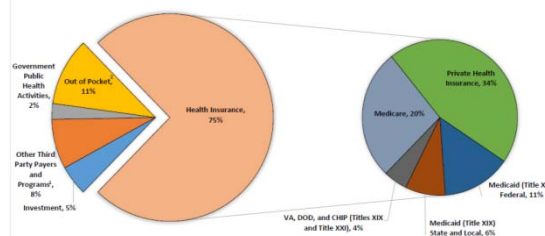
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Figure 1.
Percentage of People by Type of Health Insurance Coverage and Change From 2013 to 2017
(Population as of March of the following year)



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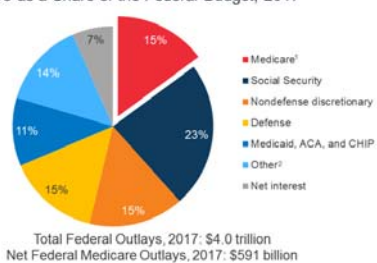
THE NATION'S HEALTH DOLLAR (\$3.3 TRILLION), CALENDAR YEAR 2016:
WHERE IT CAME FROM



¹ Includes work-site health care, other private revenues, Indian Health Service, workers' compensation, general assistance, maternal and child health, vocational rehabilitation, Substance Abuse and Mental Health Services Administration, school health, and other federal and state local programs.
² Includes co-payments, deductibles, and any amounts not covered by health insurance.
Note: Sum of pieces may not equal 100% due to rounding.

SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

Figure 1
Medicare as a Share of the Federal Budget, 2017



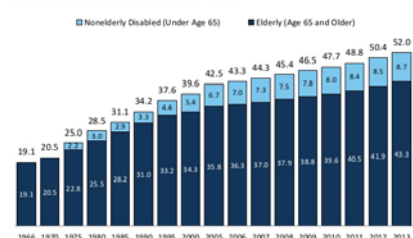
Total Federal Outlays, 2017: \$4.0 trillion
Net Federal Medicare Outlays, 2017: \$591 billion

NOTE: All amounts are for federal fiscal year 2017. ¹Consists of mandatory Medicare spending minus income from premiums and other offsetting receipts. ²Includes spending on other mandatory outlays minus income from offsetting receipts. ACA is Affordable Care Act. CHIP is Children's Health Insurance Program.
SOURCE: KFF analysis of federal spending from Congressional Budget Office, The Budget and Economic Outlook, 2018 to 2028 (April 2018).

KFF

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Medicare Enrollment, 1966 - 2013



NOTE: Numbers may not sum to total due to rounding. People with disabilities under age 65 were not eligible for Medicare prior to 1972.
SOURCE: Centers for Medicare & Medicaid Services, Medicare Enrollment: Hospital Insurance and/or Supplemental Medical Insurance Program; Total, For-For Service and Managed Care Enrollment as of July 1, 2013. Selected Calendar Years 1966-2011, 2012-2013, 2015, 2016 Budget in Brief, FY2014.

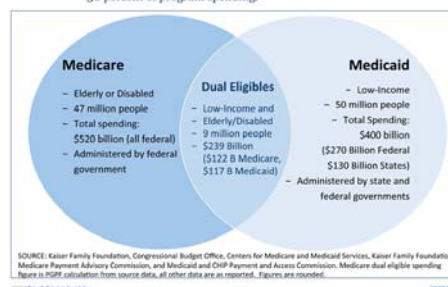
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Structure of Medicare

- Part A
 - Hospitalizations, short-term rehab, hospice: mandatory
 - Funded by payroll tax, general revenues
- Part B
 - Outpatient charges: voluntary (most people purchase)
 - Funded by premiums, general revenues
- Part D
 - Prescription drug, voluntary
 - Funded by premiums, general revenues

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"Dual eligibles" receive coverage from Medicare *and* Medicaid. They make up about 18 percent of Medicaid enrollment but consume nearly 30 percent of program spending.

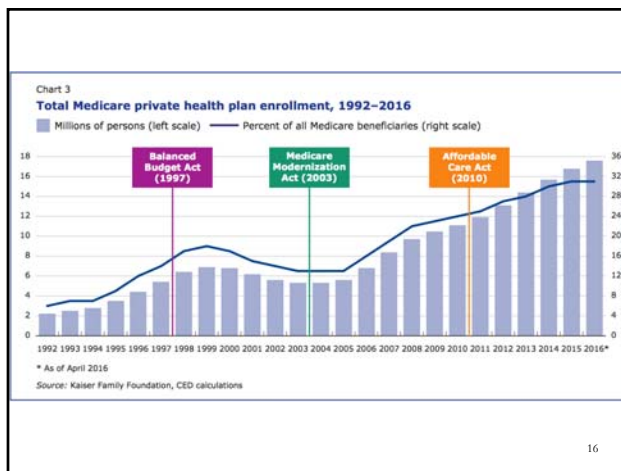


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Medicare Advantage

- Created in 1997
- Alternative to traditional A+B/D coverage
- Private insurance companies cover seniors/reimbursed at fixed rates for coverage
 - Companies paid per enrollee per month
 - Must take 'all comers' in a county
- Usually HMO type coverage with some prescription drug plan
- Has higher deductibles and copays than traditional A+B coverage

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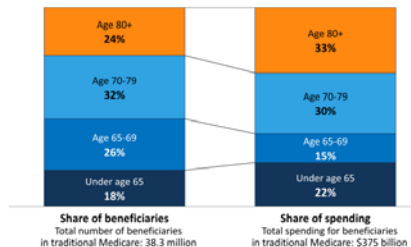


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Exhibit L1

People ages 80 and older accounted for 24 percent of the Medicare population and 33 percent of Medicare spending in 2011

Distribution of traditional Medicare beneficiaries and Medicare spending, 2011



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Cost sharing in Medicare, 2018

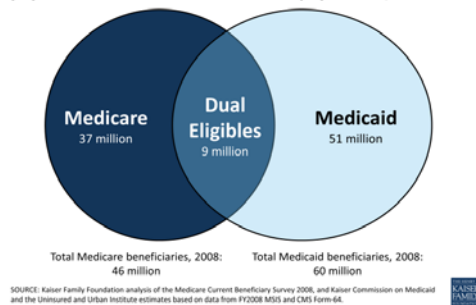
- Part A
 - \$1,340 deductible (1st day of hospital stay)
 - Days 1 -60 no copay, 61-90 \$335 copay, \$670 for days 91 and beyond, \$670, until lifetime reserve days met – after than – all costs
 - Pay all SNF costs for 1st 20 days, \$152/day for 21—100, nothing after 100 days>
- Part B
 - Monthly premium of \$134 (higher for high income)
 - \$183 annual deductible
 - 20% coinsurance on physician services, outpatient care, ambulatory surgical, preventive
 - No coinsurance on lab services

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Does the structure, the items covered, and the coinsurance rates in Medicare make ECONOMIC sense?

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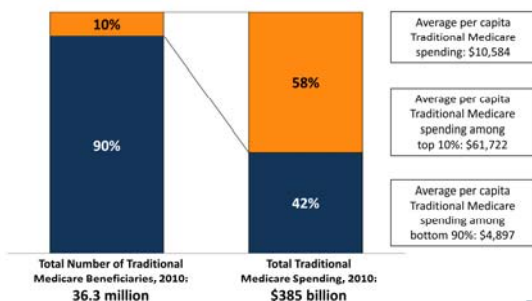
Dually eligible beneficiaries comprise 20% of the Medicare population and 15% of the Medicaid population, 2008



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Figure 25

Distribution of Traditional Medicare Beneficiaries and Medicare Spending, 2010



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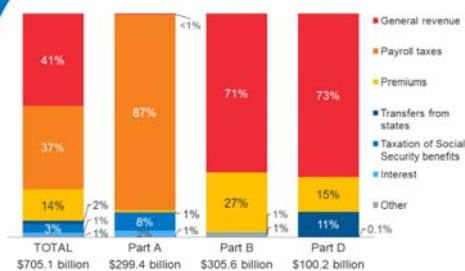
Medicare payroll tax

- 2.9% of all earnings
 - Employers/employees share equally (1.45%)
- Changes due to ACA
 - Tax raises to 2.35% on employees for
 - Single > \$200,000 in taxable income
 - Married couple > \$250,000 in taxable income
 - High income people also subject to 3.8% tax on investment income

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Figure 7

Sources of Medicare Revenue, 2017



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Medicare Presc. Drug Improvement and Modernization Act 2003

- Signed 12/8/2003
- Effective 1/1/2006
- Voluntary drug plan – ‘Part D’
- 1st time Rx were part of Medicare
- Coverage provided by private entities
 - Stand alone if meet certain criteria
 - As part of Part A/B coverage (Medicare Advantage plans)
 - Gov’t fall back plan in areas without choice

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Motivation for Part D

- Rx important in medical treatment of elderly
 - Seniors represent 13% of the population
 - 1/3 of all scripts
 - 42% of spending on Rx drugs
- Among the elderly, 85% receive a Rx during the year
- Growing fraction w/ Rx Coverage
- Purchased through
 - Retiree benefits
 - Medigap policy

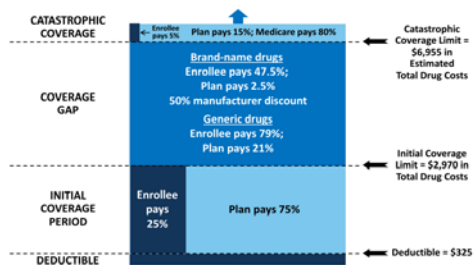
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Top 10 drugs Part D, 2015

Name	For?	# people/# RX's	Revenues (Bil)
Nexium	Acid reflux	1.5/8.2 million	\$2.53
Advair Diskus	Asthma/CB	1.5/6.6	\$2.26
Crestor	Cholesterol	1.7/9.1	\$2.22
Abilify	Mental health	0.4/2.9	\$2.11
Cymbalta	Depression/anxiety	1.0/6.9	\$1.96
Spiriva	COPD	1.2/5.7	\$1.96
Namenda	Dementia	0.8/6.9	\$1.56
Januvia	Diabetes	0.8/4.4	\$1.46
Lantus Solostar	Diabetes	0.9/3.8	\$1.37
Revlimid	Multiple myeloma	9K/25K	\$1.35

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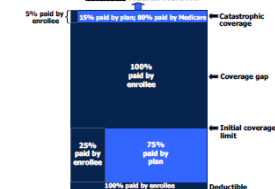
Standard Medicare Prescription Drug Benefit, 2013



NOTE: *Amount corresponds to the estimated catastrophic coverage limit for non-US enrollees (\$6,734 for US enrollees), which corresponds to TIOOP spending of \$4,750.
SOURCE: Kaiser Family Foundation illustration based on CMS standard benefit parameter update for 2013. Amounts rounded to nearest dollar.

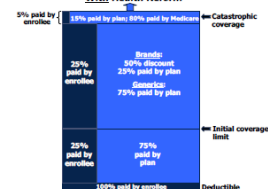
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Exhibit 1: Standard Medicare Prescription Drug Benefit, 2020 Without Health Reform



SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit in 2020 without health reform legislation.

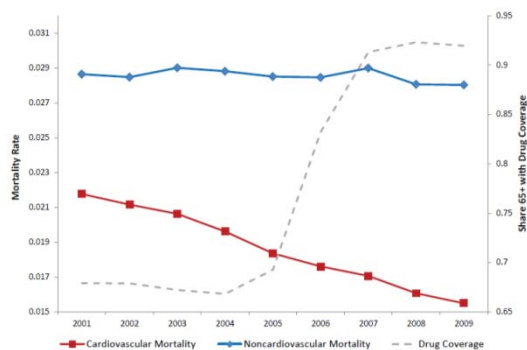
Exhibit 2: Standard Medicare Prescription Drug Benefit, 2020 With Health Reform



SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit in 2020 under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.

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Figure 1: Mortality and Drug Coverage Over the Reform Period



Costs?

- Original CBO estimates (Costs – revenues)
 - \$495 billion in 2004-2013
- Second set of numbers
 - \$593 billion in 2004-2013
- Third set of estimates
 - \$640 billion in 10 years
- Actual numbers were \$410 billion

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Savings?

- Increased use of generics
- Reduced growth of Rx prices
- Competition?
 - Part D is primarily provided by private insurers

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Offsets?

- Virtually all seniors now have Rx coverage
- Rx use way up
- Has access to Rx coverage reduced hospitalization rates?
- CMS has reduced Medicare's 10-year projected costs by \$137 billion
 - Much of it due to Medicare part D

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Figure 4: Regression of Pre-Reform Coverage on Percent Change in Coverage

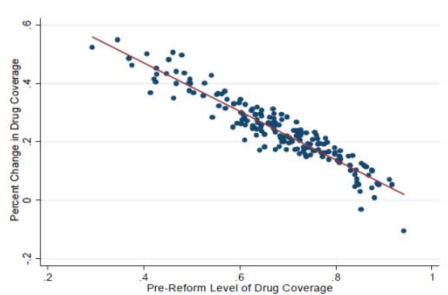
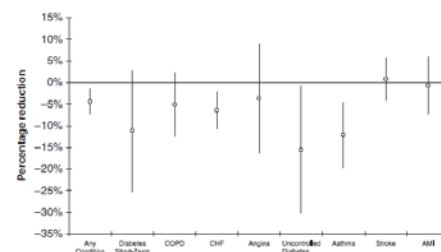


Figure 2: Percentage Reduction in Hospitalization Rates Due to Coverage Change for Individuals Aged 65 and Older, 2007



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The Future of Medicare

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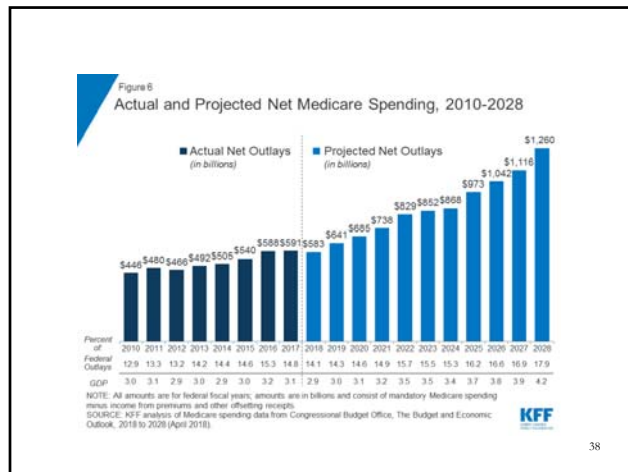
Medicare

- | | |
|-------------------------|-------------------------|
| • 2015 | • 2028 |
| • 57 million recipients | • 87 million recipients |
| • \$540 bill. exp. | • 6% of GDP |
| • 3% of GDP | |
| • 15% of fed. budget | |

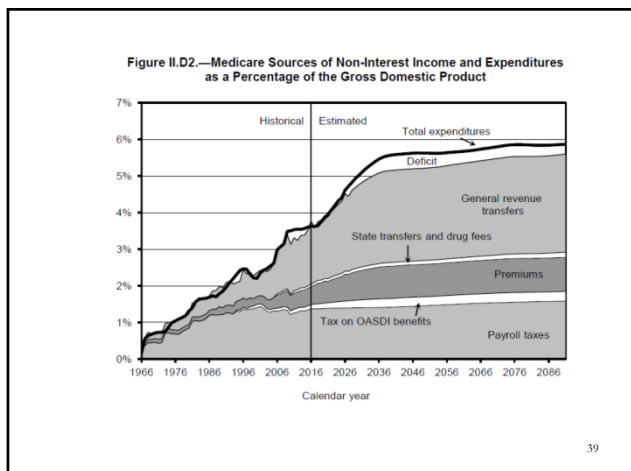
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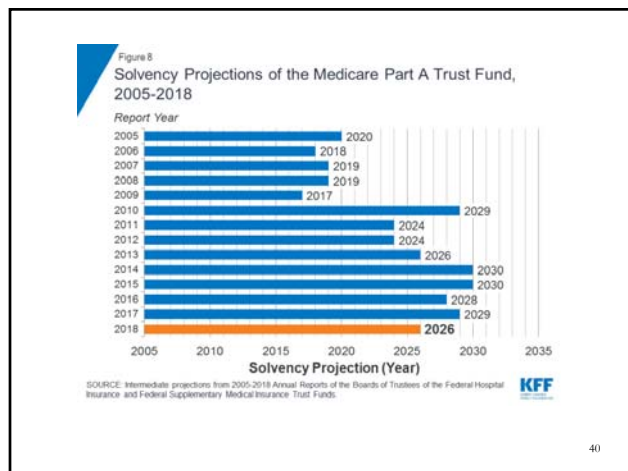
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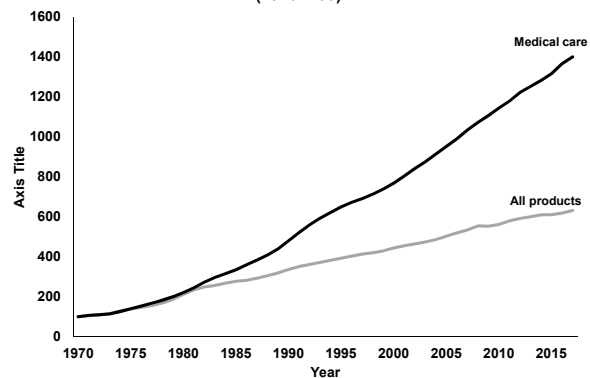
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Future problems

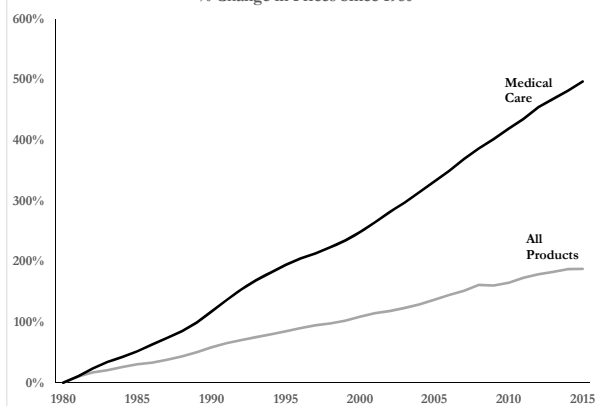
- Rising costs
- Rising number of elderly
- People are living longer
 - Older people spend a lot more on health care
- Falling fraction of people to tax
- Growing share of disabled on program

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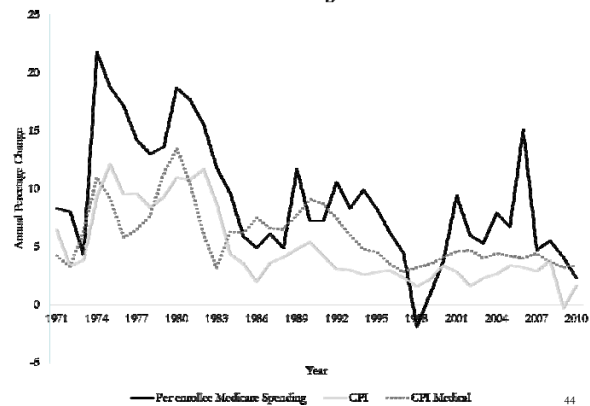
Price Index: All products and Medical Care, 1970-2017
(1970=100)



% Change in Prices Since 1980

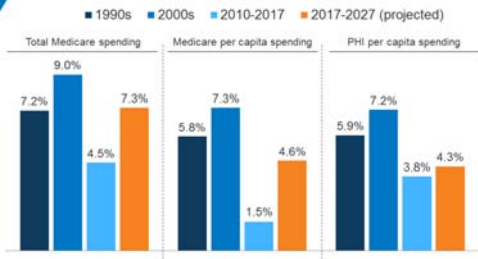


Annual Changes



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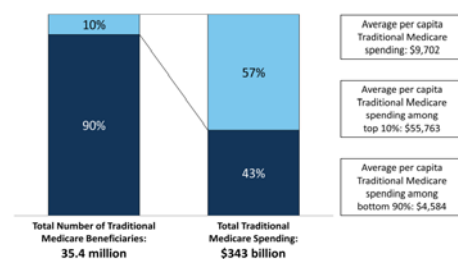
Figure 4
Actual and Projected Average Annual Growth Rates in
Medicare and Private Health Insurance Spending, 1990-2027



NOTE: PHI is private health insurance.
SOURCE: KFF analysis of Medicare spending data from Boards of Trustees; private health insurance spending data from the CMS National Health Expenditure data.

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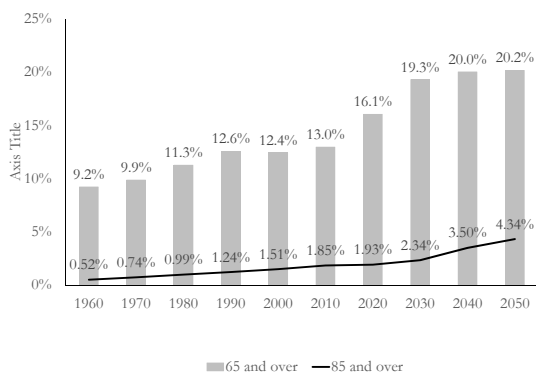
Distribution of Traditional Medicare Beneficiaries and Medicare Spending, 2009



NOTE: Excludes Medicare Advantage enrollees. Includes noninstitutionalized and institutionalized beneficiaries.
SOURCE: Kaiser Family Foundation analysis of the CMS Medicare Current Beneficiary Survey Cost and Use File, 2009.

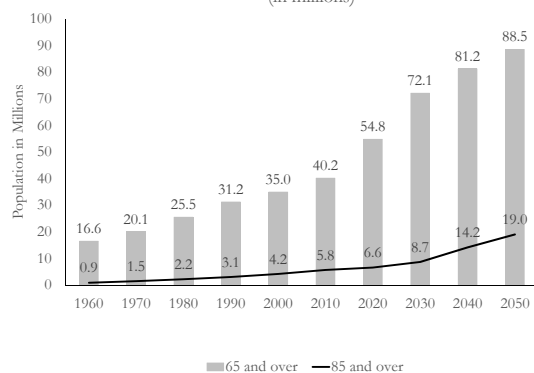
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% of Population by Age Group

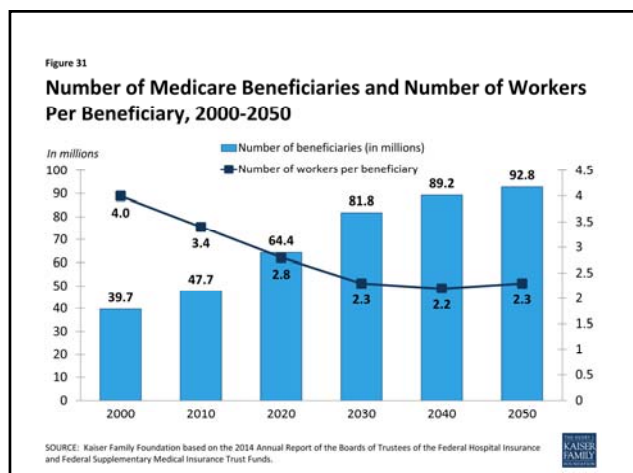
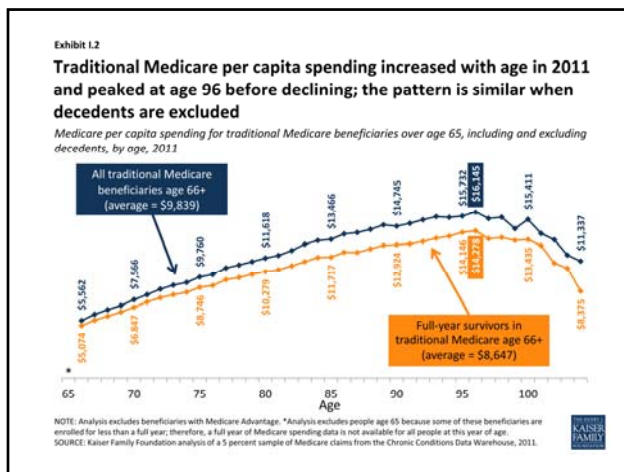
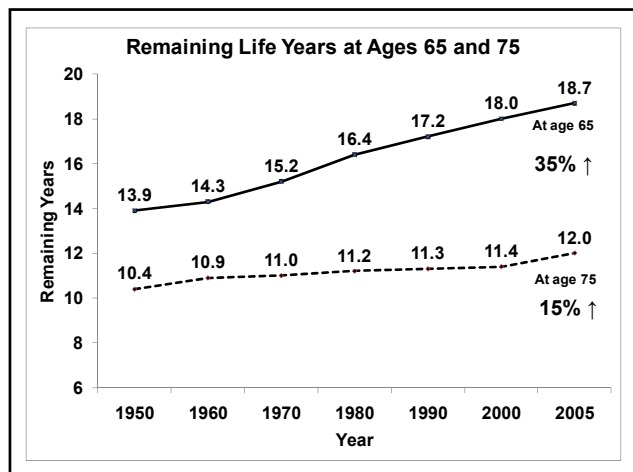


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**Population by Age Group
(in millions)**



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Policy Options

- Raise eligibility age 65-67
 - Reduce spending by \$113 billion over 10 years
 - Only \$11.3 billion/year
- Raise Part B and D premiums
 - Raise enrollees' share of costs from ~25 to 35%
 - Save \$241 billion over 10 years

- Increase Medicare payroll tax
 - Increase from 2.9 to 3.9 percent for all, with an additional 0.9 percent tax for high wage earners (>\$200K for individuals, \$250K for couples)
 - Raise \$651 billion over 10 years

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