

# Health Care Financing: Medicare

HPAM 7600

# 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)

# Medicare

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

# 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

# More on financing

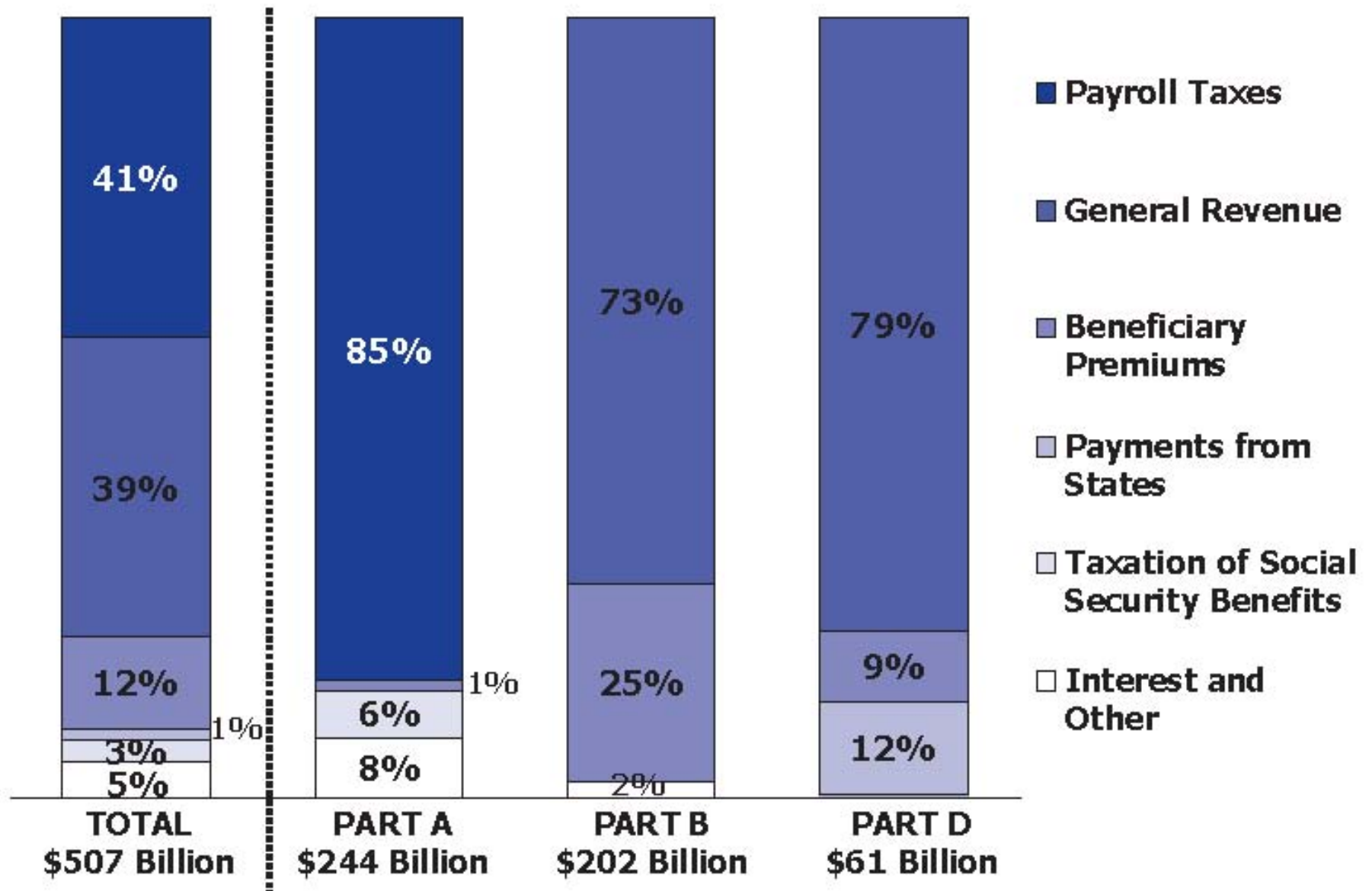
Federal Insurance Contributions Act (FICA)

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

# Sources of Medicare Revenue, FY2009

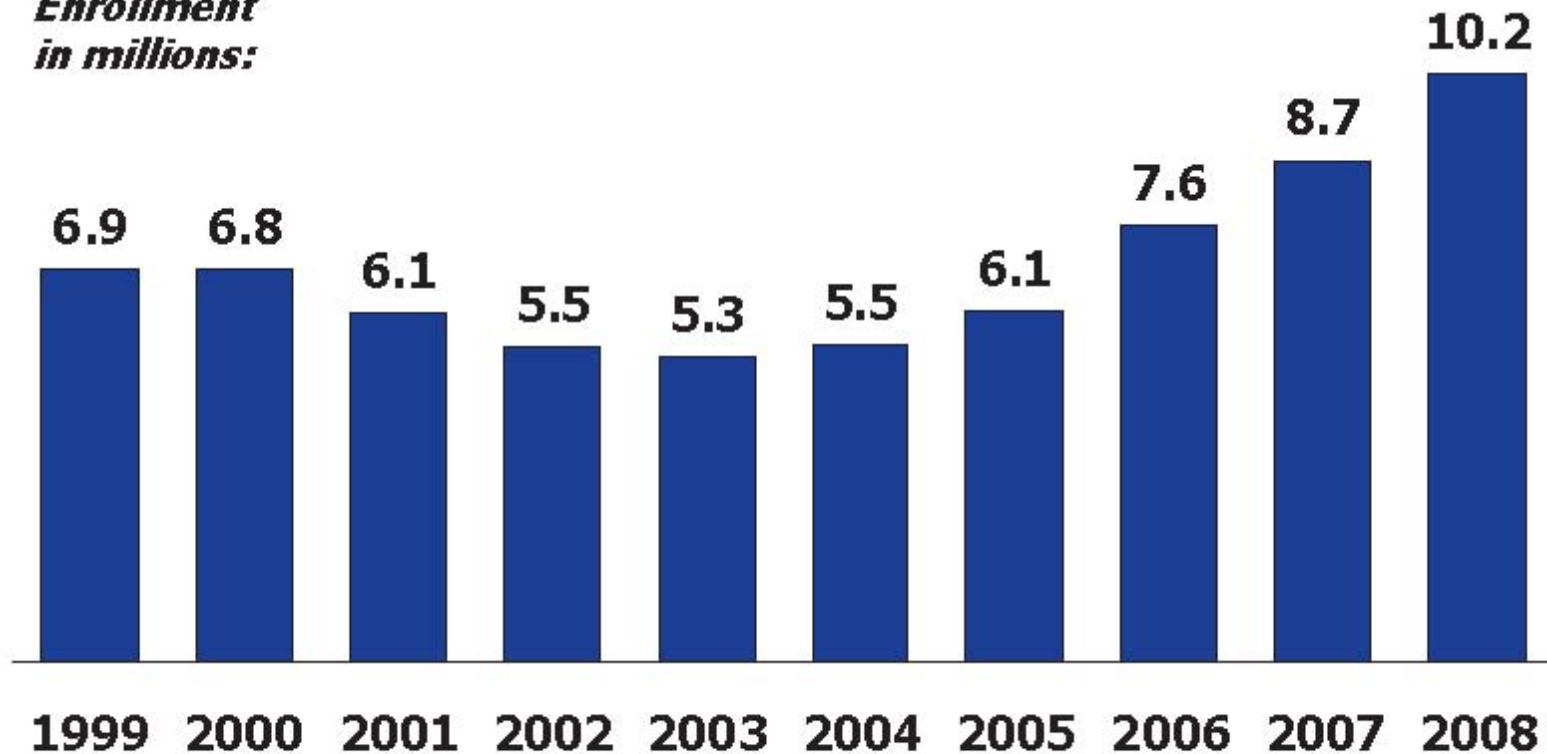


SOURCE: 2008 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

# More on Part C

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

*Enrollment  
in millions:*

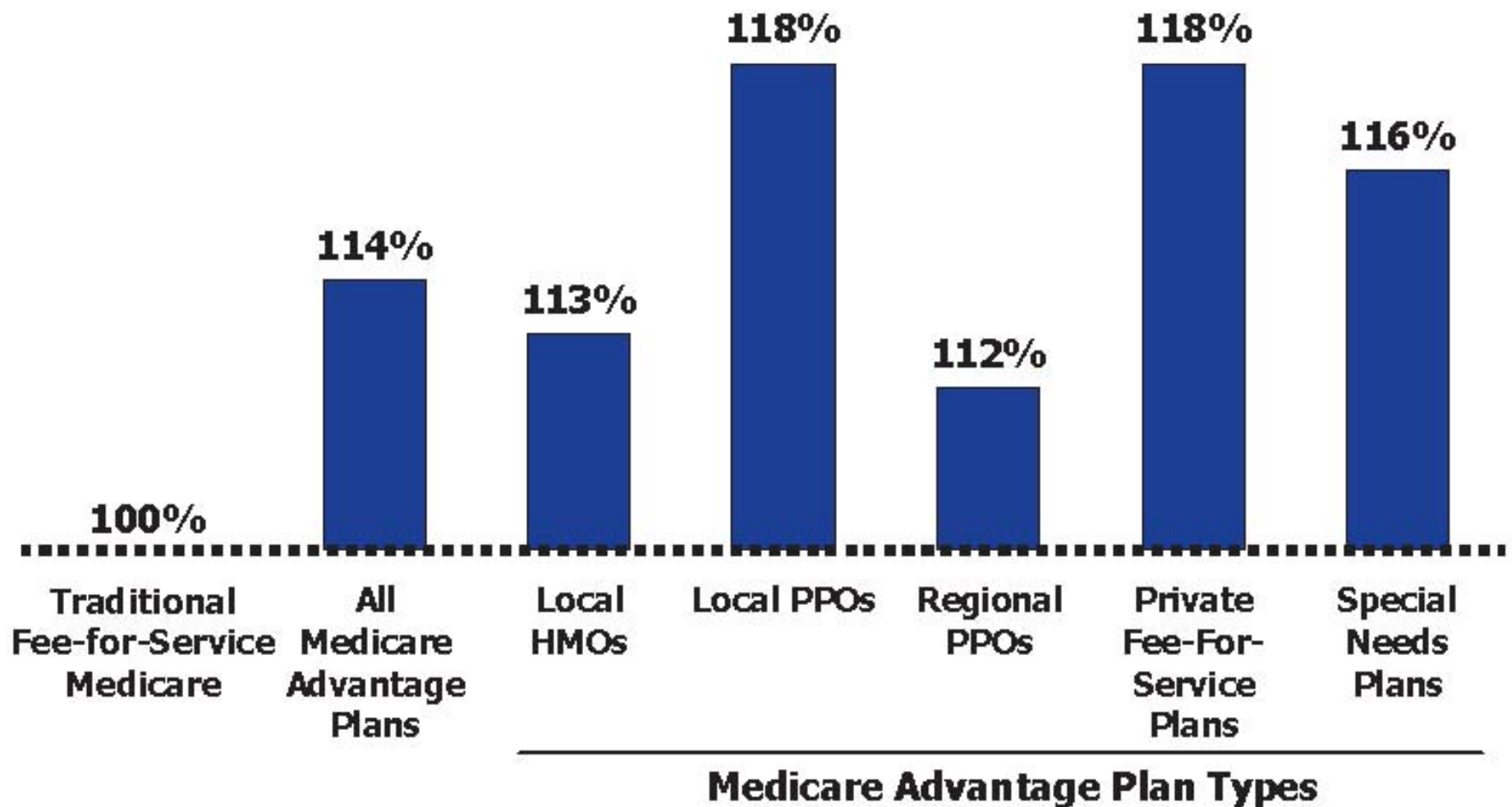


NOTE: Includes local HMOs, PSDs, and PPOs, regional PPOs, PFFS plans, Cost contracts, Demonstrations, HCPP, and PACE contracts.

SOURCE: Mathematica Policy Research, Inc. analysis of CMS Monthly Summary Report data from December (1999-2007) and October (2008).

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



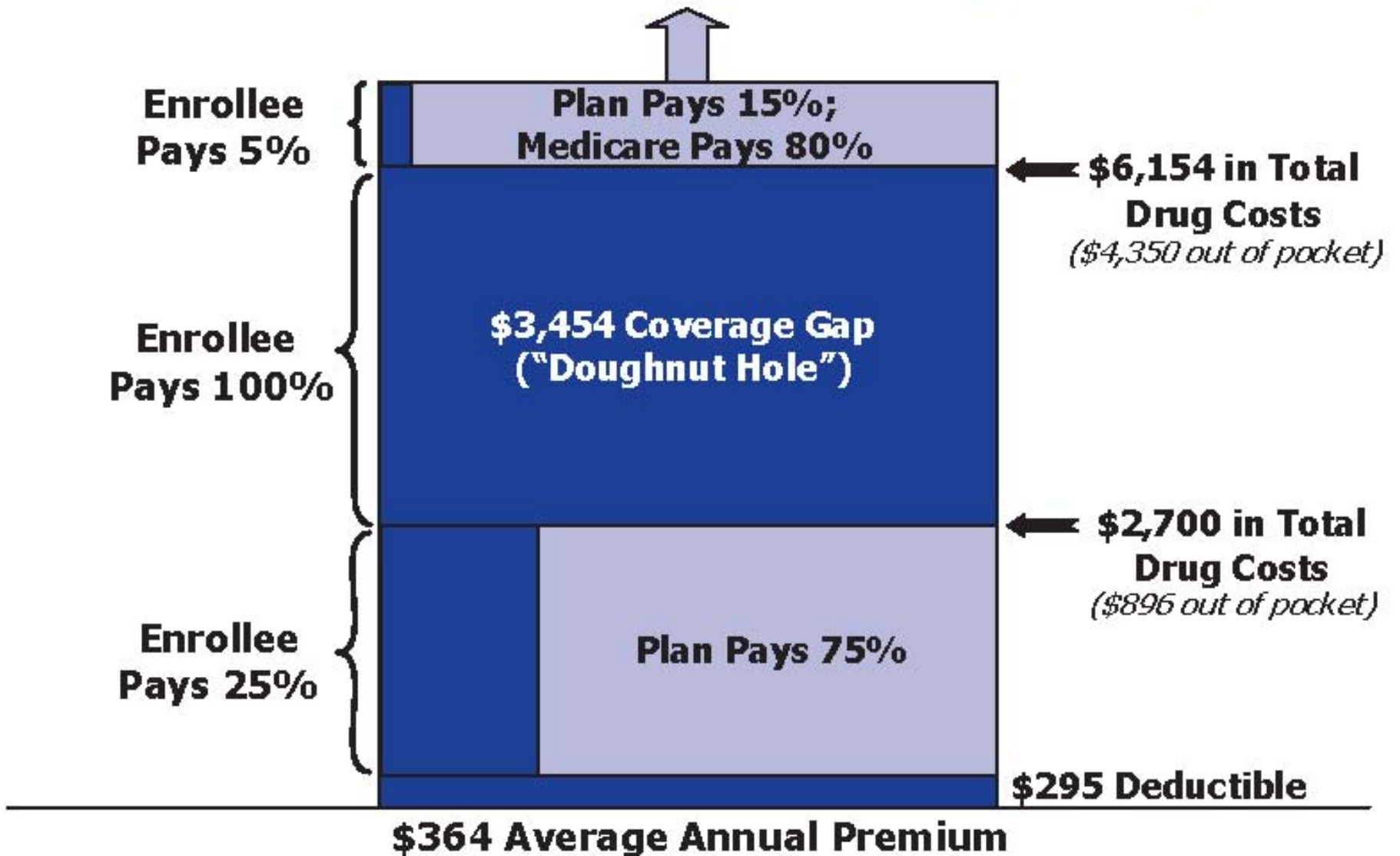
NOTE: HMO is health maintenance organization; PPO is preferred provider organization.

SOURCE: Medicare Payment Advisory Commission, December 2008.

# 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”

# Standard Medicare Prescription Drug Benefit, 2009



NOTE: Annual premium amount based on \$30.36 national average monthly beneficiary premium (CMS, August 2008). Amounts for premium, coverage gap, and catastrophic coverage threshold rounded to nearest dollar.

SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit for 2009 (standard benefit parameter update from CMS, April 2008).

# Medigap policies

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

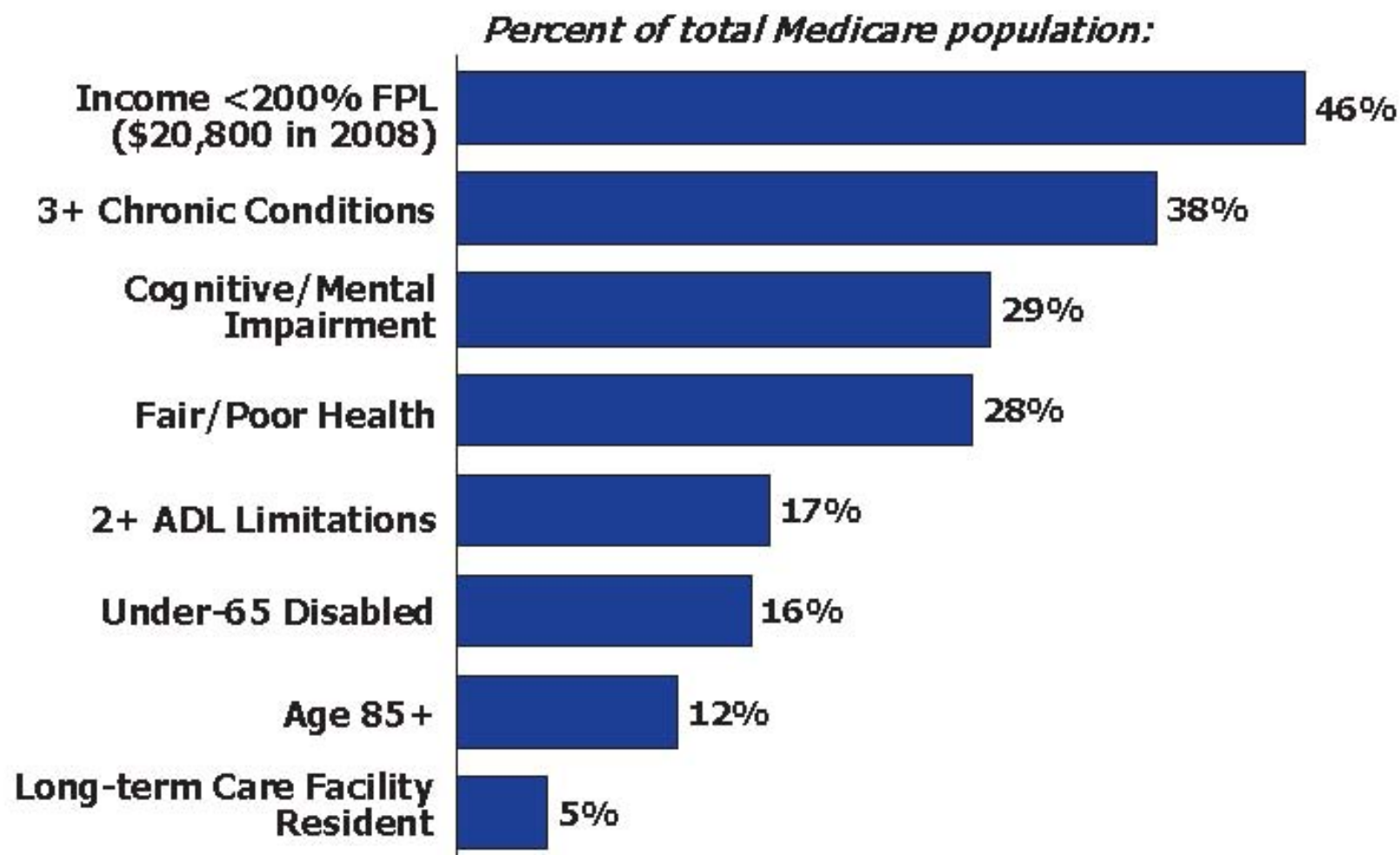
# What's not covered

- 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

# 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

# Medicare Covers a Population with Diverse Needs and Significant Vulnerabilities



NOTE: ADL is activity of daily living.

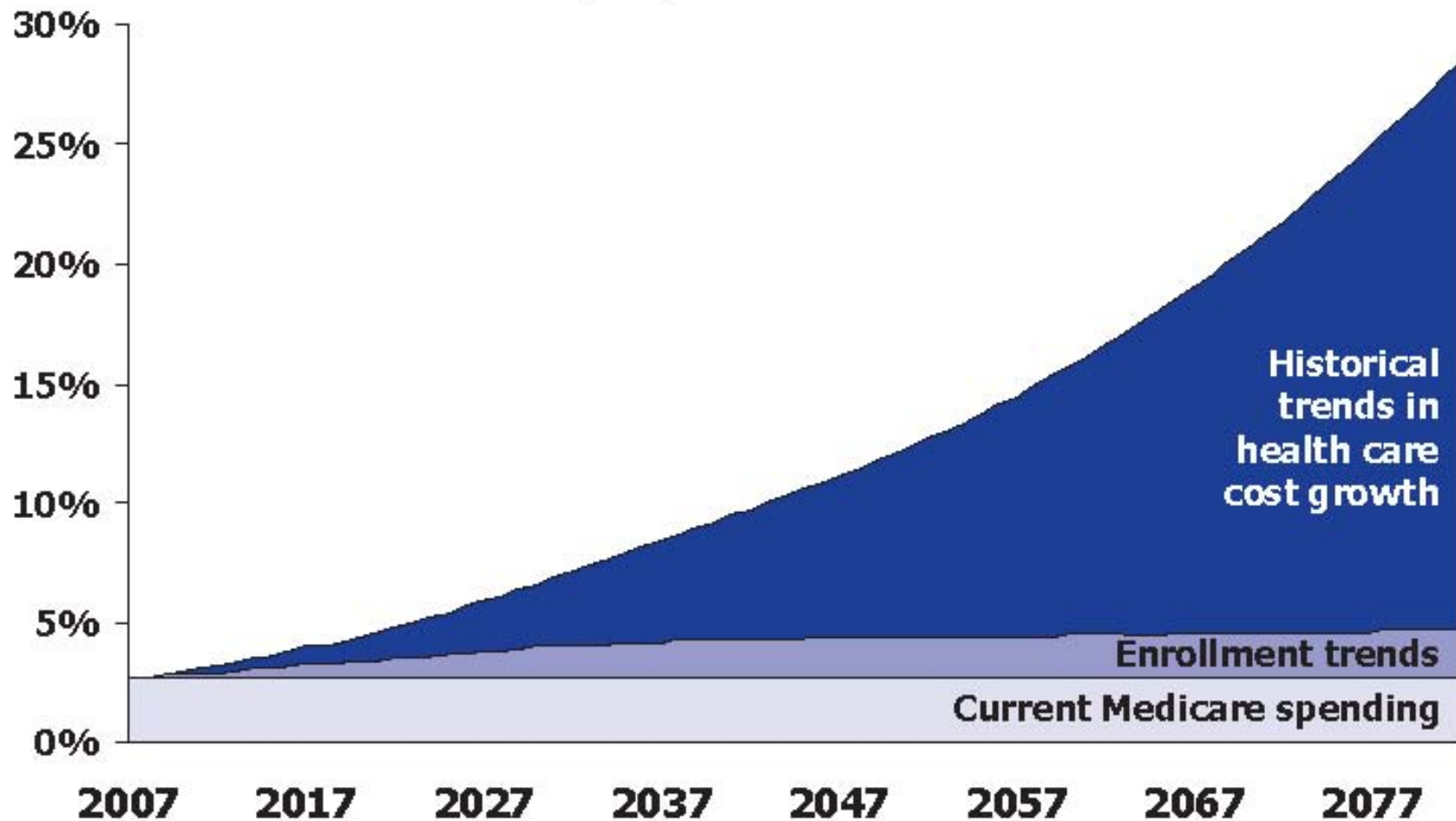
SOURCE: Income data for 2007 from U.S. Census Bureau, Current Population Survey, 2008 Annual Social and Economic Supplement. All other data from Kaiser Family Foundation analysis of the Centers for Medicare & Medicaid Services Medicare Current Beneficiary Survey, Access to Care file, 2006.

# 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

# 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.

# 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

# 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