

Medicare: The Basics

**Presented by
Tricia Neuman, Sc.D.
Vice President, Kaiser Family Foundation
Director, Medicare Policy Project**

for

Alliance for Health Reform

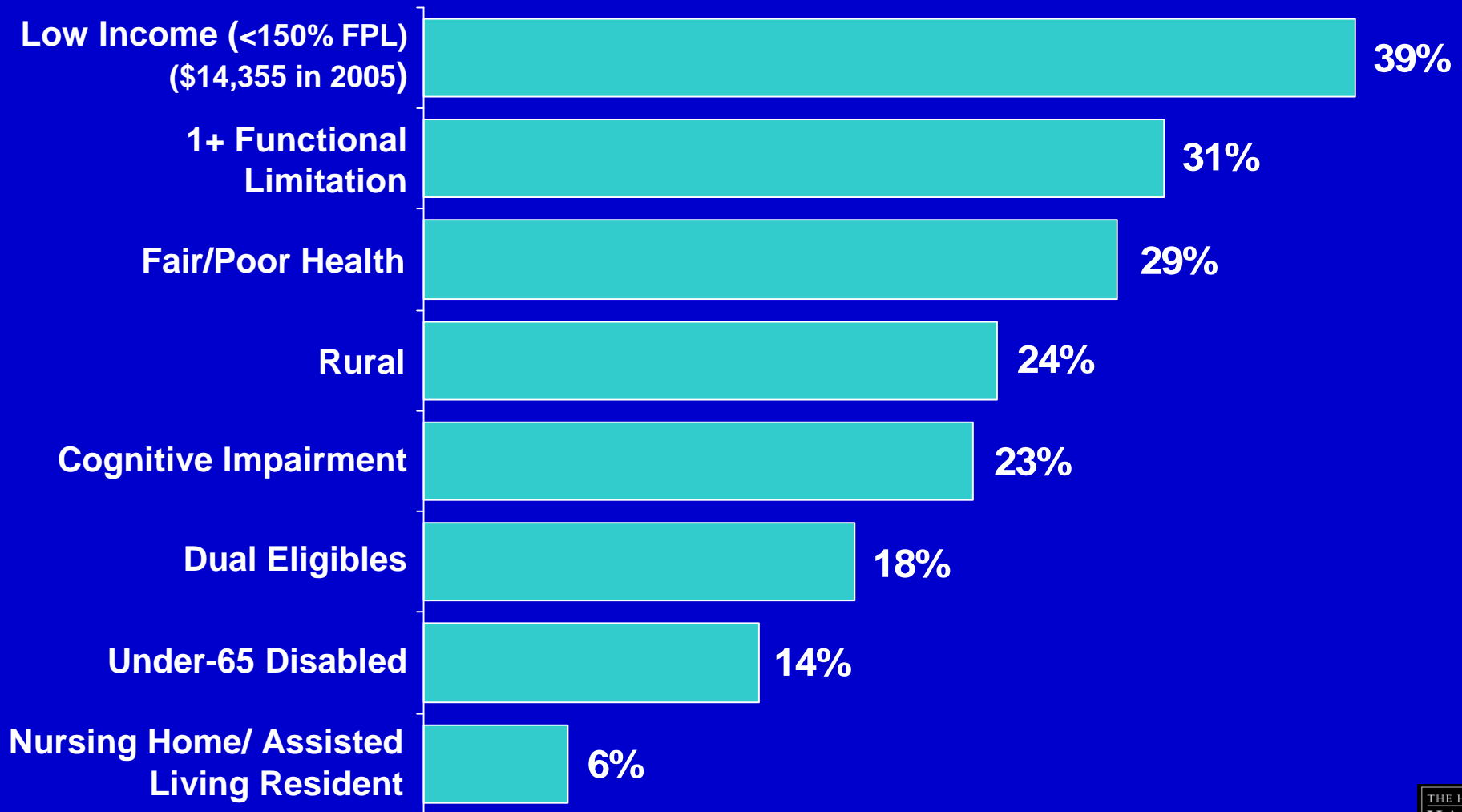
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Medicare Overview

- **Enacted in 1965 to provide health and economic security to seniors**
 - People under age 65 with disabilities and end stage renal disease added in 1972
- **Covers almost 42 million people**
 - 35.4 million people 65+; 6.3 million < 65 with permanent disabilities
- **Program now has Parts A,B,C**
 - Beginning in 2006, a new Part D for outpatient prescription drugs
- **Majority of beneficiaries in “traditional” fee-for-service Medicare**
 - 13% in Medicare HMOs and other Medicare Advantage plans
- **\$325 billion in 2005; 13% of federal budget**
 - Average growth in Medicare spending per person has been slightly lower (9%) than growth in private health insurance spending (10.1%) since 1970
- **Medicare enjoys broad public support and high satisfaction levels among seniors**

Characteristics of the Medicare Population

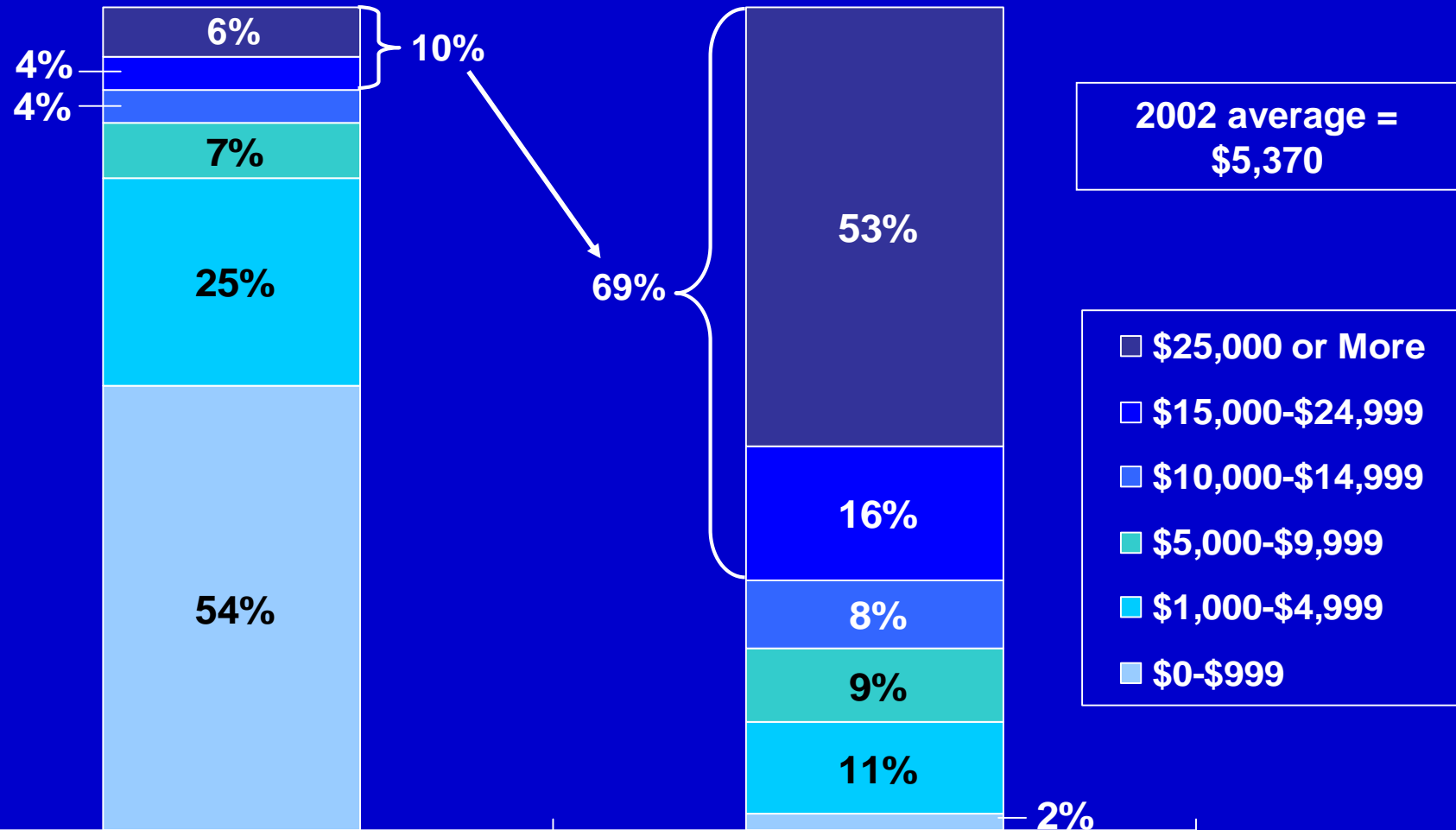
Percent of total Medicare population:



Note: Income excludes beneficiaries enrolled in Part A only.

SOURCE: Medicare Current Beneficiary Survey, 1997-2002; Low-income estimate from CBO, July 2004.

Distribution of Medicare Beneficiaries and Per Capita Expenditures, 2002

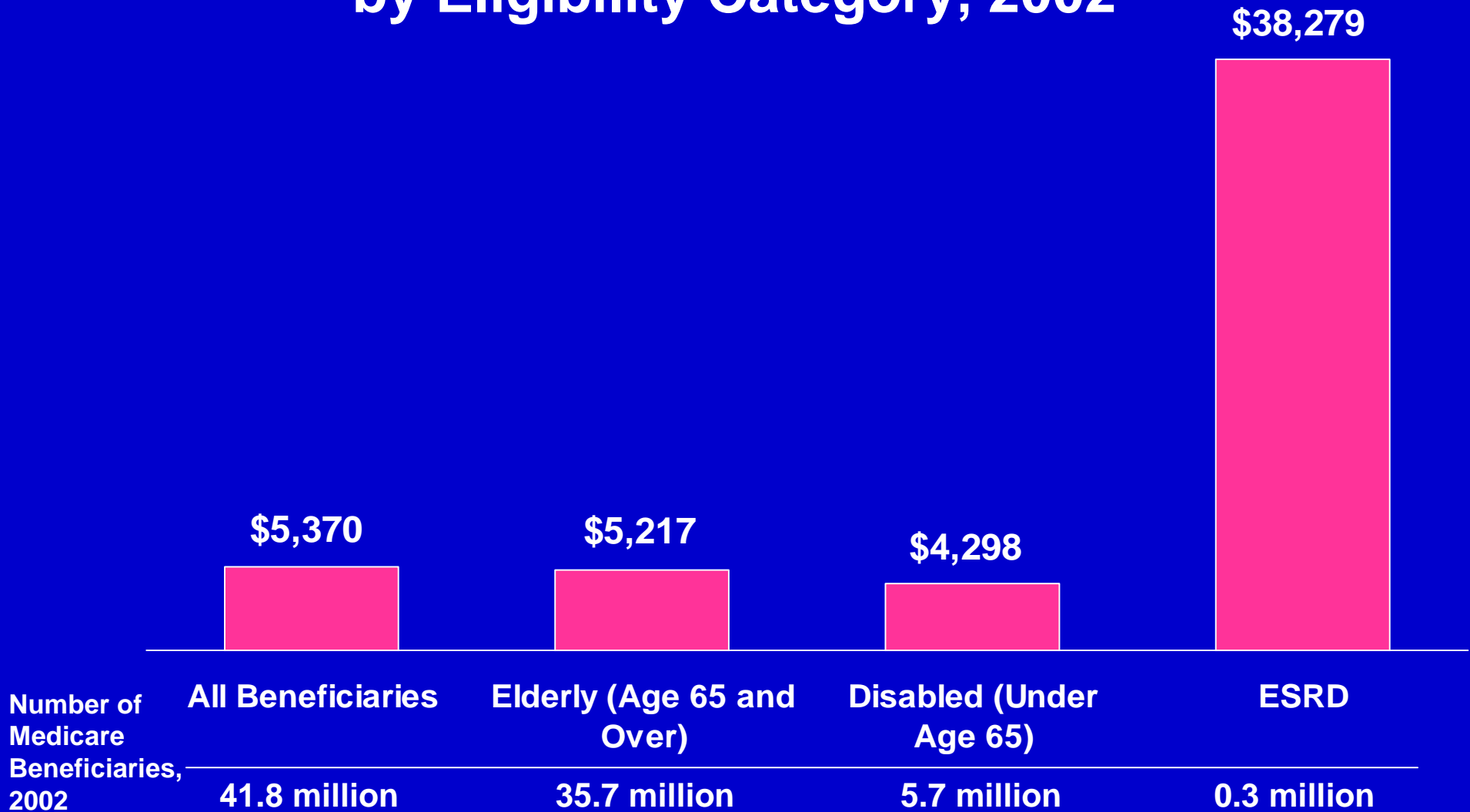


Total Number of Beneficiaries:
41.8 million

Total Medicare Spending:
\$224.5 billion

SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Medicare Spending Per Beneficiary, by Eligibility Category, 2002



SOURCE: Kaiser Family Foundation Analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

What is Part A?

- **Hospital Insurance program helps pay for:**
 - Inpatient hospital care
 - Skilled nursing facility care
 - Hospice care
 - Limited home health services (up to 100 days post-hospital)
- **Part A services are subject to cost-sharing requirements**
 - \$912 deductible per spell of illness
 - \$228/day for days 61-90; \$456/day for days 91-150 in the hospital
 - \$114/day for days 21-100 in a skilled nursing facility
 - No home health copayment
- **Part A is funded primarily by a dedicated tax of 2.9% of earnings paid by employers and employees (1.45% each)**
 - Dedicated trust fund
- **Individuals are entitled to Part A if they or their spouse have contributed payroll taxes for 10 years or more**

What is Part B?

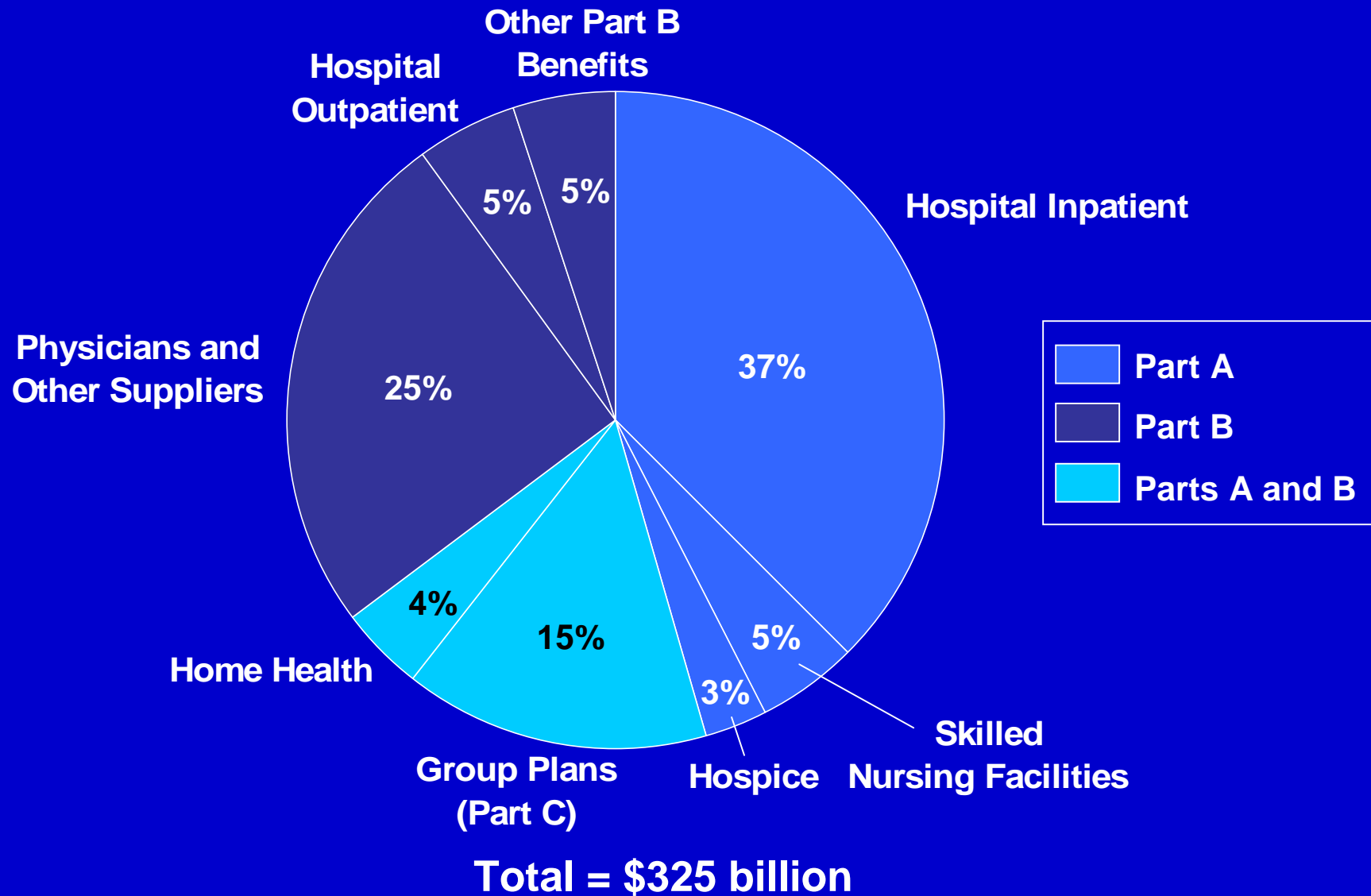
- **Supplementary Medical Insurance program helps pay for:**
 - Physician services
 - Outpatient hospital care
 - X-rays, diagnostic tests, durable medical equipment
 - Preventive services, such as mammography screening
 - Home health visits (exceeding 100 visits per spell of illness)
 - Mental health services
- **Part B services are subject to cost-sharing requirements**
 - \$110 deductible (indexed beginning in 2006)
 - 20% coinsurance for physician services
 - 50% coinsurance for mental health services
 - No home health copayment
- **Part B is funded by general revenues and beneficiary premiums**
 - \$78.20 month in 2005; \$87.70 expected in 2006
 - New income-related premium to begin in 2007
- **Individuals receiving Social Security at age 65 automatically get Part B**
 - Unless they opt out

What is Part C?

- **Part C refers to Medicare Advantage plans, such as HMOs, PPOs, private fee-for-service plans, and medical savings accounts coupled with high deductible insurance plans**
 - Previously known as Medicare+Choice program
- **Medicare Advantage plans provide Part A and Part B benefits**
 - Beginning in 2006, will offer Part D prescription drug benefits
- **Medicare pays plans a capitated rate to provide Part A and B benefits for each enrollee**
 - Unlike Parts A and B, Part C is not separately financed
- **Enrollment in Medicare managed care has waxed and waned over time**
 - 5.6 million Medicare Advantage enrollees today – about 13 percent – most of whom are in Medicare HMOs
 - Enrollment projections vary: By 2013, CBO projects 16%; HHS projects 30%

Exhibit 8

Medicare Benefit Payments by Type of Service, 2005

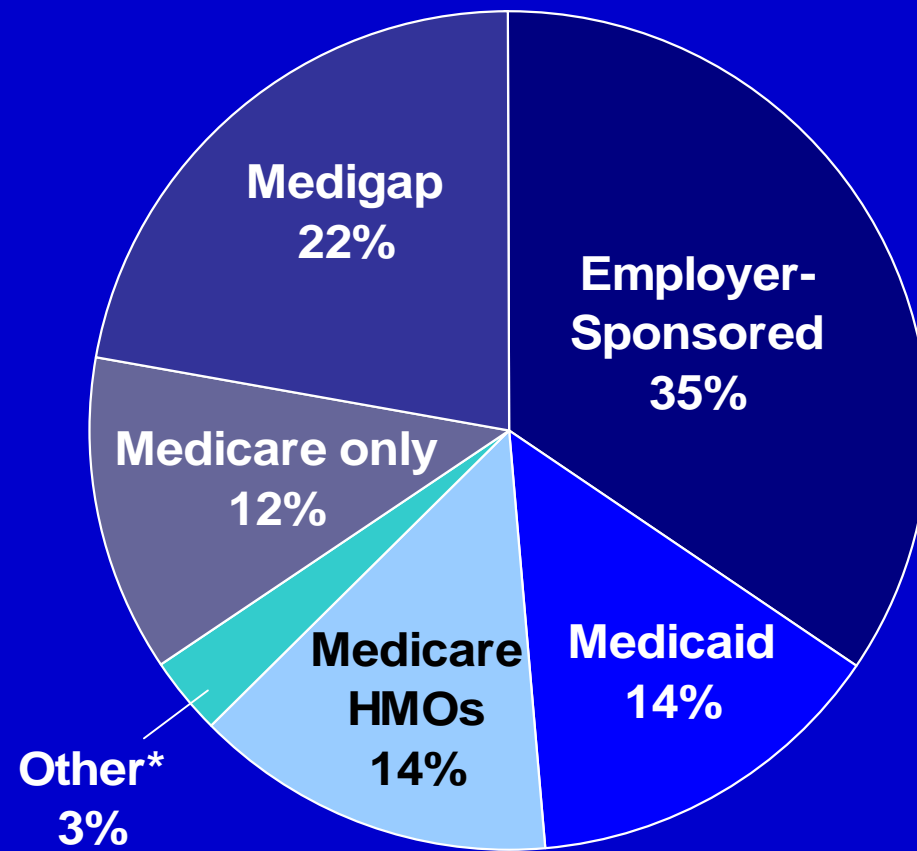


Note: Does not include administrative expenses such as spending for implementation of the Medicare drug benefit and the Medicare Advantage program. Excludes low-income subsidy payments and items not assigned to particular services.
SOURCE: Congressional Budget Office, Medicare Baseline, March 2005.

Gaps in Medicare Coverage

- **Benefit Gaps**
 - No outpatient drug benefit (until 2006)
 - Limited long-term care
 - No hearing aids, eyeglasses, or dental care
 - High cost-sharing requirements for covered services
- Medicare pays for 45% of total health and long-term care spending
 - Beneficiaries pay 19% of total per beneficiary costs
- Nearly 9 in 10 rely on supplemental insurance to fill gaps
- Seniors spend, on average, 22% of income for health

Sources of Supplemental Coverage Among Medicare Beneficiaries, 2002



Total = 41.8 Million Medicare Beneficiaries

* Other includes those receiving coverage from other public programs such as the VA and DoD and those with unknown sources of private coverage.

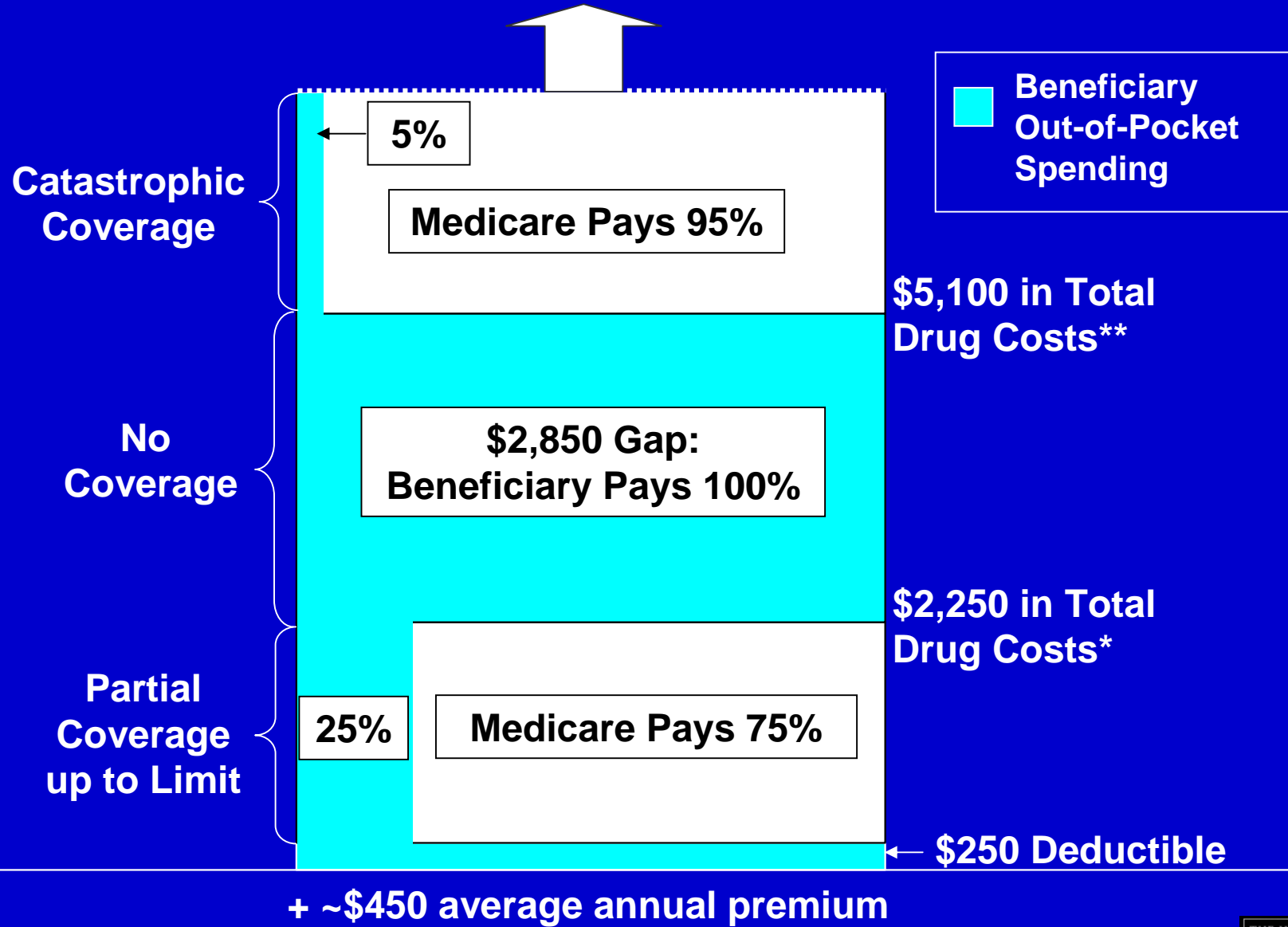
SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey, 2002 Cost and Use File.

Part D: Medicare Drug Benefit

Overview of Medicare Drug Benefit

- **2004 and 2005: Discount card and \$600 subsidy (ends Dec. 2005)**
- **Beginning in 2006, beneficiaries have choice of:**
 - **Fee-for-service Medicare with access to private drug-only plans (PDPs)**
 - **Medicare HMOs and PPOs for basic benefits and prescription drugs (now called Medicare Advantage plans)**
- **New Medicare drug plans provide “standard” prescription drug benefit or actuarial equivalent**
 - **Plans have flexibility to determine which drugs are covered and cost-sharing requirements, subject to constraints**
- **Additional premium and cost-sharing assistance for those with incomes below 150% poverty (~ \$14,355) and modest assets (<\$10,000)**
 - **Medicaid drug coverage for 6.3 million Medicare beneficiaries ends December 31, 2005; auto-assigned to Medicare Rx plan**

Standard Medicare Part D Drug Benefit, 2006



*\$2,250 in total spending is equivalent to \$750 in out-of-pocket spending.

**\$5,100 in total spending is equivalent to \$3,600 in out-of-pocket spending.

SOURCE: Kaiser Family Foundation analysis of *Medicare Prescription Drug, Improvement, and Modernization Act of 2003*.

Decisions for Medicare Beneficiaries



Do Not Enroll in Part D Plan

Enroll in Part D Plan

No Prescription Drug Coverage (penalty for late enrollment)

“Creditable” Employer Plan (no low-income subsidies)

Medigap Coverage (but not “creditable” = penalty for late enrollment)

Apply for Low-Income Subsidy

If Dual Eligible Auto-enrolled

Social Security

Medicaid

If meet income and asset test, qualify for subsidy:

Below 100% FPL (\$9,570 in 2005)

Below 135% FPL (\$12,920 in 2005)
Assets \$6,000/single; \$9,000/couple

Below 150% FPL (\$14,355 in 2005)
Assets \$10,000/single; \$20,000/couple

Medicare Advantage

- HMO
- PPO (regional)
- Private Fee-for-Service

Traditional Medicare

- Prescription Drug-Only Plan (PDP)

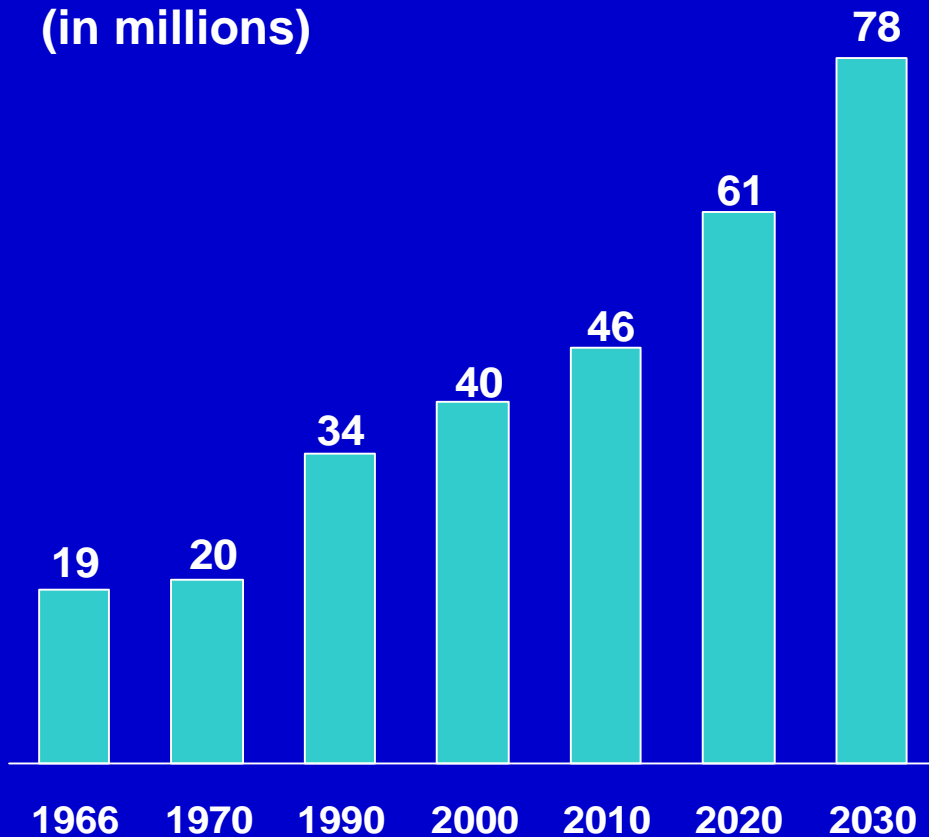
Decisions to be Made:

- Premiums
- Covered Drugs
- Cost-Sharing

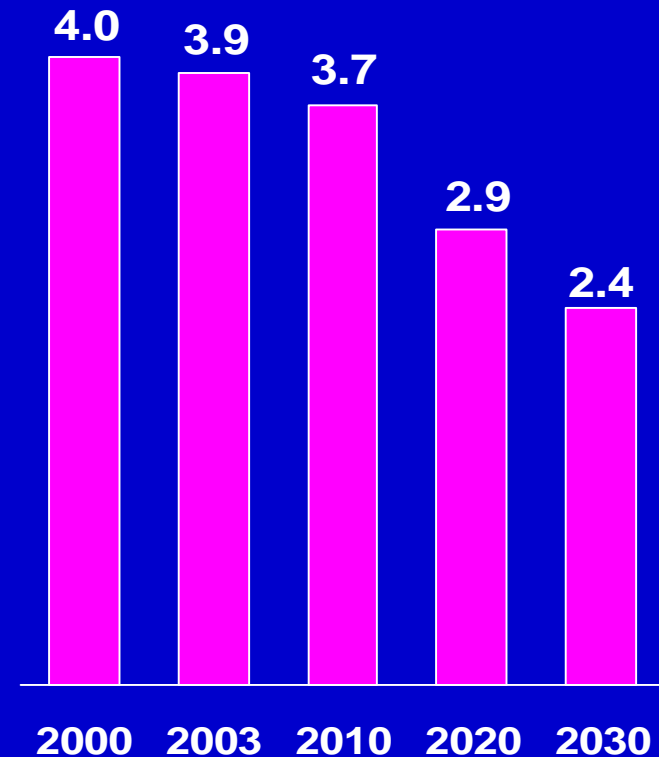
Future Challenges

Historical and Projected Number of Medicare Beneficiaries and Number of Workers Per Beneficiary

Number of beneficiaries
(in millions)



Number of workers
per beneficiary



SOURCE: 2001 and 2005 Annual Reports of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

Major Policy Challenges Facing Medicare

- **Implementing the new Medicare prescription drug benefit by 2006 and sustaining it over time**
- **Strengthening protections for low-income, chronically ill, and otherwise vulnerable beneficiaries**
- **Setting fair payments while serving as a fair and reliable business partner for health plans and providers**
- **Securing Medicare financing for future generations**
 - **While keeping health care affordable for seniors and beneficiaries with disabilities who rely on the program**