BIPARTISAN POLICY CENTER

Health Cost Containment Initiative – Medicare Benefit Modernization Proposals

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- **The Challenge:**
  - The Medicare benefit package is out-of-date and fails to provide adequate protections for enrolled seniors and people with disabilities. Largely for this reason, roughly 90 percent of Medicare beneficiaries have some source of supplemental insurance to fill in coverage gaps. At the same time, assistance for low-income beneficiaries is inadequate.
- **BPC Proposal – Beginning in 2016:**
  - Improve, simplify, and modernize the basic traditional Medicare benefit package, providing predictable cost-sharing for beneficiaries.
  - Reform supplemental coverage to minimize cost-shifting from private plans to Medicare and to reduce beneficiary premiums.
  - Increase and improve support for low-income Medicare beneficiaries.
  - Reduce subsidies to higher-income Medicare beneficiaries.

- **Today's Medicare Cost-sharing**
  - Part A (Hospitalization) Deductible: $1,184 per benefit period (may apply multiple times per year).
  - Hospitalization Beneficiary Cost-sharing:
    - Days 1-60: none beyond the deductible
    - Days 61-90: $296 per day
    - Days 91+: $592 per day for up to 60 "lifetime reserve days"
    - After lifetime reserve days are used up: All costs
  - Skilled Nursing Cost-sharing:
    - Days 1-20: $0
    - Days 21-100: $148 per day
    - Days 101+: All costs
  - Part B (Medical) Deductible: $147 per year
    - Physician visits are subject to the deductible
  - Part B Cost-sharing: Usually 20% coinsurance; preventive services and annual wellness visit have no cost-sharing.
  - **No Cost-sharing Limit** – Beneficiaries have **unlimited** potential cost-sharing liability.

- **Revise outdated system of deductibles and coinsurance to strengthen Medicare benefit:**
  - Provide financial protection from the costs of a catastrophic illness by capping the medical and hospital cost-sharing beneficiaries can be required to pay in a given year at $5,300.
  - Replace the current complicated array of deductibles and coinsurance rates with a single $500 deductible and a simplified, more rational copay schedule. Examples:
    - $20 copayment to see a primary care physician, $40 to visit a specialist.
    - $750 per hospital admission.
    - $80 per day for skilled nursing
  - Deductible **does not apply** to physician office visits.
  - Maintain preventive services with no beneficiary cost-sharing.
  - Reduce the need for supplemental coverage, allowing many beneficiaries to save money.
  - Leave aggregate beneficiary cost-sharing amount unchanged program-wide.

EXAMPLES OF BENEFICIARY COST-SHARING: TODAY VS. PROPOSED REFORM

Scenario	A beneficiary visits her doctor about headaches. She has not met her deductible.	A beneficiary develops a condition that requires long stays in a hospital and a skilled nursing facility.	A beneficiary sees a doctor and receives an MRI for lower back pain. He has not met his deductible.
Cost today	$73	$17,464	$210
Explanation of today's cost	Beneficiaries currently pay the entire cost of an office visit before meeting the Part B deductible.	Medicare currently has very high cost-sharing for long hospital and skilled nursing stays. There is also no out-of-pocket maximum.	After meeting the Part B deductible, beneficiaries currently pay coinsurance for advanced imaging.
Cost after Reform	$20	$4,750	$407
Explanation of post-BPC reform cost	Office visits would be a flat $20 copay, even if the deductible is not yet met.	Per-day hospital copayments for long stays would be replaced with one copay per admission. Additionally, the skilled nursing copay would be lower.	Because the new combined deductible would be higher than the old Part B deductible, a beneficiary who has not met the deductible would pay more of the cost for advanced imaging.

RESTRICT 1ST-DOLLAR SUPPLEMENTAL COVERAGE TO MINIMIZE COST-SHIFTING

- **Revise Medicare supplemental coverage to address incentives for over-utilization of services, while increasing assistance for low-income beneficiaries.**
- **Prohibits all supplemental plans (Medigap and employer plans, including TRICARE For Life and FEHB) from covering first-dollar beneficiary cost-sharing.**
- **Beginning in 2016, all supplemental coverage would:**
  - Include a deductible of at least $250;
  - Include an out-of-pocket maximum no lower than $2,500 (out of the beneficiary's pocket); and
  - Cover no more than half of beneficiary copayments and coinsurance (once the deductible is met and before the out-of-pocket maximum is reached).
- **The National Association of Insurance Commissioners would be asked to develop new, standard Medigap plans that meet these requirements.**

INCREASE AND IMPROVE SUPPORT FOR LOW-INCOME MEDICARE BENEFICIARIES

- **Today: Help with cost-sharing is currently available for Medicare beneficiaries <100% FPL, but not for those with incomes just above the poverty level.**
- **BPC Proposal: Add automatic cost-sharing assistance (federally-funded, federally-administered to beneficiaries with incomes up to 150% of the federal poverty level (FPL)):**

	New Cost-Sharing Assistance	Average Beneficiary Savings from Full BPC Plan
100-135% of FPL	50% of cost-sharing	**$1,250 per year**
135-150% of FPL	25% of cost-sharing	

- **Would benefit over 8 million low-income seniors and people with disabilities starting in 2016.**

REDUCE PREMIUM SUBSIDIES TO HIGHER-INCOME MEDICARE BENEFICIARIES

- **Unlike Medicare Part A, which is funded through payroll taxes, Parts B and D of Medicare are funded through a combination of general tax revenues and beneficiary premiums.**
- **Beginning in 2016, establish lower federal subsidies to high-income Medicare beneficiaries (affects 17 percent of beneficiaries):**

CURRENT LAW THRESHOLDS			PROPOSED THRESHOLDS		
Single	Couple	Premium	Single	Couple	Premium
<$85,000	<$170,000	25%	<$60,000	<$90,000	25%
$85,001-$107,000	$170,001-$214,000	35%	$60,001-$82,000	$90,001-$123,000	35%
$107,001-$160,000	$214,001-$320,000	50%	$82,001-$135,000	$123,001-$202,500	50%
$160,001-$214,000	$320,001-$428,000	65%	$135,001-$189,000	$202,501-$283,500	65%
>$214,000	>$428,000	80%	>$189,000	>$283,500	80%

Note: New thresholds take effect in 2016 and would be updated for inflation beginning in 2019.