Context for Medicare payment policy

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The Commission's mandate

The Commission shall—

- Review payment policies, submit a report and make recommendations to Congress concerning such payment policies
- Review the effect of payment policies on the delivery of health care services and assess the implications of changes in health care delivery in the United States and in the general market for health care services on the Medicare program
- Before making any recommendations, the Commission shall examine the budget consequences of such recommendations, directly or through consultation with appropriate expert entities

Today's presentation

- Health care spending growth
- Projections for the Medicare program
- Federal budget outlook
- Demographic changes and health trends
- Effect of health care costs on families and beneficiaries
- Misallocation of resources

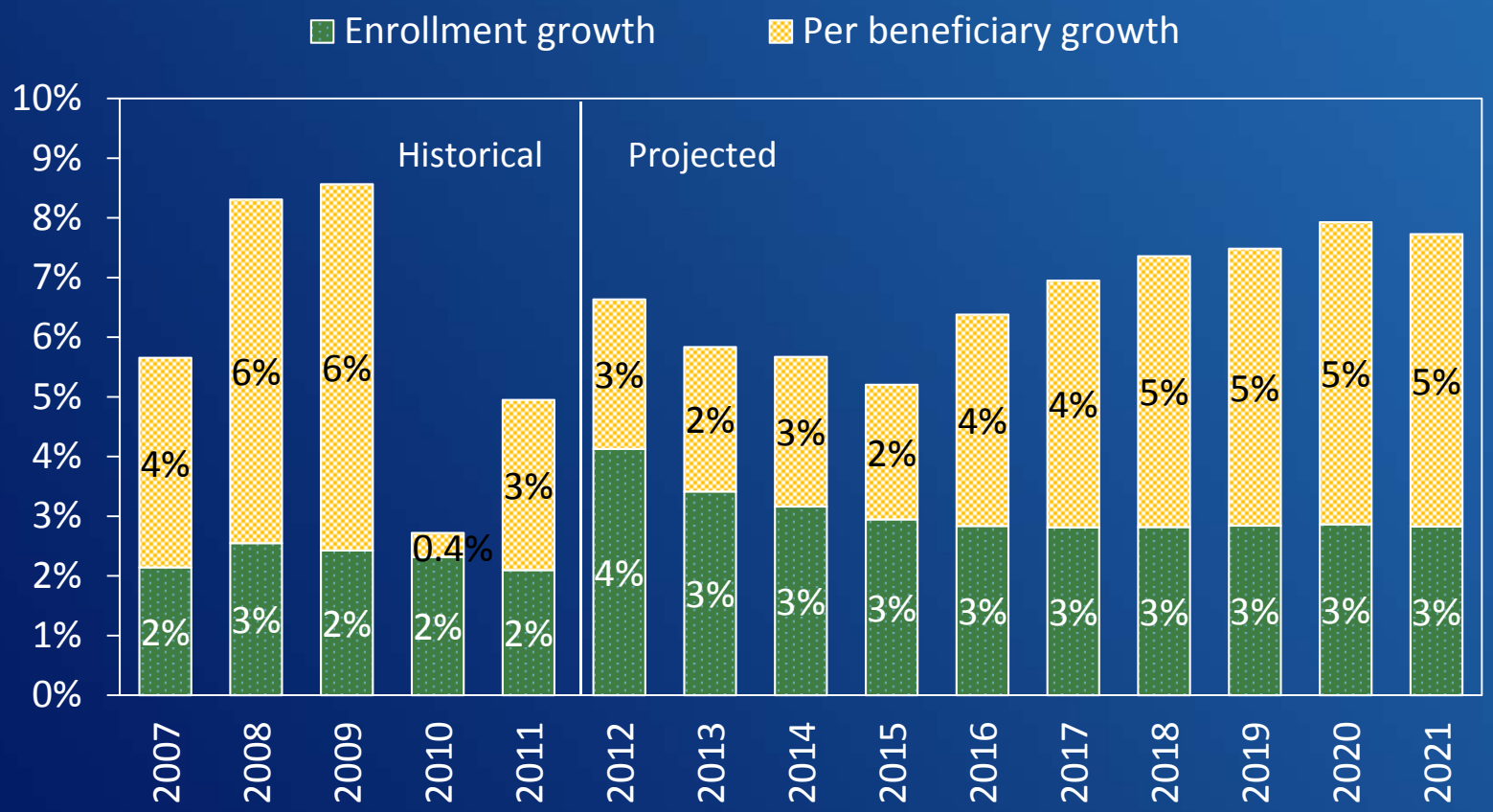
Trends in health care spending

- Health care spending has grown as a share of economic activity, but recently slowed
  - 9.1% of GDP in 1980 to 17.9% of GDP in 2010
  - Health care as a share of GDP remained constant from 2009 to 2010
- Potential causes of recent slowdown in spending
  - Structural
  - Cyclical
- Evidence of a sustained trend?
  - CBO projects lower than anticipated Medicare spending in 2012
  - Actuaries project health care spending growth to rebound over the next decade, but not to historical highs
  - Observers of the private market see mixed trends

Trends in Medicare spending

- Medicare spending has grown significantly as a share of GDP and as a share of federal spending
  - 1.3% of GDP in 1980 to 3.6% of GDP in 2010
  - 5% of federal spending in 1980 to 13% of federal spending in 2010
- These trends raise particular concerns because of impending demographic changes
  - Medicare population will double by 2050
  - Fewer workers to each Medicare beneficiary (3 workers per beneficiary in 2011 to 2 workers per beneficiary in 2030)

Components of Medicare spending growth



Source: 2012 Trustees Report.

Note: Figures assume that the SGR does not take effect and physician payments are updated by 1 percent annually.

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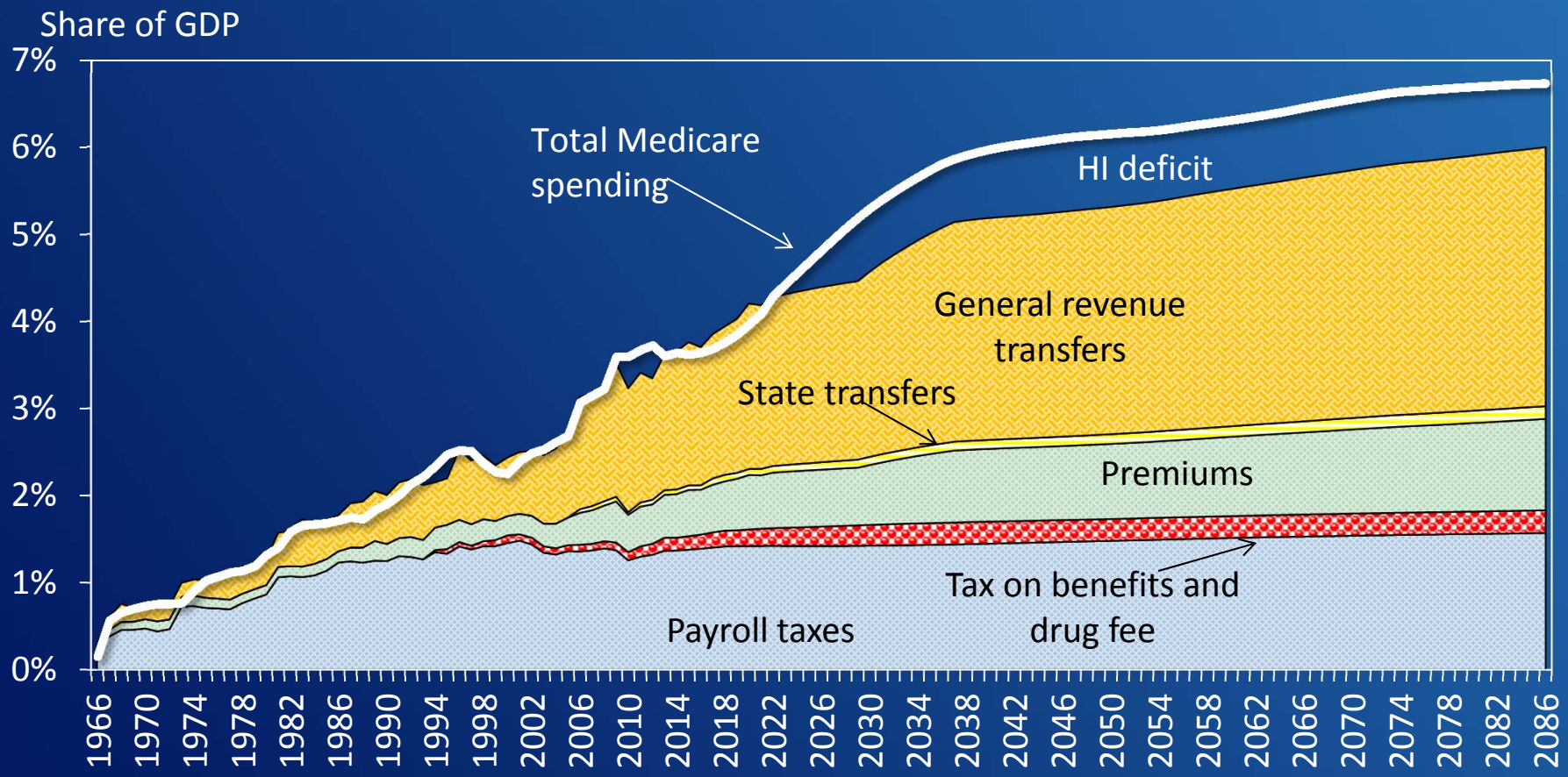
Sources of Medicare revenue



Source: 2012 Trustees Report.

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The federal budget picture

- Federal debt doubled in the past 4 years, from 36% of GDP in 2007 to 73% in 2012
- Medicare, Medicaid and Social Security will equal 16% of GDP in 25 years, nearing the size of the total federal government over the past 40 years
- Under current law, spending for all other parts of the budget will be flat in real terms over the next ten years
- Current law requires significant cuts in spending and increases in taxes at the end of this year

Major provisions affecting the federal budget at the end of the year

Provision	Description	Timeframe	1 year cost of extension/delay
Medicare provisions	SGR, other extensions	December 31, 2012 (September 30, 2012 for some rural provisions)	$20-$25 billion
Tax provisions	Income tax reductions for individuals, estate and gift tax, AMT	December 31, 2012	$300 billion
Sequester	Reduction of between 7 and 10 percent for nonexempt federal programs	January 2, 2013 (February 1, 2013 for Medicare)	$65 billion
Recovery provisions	Unemployment insurance extension, payroll tax cut	December 31, 2012	$120 billion

Note: Costs are estimates.

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Effect of health care spending growth on families and beneficiaries

- Stagnant income growth (nominal)
  - Health care cost-sharing consumes wage increases
  - Parts B and D cost-sharing consumes an increasing share of Social Security benefits
- The economic downturn
  - Smaller assets and income
  - Continued participation in the labor force after age 65

Demographic and health trends

- Demographics
  - Age
  - Diversity
- Prevalence and risk of chronic conditions
  - Obesity trends
  - Risk of obesity-related chronic conditions
- Insurance coverage
  - Product type
  - Level of cost-sharing

Change in chronic conditions, 2006-2010

	Prevalence 2006	Prevalence 2010	Annual change in total spending
Chronic kidney disease	9%	13%	**11%**
Chronic obstructive pulmonary disorder	10%	10%	**4%**
Congestive heart failure	15%	11%	**-1%**
Diabetes	25%	27%	**6%**
Ischemic heart disease	31%	25%	**0%**

Source: Beneficiary Annual Summary File (BASF)
Note: Beneficiaries may be in more than one category. Disease definitions based on Chronic Condition Warehouse definitions.

Evidence that some health care spending may be misallocated

- Variation in utilization and spending
  - Regional
  - International
- Value of health care spending
  - Declining value
  - Improper services
- Persistent disparities in care
  - Worse outcomes for minorities and low-income individuals
  - Minorities receive care from poorer quality providers

Discussion

- Questions?
- Comments on scope, substance, or tone