Medicare Essential:
Medicare Reform for the 21st Century

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Current Medicare Core Benefit – Fragmented and Complex

- Beneficiaries buy 3 policies - Medicare, Medigap, Part D; complex, confusing, opportunities for risk selection
- High administrative costs
- Barrier to more integrated design with incentives to seek high-value care, primary care teams and accountable care networks
- Rationale for reform:
  - Savings opportunities for beneficiaries and payers while continuing to ensure access and financial protection for beneficiaries
  - Medicare can be a major force for payment and delivery system reform to improve outcomes, quality, and lower costs
  - Improve return on investment in health care, while freeing up resources for other societal priorities
Medicare Essential:  
A New Option to Enhance Value

1. Single plan with comprehensive benefits, one premium, and lower administrative costs (replaces Part A, Part B, Part D, and supplemental coverage); default option beginning in 2014; Medicare Advantage and traditional Medicare continue; Medi-Gap minimum $250 deductible

2. Comprehensive benefits with reduced and rationalized cost-sharing; single deductible ($250) for hospital, physician, and other A/B services; $20/$40/$50 copayment for primary care, specialty care, ED use; limit on patient costs ($3400)

3. Single Rx formulary and pharmaceutical benefits manager negotiating drug prices; lower cost-sharing for generic and essential medications

4. Provider payment reform – blended/bundled/global provider payment options with value based-purchasing, shared savings

5. Reduced beneficiary cost-sharing for selecting high-value patient-centered medical homes and health systems.

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### Estimated Total Monthly Out-of-Pocket Costs for a Typical Medicare Beneficiary with Medicare Essential (Using Standard Providers and Using High-Value Providers), Compared with Traditional Medicare with Medigap and Part D, 2014

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<tbody>
<tr>
<td>Out-of-Pocket Costs for Medicare Covered Services:</td>
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<tr>
<td>--Medical Care (Parts A and B)</td>
<td>$0</td>
<td>$80</td>
<td>$80</td>
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<tr>
<td>--Prescription Drug (Part D)</td>
<td>$48</td>
<td>$36</td>
<td>-$12</td>
<td>$8</td>
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<td>Premiums:</td>
<td></td>
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<td>--Part B</td>
<td>$127</td>
<td>$127</td>
<td>$0</td>
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<tr>
<td>--Part D</td>
<td>$35</td>
<td>$0</td>
<td>-$35</td>
<td>$0</td>
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<tr>
<td>--Medigap Plan F</td>
<td>$217</td>
<td>$0</td>
<td>-$217</td>
<td>$0</td>
<td>-$217</td>
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<tr>
<td>--Medicare Essential</td>
<td>$0</td>
<td>$111</td>
<td>$111</td>
<td>$79</td>
<td>$79</td>
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Notes: Estimates reflect full implementation of Medicare Essential in 2014. 
Source: Estimates provided by Actuarial Research Corporation based on ARC Medicare micro-model.
Changes In Health Expenditures with Medicare Essential Compared To Projected Spending, By Payer Source, $ Billions

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<tr>
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<th>2014-2018</th>
<th>2014-2023</th>
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<tr>
<td>National Health Expenditures</td>
<td>-$12.9</td>
<td>-$179.9</td>
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<td>Federal Government</td>
<td>32.6</td>
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<tr>
<td>State and Local Government</td>
<td>-8.1</td>
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<tr>
<td>Private Employers</td>
<td>-27.1</td>
<td>-89.9</td>
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<tr>
<td>Households/Beneficiaries</td>
<td>-10.3</td>
<td>-63.1</td>
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Notes: Projected spending under current law assumes replacement of sustainable growth rate formula with freeze of Medicare physician fees throughout the ten-year period. Assumes increased participation in Medicare Essential over time compared to traditional Medicare, with 90% of those in Medicare core program selecting the option by the end of the decade. Share of Medicare Advantage enrollment is assumed unchanged.

Source: Estimates provided to authors by Actuarial Research Corporation based on ARC Medicare micro-model.

Conclusion and Discussion

- Potential to simplify and lower costs for beneficiaries
- Lower administrative costs and complexity
- Better financial protection for beneficiaries
- Creates incentives for beneficiaries to choose lower-cost, higher quality care
  - Supports spread of care system innovation
- Potential to reduce retiree-benefit costs for employers
- New choice to compete on level playing field with Medicare Advantage plans
- Inefficient Medigap plans likely to decline overtime
Thank you!

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