Health Care and Federal Deficits and Debt

Bill Scanlon
for
George Mason - Osher Lifelong Learning Institute

November 6, 2013
“Despite the recent reductions in our projections of federal health care spending, growth in such spending remains the central challenge in putting the federal budget on a sustainable path.”

Douglas Elmendorf
Director, CBO
September 19, 2013
Federal Budget Components as Share of the Economy (GDP)
2000-2038

- Social Security
- Federal Spending on Major Health Care Programs
- Other Noninterest Spending
- Net Interest
Federal Spending as a Share of the Economy (GDP) 2013-2088

Percent

Social Security
Medicare
Medicaid, CHIP, Exchange Subsidies
Other
“...something is going to have to be done to control medical costs. They are the "tapeworm" of the American economy.”

----Warren Buffet
October 16, 2013
## Excess Growth in Health Care Spending

(Percentage Points above GDP Growth)

<table>
<thead>
<tr>
<th></th>
<th>Medicare</th>
<th>Medicaid</th>
<th>Private</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975 to 2011</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>1990 to 2011</td>
<td>1.3%</td>
<td>0.2%</td>
<td>1.3%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: CBO
### ACA Changes to Projected Medicare Spending

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Change</strong></td>
<td>$424 B</td>
</tr>
<tr>
<td>Reduce Price Increases for (Hospitals, Skilled Nursing Facilities, Home Health Agencies)</td>
<td>$146 B</td>
</tr>
<tr>
<td>Modify Medicare Advantage Plan Payments</td>
<td>$118 B</td>
</tr>
<tr>
<td>Reduce Medicare Payments to Compensate for Hospital’s Uninsured Caret</td>
<td>$25 B</td>
</tr>
<tr>
<td>Prescription Drug—Close Doughnut Hole</td>
<td>$18 B</td>
</tr>
<tr>
<td><strong>Lower Part B Premiums</strong></td>
<td>Not estimated</td>
</tr>
<tr>
<td><strong>Lower Cost Sharing</strong></td>
<td>Not estimated</td>
</tr>
</tbody>
</table>

**Nov. 6, 2013**

Bill Scanlon Health Care and Federal Deficits and Debt---- OLLI
CBO Budget Options to Reduce Excess Medicare Spending*
2015-2019

*Excess Spending is Growth More than GDP growth + 1 percent point
Projected Medicare Spending
Pre and Post PPACA
and with only Population Growth

Billions of $

2010
2019

Pre-PPACA
Post-PPACA
Pop. Only

October 25, 2010
Health Care Reform Week Two
OLLI
Growth in Per Beneficiary Medicare Spending

Source: CBO
Reasons for the Slowdown in Medicare Spending

- Lower Medicare Fees
- Younger, Healthier Beneficiaries
- More Part A Only Beneficiaries
- Lower Drug Use
- UNEXPLAINED

Source: CBO
Slowdown in Medicare Spending

Reasons for Optimism

• Slowdown is broad---across all service types

• Slowdown has persisted---more than 6 years

• Does not appear related to recession and hence may not fade during recovery

Doug Elmendorf, Director CBO
Slowdown in Medicare Spending
Reasons for Pessimism

• Health spending growth varies and prior slowdown have been followed by faster growth
• New technologies/discoveries continue to be made
• Medicare’s design has not changed significantly

Doug Elmendorf, Director CBO
Medicare has a almost 50 year history of per beneficiary spending growing faster than the economy (GDP per capita)

Note: Cumulative growth since 1970.
Source: Centers for Medicare & Medicaid Services, National Health Expenditures, 2012.
Medicare Financing Has to Change
Hospital Trust Fund Bankrupt in 2026

Source: Board of Trustees, 2012 Report of the Hospital Insurance and Supplementary Medical Insurance Trust Funds.
Options for a “GRAND BARGAIN”

• Increase eligibility age

• Restructure/increase cost sharing

• Restrict/tax supplementary coverage (Medi-gap)

• Shift to defined contribution from defined benefit (Premium Support)
Increasing Eligibility Age

• Increase to same as full Social Security eligibility (67) phased in 2 months per year for 10 years

• CBO estimated savings over 10 years
  • 2012 estimate $113.1 Billion
  • 2013 estimate $ 19.1 Billion
Life Expectancy at 65

Years

1960 1980 2000 2020 2040

Females
Males
Number of Working Age Persons Per Person 65 +

Source: Census Bureau
Where 65 and 66 Year Olds Would Get Insurance
Without Medicare

Current Medicaid Enrollees

New Medicaid Enrollees, 860,000

New Exchange Enrollees, 1,900,000
Assumes States expand Medicaid up to 138% Federal Poverty Level

Active Workers, 1,000,000

Retirees in Employer Plans, 1,100,000

Source: Actuarial Research Corporation
Change in Out-of-Pocket Spending for 65 and 66 Year Olds if Medicare Eligibility Age is 67

2014

Change in Out of Pocket Costs

Source, Kaiser Family Foundation, “Raising the Age of Medicare Eligibility” July 2011
Restructure/Increase Cost-Sharing

• Problems with current cost sharing
  – Very limited cost sharing for minor problems
  – High cost sharing for serious illnesses
  – No limit on out-of-pocket liability

• Options discussed
  – Combine Part A and Part B deductible at level above current Part B deductible
  – Uniform cost sharing on all services
  – Limit on out-of-pocket liability
Note: The amounts reflect Medicare beneficiaries’ liability but do not reflect what Medicare beneficiaries actually paid out of pocket because most beneficiaries have supplemental coverage that covers all or some of their Medicare cost sharing.

Restrict/Tax Supplementary Coverage

• Current Supplementary Coverage
  – The Good: Protection against catastrophic expense
  – The Bad: First dollar coverage increases use
  – Primarily an issue with individual Medi-Gap plans

• Proposals
  – Prohibit coverage of deductibles
  – Limit coverage of cost sharing beyond deductible e.g. 50 percent
  – Surcharge on Part B premium for persons with first dollar coverage plans
Sources of supplemental coverage among noninstitutionalized Medicare beneficiaries, 2009

Variation in Medicare Spending with Type of Supplemental Coverage

Average Medicare Spending
2009

<table>
<thead>
<tr>
<th>Coverage Type</th>
<th>Spending (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>$6,783</td>
</tr>
<tr>
<td>Employer</td>
<td>$8,530</td>
</tr>
<tr>
<td>Medi-Gap</td>
<td>$9,197</td>
</tr>
<tr>
<td>Medi-Gap &amp; Employer</td>
<td>$10,482</td>
</tr>
</tbody>
</table>

Source: Medicare Payment Advisory Commission
Defined Contribution Instead of Defined Benefit (Premium Support)

• Current Choice
  – Traditional Medicare—uniform national Part B premium
  – Medicare Advantage Plan—variable premiums by plan and location

• Premium Support
  – Medicare contribution to premium that will vary by plan and location
  – Beneficiary pays the difference between premium and contribution or receive a rebate of difference
Growth in Spending by Payer

Growth in Spending per Enrollee 2008-2011

*Sources: Health Care Cost Institute; Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group*
## Private Insurer Prices Compared to Medicare Fees

<table>
<thead>
<tr>
<th>City</th>
<th>Average Price as Percentage of Medicare</th>
<th>Maximum Price as Percentage of Medicare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cleveland</td>
<td>234%</td>
<td>357%</td>
</tr>
<tr>
<td>Indianapolis</td>
<td>307%</td>
<td>493%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>277%</td>
<td>559%</td>
</tr>
<tr>
<td>Milwaukee</td>
<td>267%</td>
<td>439%</td>
</tr>
<tr>
<td>Richmond</td>
<td>267%</td>
<td>495%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>366%</td>
<td>718%</td>
</tr>
<tr>
<td>Rural Wisconsin</td>
<td>240%</td>
<td>381%</td>
</tr>
</tbody>
</table>

Source: Center for Studying Health System Change, Research Brief No. 16.
Utilization: growth in the volume of physician services per beneficiary

Note: E&M (evaluation and management). Volume growth for E&M and all services is through 2000 only due to change in payment policy for consultations.
Source: MedPAC analysis of claims data for 100 percent of Medicare beneficiaries.
Questions?