

Medicare Reform Options



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Session Agenda



- Review of Medicare financing basics and Medicare's financial condition
- Options to increase Medicare revenues
- Options to decrease Medicare spending



Medicare Trust Fund Basics



	Hospital Insurance (HI)	Supplementary Medical Insurance (SMI)
Benefits	Inpatient hospital care	Physician and outpatient care; Part D benefit
Financing	Payroll taxes	Beneficiary premiums (~25%) and general tax revenues (~75%)



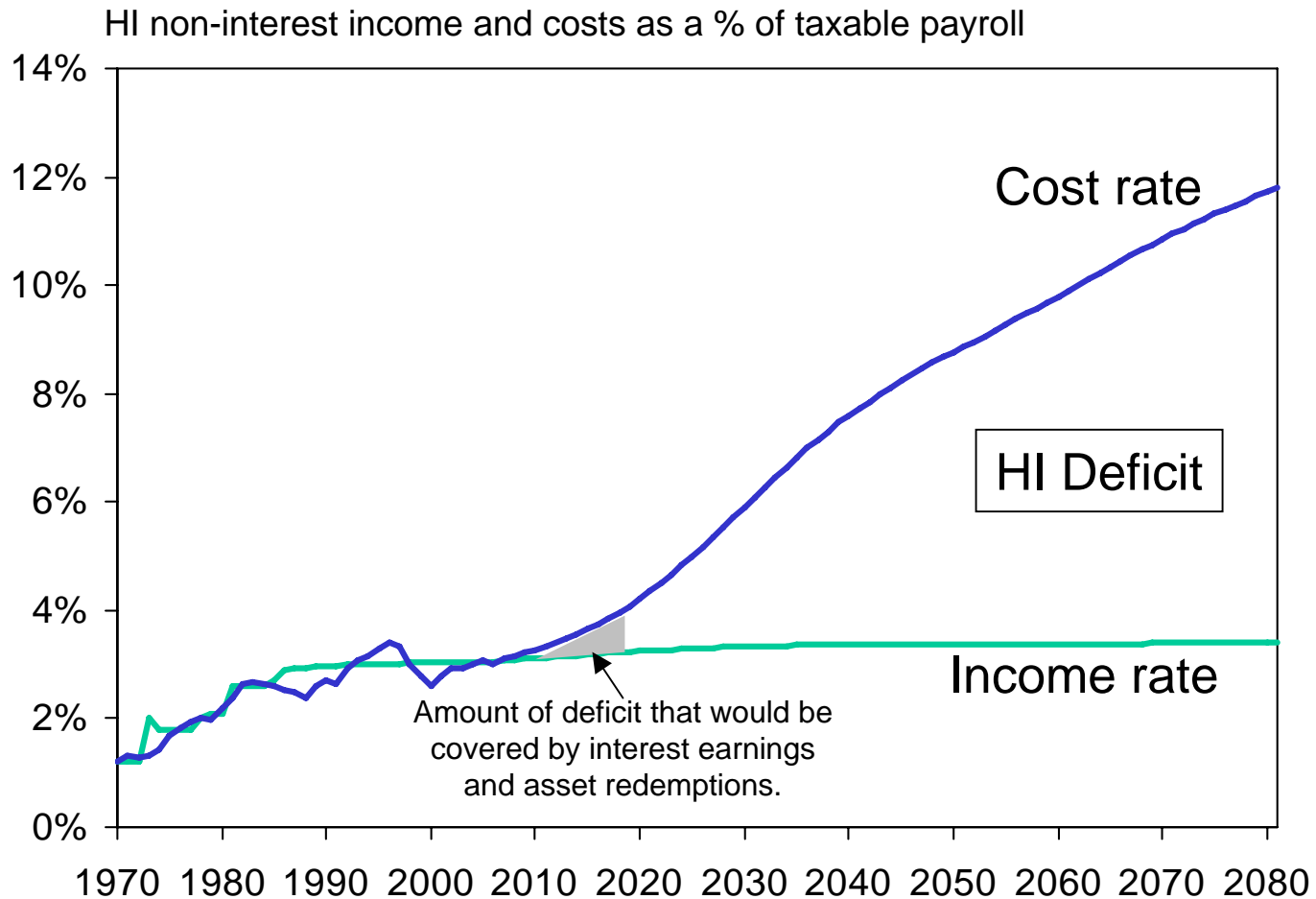
Key Dates For HI Trust Fund, (According to 2007 Trustees Report)



- Excluding interest income, outgo exceeds income this year
- Including interest income, the first year outgo exceeds income is 2011
- Year trust fund assets are depleted = 2019
- Trust fund depletion date is one year later than projected in previous year, due to:
 - Slightly higher projected payroll tax income
 - Slightly lower expenditures



HI Costs Will Exceed Non-Interest Income This Year



Source: 2007 Medicare Trustees' Report

Bottom Line for HI Trust Fund

(According to 2007 Trustees' Report)



- HI tax revenues will cover 79% of benefits in 2019, when trust fund assets are projected to be depleted
- HI deficit over the next 75 years = \$11.6 trillion (3.5% of taxable payroll)
- Eliminating 75-year deficit would require:
 - Immediate 122% increase in payroll taxes, or
 - Immediate 51% reduction in benefits, or
 - Some combination



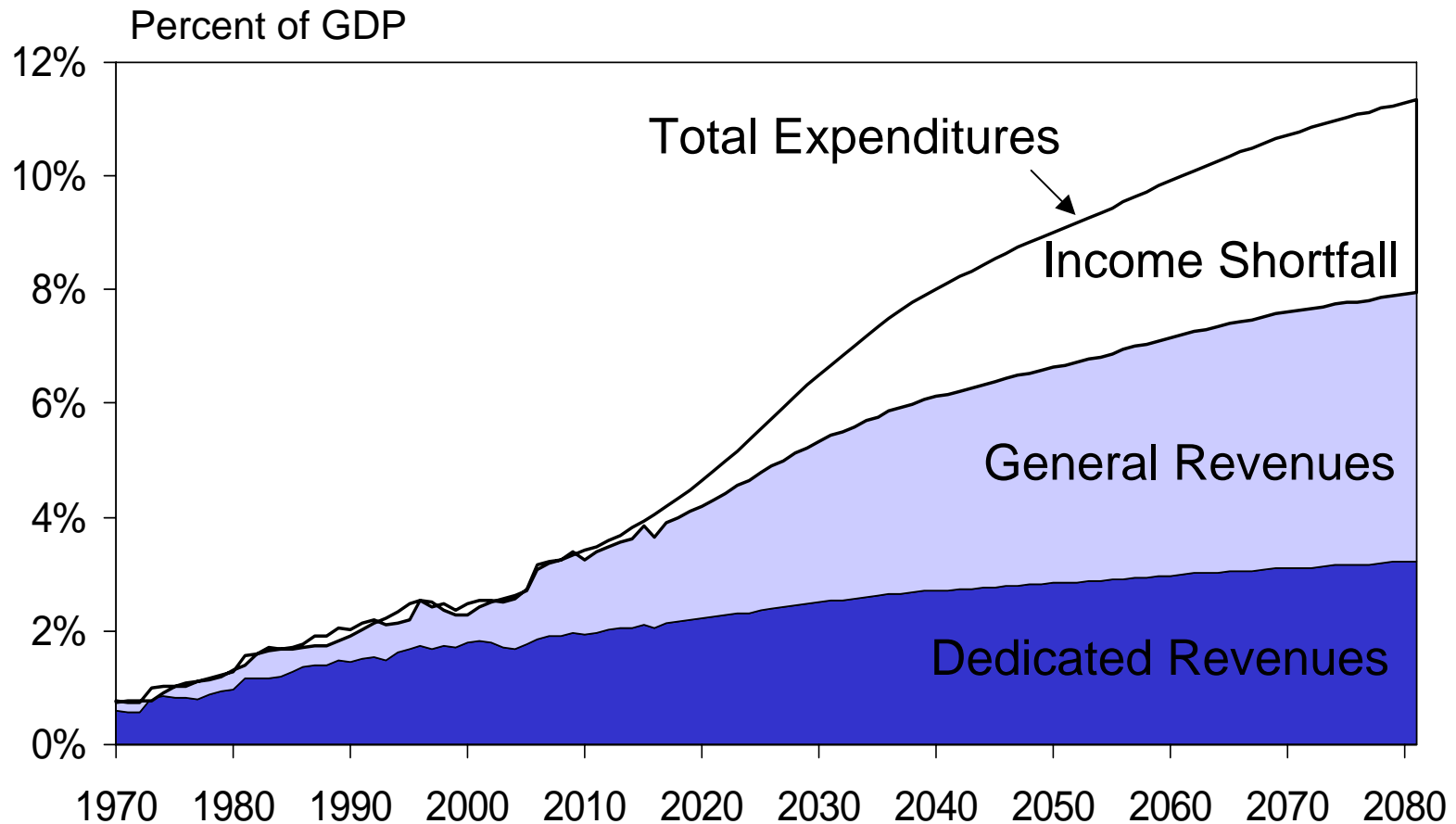
SMI Trust Fund



- The SMI Trust Fund, which includes new Rx benefit, is expected to remain solvent, but only because its financing is reset each year to meet projected future costs.
 - Projected increases in SMI expenditures will require increases in beneficiary premiums and general revenue contributions over time.
 - 2005 Part B monthly premium: \$78.20
 - 2006 Part B monthly premium: \$88.50
 - 2007 Part B monthly premium: \$93.50
- SMI expenditures are projected to increase faster than HI expenditures. Therefore, general revenues will finance increasing share of overall Medicare expenditures.



Total Medicare Expenditures and Non-Interest Income



Source: 2007 Medicare Trustees' Report



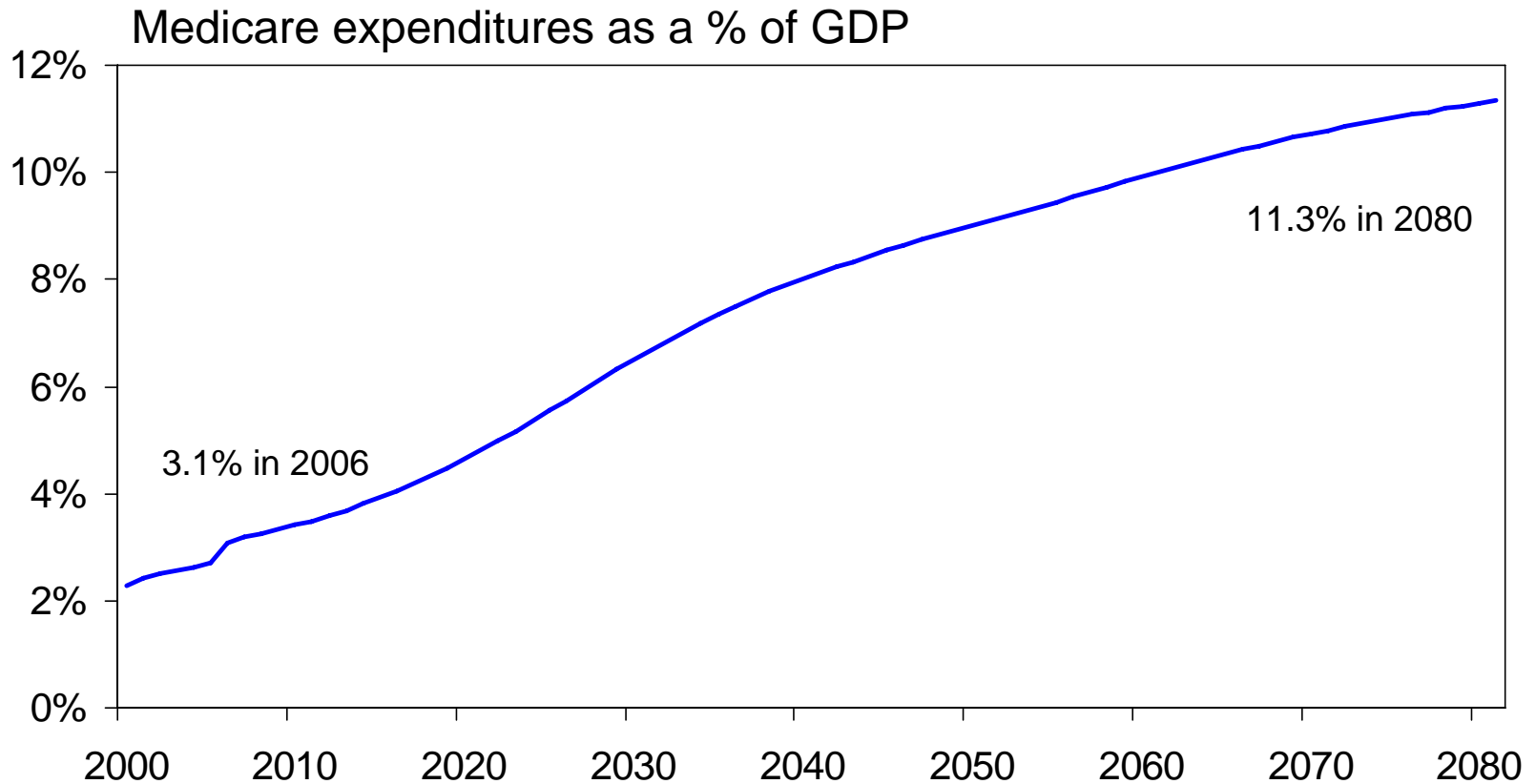
Excess General Funding Provision Triggered



- If for 2 consecutive trustees' reports, general funding sources account for more than 45% of Medicare spending within the next 7 years, the President is required to recommend ways to reduce this share.
 - President's legislative proposal must come within 15 days of next budget submission.
- Congress required to *consider* the legislation on an expedited basis.
- 2006 and 2007 Medicare trustees' reports estimate that the 45% threshold will be reached within 7 years, thereby triggering the provision this year.
 - President's legislative proposal will be required in 2008.



Rising Costs Are Key Challenge to Medicare's Long-Term Sustainability



Source: 2007 Medicare Trustees' Report



Criteria for Evaluating Reform Options



- Does it improve HI solvency?
- Is Medicare's strain on the federal budget and/or economy reduced?
- Is it a one-time improvement or a permanent reduction in spending growth?
- Does it reduce spending or merely shift spending to other payers?



Options to Increase Medicare Revenues



- Increase the HI payroll tax rate
- Increase general revenue funding
- Increase beneficiary premiums
- Invest trust fund assets in equities



Increase the HI Payroll Tax Rate



- Payroll tax revenues increase more slowly than HI expenditures
 - Ratio of workers to beneficiaries is decreasing
 - Health spending increases faster than wages
- Rate currently set at 1.45% of taxable earnings
 - Payable by both workers and employers
- Would need to increase to 3.22% each to restore 75 year solvency (assuming no change in spending)*
 - Such an increase would have significant financial implications for workers and the economy

*According to 2007 Medicare trustees' report



Increase General Revenue Funding



- Use general revenues to make up the difference between HI revenues and spending
 - 0.4% of GDP in 2019
 - 3.4% of GDP in 2080
- Specific options include:
 - Assess Medicare tax based on income
 - Direct the excess of AMT over regular income tax as dedicated Medicare revenue
- Would not reduce Medicare's strain on budget/economy



Increase Beneficiary Premiums



- Part A currently has no premium requirement
 - Could institute a Part A premium
 - Need to consider adverse selection concerns
- Part B premium is set at 25% of average cost, is now income-related
 - Could set Part B premium at a higher share of costs
 - Part B premiums are already increasing as a share of average Social Security benefits
- Part D premium is set at 25% of average cost; low-income beneficiaries have subsidized premiums
 - Could set Part D premium at a higher share of costs and/or increase premiums for higher-income beneficiaries



Invest Trust Fund Assets in Equities



- Trust fund assets invested in non-marketable, special-issue U.S. government securities
- Higher returns may be achievable by investing assets in equity markets
- Would make relatively small improvement:
 - HI deficit is very large
 - Trust fund assets are relatively small
 - Assets projected to be drawn down beginning in 2011 and to be depleted in 2019
 - Little time to generate large investment returns



Options to Reduce Medicare Spending



- Reduce provider and/or plan payments
- Cut benefits / reduce costs to beneficiaries
 - Increase the eligibility age
 - Increase beneficiary cost-sharing requirements
- Improve delivery efficiencies / quality of care
- Defined contribution / premium support approaches
- Automatic adjustments to revenues and/or spending



Reduce Provider and/or Plan Payments



- Slowing growth of provider payments
 - Often used tool to reduce costs
 - Can affect access to care
 - May be able to save some by reducing abuse
 - Won't work if the formula used is constantly overridden
- Reducing plan payments
 - Another often used tool for reducing costs
 - Gets caught up in ideological debate (private vs. public)
 - MedPac estimates that payments are 11% higher than costs in the FFS program
 - Availability of private plan is directly tied to payment levels



Increase Medicare Eligibility Age



- Medicare eligibility age is not increasing along with the Social Security eligibility age
- Could be a significant source of savings . . .
but
- . . . it would increase the number uninsured

Unlike Social Security, the direction of the policy debate has been for lowering the Medicare eligibility age



Increase Beneficiary Cost Sharing Requirements



- Part A cost sharing is poorly designed
- Medicare has no limit on out-of-pocket expenses
- Most beneficiaries have supplemental coverage
- Increasing cost sharing
 - Shifts costs to beneficiaries or their supplemental coverage
 - Hits individuals with high spending most
 - Rationalizing the plan design has a great deal of appeal



Reduce or Eliminate Some Covered Services



- Significant cuts would be required to be meaningful
- Some services actually reduce overall costs
- Areas to explore
 - End-of-life care
 - New technologies that have not yet been proven



Capture Delivery Management Efficiencies



- This has been the “holy grail” for a long time
- It’s harder than it sounds

- What can we try?
 - Competitive bidding
 - Pay-for-performance
 - Increased use of quality measures



Defined Contribution / Premium Support



- How do we manage the “health care trend risk?”
- DC
 - Shifts costs to beneficiaries
 - Encourages selection of more efficient plans
 - Creates potential for adverse selection
 - Could lead to wider acceptance of different types of plans
- Medicare Advantage and Part D already have DC aspects



Automatic Adjustments



- Key Questions
 - What's the trigger?
 - What gets cut/increased/changed?

But there's no guarantee that any such mechanism won't simply be overridden when it starts to pinch (work)?



Conclusion



- Medicare faces serious financial problems
 - The HI trust fund is projected to be depleted in 2019
 - Medicare spending is putting a strain on the budget
- Various options are available to improve Medicare's financial condition, but there is no single solution
- Spending growth in the health care system as a whole must be addressed

