THE FUTURE OF MEDICARE

POLICY OPTIONS TO IMPROVE MEDICARE SUSTAINABILITY

MAY 20, 2022

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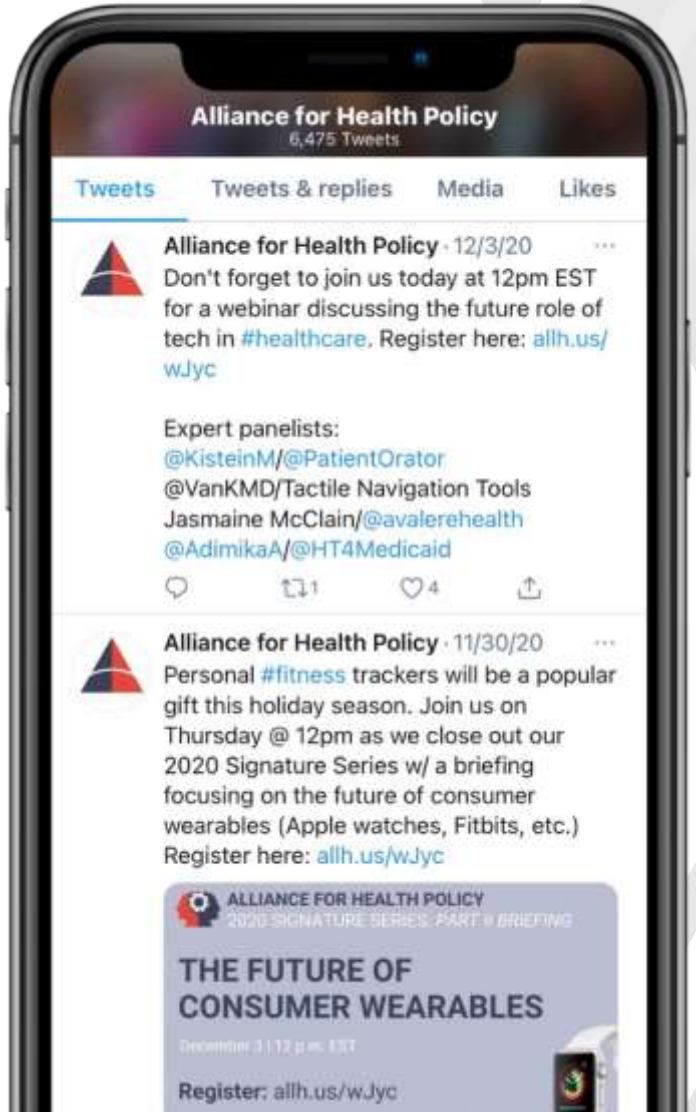

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Medicare's Short- and Long-term Financing Challenges

Alliance for Health Policy

May 20, 2022

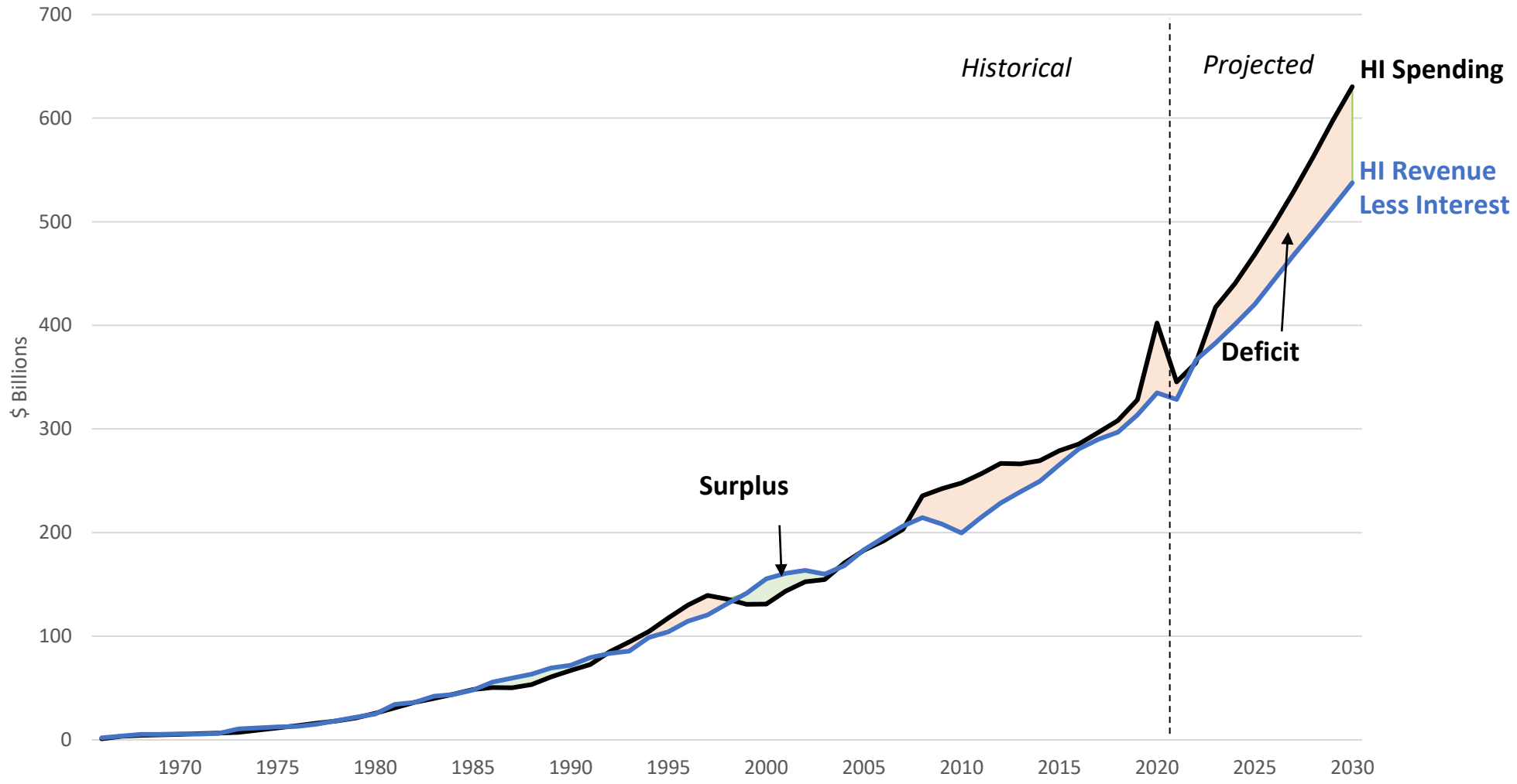
The Medicare program provides health insurance coverage to 64 million elderly and disabled Americans, but faces serious short-term and long-term financial pressures in each of its two component trust funds

Hospital Insurance (HI) Trust Fund	Supplemental Medical Insurance (SMI) Trust Fund
▪ Funds Medicare Part A, which helps pay for hospital and most institutional services as well as skilled nursing facility, hospice, and some home health care	▪ Funds Part B, which helps pay for physician's outpatient services, laboratory tests, physician administered drugs, and durable medical equipment ▪ Funds Part D, which helps pay for self-administered prescription drugs
▪ Largely financed through a payroll tax on workers' earnings	▪ Financed roughly 25% by beneficiary premiums and 75% by federal general revenues
▪ When the inflows and accumulated surpluses are insufficient to cover HI costs, the fund becomes insolvent and payments to providers must somehow be reduced to the level of incoming receipts	▪ When SMI Trust Fund balances run low, they are automatically replenished with general revenues

CBO and Medicare Trustees' forecast the Hospital Insurance (HI) Trust Fund will be insolvent around 2026

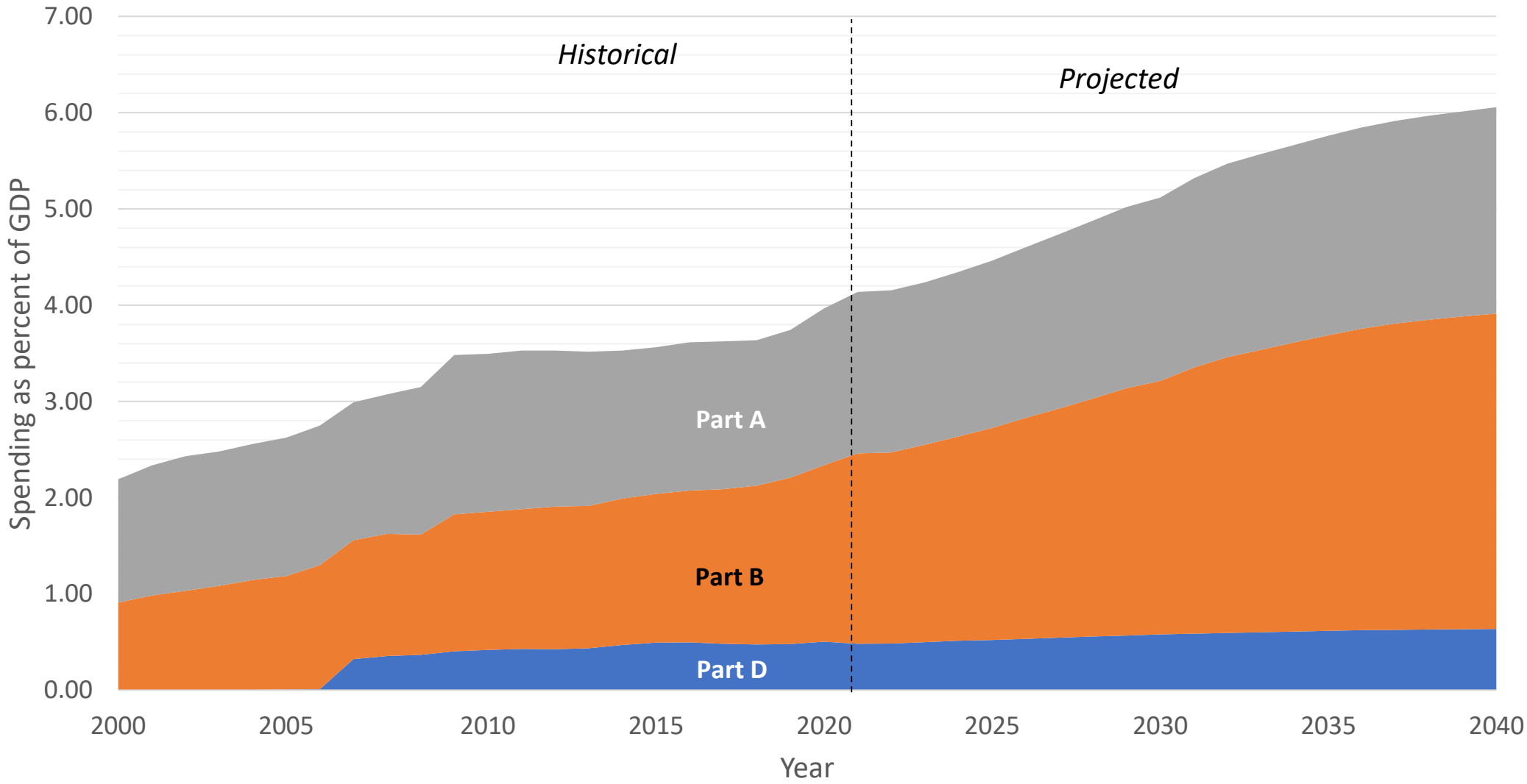
- In the past, Congress has always acted to prevent HI insolvency to avoid serious adverse consequences
- If the HI Trust Fund were depleted, full payments to providers for services covered under Part A would be delayed
  - Medicare would only be able to pay providers of Part A services 91 cents for every dollar it owes
  - Would put significant financial stress on providers that can ultimately harm the level of care patients receive

Medicare HI (Part A) Spending and Revenues, Historical and Projected



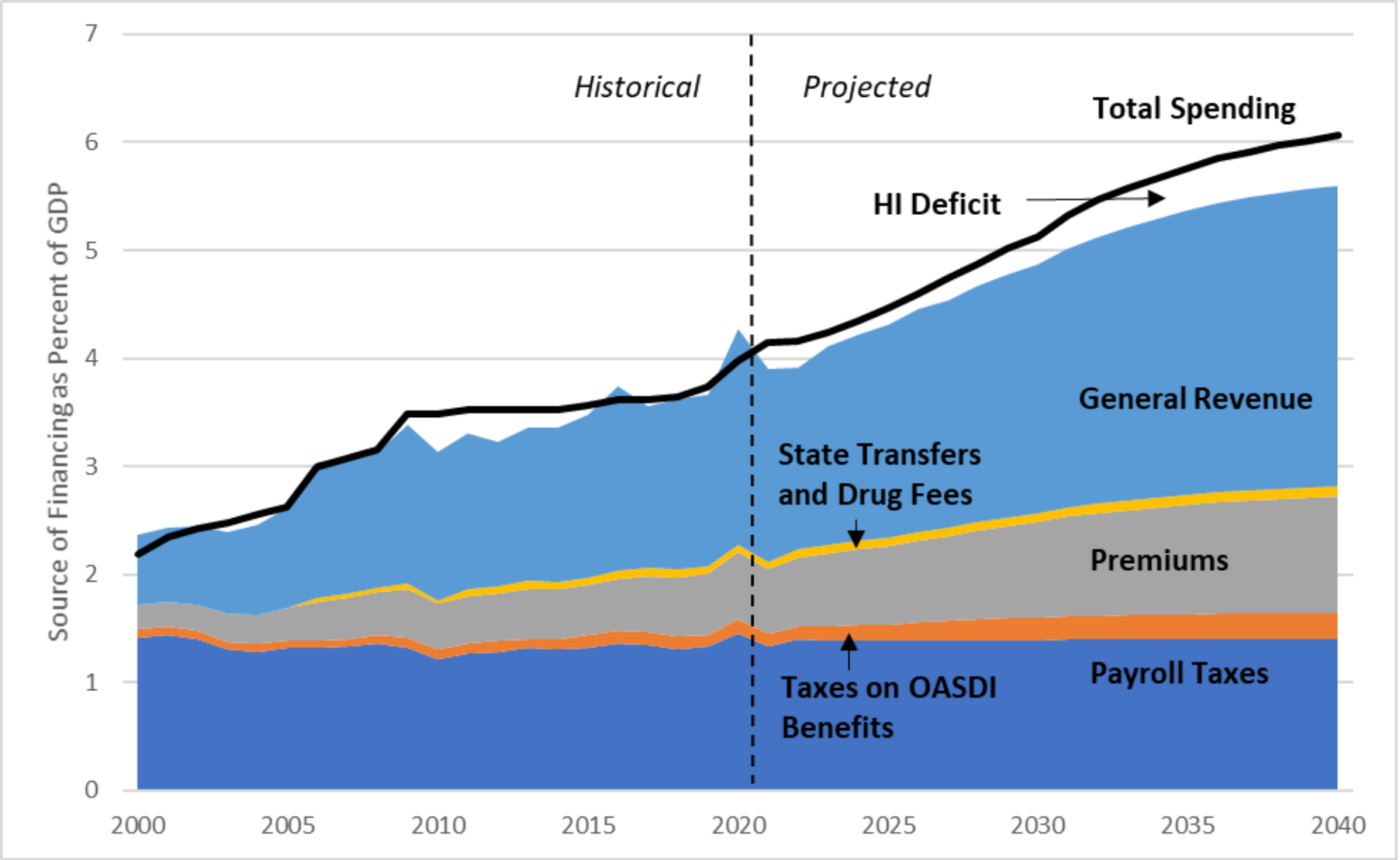
Source: 2021 Medicare Trustees' Report, Figure III.B1 and supplementary tables

Medicare Spending by Program Part, Historical and Projected



Source: 2021 Medicare Trustees' Report, Figure II.D1.

Sources of Medicare Financing, Historical and Projected



Source: 2021 Medicare Trustees' Report, Figure II.D2.

Considerations for Medicare reforms focused on sustainability

- Reforms may take a minimalist or more comprehensive approach
- Congress will need to decide who should bear the burden of improving Medicare's finances: beneficiaries, providers, wage-earners, higher-income individuals, unspecified future taxpayers
- A few takeaways from a Medicare sustainability expert roundtable convened in 2021*
  - Panelists generally thought broad reforms to Medicare are unlikely, and an approach combining increased revenues with targeted spending reductions is more feasible
  - Medicare enjoys broad public support, and there was a reluctance to make changes to features that have built that support
  - Though additional revenues would likely need to be part of a reform package, no clear preferred approach emerged in the discussion
  - Panelists generally agreed that focusing on Medicare service areas with high Medicare payments relative to costs, such as post-acute care and Medicare Advantage, are likely to be part of an effective strategy

*Garrett, B., A. Shartzer., D. Arnos. Medicare Solvency Roundtable: Insights from Leading Experts to Keep Medicare on Solid Financial Ground. August 2021.

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Policy Options to Promote Medicare Sustainability

Adaeze Enekwechi, PhD, MPP

The Alliance for Health Policy

May 20th, 2022

Commonwealth Fund's Assignment: Think Outside the Box

Think Outside the Box

Current Situation

- Looming insolvency of Hospital Trust Fund which funds Medicare Part A in 2026
- Few significant policy options on the table
- Little political appetite for any major Medicare policy

My Personal Challenge

- Introduce the imperative of health equity into this conversation
- Introduce policies not often discussed that drive expenses in the broader Medicare program

Medicare Can Do the Following…

1. Take the lead on health equity
2. Incentivize dynamic screening for social determinants of health
3. Collect data on race, ethnicity, and other SDoH data
4. Incentivize providers training on bias, discrimination or racism
5. Harness technology and build interventions that meet patients where they are

Important Trends in Medicare Advantage (Part C)

26+
Million

- In 2021, 26+ million people enrolled in MA
  - 42% of total Medicare population (1)

60%
Of new enrollees

- 60% of new enrollees who age into Medicare choose MA over Original Medicare

32
Million

- HHS expects 32 million beneficiaries in MA by 2023
  - 53% of all Medicare beneficiaries

This growth trend, which was certainly not anticipated a decade ago, has altered policy conversations around shoring up Part A

Trends in Medicare and the Broader Ecosystem

- A **major shift towards alternative sites of care** (i.e., home) and investments in digital health
- Shift away **from fee-for-service towards value-based care** models that pay for care under risk-based frameworks
  - Increased focus on social drivers of health, primary care
- The **increased use of telehealth** which spiked at the height of COVID, but rates of use are leveling off
- A health system experiencing **significant pressures on staffing**

Important Questions for Policymakers on Medicare and Equity

- Is our funding approach for Medicare Parts A, B, D **the right framework** right now? Is **Part A funding sustainable**?
  - Is Original Medicare, based on FFS—consensus is not sustainable in the long-term—the right model **to drive health equity**?
- How best do we use the payment system (payments to plans as well as providers) to **incentivize an equity-focused approach to health**?
  - What are the necessary inputs to **address significant gaps in health and outcomes** which disproportionately affect racial and ethnic minorities?

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Strengthening Medicare Financing to Protect the Medicare Population, Now and in the Future

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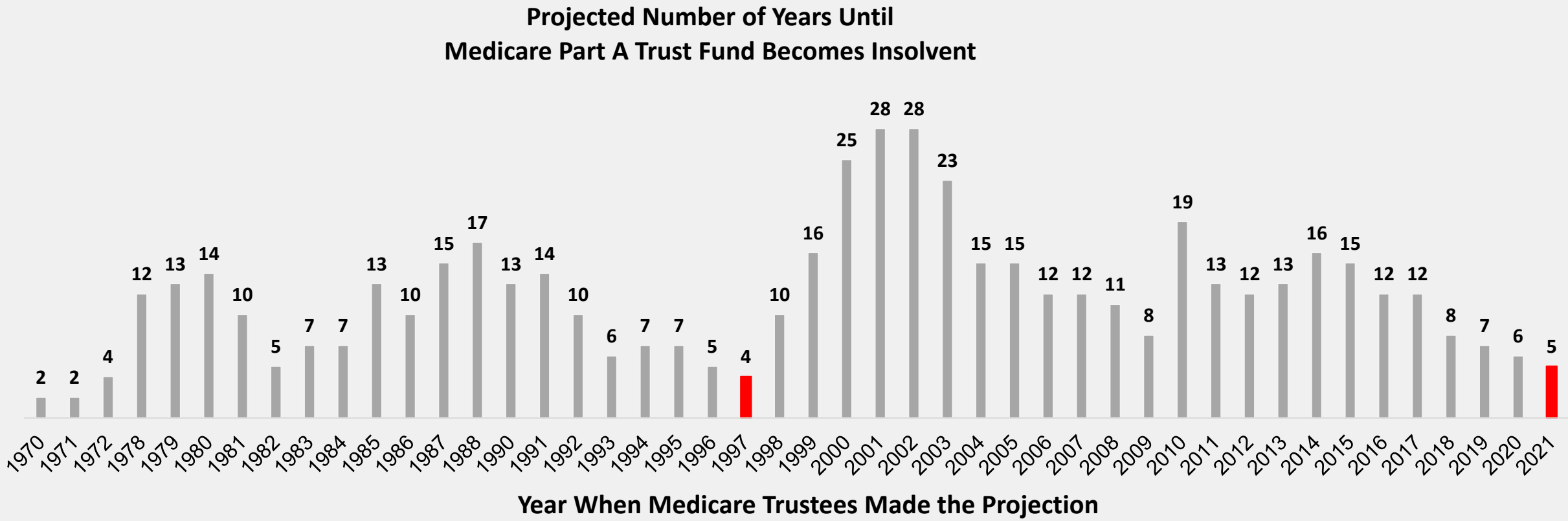
Alliance for Health Policy

Future of Medicare Series

Session 3: Policy Options to Promote Medicare Sustainability

Friday, May 20, 2022

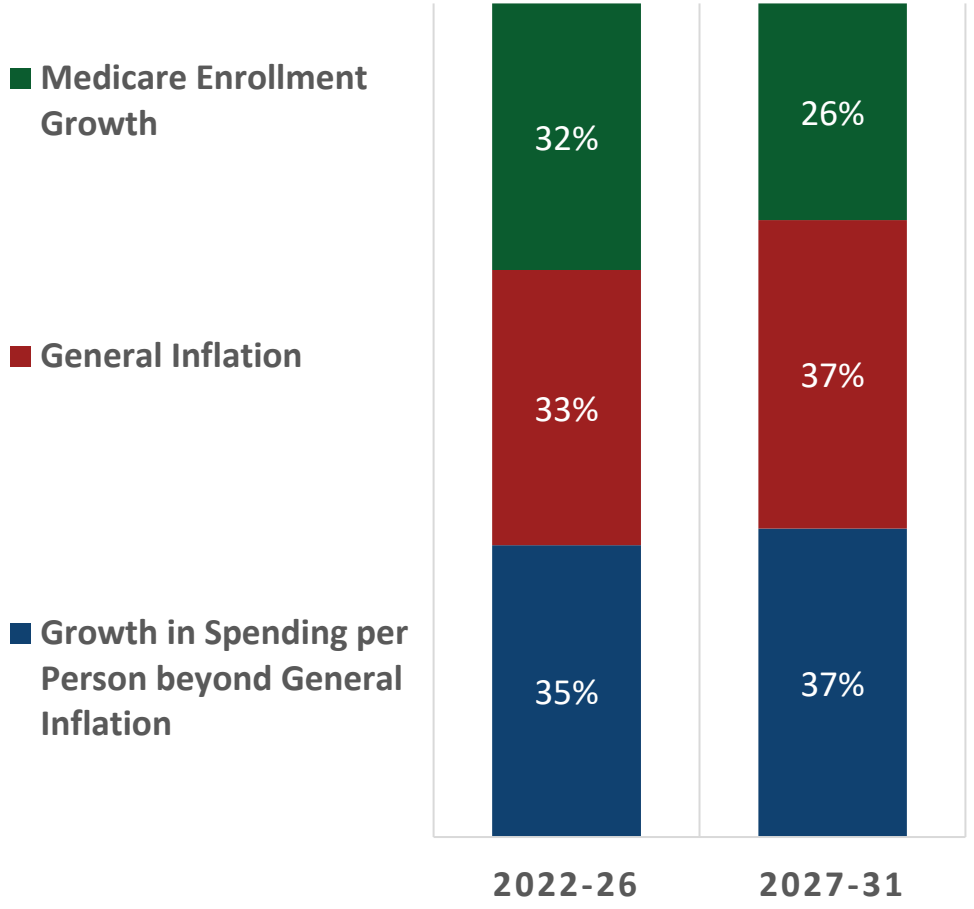
We Need To Act Soon



Drivers of Part A Spending Growth

- In considering options, keep in mind the drivers of the current projections
- Increasing Medicare enrollment accounts for nearly one-third of the expected growth in Part A spending
- Growth in health care spending per person is a system-wide challenge (not just a Medicare issue)

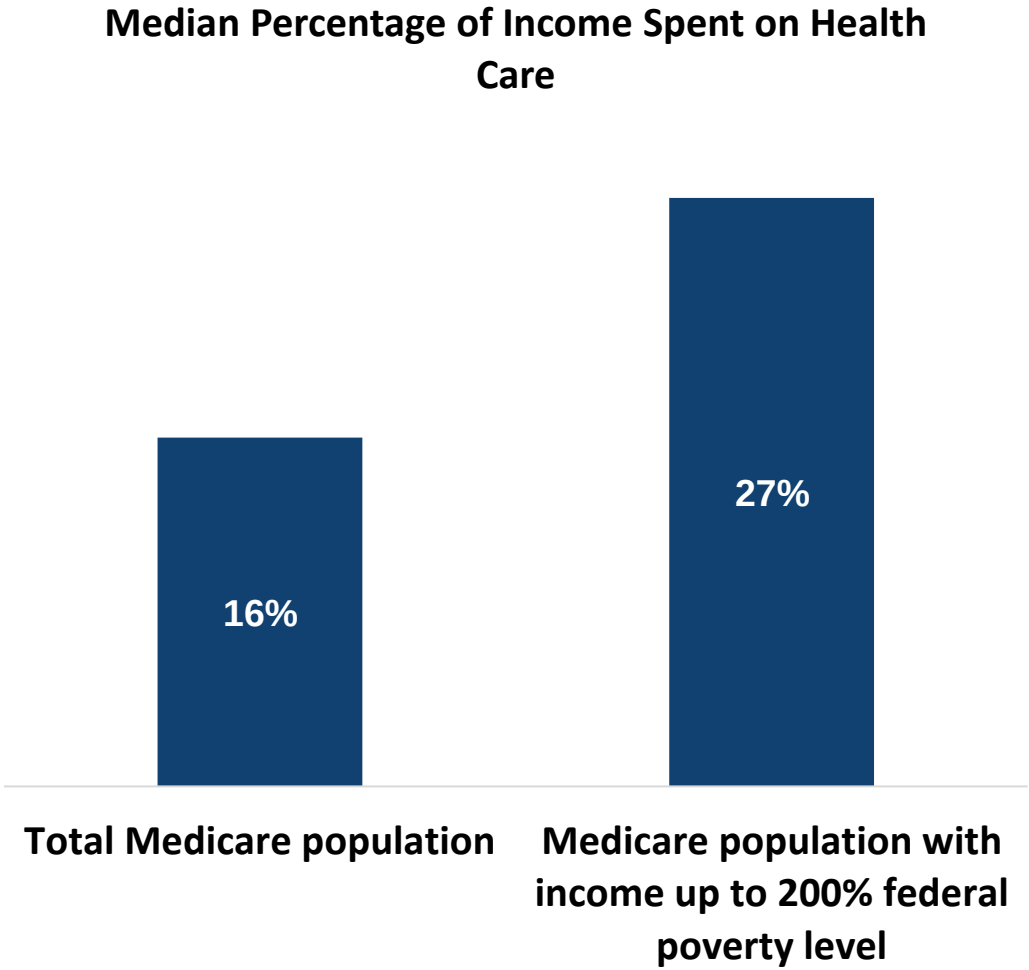
Share of Medicare Part A Spending Growth Accounted for by Different Factors



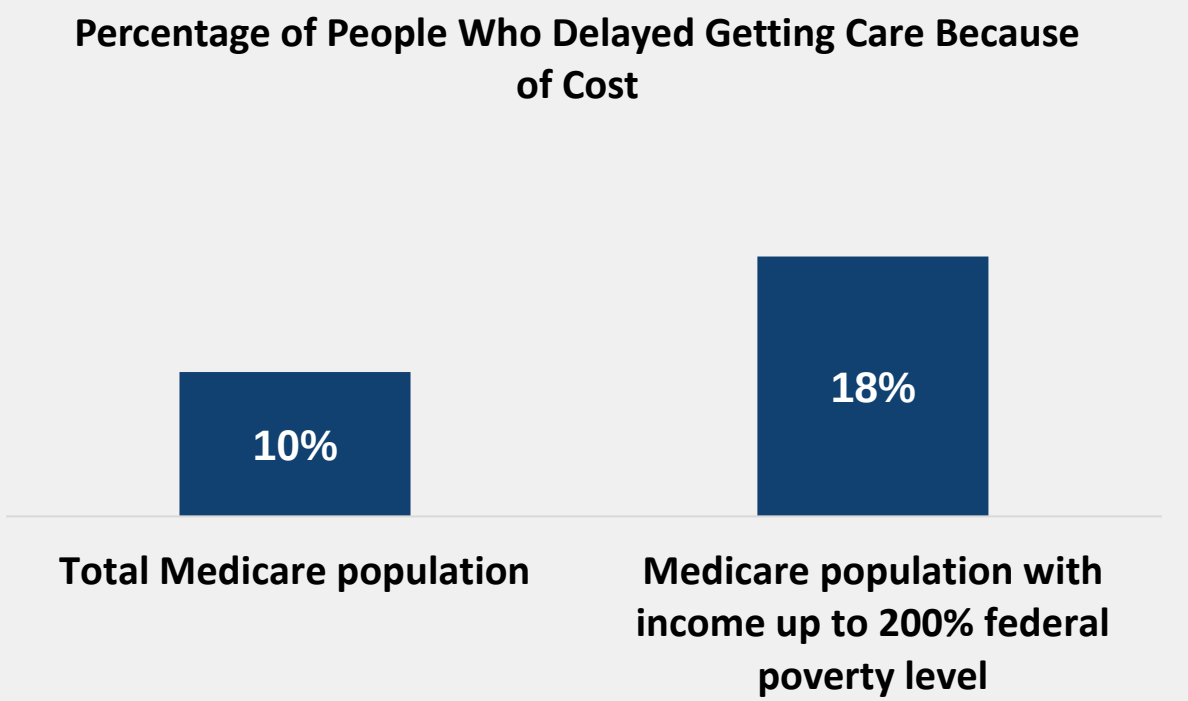
Note: Based the 2021 Medicare Trustees' Report.

Medicare Population Already Faces High Out-of-Pocket Costs

- Half of all people with Medicare spend 16% or more of their income on health care
- Among those with lower incomes, half spend 27% or more of their income on health care
- Half of people with Medicare had income less than $29,650 in 2019



These High Out-of-Pocket Costs Have Consequences



Improving Part A Trust Fund Solvency: Some Policy Options

- Historically, Congress has typically strengthened Part A by adopting a package of fixes
- Adopt a package of options, beginning with approaches that improve efficiency and value of the program
- Expand successful innovative payment and delivery models
- Improve balance between Medicare Advantage and Traditional Medicare
- Consider a variety of other options

Understanding the Impacts on People with Medicare is Essential

- Looking at average effects is not sufficient
- With any proposal, it's important to examine distributional effects and look at how people in different situations would be affected, including:
  - Income, race and ethnicity, geographic areas
  - High acute care needs, multiple chronic conditions, and relatively low medical needs
  - People with Medicare Advantage and people with Traditional Medicare
  - People with supplemental insurance (e.g., Medigap) and people without
  - Current Medicare population and future generations

Keeping Medicare Financially Sound is in Everyone's Interest

- Medicare is a hugely popular and important program
- People across generations recognize how vital the program is to both financial security and access to health care
- Keeping Medicare financially sound is in absolutely everyone's interest

Sources

2021 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. Washington, DC: Centers for Medicare & Medicaid Services. August 31, 2021. https://www.cms.gov/files/document/2021-medicare-trustees-report.pdf

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Medicare Trust Fund Solvency Options

Josh Gordon, Director of Health Policy

May 20, 2022

COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

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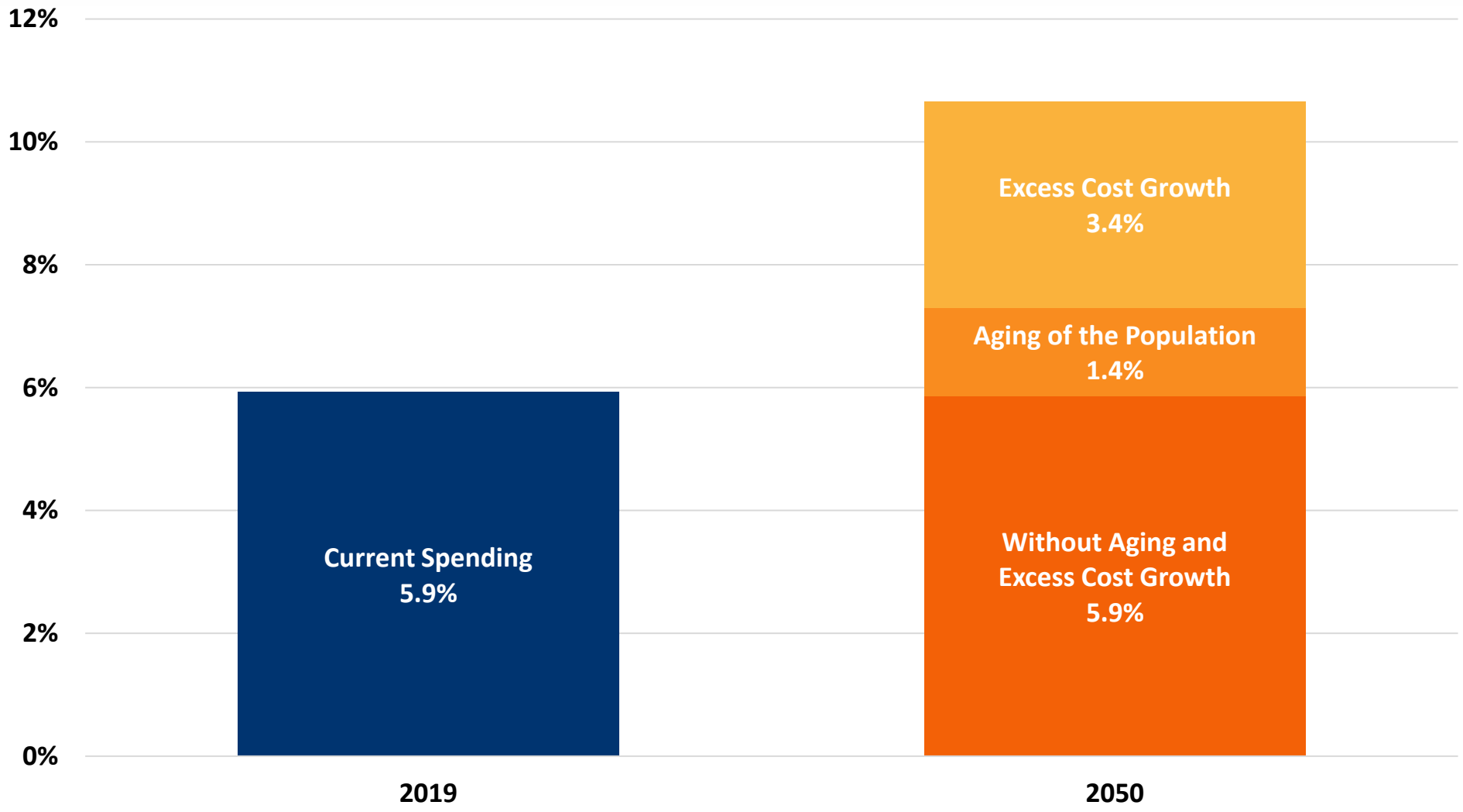
Components of Growth in Health Care Spending



Source: Congressional Budget Office

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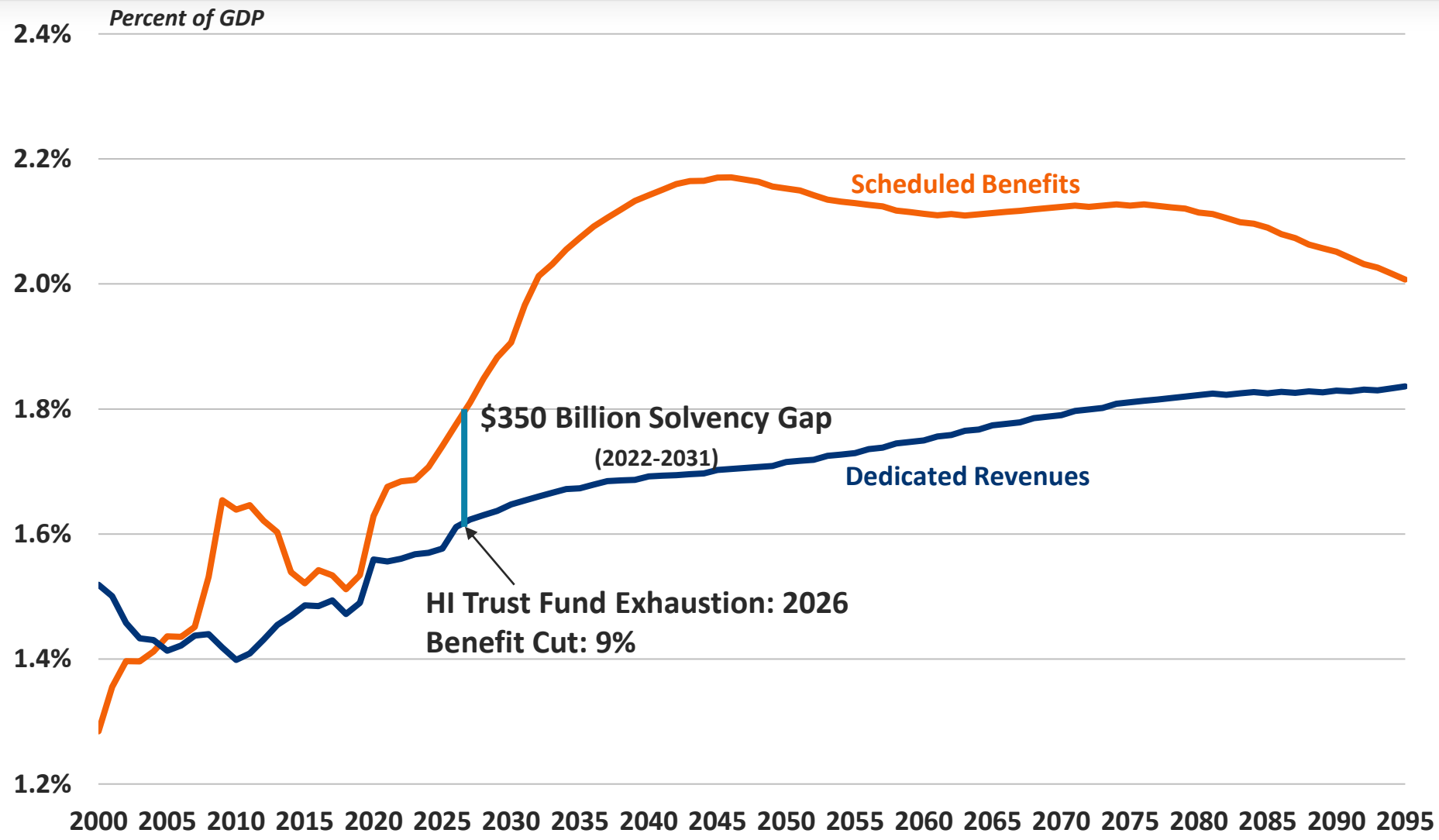
Medicare Part A Will Be Insolvent By 2026



Source: Centers for Medicare and Medicaid Services.

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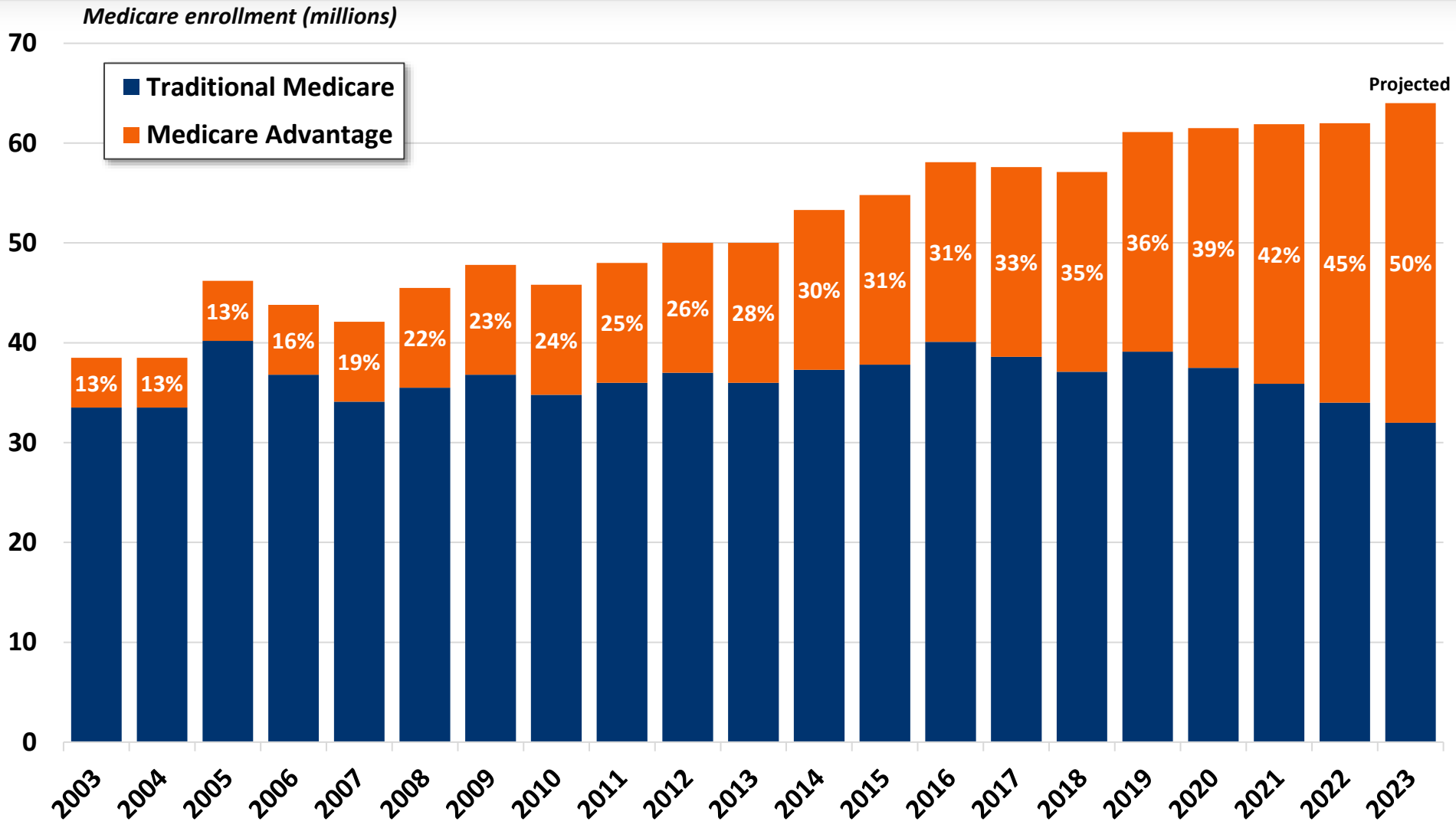
Medicare Advantage Enrollment is Growing



Note: Figures inside bars represent percentage of Medicare beneficiaries enrolled in a Medicare Advantage plan
Source: KFF, MedPAC, Medicare Trustees, Committee for a Responsible Federal Budget

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Reduce Medicare Advantage Overpayments (1)

Medicare Advantage (MA) plans are paid more that it costs to treat similar beneficiaries in traditional FFS Medicare (104% according to MedPAC) and costs are growing faster in MA

- Counter to original intent of program: to test whether private insurance plans could manage care at lower costs than FFS.
- Evidence shows they may be able to do that BUT get paid more anyway - Gov't doesn't see savings.
- Many design issues at fault. Reforms can be more comprehensive (competitive bidding, new blended benchmarks) or more targeted (risk-adjustment changes, quality bonus changes).

Comprehensive Reform	Part A Savings	Percent of 10-Year Solvency Gap Closed
Competitive Bidding (Brookings)	$115B	33%
Blended Benchmark Reforms (MedPAC)	"More than $40B"	-
Payment Reform w/ some bidding (Obama)	$30B	9%

Reduce Medicare Advantage Overpayments (2)

A key culprit for MA overpayment is "coding intensity" where plans are incentivized to make their beneficiaries look sicker on paper (through additional diagnosis codes) than similar fee-for-service beneficiaries.

- The *Health Savers Initiative* (*HSI*) estimates coding intensity is currently translating to nearly 20% in overpayment for MA plans. MedPAC's estimate is 9%. CMS only adjusts by 5.9% This excess is paid for through higher Medicare premiums and cost sharing.

The two types of "quality" based payments in MA are expensive and ineffective (over 90% of plans receive a quality bonus!), plus they exacerbate geographic and racial inequality.

Targeted Reforms	Part A Savings	Solvency Gap Closed
Coding Intensity (HSI)	$185B	53%
(MedPAC)	$100B	29%
Quality Payments Reform (CBO)	$100B	29%
(MedPAC) VBID	"More than $40B"	-

Modernize Medicare Benefit Design

The current Medicare benefit design is outdated: separate parts with separate deductibles, a hodgepodge of cost-sharing rules, and no catastrophic cap. It is confusing for beneficiaries, leads some to financial stress, and creates incentives for misutilization.

- Modernizing by creating a single, combined deductible with a uniform coinsurance and an out-of-pocket cap has been a bipartisan idea and supported by experts.
- No longer need to purchase supplementary (Medigap) coverage.
- Might position fee-for-service Medicare to better compete with MA.

Possible Reforms	Part A Savings	Solvency Gap Closed
Establish Uniform Cost Sharing, Out-of-Pocket Cap, Restrict Medigap (CBO Budget Options 2020)	$105B	30%
(CRFB)	$165B	47%

Post-Acute Care Reforms

Post-acute care (PAC) aids in the recovery from an injury or illness following a hospitalization. Evidence shows excessive profits for PAC providers and a wide variation in spending across the country not tied to differences on health outcomes.

- Four different PAC settings: skilled nursing facilities, inpatient rehabilitation facilities, long-term care hospitals, and home health agencies.
- Four different payment systems = inefficiency.
- Calls for reform are bipartisan and supported by experts like MedPAC.
- Reforms either reduce payments across-the-board or make fundamental changes.

Possible Reforms	Part A Savings	Solvency Gap Closed
Reduce and Unify PAC Payments (Trump)	$65B	19%
Reduce Payment Updates by 1%-Yr (Obama)	$60B	17%
Bundle Inpatient & PAC with 5% Savings (CBO)	$40B	11%
Unified Payments, Home Health Co-Pay, Site-Neutral/IRF Changes, Home Health to Part B (CRFB)	$155B	44%

Graduate Medical Education Reforms

Medicare Part A contributes over 60% of funding for the graduate medical education (GME) of medical residents and interns. Other fed programs largely cover the rest. This has led to artificially low caps on physician supply, over-focus on inpatient settings, skew towards specialty over primary care, and geographic imbalance.

- Private health insurers, by and large, do not share in the costs of GME.
- Calls for reform are bipartisan and supported by experts.
- Reforms can focus on savings; address workforce issues (supply, type, location); and/or move spending outside of Part A entirely.

Possible Reforms	Part A Savings	Solvency Gap Closed
Streamlined Program Outside of Medicare (Trump)	$190B	54%
GME reform (Obama)	$16B	5%
Consolidate and Index to CPI (CBO)	$34B	10%

New Revenue

Trust fund solvency requires that revenue matches spending. Reducing health care costs is critical for a sustainable Medicare program and any effort to improve solvency should include cost controls. However, new revenue can/should be part of the solution.

- Revenue should be "new" from raising rates/closing loopholes/new taxes, not just transfers of existing general revenue into the HI trust fund.
- If transferred, there should be offsetting measures outside of HI.
- President Biden's FY'22 Budget: Closed loopholes that allow some pass-through business income to escape both the net investment income tax (**NIIT**) and payroll taxes for the self-employed (**SECA**); Dedicated that revenue AND existing NIIT revenue into HI.
- House-passed BBB has similar revenue increase via NIIT, not dedicated to HI

Possible Reforms	Part A Savings	Solvency Gap Closed
Close NIIT and SECA loopholes (Biden FY'22 New Rev only)	$260B	74%
With Existing NIIT Rev Transfer (Biden Total)	$690B	197%
Increase Current 2.9% HI Payroll Tax by 0.5%	$530B	151%
Excise Tax on Sugar-Sweetened Beverages	$105B	30%

TAKE OUR SURVEY

Please fill out the evaluation survey you will receive immediately after this presentation, or via email this afternoon!

www.allhealthpolicy.org

UPCOMING EVENT

JUNE 17, 2022 | 12:00 pm – 1:30 pm ET

What's Next in Home and Community Based Services?

During this session, panelists will provide an overview of Medicaid home and community-based services (HCBS), including populations receiving HCBS, current enrollment numbers, workforce challenges, benefits of HCBS, and barriers to caring for complex populations. Panelists will also speak to recent federal policy measures taken to bolster HCBS as well as potential long-term policy levers to better improve HCBS.

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THANK YOU FOR ATTENDING!

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