



Medicare: The Basics

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Exhibit 1

Medicare Today

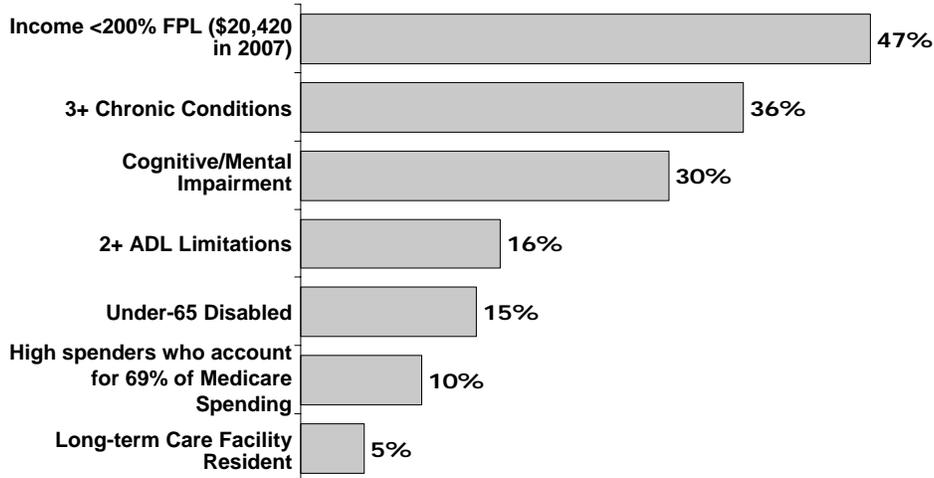
- Enacted in 1965 to provide health and economic security to seniors
 - Expanded in 1972 to cover younger adults with disabilities and people with end stage renal disease
 - Medicare covers individuals without regard to income or medical history
- Today, 44 million people on Medicare
 - 37 million seniors
 - 7 million under age-65 with disabilities
- Has four parts: A,B,C, and D
 - Part A – Hospital and skilled nursing care
 - Part B – Physician and outpatient hospital care
 - Part C – HMOs/Medicare Advantage
 - Part D – Outpatient prescription drug coverage
- Benefit gaps and relatively high cost-sharing requirements
 - Does not cover long-term care, dental, eyeglasses, hearing aids
 - No limit on beneficiaries' out-of-pocket spending
- 13% of federal budget



Exhibit 2

Medicare Covers a Population with Diverse Needs and Significant Vulnerabilities

Percent of total Medicare population:

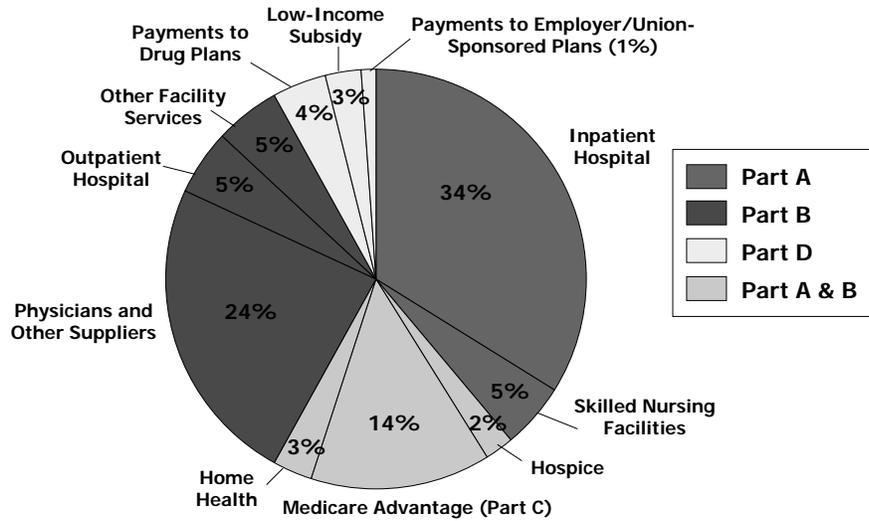


Note: ADL is activity of daily living. SOURCE: Income data from 2005, U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement. All other data are from the Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2003 Cost and Use file.



Exhibit 3

Medicare Benefit Payments by Type of Service, 2006



Total Benefit Payments = \$374 Billion

SOURCE: Congressional Budget Office, Medicare Baseline, March 2006.



The A, B, C's of Medicare

Part A – Hospital Insurance Program (43 million)

- Helps pay for inpatient hospital care, skilled nursing facility care, home health services, and hospice care
- Funded by a dedicated tax of 2.9% of earnings paid by employers and employees (1.45% each)

Part B – Supplemental Medical Insurance (41 million)

- Helps pay for physician services, outpatient hospital care, preventive services, home health visits
- Funded by general revenues, beneficiary premiums and new income-related Part B premium

Part C –“Medicare Advantage” plans (8 million)

- Private plans that receive payments from Medicare to provide Medicare benefits to enrollees, such as HMOs, PPOs, Private Fee-for-Service, and Medicare MSAs
- Not separately financed

Part D - The Medicare Drug Benefit

- Drug benefit is offered through private organizations, but not covered directly under the traditional Medicare program
 - Two types of Medicare prescription drug plans
 - Stand-alone prescription drug plans
 - Medicare-Advantage plans – primarily HMOs, PPOs
 - Plans can change from year to year – add, drop, modify
- New approach to delivering a Medicare benefit
 - Enrollment is voluntary, not automatic
 - Standard benefit available, but plans vary
 - Premiums, covered drugs, cost-sharing vary across plans
- Additional subsidies (“extra help”) available to people with low incomes and modest assets; separate application through Social Security
 - “Dual eligibles” no longer have drug coverage through Medicaid
- Medicare Part D is financed by beneficiary premiums, general revenues and state “clawback”

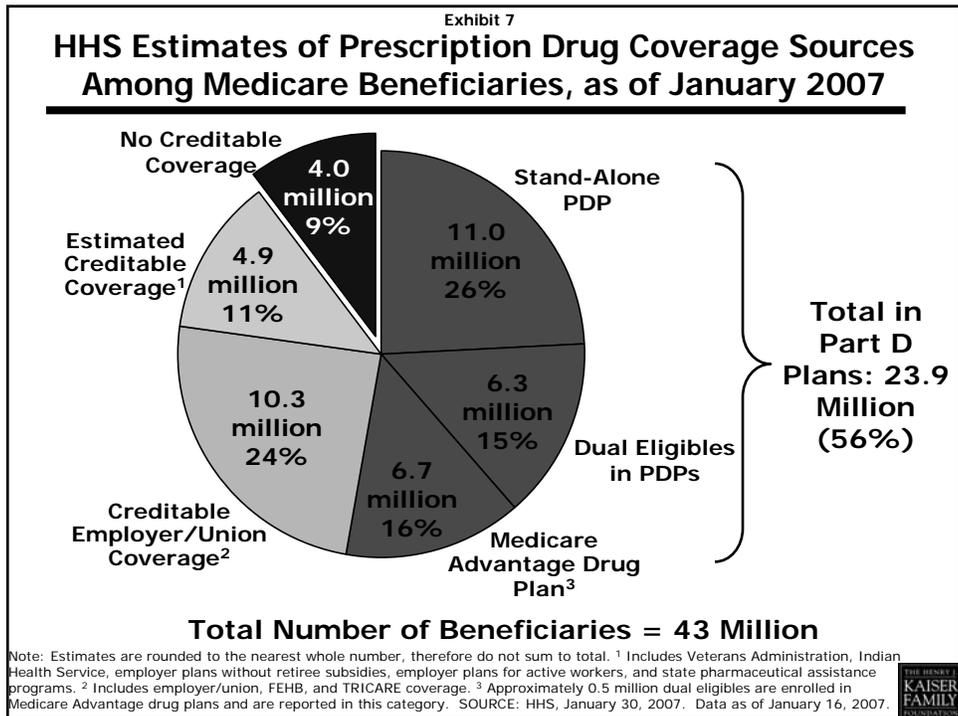
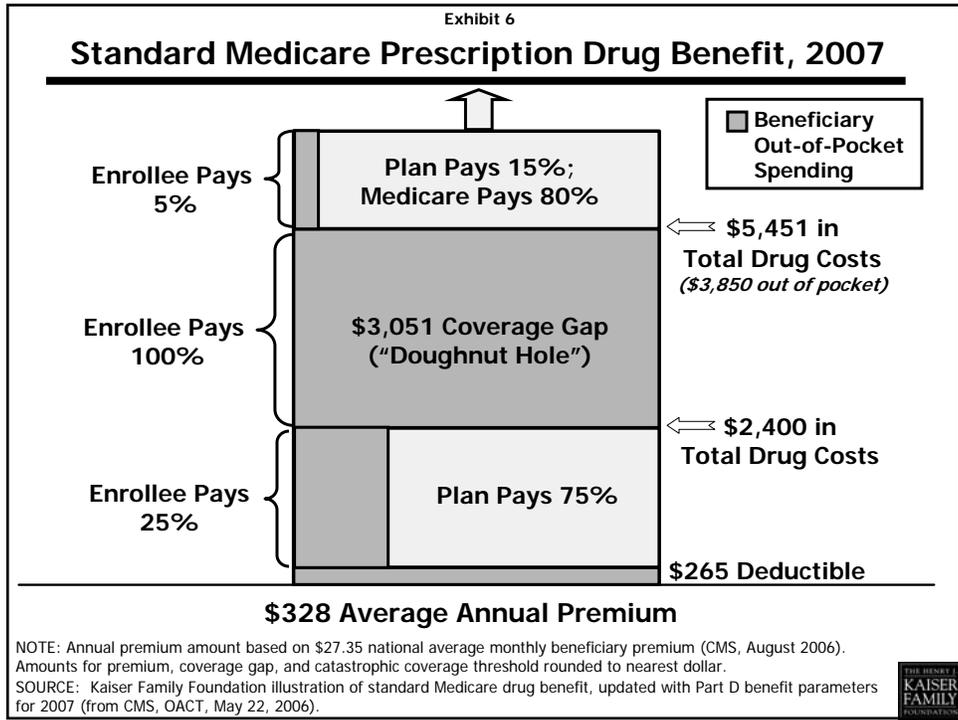
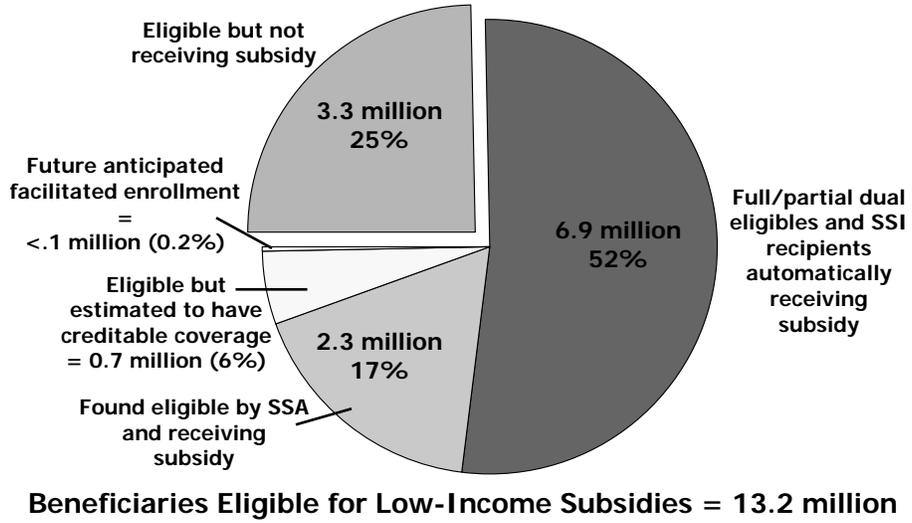


Exhibit 8

One in four beneficiaries eligible for low-income Medicare Part D subsidies are not receiving them



Note: Estimates are rounded to the nearest whole number, therefore do not sum to total.
SOURCE: HHS, January 30, 2007. Data as of January 16, 2007.

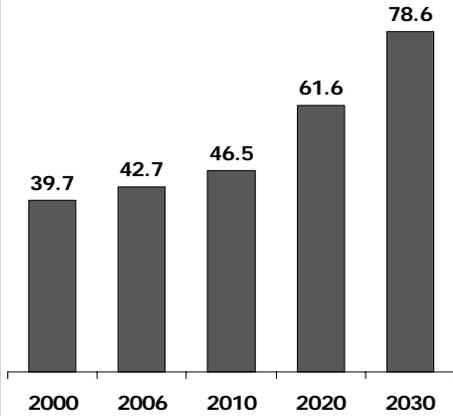


Future Challenges

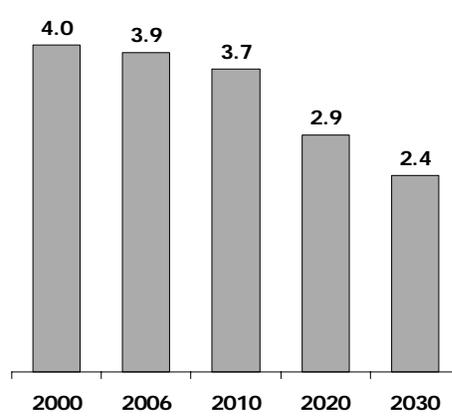
Exhibit 9

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

Number of beneficiaries (in millions)



Number of workers per HI beneficiary



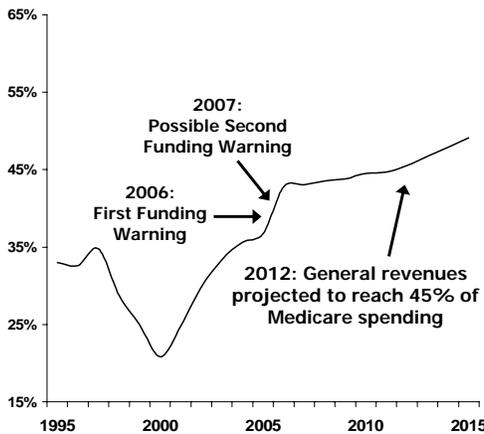
SOURCE: 2001 and 2006 Annual Reports of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.



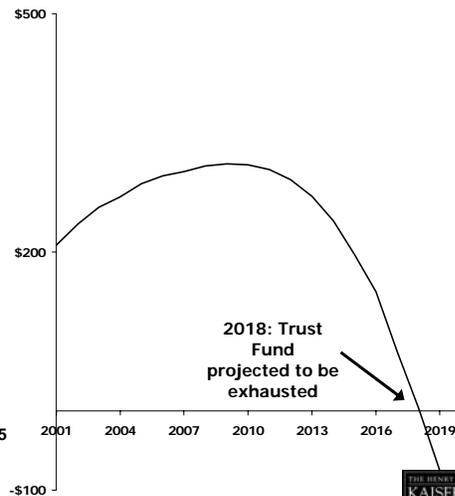
Exhibit 10

Financial Indicators of the Medicare Program

General Revenue as a Share of Medicare Spending



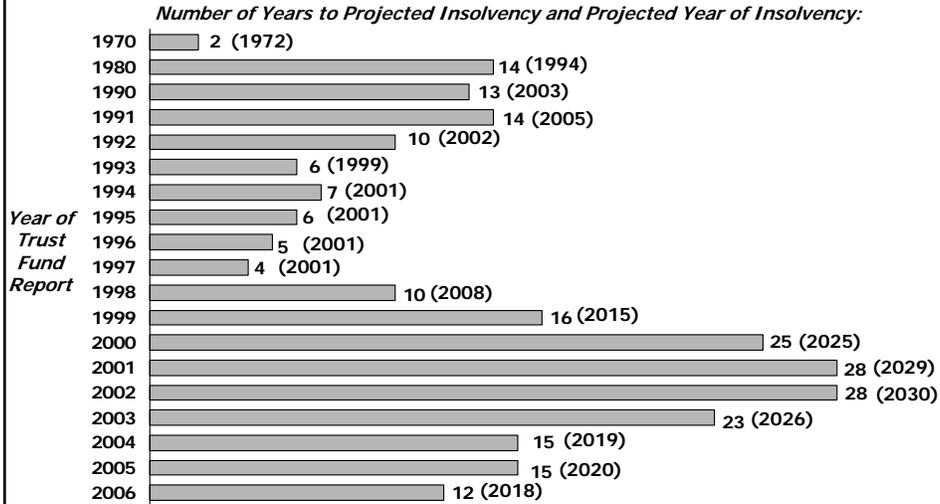
Estimates of Medicare's Hospital Insurance Trust Fund



Note: Estimates of the HI trust fund reflects assets at end of calendar year.
SOURCE: 2006 Annual Report of the Board of Trustees.



HI Trust Fund solvency projections are sensitive to changes in Medicare and the general economy



SOURCE: Intermediate projections from 1970-2006 Annual Reports of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.



Major Policy Challenges Facing Medicare

- Monitoring coverage under the new Medicare prescription drug benefit and maximizing low-income subsidy participation
- 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 younger beneficiaries with disabilities

