AGING SECURELY: AN ACTUARIAL FORUM ON FINANCIAL AND HEALTH CARE RETIREMENT CHALLENGES

OCTOBER 23, 2015

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American Academy of Actuaries

- The American Academy of Actuaries is a 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Agenda

12:00 – 12:15 p.m.	**Welcome Remarks & Introduction to the Academy's Aging Securely Initiative** • Tom Terry, Immediate Past President, American Academy of Actuaries • Tom Wildsmith, President Elect, American Academy of Actuaries
12:15 – 1:15 p.m.	**Public Policies to Support Lifetime Income** • Noel Abkemeier, Co-Chairperson, Lifetime Income Risk Joint Task Force • Mark Shemtob, Member, Lifetime Income Risk Joint Task Force
1:15 – 2:00 p.m.	**The Need for Long-Term Care and Public Policy Options** • Chris Giese, Member, Aging Task Force • Bruce Stahl, Vice Chairperson, Long-Term Care Reform Subcommittee • Eric Stallard, Chairperson, Long-Term Care Reform Subcommittee
2:00 – 2:55 p.m.	**Sustainability of Public Programs** • Steve Alpert, Chairperson, Public Interest Committee • Tim Leier, Chairperson, Social Security Committee • Cori Uccello, Senior Health Fellow, American Academy of Actuaries
2:55 – 3:00 p.m.	**Concluding Remarks**

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Public Policies to Support Lifetime Income

Today's Presenters

Noel Abkemeier, MAAA, FSA

Mark Shemtob, MAAA, ASA, EA, MSPA

Public Policies to Support Lifetime Income

- Challenges
- Solutions
- Summary
- Longevity Illustrator
- Academy Resources

Challenges

- Workers Retiring Too Early
- Social Security Claimed Too Early
- Insufficient Education on Lifetime Income
- Obtaining Unbiased Advice
- Risks in Selecting Lump Sum Options
- Lack of Appreciation of Longevity Risk
- Underused Long-Term Care and Health Insurance Products
- Defined Contribution Plans Ignore Lifetime Income
- Annuity Puzzle

Challenge: Workers Retiring Too Early

- Too many individuals continue to see age 65 as the appropriate retirement age; others retire earlier
- Many individuals do not appreciate the economic benefit of working a few extra years
  - Accumulate more funds
  - Shorter retirement to finance
  - Potentially larger Social Security benefits
  - Additional employee benefits

Challenge: Social Security Claimed Too Early

- Many individuals still claim benefits at the earliest age
- Few defer to age 70. Social Security benefits may increase by as much as 76%
- Fears of a long-term Social Security funding shortfall fears may encourage some individuals to claim early
- Many advisers recommend claiming early

Challenge: Insufficient Education on Lifetime Income

- There is a general lack of understanding of the need for creating and assuring significant lifetime income resources
- Alternatives for securing lifetime income are not well understood; many insurance products and approaches to investing are complex
- Retirees do not fully appreciate the differences between guaranteed and planned income
- It is difficult to quantify whether strategies used to create planned but uncertain income could be successful
- Few appreciate the value of combining guaranteed products with investment strategies that provide planned (but uncertain) outcomes

Challenge: Obtaining Unbiased Advice

- Many advisers are not well versed in the unique challenges faced by retirees
- Few advisers are prepared to discuss both insured and non-insured approaches to creating lifetime income
- Retirees who have accumulated only a small nest egg are less likely to be able to obtain proper advice

Challenge: Risks in Selecting Lump Sum Options

- Those with defined benefit plans often elect lump sums when given this option in lieu of guaranteed lifetime income
- The lump sum option transfers the investment and longevity risk to the retiree
- Lump sums may initially appear attractive, but could lead to very unsatisfactory results
- Lump sums may be worth less than the forgone lifetime income
- Negative publicity regarding PBGC may encourage lump sum elections

Challenge: Lack of Appreciation for Longevity Risk

- Too many retirees do not understand the risk of assuming *average* life expectancy when planning for retirement, leading to:
  - Overconsumption of funds
  - A need to subsequently take on greater investment risk
  - A need to reduce living standards
  - Avoidance of guaranteed lifetime income options
- A *range* of alternative life spans should be considered in retirement planning

Challenge: Underused Long-Term Care and Health Insurance Products

- Many retirees who could benefit do not purchase long-term care or adequate Medicare supplemental health insurance
  - Some cannot afford it
  - The retirement nest egg will be diminished if uninsured care is required
  - Lack of sufficient insurance may require retirees to establish a larger emergency fund, therefore reducing investment options
- Many retirees believe that this risk can be hedged effectively by a healthy lifestyle
- Not being properly insured greatly impacts potential for having sufficient lifetime income

Challenge: Defined Contribution Plans Ignore Lifetime Income

- Most DC plans are not designed to consider the lifetime income challenge
- Plan participants often have no choice but to elect a lump sum upon retirement
- Participants in DC plans do not fully appreciate the income that can be generated from their account balances

Challenge: The Annuity Puzzle

- Retirees claim they desire lifetime income but refrain from embracing guaranteed annuity alternatives
  - Do not appreciate the value of risk sharing in annuities
  - May have concerns that insurer will not make good on benefit guarantees
  - Believe their investment results will eliminate problem
  - May be too heavily focused on bequest goals
- Studies show more happiness from predictable income and more anxiety from investment-dependent results

A Complicated Challenge

- Decumulation is far more complex than accumulation
- Individual circumstances make retirement planning not conducive to “one size fits all” solutions; e.g., health and wealth
- The most effective strategies frequently should be a combination of approaches
- Access to broad-based education, unbiased advice, and cost-efficient platforms are not universally available

Solutions to Challenges

- Improved Education
- Retirement Age
- Longevity Insurance
- Increase Lifetime Income Opportunities
- Lifetime Income Projections
- Required Minimum Distributions
- Tax Incentives
- Defined Benefit Plans
- Social Security
- Expanded Role for DC Plans
- Financial Adviser Standards

Solution: Improved Education

- A universally available model educational initiative should be undertaken, possibly by the Department of Labor (DOL) or the Consumer Financial Protection Bureau (CFPB)
  - Should focus on educating pre-retirees and retirees of the relevant financial issues and decisions
  - Could be provided online, at the employer workplace or through organizations that cater to retirees' interests
- Make it possible for consumers to better understand the protection offered by state guaranty associations with regard to fixed-income annuity products
- It should be practical for employers to offer basic education without risk of fiduciary liability

Solution: Retirement Age

- "Signals" of the appropriate retirement age that currently exist need to be modified
- Qualified retirement plans should no longer be held to an age 65 standard for the normal retirement age
- Social Security Retirement Age could be increased (as recommended by the Academy)
- Social Security retirement beyond age 70 could be credited with benefit increases until a higher age
- Minimum Required Distribution start age could be deferred
- Phased retirement programs should be encouraged and facilitated

Solution: Longevity Insurance

- IRS final regulations in 2014 allow for the use of certain qualified longevity annuity contract (QLAC) products within qualified plans and IRAs
- QLACs should assist in creating lifetime income
- IRS could further expand the use of longevity products
  - Expand use to a portion of DB plan benefits
  - Expand types of qualified annuities

Solution: Increase Lifetime Income Opportunities

- Regulators or legislators could create the opportunity to have decumulation products become a component of the DC plan accumulation process
  - Improve safe harbor for including annuities
  - Require availability of a lifetime income option
- State regulators could permit tontine approaches under which income recipients share mortality and interest risks *annually*

Solution: Lifetime Income Projections

- The DOL has initiated an effort requiring DC plan employee statements to illustrate estimated lifetime income. The proposal has not yet been enacted.
- The proposal:
  - Would help frame DC plan accumulations in the form of lifetime income, instead of lifetime savings
  - Should aid future retirees to better focus on their retirement savings rates and investment elections

Solution: Required Minimum Distributions

- Current rules require that distributions commence from IRAs upon attainment of age 70½
- The age 70½ standard was established at a time when life expectancies were much shorter
- Allowing a deferral of distributions beyond age 70½ for those still working creates a larger fund and income
- Revision of RMD rules could be limited to focus on individuals most in need of the benefit

Solution: Tax Incentives

- Retiree behavior can be influenced by tax incentives
- Tax incentives that encourage employees to work longer could be designed; e.g., higher maximum Social Security age or later RMD age
- Tax incentives could also encourage retirees to select more effective lifetime income products or strategies; e.g., tax-favored treatment of lifetime income, whether tax-qualified or non-qualified
- Tax incentives to target those most susceptible to lifetime income challenges could be designed; e.g., limit total value of the incentive

Solution: Defined Benefit Plans

- DB plans are the most effective lifetime income generator, and these plans could be encouraged by regulation and law
- Laws and regulations have had a detrimental impact on DB plan continuance and adoption
- DB type plans that include risk sharing and permit tax-deductible employee contributions should be permitted
- DB plans should be allowed to eliminate lump sum options, but be required to more fairly value them when available
- PBGC should consider reforms to structure benefits and premiums to be more sound and fair

Solution: Social Security

- For many millions of retirees, Social Security is the foundation of their retirement income
- The program is projected to be able to pay only about 75% of promised benefits commencing in 2034
- Retirees would greatly benefit from having this long-term issue resolved sooner than later
- There may be modifications to the program that should be considered in an effort to update it

Solution: Expanded Role for DC Plans

- According to the LIMRA, 80% of plan participants have indicated interest in employer-sponsored approaches to converting DC plan savings into retirement income
- Plans are positioned to offer lifetime income approaches using institutionally priced products and investments. Employers are positioned to add significant value to their DC plans, benefiting all stakeholders
- To encourage employers to take on this role, a strong safe harbor for employers will be necessary
- One option: create employer-like plans with access to lifetime income options for individuals who are not covered by employer plans

Solution: Financial Adviser Standards

- Advisers currently serve their clients based on different standards of professional responsibility
- The DOL has issued a proposal that would require all financial advisers serving in the retirement plan area to assume a fiduciary obligation when serving individuals
- The DOL proposal should be expanded to include the requirement that advisers address lifetime income risks, needs, and approaches, not just efficient accumulation

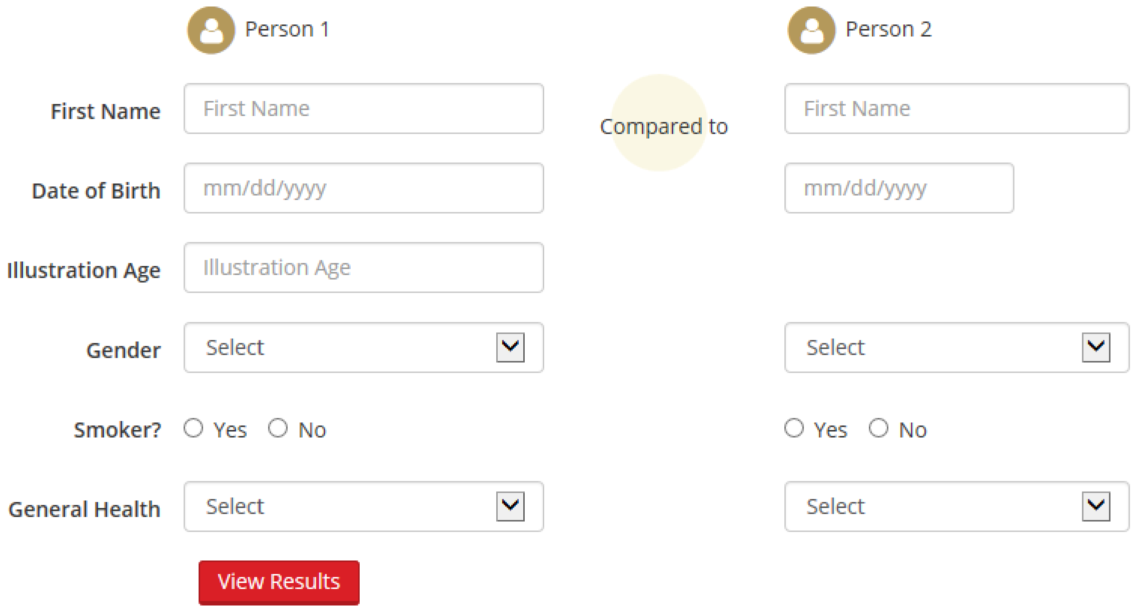
Summary

- Education – Individuals would benefit from early exposure to basic education covering the challenges of financial decisions related to retirement
- Flexibility – Legislative and regulatory changes could add flexibility and reduce disincentives to addressing retirement income needs
- Advice – As individuals approach retirement and throughout, they need access to unbiased, personalized, cost-effective advice to help create and maintain a risk-tolerant, financially sound retirement program
- Platform – Retirees need access to platforms that offer cost-efficient alternative products and strategies that will deliver lifetime income

Longevity Illustrator

- Offers perspective on how long you might live
- Serves as foundation for understanding your longevity risk
- Will *not* tell you with certainty how long you will live
- Expected to be available later this year

Longevity Illustrator



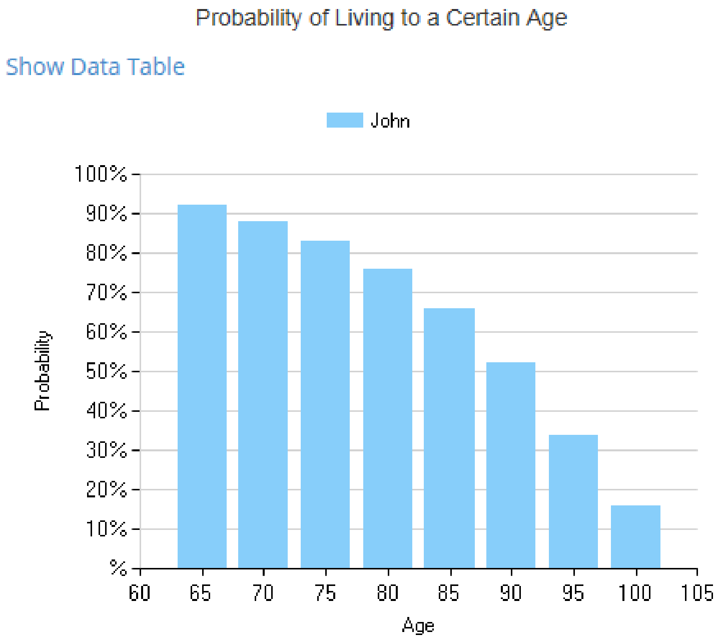
Longevity Illustrator

Longevity Charts

Here is information about your expected longevity, personalized based on the data you provided.

	John
Date of Birth	01/01/1980
Nearest Age	36
Illustration Age	35
Gender	Male
Do You Smoke?	Nonsmoker
General Health	Healthy

Longevity Illustrator



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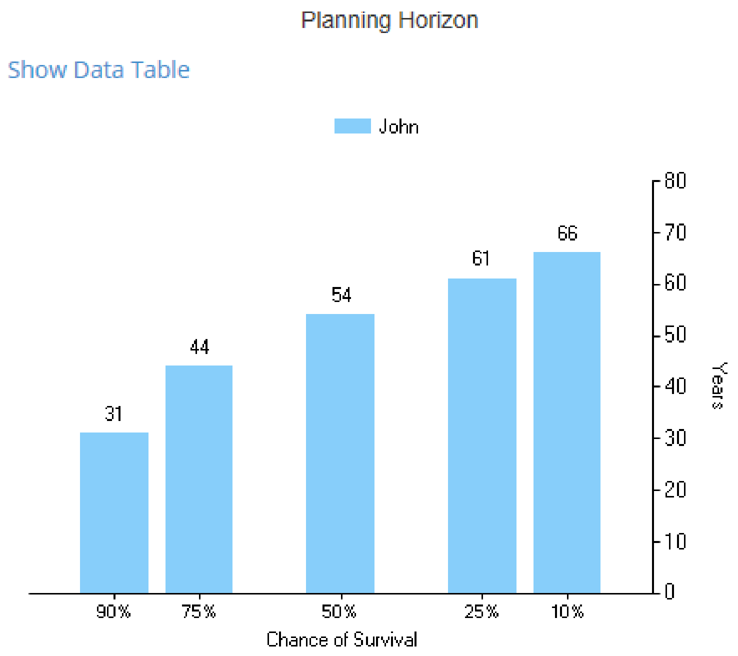
Longevity Illustrator

Planning Horizon

This chart shows a planning horizon based on the information you entered – that is, the number of years you can expect to live from your illustration age with a given probability. This is similar to the information presented in the first chart, but it is arranged in order of probabilities, not ages. This perspective allows you to consider your retirement spending based on your personal level of comfort or risk tolerance.

For instance, you may be comfortable setting your planning horizon such that there is only a 25 percent chance that you will survive longer than the number of years indicated by the bar. In this case, based on the chart, you would set your planning horizon for **61** years. If you want to be more cautious, you might set your planning horizon such that there is only a 10 percent chance you will survive longer (**66** years from the chart).

Note that these probabilities are calculated from the illustration age you entered. If you chose to enter an age later than your current age, the Longevity Illustrator assumes a 100 percent chance that you will live to the age you chose.



Academy Resources

- Risky Business: Living Longer Without Income for Life (June 2013)
- Actuarial Considerations for Financial Advisers
- Information for Future and Current Retirees
- Legislative and Regulatory Issues on Lifetime Income
- Retiree Lifetime Income: Choices and Considerations
- Retiree Lifetime Income: Product Comparisons

Available at: http://www.actuary.org/content/aging-securely

Questions?

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Long-Term Care

Panel

- Chris Giese, MAAA, FSA
  - Member, Aging Task Force
- Bruce Stahl, MAAA, ASA
  - Vice Chairperson, LTC Reform Subcommittee
- Eric Stallard, MAAA, ASA, FCA
  - Chairperson, LTC Reform Subcommittee

Agenda

- Background
- LTC policy reform
- LTC financing policy options
- Academy LTC series
- Q&A

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- **Background**
- LTC policy reform
- LTC financing policy options
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Why LTC Is Important

- Roughly half of all Americans reaching age 65 will need formal LTC over their remaining lifetime
  - Substantial assistance with at least two activities of daily living (ADLs) or severe cognitive impairment
  - Even more will require informal care and care for less severe levels of disability
- Formal care needed on average for two years, 10% need longer than 5 years
  - Annual nursing home costs exceed $80,000
  - Annual care at home costs exceed $40,000 (for 40 hours/week)
  - Only 1/3 of seniors have assets to pay one year of nursing home care
- Number of people over age 65 is growing
  - Estimated at additional 10,000 people per day

Financing Formal LTC

- Out of pocket (50%)
  - Paid by individuals as care received
- Medicaid (35%)
  - Eligibility based on financial need—must meet income and asset eligibility requirements
- Medicare (10%)
  - Limited benefits for only the first 100 days of skilled nursing care—no custodial care and no assisted living benefits
- Private LTC insurance & other public programs (5%)
  - LTC insurance provides coverage options, but expensive

Agenda

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- **LTC policy reform**
- LTC financing policy options
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Considerations for Developing LTC Proposals

- Voluntary or mandatory
- Public, private, or hybrid
- Prefunded or pay-as-you-go
- Financing source – premiums and/or taxes
- Low-income subsidies
- Guaranteed coverage, vesting periods, underwriting
- Benefit design features, such as
  - Cash vs. reimbursement, front-end vs. back-end, benefit eligibility, inflation protection

Criteria for Evaluating LTC Financing Policy Options

- Financial soundness/sustainability
- Affordability
- Number of people covered
- Efficient use of system funds
- Comprehensiveness (benefits)
- Choice
- Understandability of the program

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LTC Financing Policy Options

- Medicaid
  - Strengthen financial eligibility rules
  - Encourage home health care options for eligible individuals
  - Strengthen or enforce reimbursement from estates of beneficiaries
- Encourage Partnership policies
  - Federal-state policy initiative to encourage purchase of LTCI
  - Allow home health care benefits
  - Make eligibility rules consistent between Medicaid and any Partnership-eligible products
- 401(k)s and individual retirement accounts (IRAs)
  - Provide tax incentives to encourage/allow withdrawals from 401(k) plans and/or IRAs to pay for LTC/LTCI.

LTC Financing Policy Options

- Expansion of Programs of All-Inclusive Care for the Elderly (PACE)
  - Medicare/Medicaid program for nursing home-certified persons aged 55+
  - Home- and community-based LTC
  - Provides all services covered by Medicare/Medicaid plus additional medically necessary care not covered by Medicare and Medicaid
- Expansion of Medicare
  - Creating a new part to Medicare
  - Covering comprehensive LTC benefits, including home care
  - Funded by income tax or monthly premiums
- Alternative approaches to address LTC risks
  - Combination insurance plans
  - Limited benefit plans
  - State-based public insurance demonstration programs (e.g., Hawaii, Minnesota)
  - Incentives for employers to provide coverage

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Academy LTC Series

- Series of papers examining LTC reform options
  - Initial focus on LTCI reform; future papers may include delivery reforms
  - Current papers
    - Portability
    - Pricing flexibility
    - Product design flexibility
  - Future papers
    - Understanding LTCI rate increases
    - Partnership policies
    - Medicaid and eligibility

Portability

- LTC Commission recommendation – allow portability
  - LTCI policies in force today will continue to provide benefits as long as premiums are paid, even when a policyholder moves to another state
- Factors related to portability
  - State Partnership programs
    - Reciprocity between states (currently if a state Partnership policyholder moves out of state, benefits continue, but the new state may not count benefits toward Medicaid eligibility)
  - Technical contracts
    - Different terminology among insurers in terms of covered services and health issues that qualify for coverage
    - Different terminology and requirements among states/insurance departments
  - Coverage networks
    - Networks with limited geographic locations

Pricing Flexibility

- LTC Commission recommendation – allow flexibility in pricing
  - LTCI is typically offered on a level premium basis for life, with some options for limited payments or increasing premium
  - NAIC LTCI model regulation requires level premiums beyond age 65
  - Pricing projections extend to many years; actual economics will not be the same as originally projected nor as originally designated for reserves
- Pricing flexibility options
  - Allow premiums to increase for ages beyond 65 (e.g., align premium increases with inflation or investment returns)
  - Streamline premium rate increase approvals by aligning automatic increases to a national index (e.g., change in average life expectancy)
  - Allow reserve assumptions to change over time

Product Design Flexibility

- LTC Commission recommendation – allow flexibility in product design
- Challenges to designing LTCI products to provide greater flexibility
  - State laws and regulations
    - Require LTCI products to be in effect for life of policyholder; policyholder cannot purchase coverage for a specified time period as with term life insurance.
    - Mandate specified benefits
    - Require deficiency in 2 ADLs or cognitive Impairment as a benefit qualification
    - Impose restrictions on specific policy provisions
  - Partnership plan requirements are generous and expensive
  - Federal tax qualification standards direct policies to use ADL deficiencies and cognitive impairment as the criteria for benefits

Product Design Flexibility

- Sample product design options that face restrictions today
  - 401(k) expansion: Use funds to pay TQ LTCI premiums
  - Term coverage: Coverage restricted to a certain age or time period
  - Deferred coverage: Pay premiums before potentially eligible for benefits
  - Higher criteria for benefit eligibility: Cover only higher disability levels
  - Degrees of disability: Size of benefit to depend on degree of disability
  - Universal LTC: Investment component of policy accrues to benefit pool
  - Care sharing: Policyholder covers care for first x days per month
  - Monthly deductible: Policyholder pays for first $y per month
  - Decreasing lifetime maximum: The lifetime maximum declines with age

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Sustainability of Public Programs

Panel

- Steve Alpert, MAAA, FSA, FCA, MSPA, EA
  - Chairperson, Public Interest Committee
- Tim Leier, MAAA, FSA, EA
  - Chairperson, Social Security Committee
- Cori Uccello, MAAA, FSA, FCA
  - Academy Senior Health Fellow

Sustainability Framework

- Concepts based on Academy's Public Interest Committee paper:
  - Sustainability in American Financial Security Programs (June 2015)
    - http://www.actuary.org/files/PIC_Sustainability_White_Paper_June2015.pdf

Sustainability Framework

- Can a program achieve its goals?
- Over intended time horizon?
- Do stakeholders (beneficiaries, funders, society) accept balance of benefits and costs?

- Different from solvency – a current measure

Benefits and Costs

- In balance?
- Benefits adequate to meet goals?
- Costs (and pattern) acceptable to funders?
- Periodically reviewed or self-adjusting in small increments?

Predictability and Allocation of Risk

- Who bears risk?
  - Beneficiaries want "guarantees"
  - Funders want predictability
  - But life (and the economy) are uncertain
- Modeling & clear communication
- Prefunding?
- Guaranty funds? … or moral hazard?

Time

- Near- vs. long-term perceptions
- Intergenerational equity?

Other Needs

- Governance
- Good information and good communication of
  - Objectives
  - Benefits
  - Costs
  - Risks
- Political will

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SOCIAL SECURITY

Seeking Sustainable Solvency

1930s USA

Source: Library of Congress

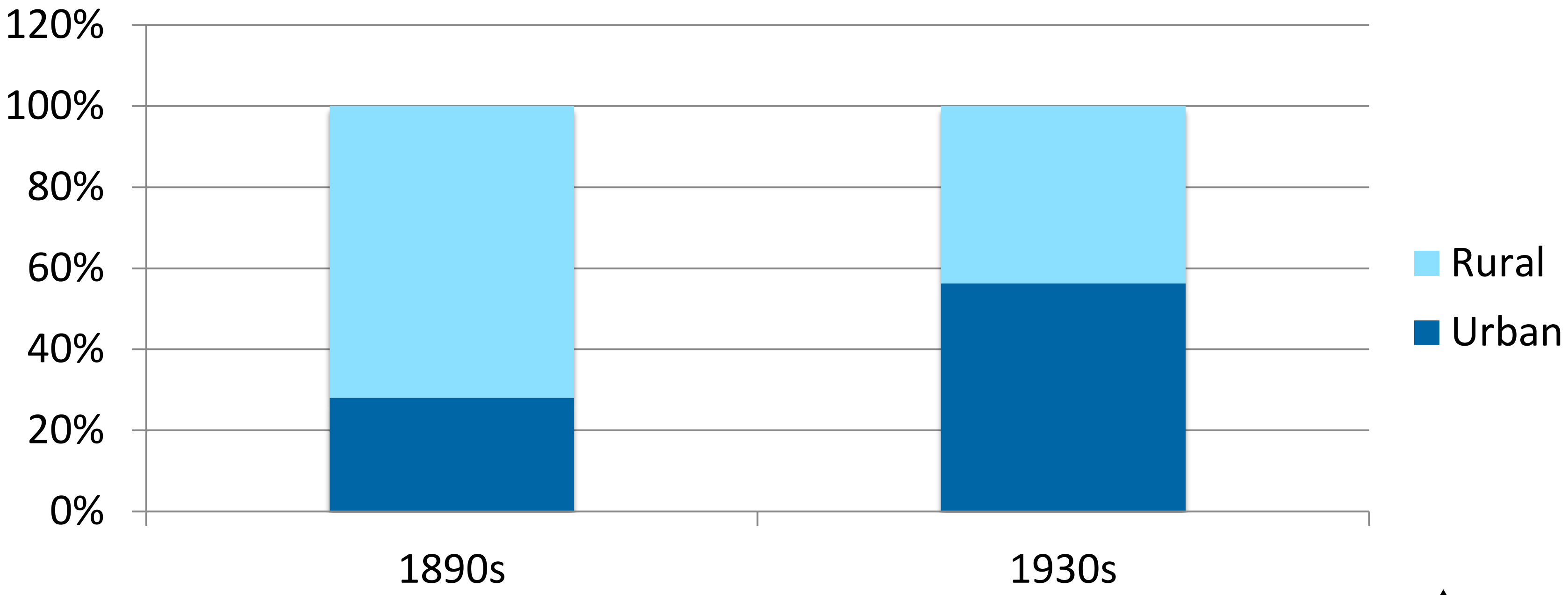
1930s USA

Source: Library of Congress

1930s USA

Source: Library of Congress

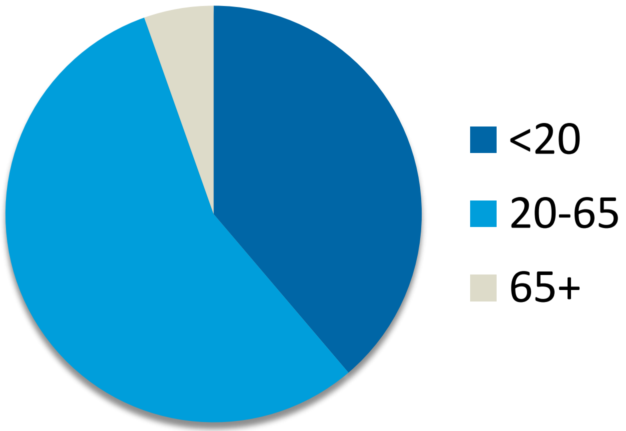
1930s USA



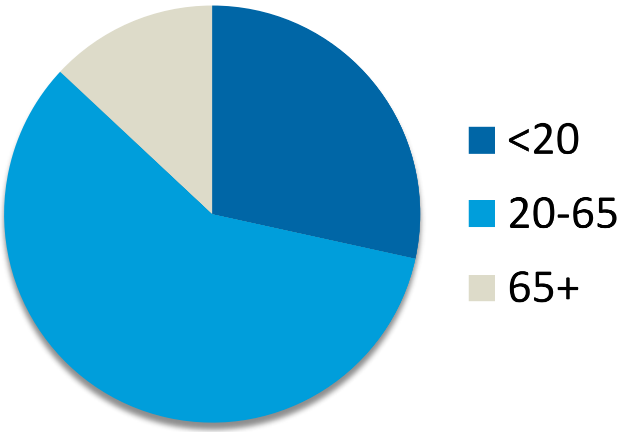
Charts based on data from U.S. Census Bureau

Dependency Ratio

1930 U.S. population - 123 million



2010 U.S. population - 309 million



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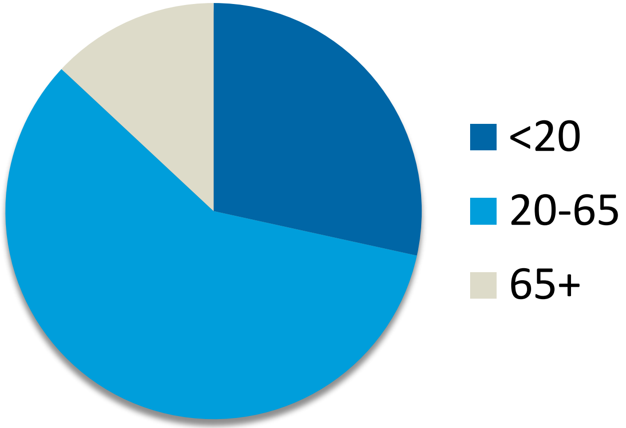
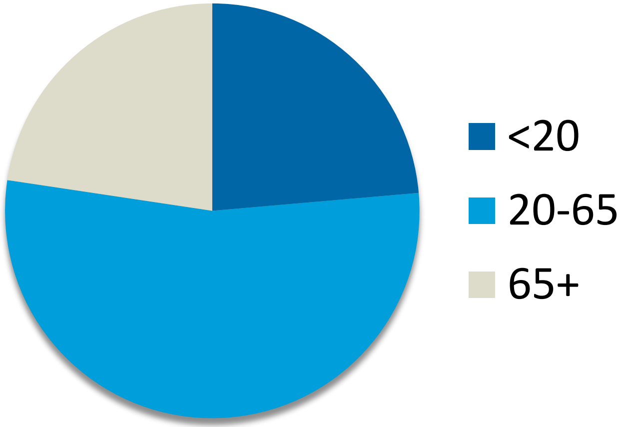


2080 Projected U.S. population – 428 million



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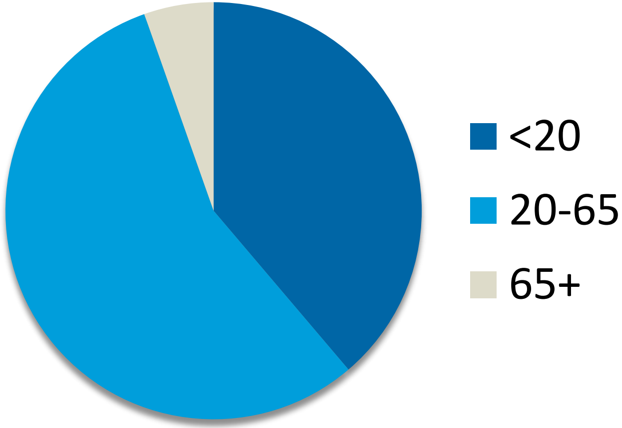

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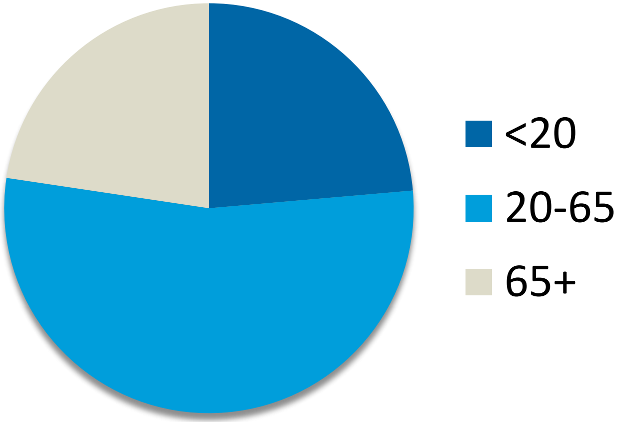
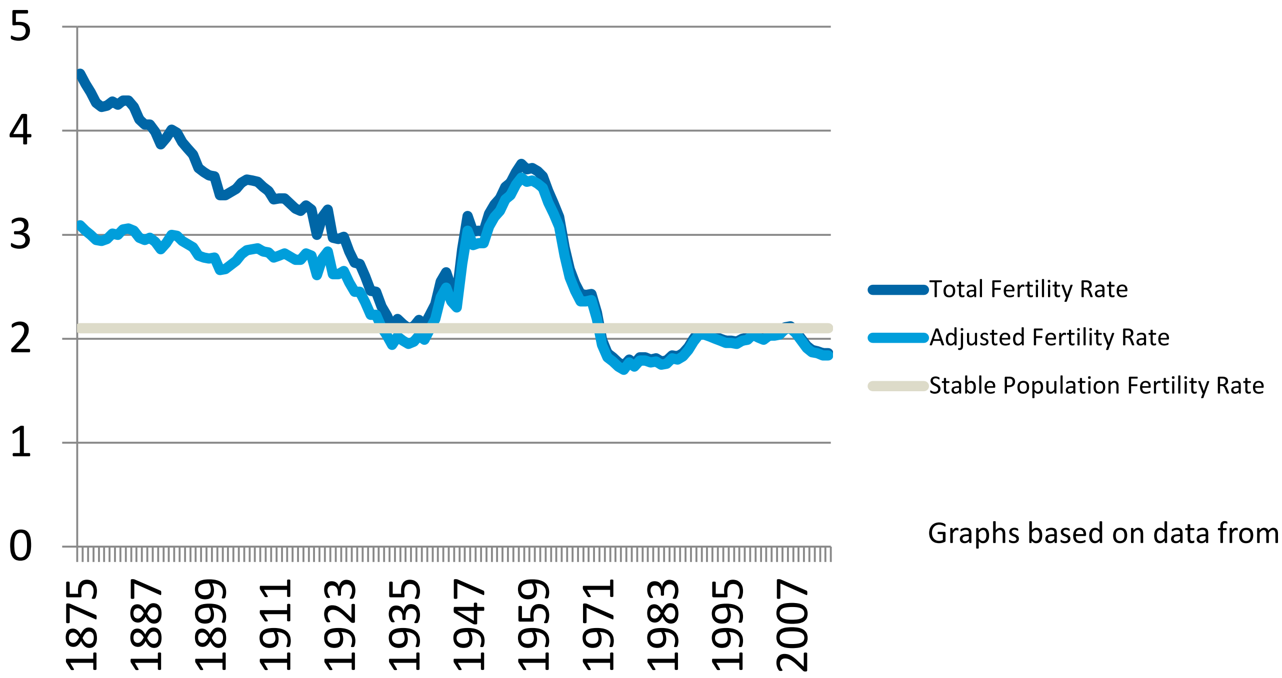


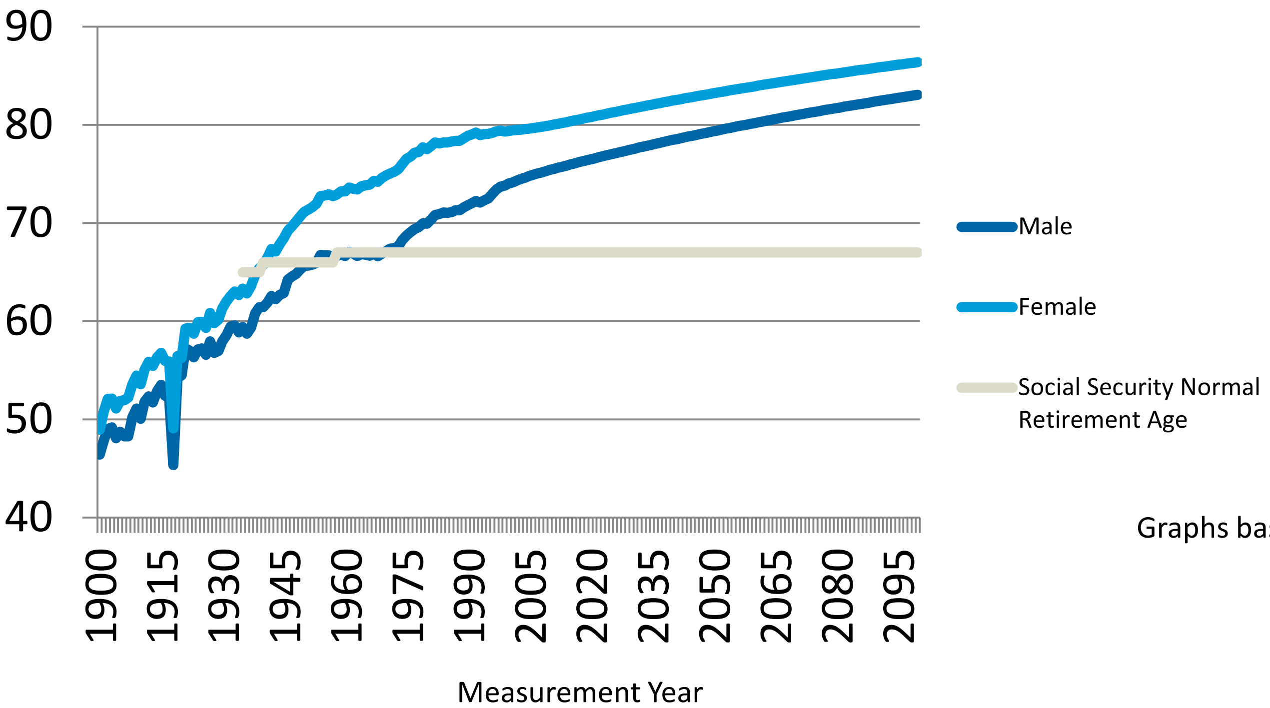
Charts based on data from U.S. Census Bureau

Fertility Rates



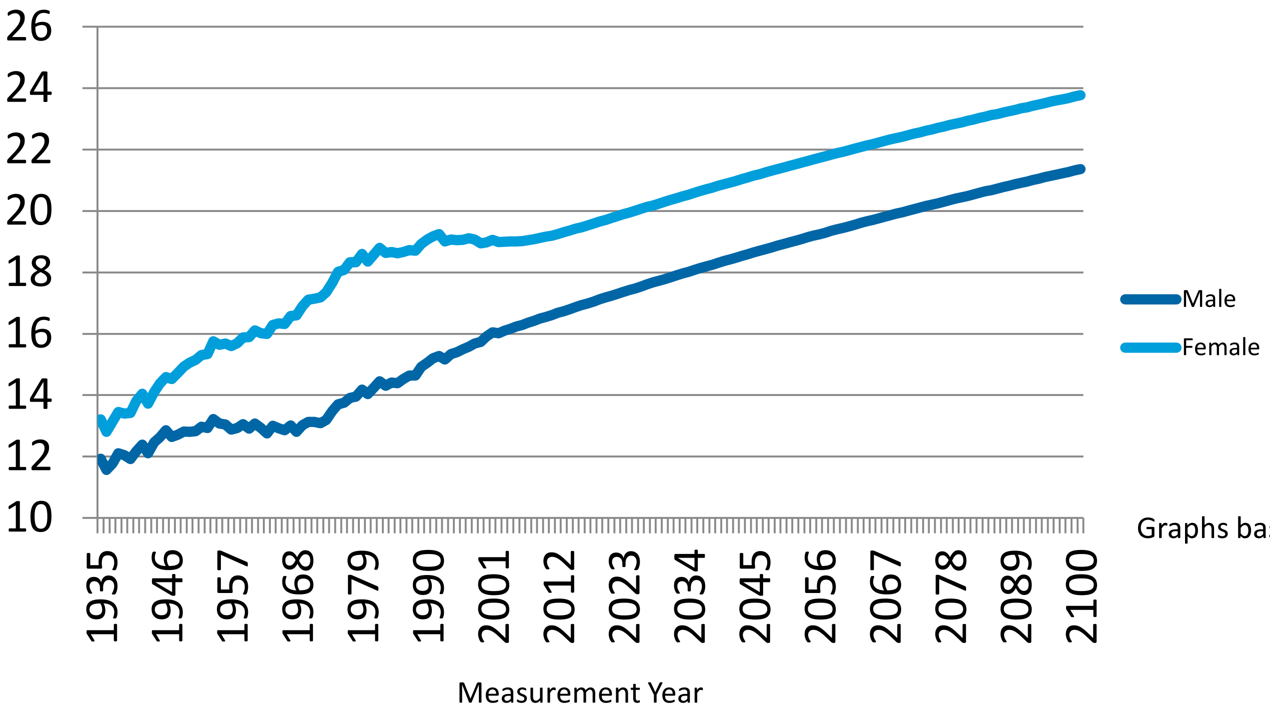
Graphs based on data from U.S. National Vital Statistics Reports

Life Expectancy (at Birth)



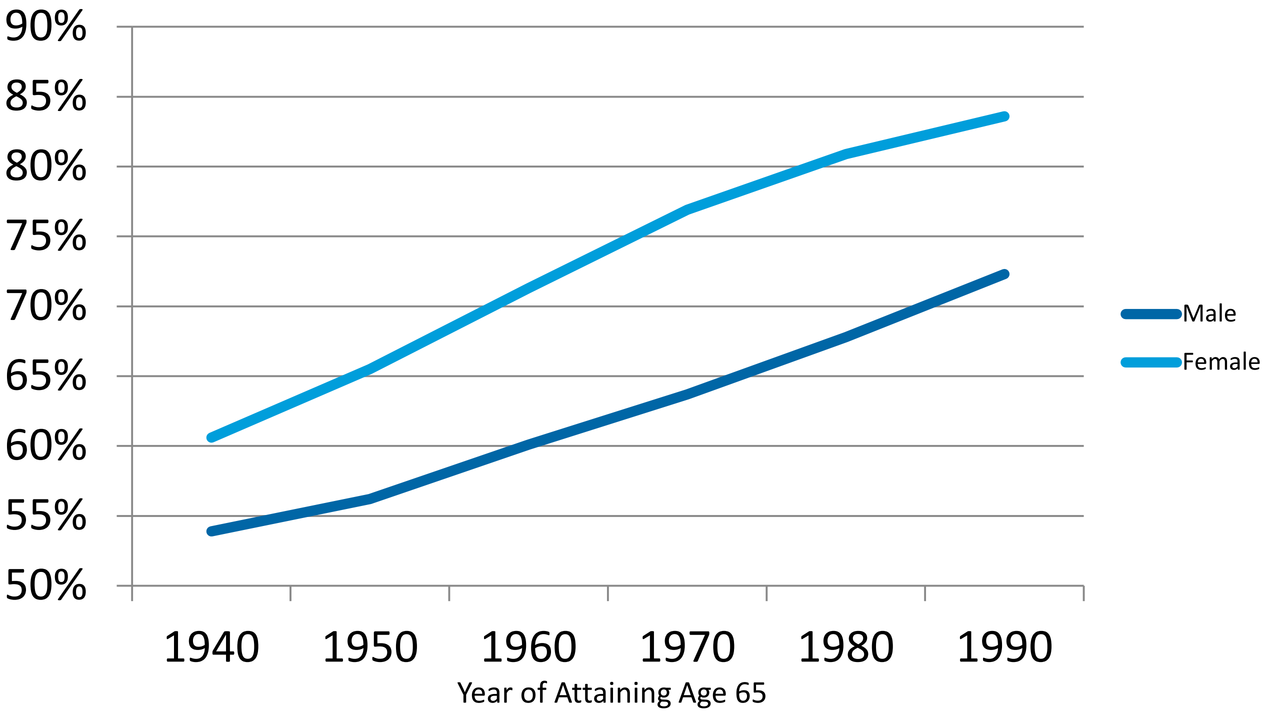
Graphs based on data from U.S. Census Bureau

Life Expectancy (at Age 65)



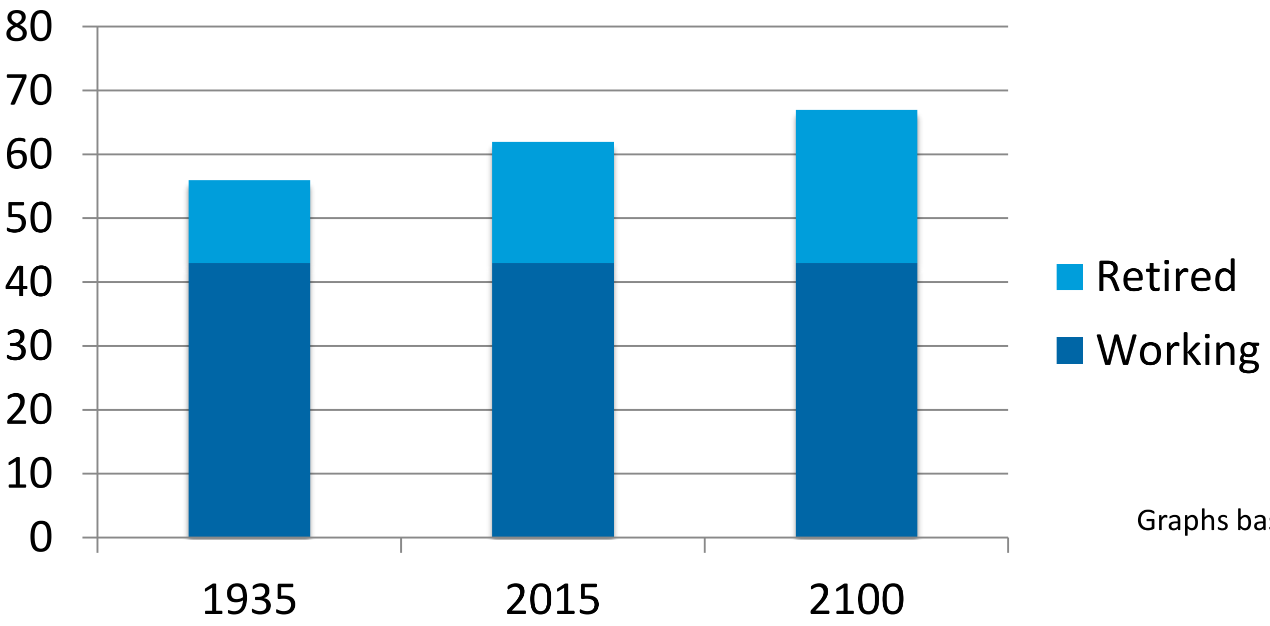
Graphs based on data from U.S. Census Bureau

Will I Get My Benefit?



Graphs based on data from the Social Security Administration

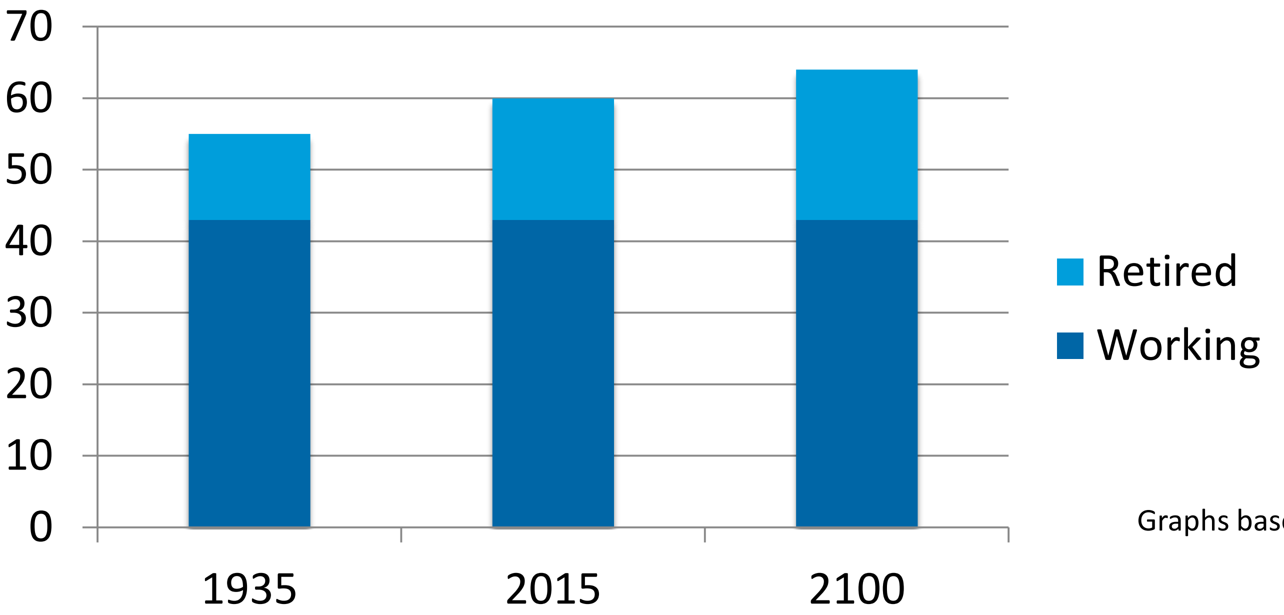
Female – Years Worked/Years Retired



Graphs based on data from U.S. Census Bureau

* Considered at retirement age 65, assuming started working at 22 and survived to retirement

Male – Years Worked/Years Retired



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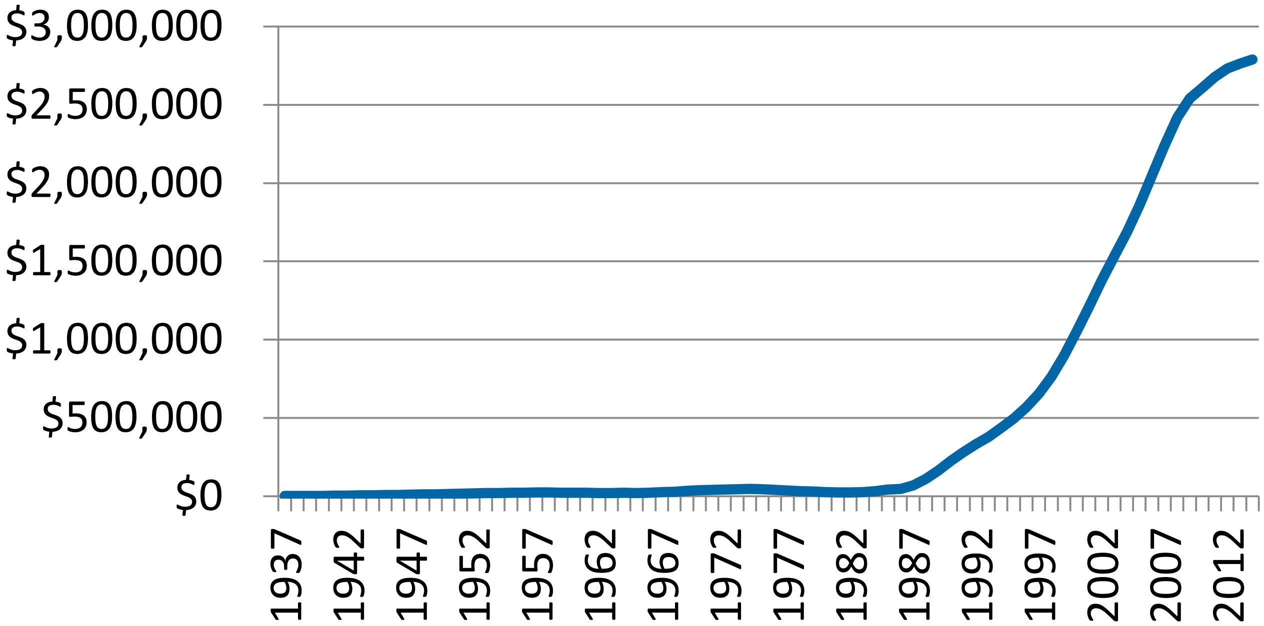
OASDI Trust Fund History ($ Millions)



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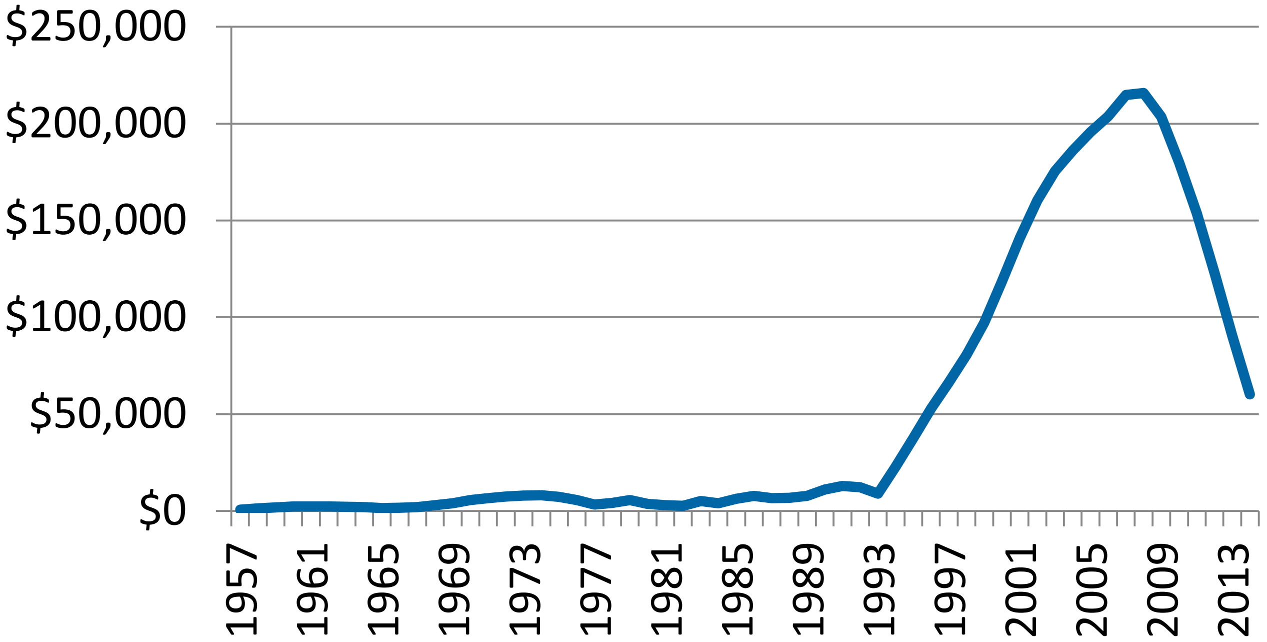
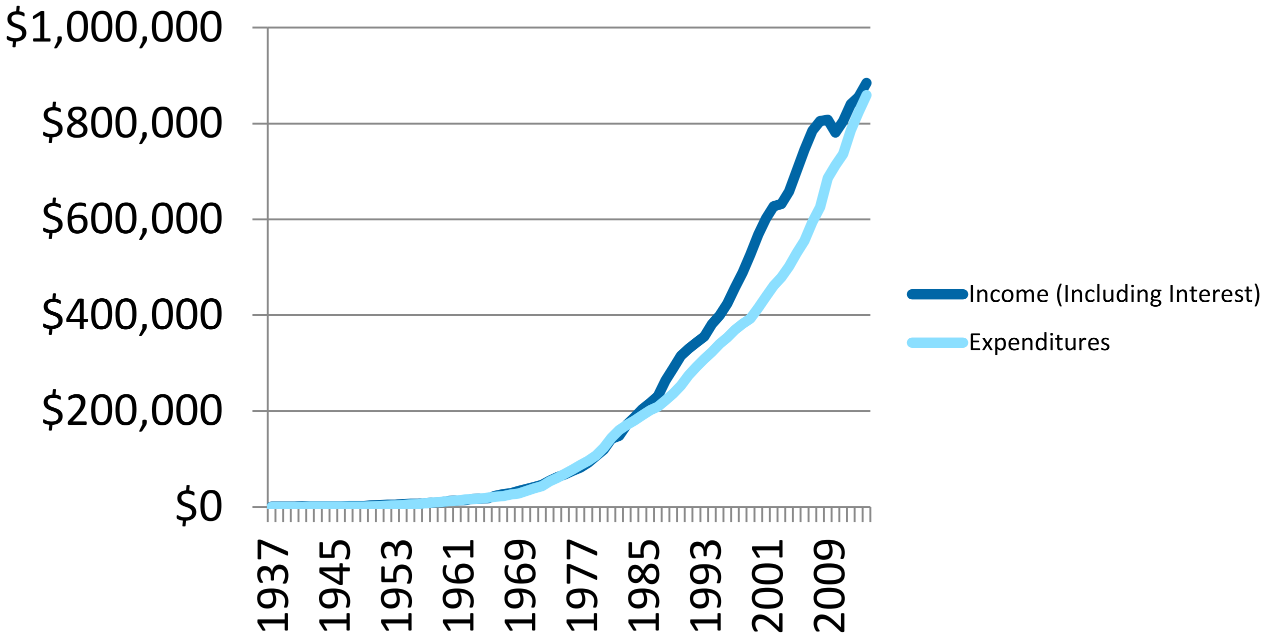


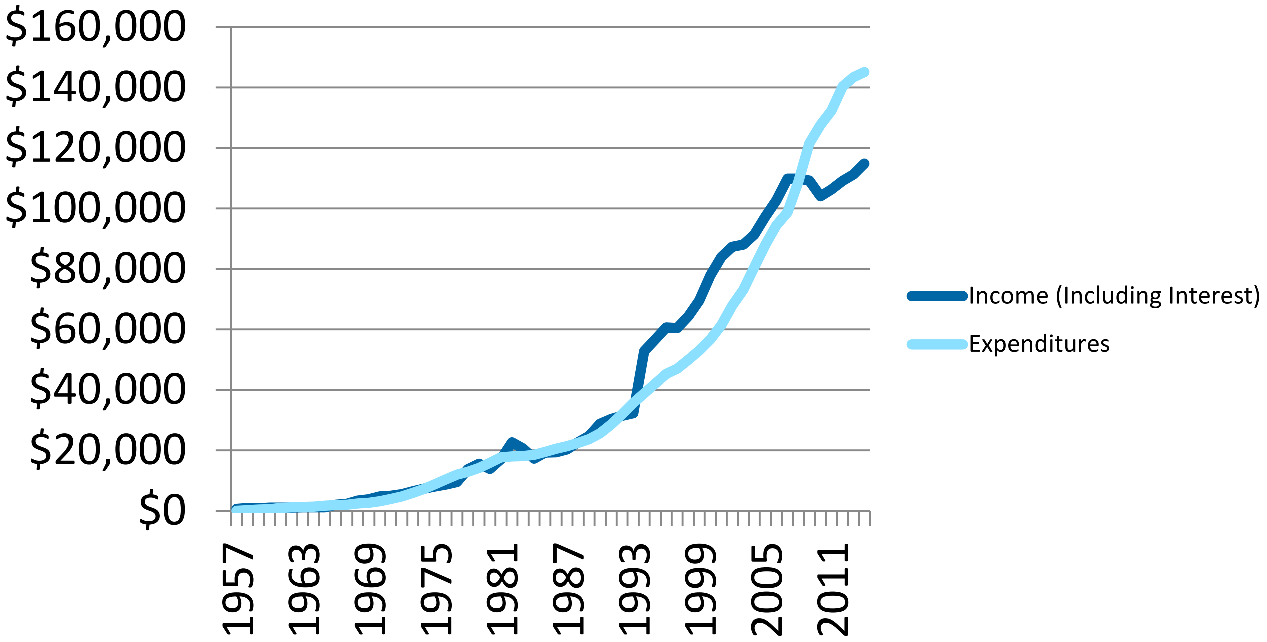
Graphs based on data from the Social Security Administration

OASDI Trust Fund Activity ($ Millions)



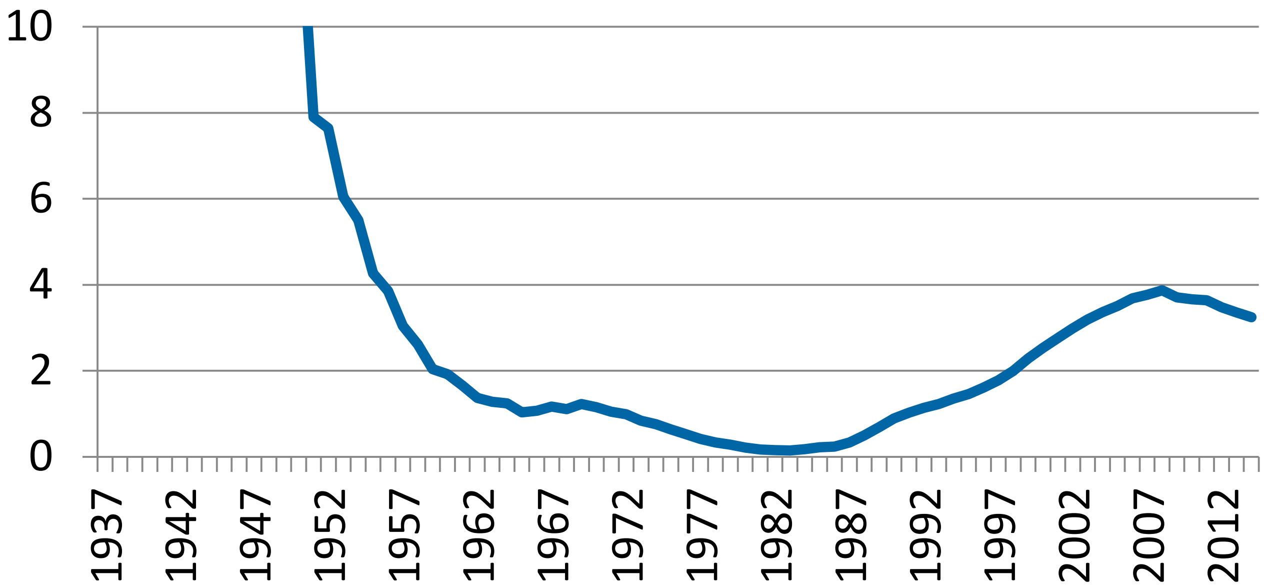
Graphs based on data from the Social Security Administration

DI Trust Fund Activity ($ Millions)



Graphs based on data from the Social Security Administration

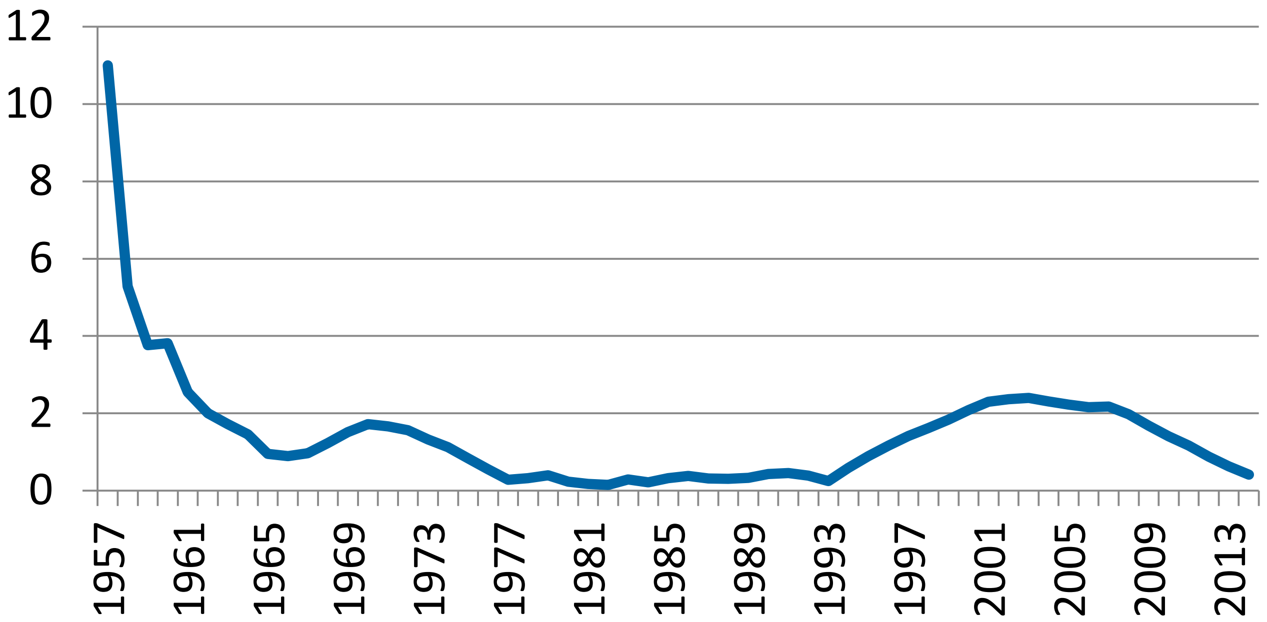
OASDI – Fund Balance / Annual Expenditures



Graph is cut off because early trust fund ratios were VERY large

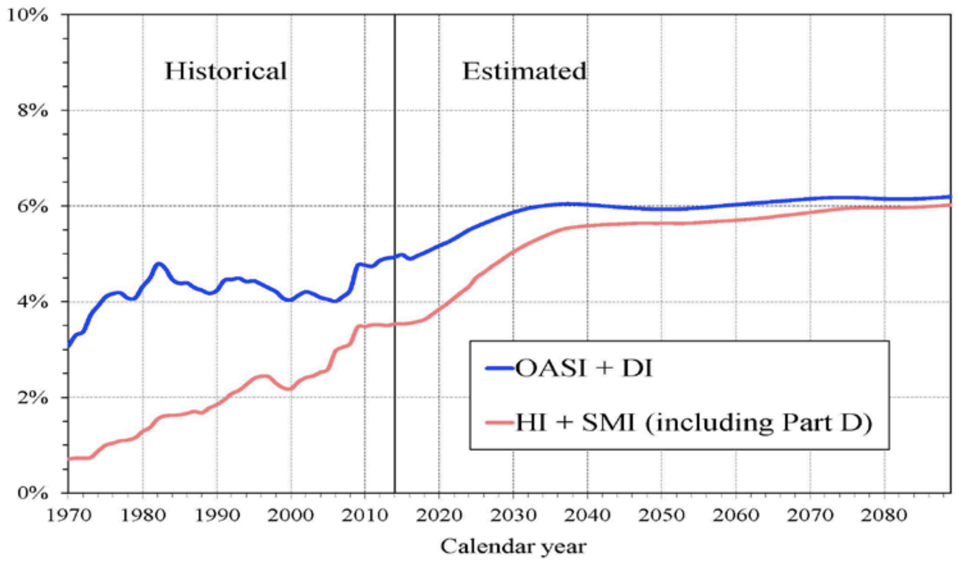
Graphs based on data from the Social Security Administration

DI – Fund Balance / Annual Expenditures



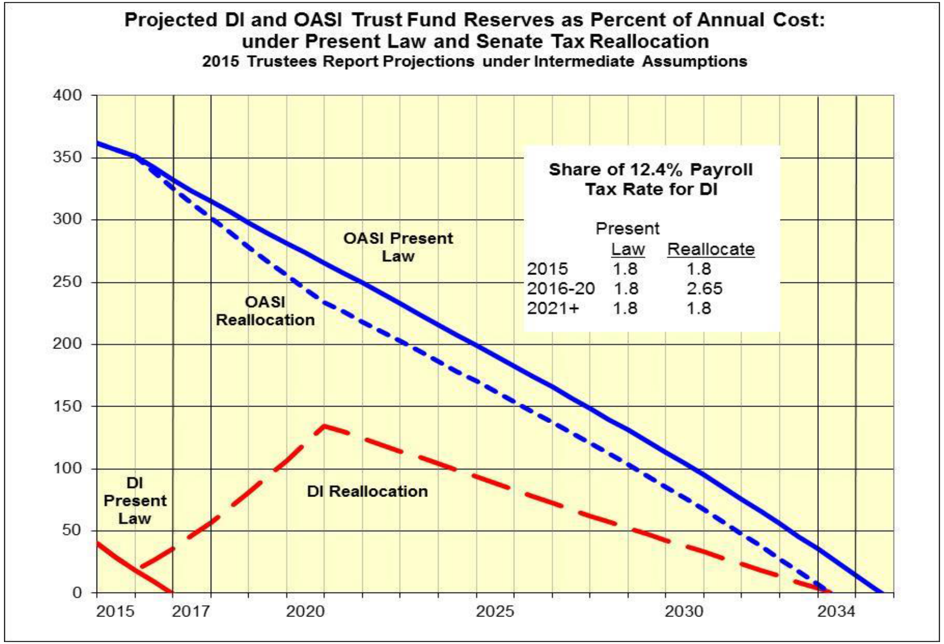
Graphs based on data from the Social Security Administration

Annual Cost (% of GDP)



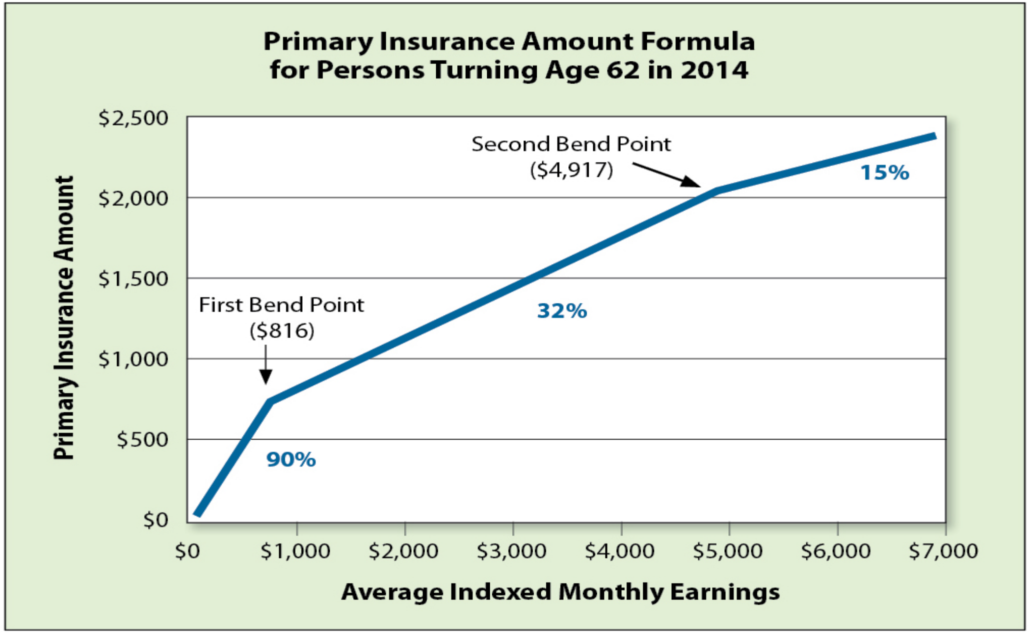
Source: Social Security Trustees Report

Reallocation of FICA Taxes:
From OASI fund to DI fund to avoid DI fund depletion



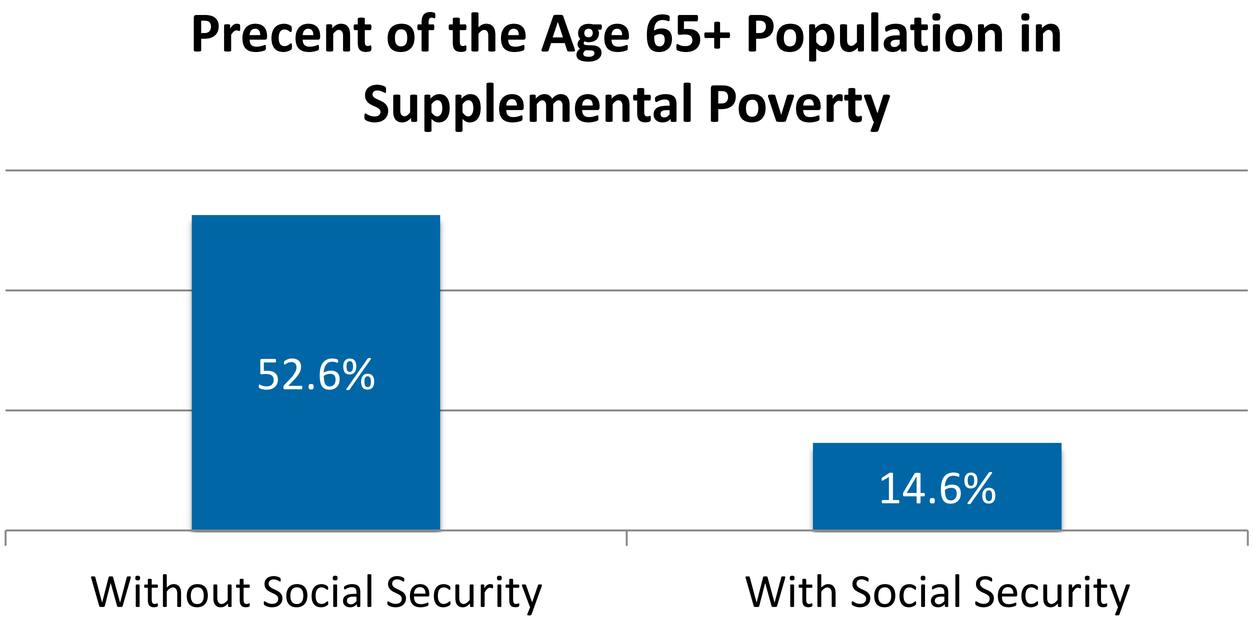
Source: Social Security Administration Office of the Chief Actuary

Benefits – Formula/Structure



Source: American Academy of Actuaries Social Security Reform Options Monograph

Benefits – Supplemental Poverty Rate



Charts based on data from U.S. Census Bureau

Play The Game!

- The American Academy of Actuaries has developed a game – available at www.actuary.org/playthegame

- How would YOU make Social Security sustainable?

MEDICARE AT 50: IS IT SUSTAINABLE FOR 50 MORE YEARS?

Cori E. Uccello, MAAA, FSA, MPP
Senior Health Fellow, American Academy of Actuaries

October 23, 2015

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Medicare's sustainability challenges

- Financing challenges
- Vulnerable beneficiary populations
- Benefit limitations

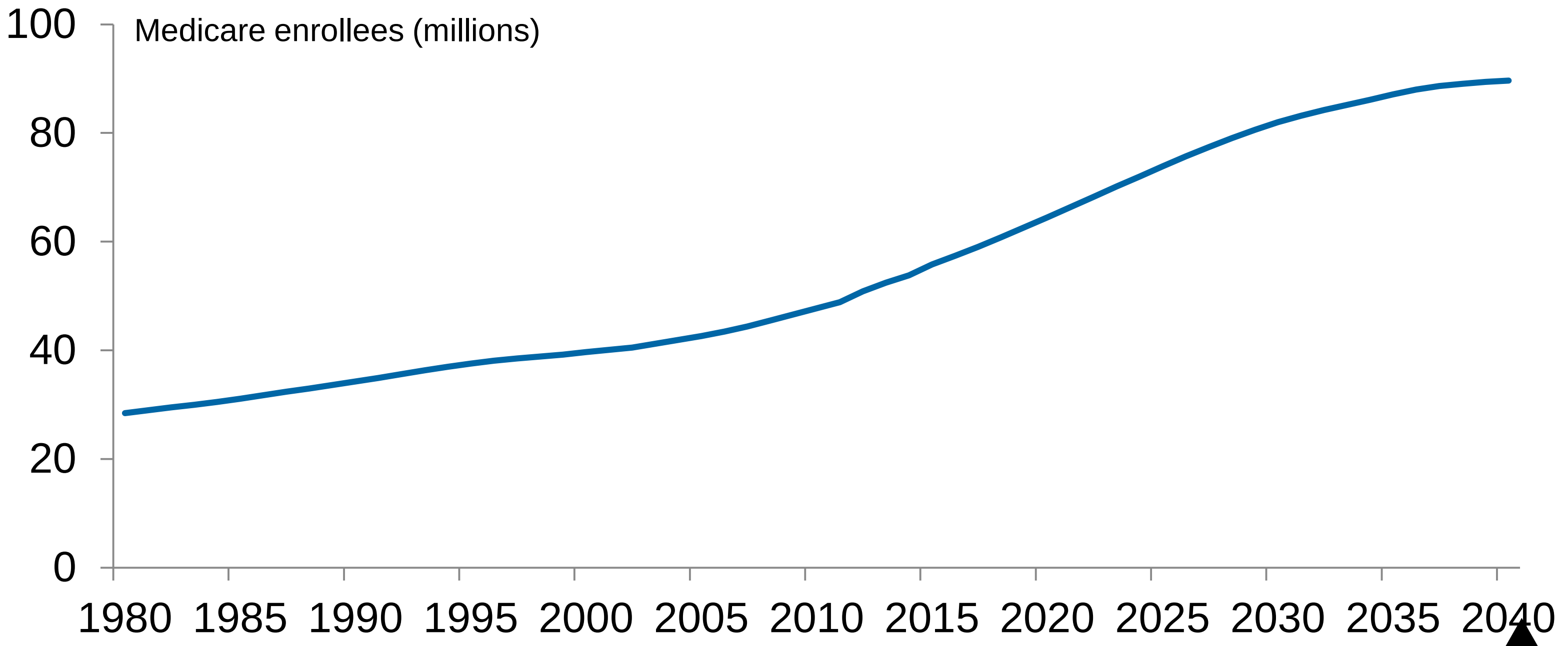
2014 Medicare enrollment and spending

- Total Medicare enrollment: 54 million
  - Enrollees age 65+: 45 million
  - Enrollees younger than 65: 9 million (eligible through disability or ESRD status)
- Total Medicare spending: $613 billion
- Medicare spending as share of national health expenditures: 20%

Pressures on Medicare

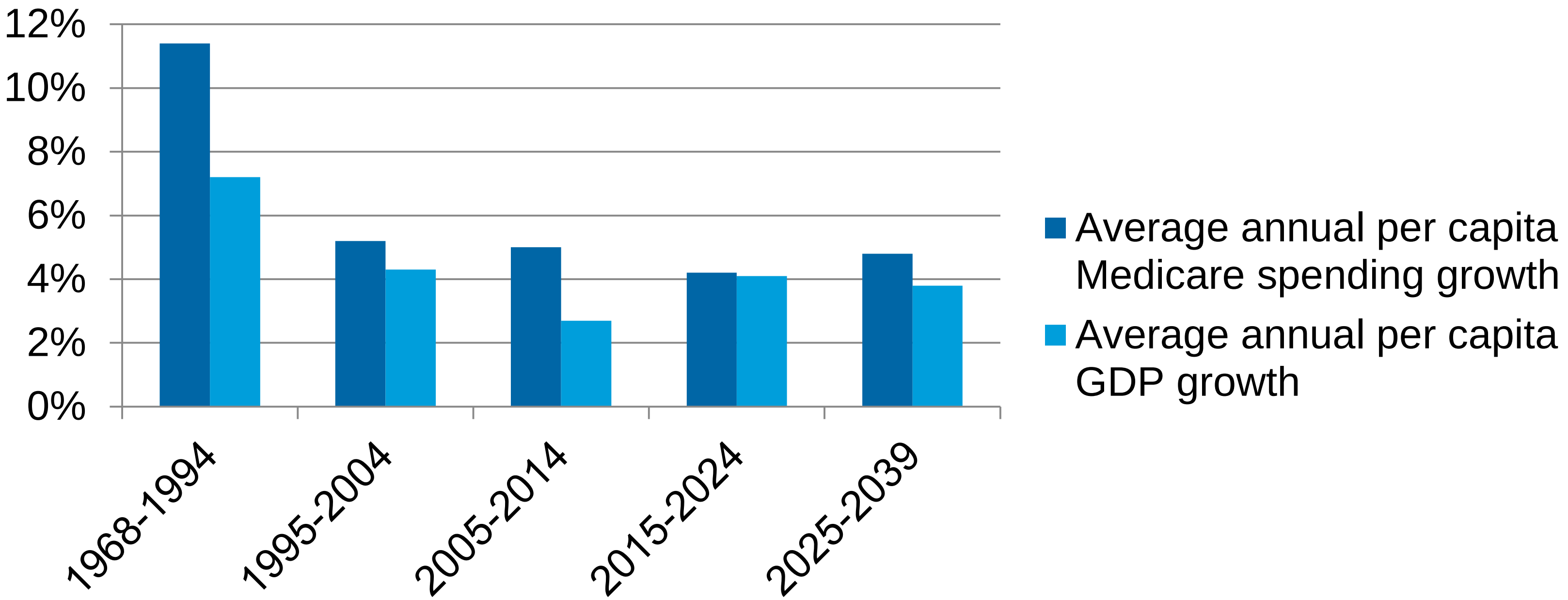
- Growing enrollment
- Growing health care spending
- Fewer workers per beneficiary

Medicare enrollment will soar as baby boomers retire



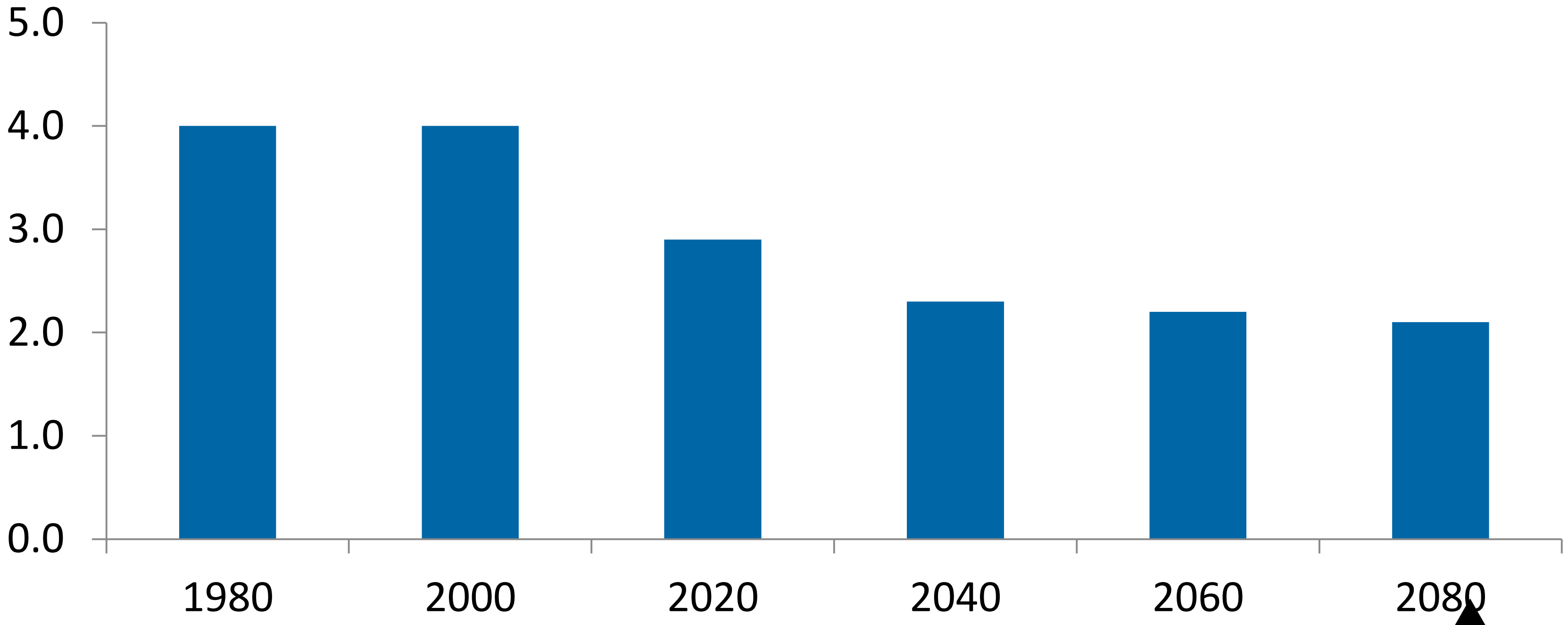
Source: 2015 Medicare Trustees Report

Per capita Medicare spending has slowed, but will exceed per capita GDP growth in the long term



Source: American Academy of Actuaries calculations based on the 2015 Medicare Trustees Report

The number of workers per Medicare beneficiary is shrinking



Source: 2015 Medicare Trustees Report

Medicare benefits and financing structure

	Hospital Insurance (HI)	Supplementary Medical Insurance (SMI)
Benefits	Inpatient hospital and post-acute care (Part A)	Physician and outpatient care (Part B) Prescription drugs (Part D)
Financing	Payroll taxes	Beneficiary premiums and general tax revenues

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Medicare financing challenges

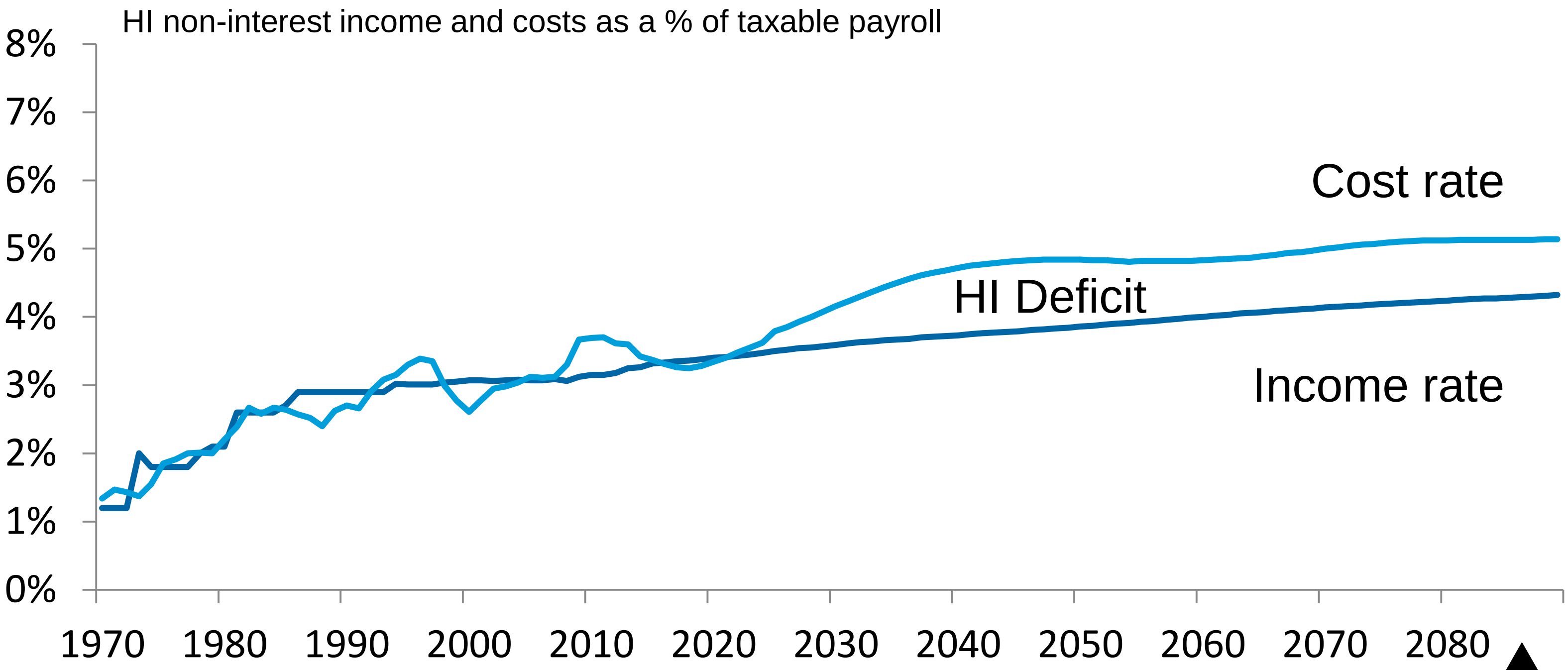
- Income to the HI trust fund is not adequate to fund the HI portion of Medicare benefits
- Increases in SMI costs put pressure on beneficiary household budgets and the federal budget
- A greater share of the economy will be devoted to Medicare over time

Medicare HI Trust Fund income falls short of the amount needed to fund HI benefits

- In mid-2020s and thereafter, HI expenditures are projected to exceed HI revenues
- HI trust fund depletion is projected by 2030
- HI revenues will cover 86% of expenditures in 2030
- HI deficit over the next 75 years = 0.68% of taxable payroll
- Eliminating 75-year deficit would require:
  - Immediate 23% increase in payroll taxes, or
  - Immediate 15% reduction in expenditures, or
  - Some combination

Source: 2015 Medicare Trustees Report

Long-term HI costs and income



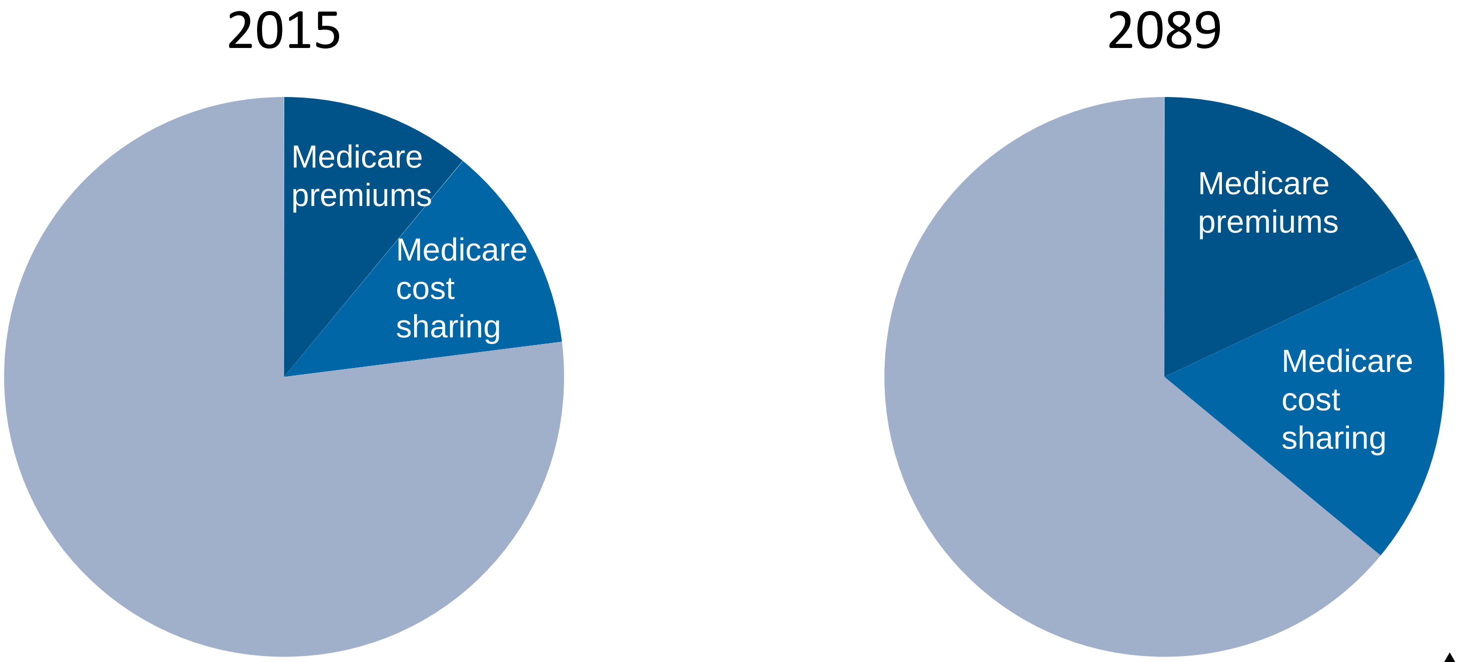
Source: 2015 Medicare Trustees Report

Increases in SMI costs put pressure on beneficiary budgets and the federal budget

- The SMI trust fund will remain solvent, but only because its financing is reset each year to meet projected future costs

- Projected increases in SMI expenditures will require significant increases in beneficiary premiums and general revenue contributions

Medicare premiums and cost sharing are increasing as a share of the average Social Security benefit



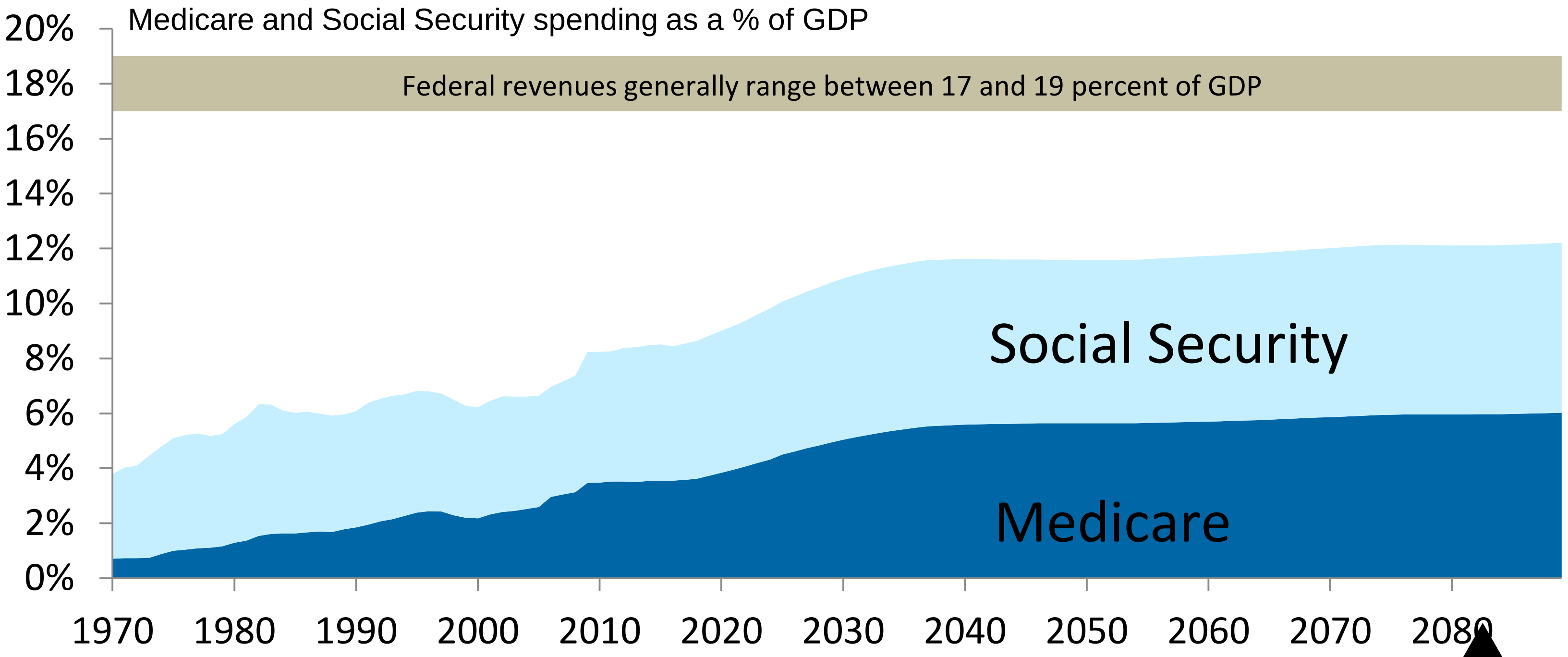
Source: 2015 Medicare Trustees Report

A greater share of the economy will be devoted to Medicare over time

- Because Medicare spending is expected to grow faster than GDP, a greater share of the economy will be devoted to Medicare over time

- A smaller share of the economy will be available for other priorities

Medicare and Social Security spending are rising as a share of GDP



Source: 2015 Medicare Trustees Report; 2015 Social Security Trustees Report

Policymakers should implement reforms to improve Medicare's financial outlook

- The ACA contains provisions designed to reduce costs, increase revenues, and develop new health care delivery systems and payment models that improve health care quality and cost efficiency
- Additional steps are needed to solve Medicare's financial challenges
- The sooner corrective measures are enacted, the more flexible the approach and the more gradual the implementation can be

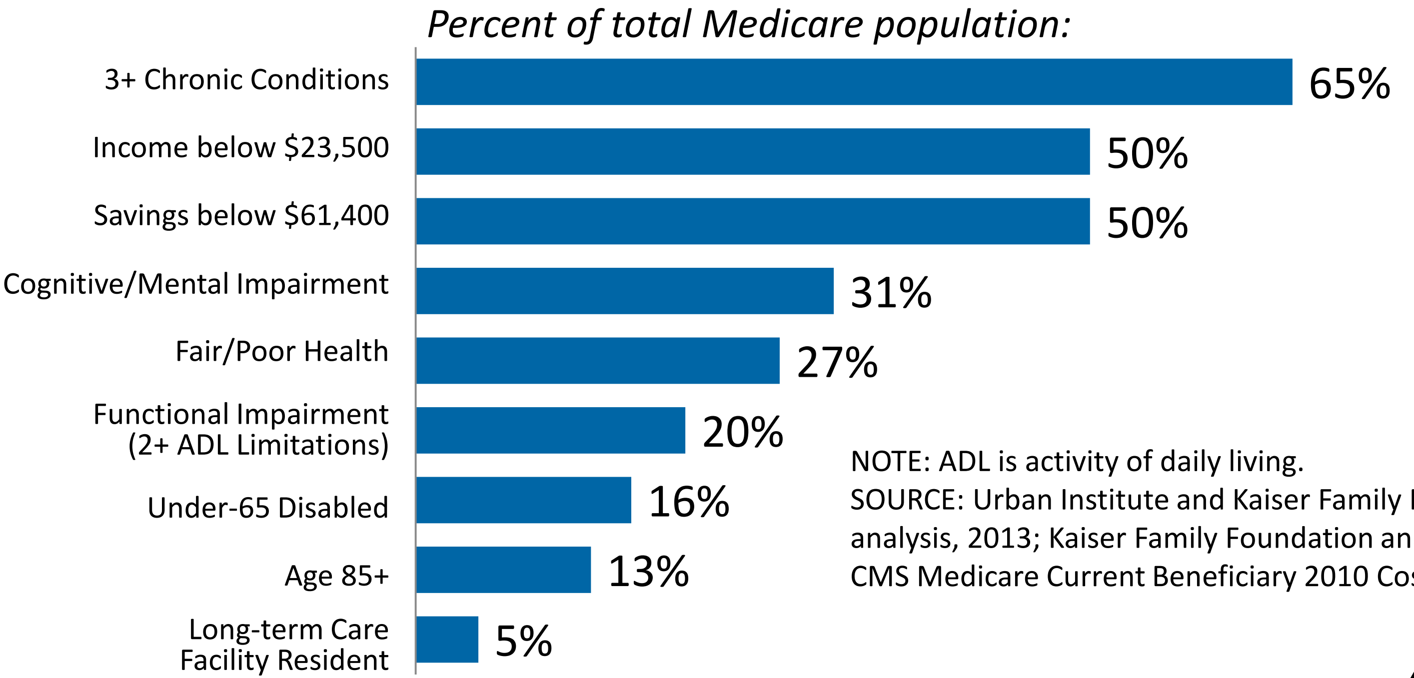
Considerations when evaluating options to improve Medicare's financial condition

- Impact on cost, access, and quality
- Potential options include payment and delivery system reforms that focus on rewarding high-value care
- Tough choices regarding benefit coverage, provider and plan payments, and taxpayer funding could be required

Medicare enrollees are diverse and have diverse needs

- When evaluating options to improve Medicare's financial condition, need to consider the impact on the broad range of Medicare beneficiaries, including particularly vulnerable subgroups:
  - Beneficiaries with special health care needs
  - Beneficiaries with limited financial resources
  - Dual eligible beneficiaries

Characteristics of the Medicare population



NOTE: ADL is activity of daily living.
SOURCE: Urban Institute and Kaiser Family Foundation analysis, 2013; Kaiser Family Foundation analysis of the CMS Medicare Current Beneficiary 2010 Cost and Use file.

Traditional Medicare benefit package

- Benefit value of Medicare is akin to an ACA gold tier plan (Source: Kaiser Family Foundation)
- Medicare benefit package limitations:
  - Cost-sharing structure is not coordinated between Medicare Parts A and B
  - Doesn't cap out-of-pocket costs
  - Doesn't cover long-term care, vision, dental, hearing
- Medicare Advantage plans can provide additional benefits, have flexibility on cost-sharing requirements, and must cap out-of-pocket costs

Medicare's sustainability challenges

- Medicare faces long-term financial solvency and sustainability challenges
- Certain beneficiary populations are at particular risk of high health care spending
- Benefit package may need updating to better reflect the needs of an aging population
- Policies should aim to ensure that Medicare beneficiaries have access to high-quality health care that is affordable both to them and to the nation as a whole

Questions?