

# Medicaid and Medicare

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# Medicare

- ▶ established in 1965 under Lyndon Johnson
- ▶ federal program
- ▶ eligible if 65+ or disabled
- ▶ coverage:
  - ▶ Part A: hospital insurance
  - ▶ Part B: supplemental medical insurance, monthly premium
  - ▶ Part C: Medicare+Choice, managed care plan if have parts A&B
  - ▶ Part D: Prescription Benefit Plan, described last time

# Medicare

- ▶ financing:
  - ▶ Part A: payroll tax (FICA) of 1.45% of wages paid by employee and employer, 2.90% if self-employed
  - ▶ Part B: monthly premium + general tax revenue
- ▶ Medigap plans are optional; seniors purchase them privately to cover expenses not covered by Parts A and B
- ▶ Prospective Payment System (PPS) – pay average cost of certain diagnosis, not actual cost, to lower moral hazard, we will discuss more next time

# Medicaid

- ▶ established in 1965
- ▶ state program partly paid by federal matching dollars (match rate formula changed this year), must follow broad federal guidelines
- ▶ eligible if 'categorically needy', specifics depend on state
  - ▶ family eligible for AFDC in effect in their state in 1996 (before welfare reform)
  - ▶ children under 6 or pregnant women with family income below 133% of FPL
  - ▶ children under 19 with family income below 100% of FPL
- ▶ coverage – depends on state rules

# Medicaid

## Financing:

- ▶ pregnant women and children do not cost-share (no copays, etc)
- ▶ no cost-sharing on emergency services or family planning services
- ▶ otherwise can be deductibles, copays, etc.
- ▶ federal govt pays at least half of costs (in GA, fraction is 64.5% because we are a little poorer than average)

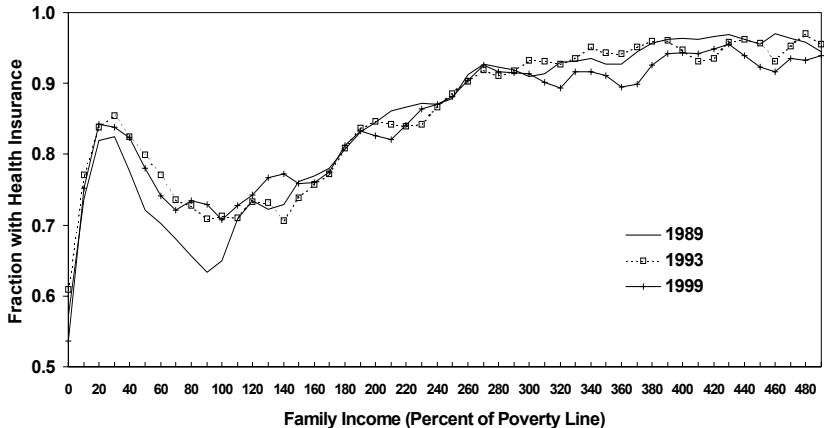
# Medicaid

## CHIP (Children's Health Insurance Program)

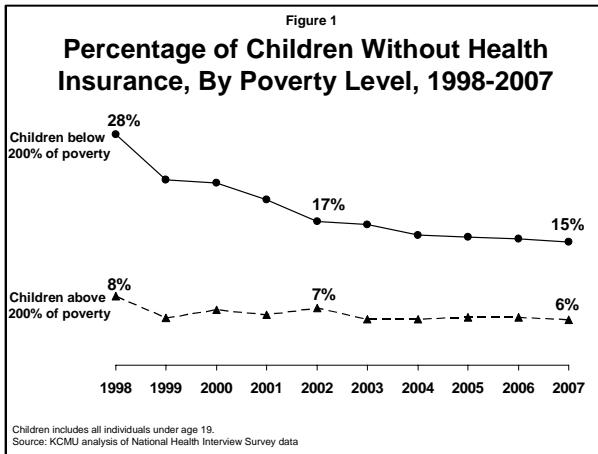
Formerly SCHIP until this year

- ▶ established in 1997 for 10 years, reauthorized in 2009
- ▶ extends eligibility to children with incomes above Medicaid limits
- ▶ state run programs with some federal funding (in GA 72.3% of costs covered by feds)
- ▶ 18 states expanded Medicaid, 17 created separate programs (GA's PeachCare), and 16 do both)
- ▶ This program put in place because of Medicaid 'gap'

# Medicaid 'gap' from Card & Shore-Sheppard (2001)



# SCHIP has been a success



## Take up

- ▶ 9 million kids are uninsured, half million hospitalizations could have been avoided by preventative care
- ▶ nearly half of the 9 million uninsured kids are eligible for Medicaid
- ▶ in GA, 2/3rds of the 300,000-400,000 uninsured children are eligible for Medicaid or Peachcare
- ▶ why don't parents enroll them?
  - ▶ stigma
  - ▶ transaction costs are high (hard to take off work, transportation, language barriers)
  - ▶ informational barriers (don't know eligible, immigration fears)
  - ▶ have insurance of sorts, can go to hospital and get care in an emergency

## Why the state should want to enroll them?

- ▶ Medicaid eligible uninsured children are enrolled when they present at a hospital
- ▶ emergency care is more expensive than preventative care
- ▶ cheaper to enroll early than after bad health event

## Crowd-out

- ▶ one fear of policymakers of expanding eligibility to Medicaid is that people will drop private insurance to take up public insurance
- ▶ this does not help the people it is intended to help (uninsured) and it is costly
- ▶ graphical depiction of crowd-out
  - ▶ x-axis: money
  - ▶ y-axis: health insurance
  - ▶ budget line for people eligible for Medicaid
  - ▶ govt wants to guarantee that everyone has at least B in health insurance, which costs C
  - ▶ if you were uninsured, then you move to point M (this is the goal of policymakers)
  - ▶ if you had insurance, even a little better than B, you are better off dropping it and getting the public program (crowd out)

# Crowd-out graph

# Sustainability of Medicare

Medicare expenditures in 2007: \$432 billion, 16% of federal outlays  
Hospital Insurance Trust Fund:

- ▶ pays for Part A
- ▶ funded mostly by payroll taxes
- ▶ can carry balances over time if income greater than expenditures
- ▶ end of FY 2006, balance = \$305 billion
- ▶ balances are loaned to govt to finance other spending and will be paid back with interest

## Consequences of aging population

- ▶ ratio of workers to beneficiaries will fall from about 4 now to 2 by 2080
- ▶ health care costs are rising
- ▶ life expectancy of a 65 year old will rise from 17 years now to over 20 years by 2050

However, wages should also rise because labor supply is lower

# Solvency of HI Trust Fund

When the fund cannot cover all of its expenditures with revenues and the balance

Current projection:

- ▶ annual payments out will exceed annual income in 2011
- ▶ Trust fund balances will be used to cover shortfalls
- ▶ balances will not be enough starting in 2019
- ▶ won't be 'bankrupt', just will need a change
- ▶ projection assumes intermediate economic growth, health care costs growth

# Insolvency Projections

## HI Trust Fund Solvency, 2001-2019 Under High Cost, Low Cost, and Intermediate Assumptions

*Fund balance as % of  
annual expenditures:*

