

**Health Care Financing:  
Medicare**  
  
HPAM 7600

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- Why does the govt provide insurance?**
- Communicable diseases
  - Encourages efficient use of medical services (preventative care vs. ER)
  - **Samaritan's dilemma:** if A will give \$ to B in hard times, B will not save enough
    - So, if we won't deny ER services, then might as well provide insurance
  - Safety net
  - Economic benefits of healthy citizens (worker productivity)

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- Medicare**
- 2009: 45 million enrollees
  - 2031: 77 million enrollees projected
  - 2009: 13% of federal budget

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## Medicare

- Part A – inpatient hospital costs
  - Paid by Medicare payroll tax (2.9% of earnings)
- Part B – physician expenditures, outpatient hospital costs
  - Paid by enrollee premiums (\$96.40/month or higher) and general govt revenue from income taxes (75%)
- Part C – private plan options (Medicare Advantage)
  - Paid by enrollee premiums and general govt revenue
- Part D – Prescription Drug Bill
  - Paid by enrollee premiums (\$30.36/month on average), federal and state govt revenue

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## More on financing

Federal Insurance Contributions Act (FICA)  
Payroll tax on all workers:

- SSA: 6.2% employee share\*
- Medicare: 1.45% employee share
- Employer pays same rates
- Self-employed pay about the same as other employees, under a different Act

\*up to \$106,800

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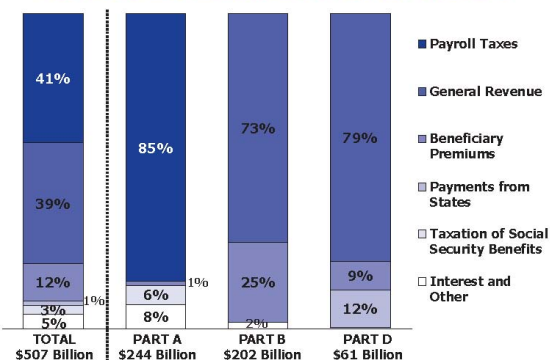
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**Sources of Medicare Revenue, FY2009**



SOURCE: 2008 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

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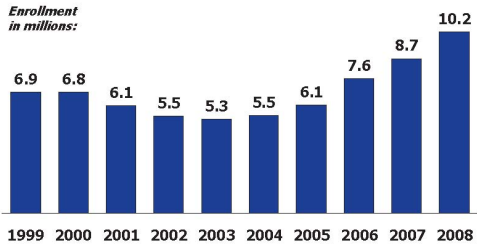
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## More on Part C

### Total Medicare Private Health Plan Enrollment, 1999-2008



NOTE: Includes local HMOs, PPOs, and PPOs, regional PPOs, PFFS plans, Cost contracts, Demonstrations, HCPP, and PAE contracts.  
SOURCE: Mathematica Policy Research, Inc. analysis of CMS Monthly Summary Report data from December (1999-2007) and October (2008).

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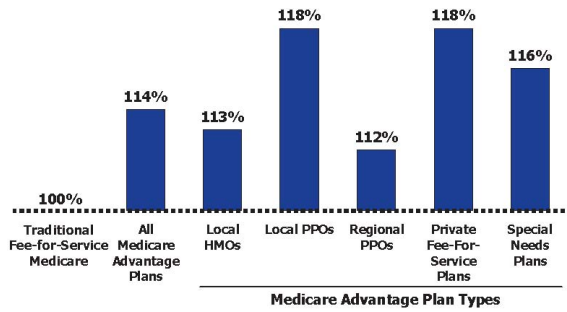
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## Medicare Advantage Payments Relative to Traditional Fee-for-Service Medicare, 2009



NOTE: HMO is health maintenance organization; PPO is preferred provider organization.  
SOURCE: Medicare Payment Advisory Commission, December 2008.

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## More on Part D

- In 2009, 1,689 stand-alone prescription drug plans available nationwide (at least 50 choices in each state)
- In 2009, 26 million beneficiaries are enrolled in a plan
- Benefit “doughnut hole”

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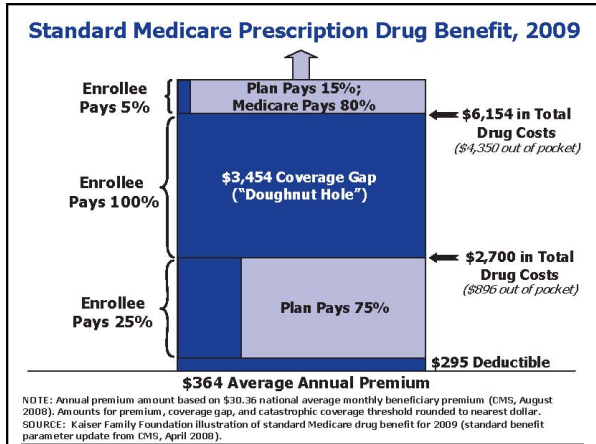
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### Medigap policies

Medicare Supplement Insurance sold by private insurers to fill "gaps" in Part A&B insurance

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### What's not covered

- Long-term care services at home or in an institution
  - Skilled Nursing Facility not covered after 100 days
- Routine dental care and dentures
- Routine vision care or eyeglasses
- Hearing exams and hearing aids

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## Who is covered?

- 65 years+ if they or their spouses are eligible for SS payments and have made payroll tax contributions for 10 years (regardless of income/ medical history)
  - 38 million people
- People receiving SSDI payments after 2-year waiting period
  - 7 million people
- ~7 million are “dual eligibles”: eligible for Medicare and Medicaid
- Entitlement

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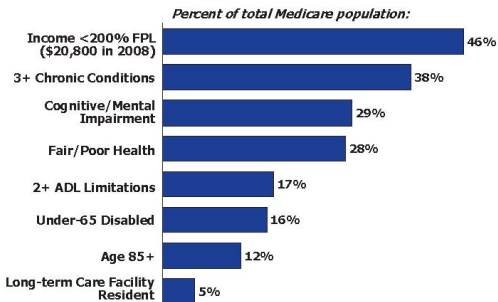
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## Medicare Covers a Population with Diverse Needs and Significant Vulnerabilities



NOTE: ADL is activity of daily living.  
SOURCE: Income data for 2007 from U.S. Census Bureau, Current Population Survey, 2008 Annual Social and Economic Supplement. All other data from Kaiser Family Foundation analysis of the Centers for Medicare & Medicaid Services Medicare Current Beneficiary Survey, Access to Care file, 2006.

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## How much does Medicare cost?

- For 2009, \$477 billion is estimated
  - 13% of federal spending
- 20% of health spending in US in 2005
  - Making it 3.1% of GDP
- Hospital Insurance Trust Fund (financed through 2.9% payroll tax) expected to be exhausted in 2019

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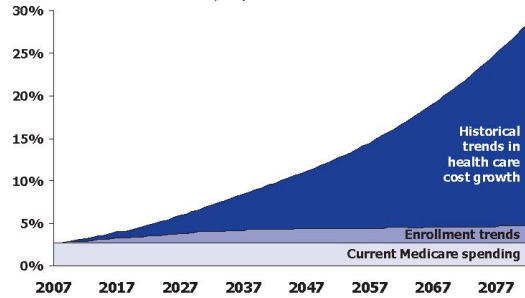
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### Contribution of Health Care Costs and Enrollment Trends to Growth in Medicare Spending

Medicare outlays net of beneficiary premiums as share of Gross Domestic Product (GDP):



SOURCE: Congressional Budget Office, 2007.

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### Ancillary Role of Medicare

- Direct Graduate Medical Education (DGME)
  - Compensates teaching hospitals for some of the costs associated with training programs
- Disproportionate Share Hospital (DSH)
  - Compensates hospitals for higher operating costs associated with treating a large percentage of the poor

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### Medicare Challenges

- Fee-for-service structure fuels “moral hazard”
- Aging population will increase number of beneficiaries and growth of program
- No long-term care provisions
- Catastrophic expenses still happen (Part A is not unlimited)
- No attention to end-of-life ethics

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