Health Policy 201– Medicare

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What is Medicare?

• Largest US coverage program
  – 45.8 million Americans
  – 560,340 in Connecticut
• 75% fee for service, 25% in managed care plans
  – 15% managed care in CT
• Mainly seniors over age 65, people with disabilities
• All income levels, but 47% are below 200% FPL
• Run by federal government alone
• Single payer system
• Very popular, especially with beneficiaries
What is Medicare?

- Medicare is the reason that only 1.8% of seniors are uninsured, vs. 18.8% of Americans under age 65.
- Most people over age 65 are automatically eligible for Part A.
- Covers citizens and legal residents.
- No pre-existing condition exclusion, eligible regardless of medical history.
- Doesn’t cover dental, hearing or vision care.
- Limited care for inpatient and nursing home care.
Characteristics of the Medicare Population, 2007

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent of total Medicare population:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income less than 200% FPL</td>
<td>46%</td>
</tr>
<tr>
<td>3+ chronic conditions</td>
<td>44%</td>
</tr>
<tr>
<td>Cognitive/mental impairment</td>
<td>29%</td>
</tr>
<tr>
<td>Fair/poor health</td>
<td>29%</td>
</tr>
<tr>
<td>Less than high school education</td>
<td>26%</td>
</tr>
<tr>
<td>Under-65 disabled</td>
<td>17%</td>
</tr>
<tr>
<td>2+ ADL limitations</td>
<td>15%</td>
</tr>
<tr>
<td>Age 85+</td>
<td>12%</td>
</tr>
<tr>
<td>Long-term care facility resident</td>
<td>4%</td>
</tr>
</tbody>
</table>

NOTES: ADL is activity of daily living. The federal poverty (FPL) threshold for people age 65 and over was $10,210/individual and $13,690/couple in 2007.
## Parts of Medicare

<table>
<thead>
<tr>
<th>Parts</th>
<th>Covers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Part A</td>
<td>Inpatient hospital, skilled nursing facility, some home health, hospice</td>
</tr>
<tr>
<td>Medicare Part B</td>
<td>Physician services, tests, outpatient surgery, some home health, DME, one-time “Welcome to Medicare” physical</td>
</tr>
<tr>
<td>Medicare Part C</td>
<td>Medicare Advantage -- managed care plans</td>
</tr>
<tr>
<td>Medicare Part D</td>
<td>Prescription drug coverage</td>
</tr>
</tbody>
</table>
Medicare Part A

- No premiums
- $1,100 deductible
- Hospital coverage limited to 150 days, daily costs after 60 days
- Skilled nursing facility covered up to 100 days, daily costs after 20 days
Medicare Part B

- Voluntary, but automatic enrollment
- 95% of Part A beneficiaries enroll
- Premiums $100.50/month, more for higher incomes, deducted from Social Security check
- Premiums rise annually based on program costs
- $155 deductible
- 20% coinsurance
- Covers most outpatient care
- 89% of US beneficiaries have supplemental insurance to cover their costs
  - 34% through retirement benefits
  - 17% purchase themselves – Medigap plans
Supplemental Coverage Among Medicare Beneficiaries, by Income, 2007

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Employer-sponsored</th>
<th>Medicare Advantage</th>
<th>Self-purchased only</th>
<th>Medicaid</th>
<th>Other public/private</th>
<th>None - Medicare fee-for-service only</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000 or less (N=6.1 mil)</td>
<td>7%</td>
<td>18%</td>
<td>26%</td>
<td>7%</td>
<td>21%</td>
<td>12%</td>
</tr>
<tr>
<td>$10,001-$20,000 (N=9.1 mil)</td>
<td>22%</td>
<td>18%</td>
<td>24%</td>
<td>18%</td>
<td>41%</td>
<td>16%</td>
</tr>
<tr>
<td>$20,001-$30,000 (N=6.6 mil)</td>
<td>7%</td>
<td>18%</td>
<td>20%</td>
<td>21%</td>
<td>20%</td>
<td>11%</td>
</tr>
<tr>
<td>$30,001-$40,000 (N=6.3 mil)</td>
<td>51%</td>
<td>41%</td>
<td>20%</td>
<td>19%</td>
<td>20%</td>
<td>8%</td>
</tr>
<tr>
<td>$40,001 or more (N=6.7 mil)</td>
<td>56%</td>
<td>52%</td>
<td>19%</td>
<td>19%</td>
<td>19%</td>
<td>5%</td>
</tr>
</tbody>
</table>

NOTES: Percents rounded to the nearest whole number. N=weighted estimate of number of beneficiaries; mil=million.
Medicare Part C

- Medicare Advantage - managed care plans
- Voluntary, can switch back to fee for service annually
- 25% of beneficiaries US, 18% in CT
- Very controversial
- Offer lower cost sharing, lower premiums and/or extra benefits, most include prescription drug coverage
- Eligible for Part C if eligible for Parts A and B
- Have enrolled healthier members
- Actuaries report plans are paid 14% more than those members would have cost in fee for service
- Lowering rate of increase to Medicare Advantage plans is funding 14% of national health reform costs
Medicare Advantage Payments Relative to Traditional Fee-for-Service Medicare, 2009

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

- Prescription coverage
- Available to anyone eligible for Parts A and B
- Voluntary
- Added in 2006
- Through private plans, 34 choices in CT
- Premiums vary by plan and across the country
  - From $8.80/month in OR, WA to $120.20 in DE, MD, and DC
- Standard benefit
  - $310 deductible
  - $40.59 monthly premium CT average
- Seniors still paying premiums while in donut hole
- $250 refund this year for donut hole, phases out by 2020
Standard Medicare Prescription Drug Benefit, 2010

- **Deductible**: $310
- **Initial coverage limit**: $2,830 in total drug costs ($940 out-of-pocket)
- **Coverage gap**: $3,610
- **Catastrophic coverage limit**: $6,440 in total drug costs ($4,550 out-of-pocket)

**Beneficiaries with spending in the doughnut hole get $250 rebate in 2010**

- **Enrollee pays 5%**
- **15% paid by plan; 80% paid by Medicare**
- **75% paid by plan**
- **100% paid by enrollee**

*SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit in 2020 under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.*
Medicare Part D Enrollees Who Reached the Coverage Gap in 2007

Excludes Part D Enrollees Who Receive Low-Income Subsidies and Non-Users

- Did not reach the coverage gap: 74%
- Reached the coverage gap: 26%

NOTES: Estimates based on analysis of retail pharmacy claims for 1.9 million Part D enrollees in 2007.
Access to care

• Pretty good
• Pays 20% of all US health care bills (2008)
  • 29% of all hospital bills
  • Pays 21% of all physician bills
  • Pays 41% of all home health care bills
  • Pays 19% of nursing home care
  • Pays for 21% of prescriptions
• As likely as privately insured to find a primary care physician or specialist
• 97% of physicians accept new Medicare patients (2006)
Financing

- Part A funded by 2.9% payroll tax, split equally between workers and employers
- Parts B and D funded by premiums, regular taxes
- Concerns about long term viability
- ACA helped – now has until 2029
  - Out from 2017 before national reform
- Concern about ratio of workers to beneficiaries as baby boomers age
- Spending per person is not even
- But rates of increase similar to private insurance
Medicare Beneficiaries and The Number of Workers Per Beneficiary

Distribution of Total Medicare Beneficiaries and Spending, 2005

Total Number of Beneficiaries, 2005: 37.5 million
Total Medicare Spending, 2005: $265 billion

- 90% of beneficiaries receive 37% of spending
- 10% of beneficiaries receive 63% of spending

Average per capita Medicare spending among bottom 90%: $2,934
Average per capita Medicare spending among top 10%: $44,220

NOTE: Analysis excludes Medicare Advantage enrollees.
Per Enrollee Growth in Medicare Spending and Private Health Insurance Premiums (for Common Benefits), 1970-2008

Notes: Per enrollee includes primary policy-holder plus dependents. Common benefits include hospital services, physician and clinical services, other professional services, and durable medical products; they exclude, for example, prescription drugs, home health care, non-durable medical products, and nursing home care.

How providers are paid

- Hospitals paid now bundled rate by diagnosis and procedure
- In 1997, physician rates tied to GDP
  - Congress has postponed enactment every year
  - Now would require 21% drop in rates
  - Seen as massive failure of policy due to politics
- Physicians claim that Medicare only covers 80% of costs, but most of those costs are their salaries
  - If physicians were all paid at current Medicare rates, avg salary would be $240,000 vs. $273,000 now
- National health reform assumes $200 billion in savings from lowering rate of increase to providers
Chart 4.6: Aggregate Hospital Payment-to-cost Ratios for Private Payers, Medicare, and Medicaid, 1988 – 2008

Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2008, for community hospitals.

(1) Includes Medicaid Disproportionate Share payments.