Cost-Shifting to Medicare Beneficiaries: A Route to Decreased Access and Increased Cost

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Medicare Pressure on the Federal Budget

- Medicare is a large basket which holds almost all Americans age 65+
- Aging of Baby Boomer demographic will increase total Medicare expenses
- Controlling Medicare expenses is a major budget target
Medicare Pressure on the Federal Budget

**Exhibit 6**

**Sources of Medicare Revenue, 2013**

<table>
<thead>
<tr>
<th></th>
<th>General revenue</th>
<th>Payroll taxes</th>
<th>Beneficiary premiums</th>
<th>State payments</th>
<th>Taxation of Social Security benefits</th>
<th>Interest and other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td>41%</td>
<td>38%</td>
<td>13%</td>
<td>6%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>$575.8 billion</td>
<td></td>
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</tbody>
</table>

| **Part A** | 88% | 5% | 1% | 6% | 13% | 2% |
| $251.1 billion |     |    |    |    |     |    |

| **Part B** | 73% | 25% | 14% | 2% | 13% | 2% |
| $255.0 billion |   |    |    |    |     |    |

| **Part D** | 73% | 14% | 13% | 2% | 13% | 2% |
| $69.7 billion |     |    |    |    |     |    |

Vulnerability of Medicare Beneficiaries

- Chronic health conditions
  
  69% have 2 or more\(^1\)

- Lack of financial resources

  50% have income under $22,500 per yr\(^2\)

- Gender and race

  43% of Black & Hispanic women over 65 live on less than $10,000 per year\(^3\)
# Income and Wealth Disparities among Medicare Beneficiaries

<table>
<thead>
<tr>
<th>Medicare Beneficiary Groups</th>
<th>Average Income per year per individual</th>
<th>Average Wealth (all assets)</th>
<th>Those with no savings (% of individuals)</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>$24,800</td>
<td>$85,950</td>
<td>5%</td>
</tr>
<tr>
<td>Black</td>
<td>$15,250</td>
<td>$11,650</td>
<td>20%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>$13,800</td>
<td>$12,050</td>
<td>20%</td>
</tr>
</tbody>
</table>

Seniors’ Health Expenses

- Average out-of-pocket in 2012 was $4722, or 13.9% of annual budget

- Health insurance premiums 2/3 of total

- Households between 100% and 200% of the Federal Poverty Level spent 15.7% of income on health care, highest of any group

  1/3 of all Medicare beneficiaries in this segment
Seniors’ Health Expenses

- Medicare covers about 62% of seniors’ health care costs, excluding long-term care, per Employee Benefits Research Institute study. 
- Only 28% of U.S employers offer retiree health benefits.
- For 25% of seniors, final expenses exceed the total value of their remaining assets.
- In 2012, 43% of those over 65 delayed health care due to cost.
Robert Wood Johnson Foundation study (2010) found that:

- Patients are not able to discern which choices in their care are inappropriate
- Vulnerable populations shift types of services used, which increases overall expenditures
- Increases in cost-sharing for elderly may result in higher Medicare program costs$^{10}$
Vulnerability in the Federal Health Care budget

- Seniors who are impoverished qualify for Medicaid assistance

- Dual eligibles were 14% of all Medicare beneficiaries in 2010, and accounted for approximately 1/3 of all Medicaid & Medicare spending\(^1\)
Stakeholders in Medicare revision proposals

- Current and soon-to-be seniors, and their families
- Federal budget officials, both elected and employed
- Hospitals and nursing homes
- All health care providers
- Senior advocacy organizations
- Organizations concerned with social and economic equity
- Organizations concerned with fiscal stability of the federal budget
## President’s 2015 Medicare Budget Proposals

<table>
<thead>
<tr>
<th>Key changes</th>
<th>Impact on access/affordability</th>
<th>Opponents</th>
<th>Supporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase part B and part D premiums for top 25% of income</td>
<td>Likely small to none</td>
<td>AARP; National Committee to Protect Social Security and Medicare; Medicare Rights Center; National Association of Insurance Commissioners; Center for Medicare Advocacy</td>
<td>Bipartisan Policy Center; Center for American Progress; Moment of Truth Project</td>
</tr>
<tr>
<td>Increase part B premiums for new beneficiaries starting in 2018</td>
<td>Potential decrease</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raise co-pays for name brand drugs for low-income seniors</td>
<td>Likely decrease</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home health co-payment</td>
<td>Likely decrease</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on Medigap plans</td>
<td>Potential decrease</td>
<td></td>
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</tr>
</tbody>
</table>
Sen. Paul Ryan’s Budget Proposal

- Voucher support for Medicare
- Very likely decrease access and affordability for vulnerable beneficiaries
- Supported by fiscal conservatives
- Opposed by broad base of consumer and senior advocacy organizations\textsuperscript{13}
Re-framing the Discussion

- Current strategies do not address the fundamental structural problem of Medicare insurance, which is its exposure to socioeconomic externalities.
- Externality is a consequence not captured by usual pricing mechanisms\(^{14}\).
- Medicare absorbs:
  - income and wealth differences
  - race and gender differences
  - prior health status differences
  - prior health care access differences
  - disconnect between pre-65 and post-65 insurance
Ways to Recapture Externalities

- Rebate system aimed at states and/or insurers who deliver healthier people to Medicare at age 65
  - allows for innovation of care models
  - fits with ACO structures

- Reward individuals for better choices
  - rebates for achieving health targets
  - premium credits for community support

- Income-related deductibles
  - reward those who use fewer resources
  - subsidize those who need more care
Recommendations

- The multitude of proposals presently focus on costs and deficits
- Shifting the focus to health outcomes will have beneficial fiscal effects
- Incentives should be designed to match desired outcomes
- Putting health first will protect the Federal budget
Notes


Notes (continued)


