History of Medicare (pre ACA)

- Social Security Act of 1965
  - Medicare – created by Title XVIII
    - Part A provides hospital insurance (HI).
    - Part B provides supplementary medical insurance (SMI).
  - Medicaid - created by Title XIX
    - federal matching funds for the states to finance health care.
- Balanced Budget Act of 1997
  - Medicare Part C (Medicare+Choice) then later called Medicare Advantage
    - allows enrollees to receive Medicare benefits through private plans.
- Medicare Modernization Act of 2003
  - Changed Medicare Advantage revenue calculation
  - Medicare Part D (pharmacy benefit) – stand alone or with Med Adv
  - Encouraged employers to provide retiree Rx benefits (EGWP, RDS, etc.)
Medicare Financing

- **Part A** – Payroll tax of 2.9% (HI Trust Fund)
  - additional .9% on high incomes in 2013 (ACA funding)
- **Part B** (SMI Trust Fund)
  - general revenue
  - enrollee premium
    - $99.90 in 2012
    - Higher premium for income greater than $85,000
- **Part C** – portion of HI and SMI trust funds
- **Part D**
  - general revenue
  - enrollee premium (complicated formula)

Medicare Supplement

- Fills in the Medicare gaps of deductibles, coinsurance, etc. (~30%)
- Also called “Medigap”
- First policies issued by Bankers Life in 1971
- Must be enrolled in Parts A and B to purchase
- Exclusive of Medicare Advantage
- Benefits standardized in 1992
- Other benefit changes
  - January 1, 2006
    - No marketing of plans with pharmacy benefits
  - June 1, 2010
    - Changes to existing plans
    - New Plans M and N (consumer driven flavor)
Medicare Spending as a Percent of Gross Domestic Product, 2000-2030

NOTES: HI is Hospital Insurance, SMI is Supplementary Medical Insurance. Numbers may not sum to total due to rounding.


ACA Medicare Impact (to Gov’t spending)

- Mandates free preventive services
- Reduces payments to non-physician providers
- Creation of Independent Payment Advisory Board (IPAB)
- Medicare Advantage benchmark calculation changes intended to reduce to FFS long-term (phased in by 2017)
- Closes Part D “doughnut hole” by 2020
- Retiree Drug Subsidy no longer tax free (accounting charges)
- Minimum Med Adv MLR beginning 2014 – 85%
  - Awaiting details – likely similar to commercial
  - 3 Years below minimum = no new sales
  - 5 Years below minimum = contract not renewed
- Estimated Financial Impact to Medicare benefits
Change in Projected Medicare Spending, 2010-2019, Between March 2009 and March 2011

Medicare Baseline Spending (in $ billions)

Average annual growth rate, 2010-2019:
- Baseline Medicare Spending: 6.8 percent
- Spending after health reform: 5.6 percent

March 2009: $516, $565, $574, $600, $632, $662, $717, $747, $779, $848
March 2011: $935

NOTE: Estimates do not include possible changes to the Sustainable Growth Rate formula to prevent reduction in fees.
Data Source: Medicare Baseline Spending before reform from CBO, March 2009 Baseline: MEDICARE; after reform from CBO, March 2011 Baseline: MEDICARE.

Google “$716” Results

- Romney's right: Obamacare cuts Medicare by $716 billion. Here's how.
- Tiny Explainer: What’s Up With the $716 Billion in Medicare Cuts?
- Mitt Romney says Obama 'robbed' Medicare of $716 billion. True ...
- Romney’s $716B Medicare cut attack is dubious - CBS News
- Fact-Checking the Obama Campaign’s Defense of its $716 Billion ...
- How Obamacare’s $716 Billion in Cuts Will Drive Doctors Out of ...
- Understanding $716 billion - Health Stew - Boston.com
- PolitiFact | Paul Ryan said President Obama “funneled” $716 billion ...
- PolitiFact | Mitt Romney said Barack Obama robs Medicare of more ...
- Romney hits Obama for cutting $716 billion from Medicare to pay for ...
- Romney says he’ll put 'the $716 billion back' in Medicare
ACA Balancing Act

Deficit Impact of Major Fiscal Components of the Affordable Care Act, 2013-2022

- $415B Payment Reduction
  - $260 Hospital
  - $39 SNF
  - $17 Hospice
  - $66 Home Health
  - $33 Other
- $156B Medicare Advantage Reduction
- $56B Reduction in DSH Payments ($31B in Medicare and $25B in Medicaid)
- $114B Other Provisions

Source: CBO Letter to Congress, July, 24, 2012
**Payment Reduction Impact**

- Long-term viability concerns - some providers may not continue to see Medicare patients or service will suffer
- “The annual price updates for most categories of non-physician health services will be adjusted downward each year … The best available evidence indicates that most health care providers cannot improve their productivity to this degree—or even approach such a level—as a result of the labor-intensive nature of these services.” -2010 Trustees Report
- Facilities operating at a loss: 15% (2019), 25% (2030), 40% (2050) -2012 Trustees Report

---

**Medicare Advantage Reduction Impact**

- Changes to Benchmark and Rebate Calculations
- MA Payment = Bid+(Benchmark-Bid)*Rebate %
- Benchmark (BM) Calculation Change
  - Transition from pre-ACA to FFS over 2, 4, or 6 years
  - County Quartiles (95%,100%,107.5%,115% of FFS)
  - Quality Bonus Payment (QBP) based on Star Rating
    - Pre-ACA BM*(1-Weight) + FFS BM*(AP+QBP)*Weight
- Quality Bonus Demonstration (2012-2014)
  - Expanded thresholds and Increased Bonus %
  - Changed Formula
    - Pre-ACA BM*\((1+QBP)\)*(1-Weight) + FFS BM*(AP+QBP)*Weight
Quality Bonus Demonstration (2012-2014)

<table>
<thead>
<tr>
<th></th>
<th>Quality Bonus %</th>
<th></th>
<th>Quality Bonus %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 Star</td>
<td>4 Star</td>
<td>3.5 Star</td>
</tr>
<tr>
<td>2012</td>
<td>1.5% 5.0%</td>
<td>1.5% 4.0%</td>
<td>0.0% 3.5%</td>
</tr>
<tr>
<td>2013</td>
<td>3.0% 5.0%</td>
<td>3.0% 4.0%</td>
<td>0.0% 3.5%</td>
</tr>
<tr>
<td>2014</td>
<td>5.0% 5.0%</td>
<td>5.0% 5.0%</td>
<td>0.0% 3.5%</td>
</tr>
<tr>
<td>2015</td>
<td>5.0% n/a</td>
<td>5.0% n/a</td>
<td>0.0% n/a</td>
</tr>
</tbody>
</table>

Source: CMS Rate Announcement, April 4, 2011

Medicare Advantage Benchmark (Nationwide Average)

Source: Wakely Consulting Group, Inc. Model
Medicare Advantage Enrollment Impact

- Medicare market share reduction (24% to 13%)
- 2012-2014 understated due to demonstration

Source: CBO Projections, March 2011,

4.0 Star Plan (2013 to 2014)
4.0 Star Plan (2014 to 2015)

3.5 Star Plan (2013 to 2014)
Conclusions

- Reduction in Medicare Advantage enrollment
  - Large reduction in 2015
  - Increase in Medicare Supplement enrollment
- More barriers for Med Adv entrants (QBP, MLR)
- Employers – more EGWPs, less RDS
- Continued struggles with Medicare financing
  - Medicare eligibility age?
  - What will IPAB do?
  - Defined contribution model?
  - Reduction in Growth rate?
  - Cost-sharing increases?
References

- Slide 13 – CMS Rate Announcement, April 4, 2011
- Slide 14 – Wakely Consulting Group, Inc. Model

Abbreviations

- ACA – Affordable Care Act
- AP – Applicable Percentage
- DSH – Disproportionate Share Hospital
- EGWP – Employer Group Waiver Plan
- FFS – Fee for Service
- HI – Hospital Insurance
- MA – Medicare Advantage
- MLR – Minimum Loss Ratio
- RDS – Retiree Drug Subsidy
- SMI – Supplementary Medical Insurance