Exhibit 2

Medicare's Role Today

- **Medicare covers 47 million Medicare beneficiaries**
  - 39 million seniors and 8 million people under-65 receiving Social Security Disability Insurance payments because of permanent disabilities
  - Individuals entitled to Medicare without regard to medical history or income

- **Medicare is a critical part of policy discussions related to the federal budget**
  - 12 percent of federal spending

- **Medicare is a major player in the US health care system**
  - 23 percent of national personal health care spending

- **Though not initially a primary focus, Medicare played a key role in 2010 health reform law**

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Exhibit 3

The A, B, C's and D's of Medicare

- **<u>Part A:</u>**
  - Inpatient hospital care
  - Up to 100 days of skilled nursing facility care
  - Hospice care
  - Limited home health services post-hospital
  - Funded by payroll tax that is deposited into the Hospital Insurance Trust Fund
- **<u>Part B:</u>**
  - Physician services
  - Outpatient hospital care
  - Preventive services, such as mammography screening
  - Mental health services
  - Home health
  - X-rays and other diagnostic procedures
  - Durable medical equipment
  - Financed by premiums and general revenues

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Exhibit 4

The A, B, C's and D's of Medicare (cont'd)

- **Part C**
  - Now called Medicare Advantage
  - Beneficiaries may choose to enroll in a private plan, such as an HMO or PPO, to receive Medicare-covered benefits
  - Medicare pays a fee to the insurers that sponsor these plans; plans provide benefits covered under Parts A and B, and often Part D.
- **Part D**
  - Helps pay for outpatient prescription drugs
  - Benefits provided by private plans that contract with Medicare
  - Two types of plan: stand-alone prescription drug plans and Medicare Advantage plans
  - Funded by premiums, general revenues and state payments.

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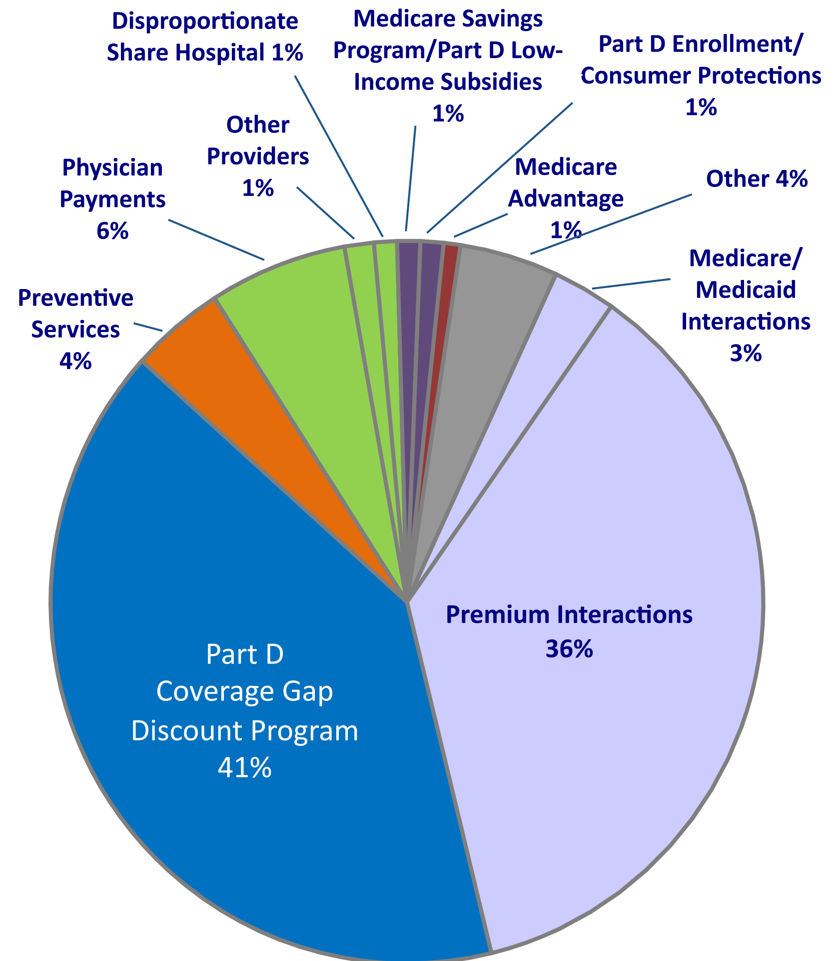
Exhibit 5

Health Reform: Medicare Spending

- **The Health Reform Law contains many Medicare related provisions**
  - **These include increasing spending to expand coverage, reducing spending by improving efficiency, and improving delivery and quality of care**
- **$105 billion in Medicare spending over 10 years**
- **$43 billion to gradually close the Part D doughnut hole**
- **$5 billion for prevention benefits including new annual wellness visit**
  - **No deductibles or coinsurance on prevention plans that receive an A or B grade from US Prevention Services Task Force**
- **$8 billion for primary care physicians and other providers**



Ten-Year Medicare Spending = $105.3 Billion

Source: Kaiser Family Foundation analysis of Congressional Budget Office (CBO) cost estimates as provided on March 20, 2010.

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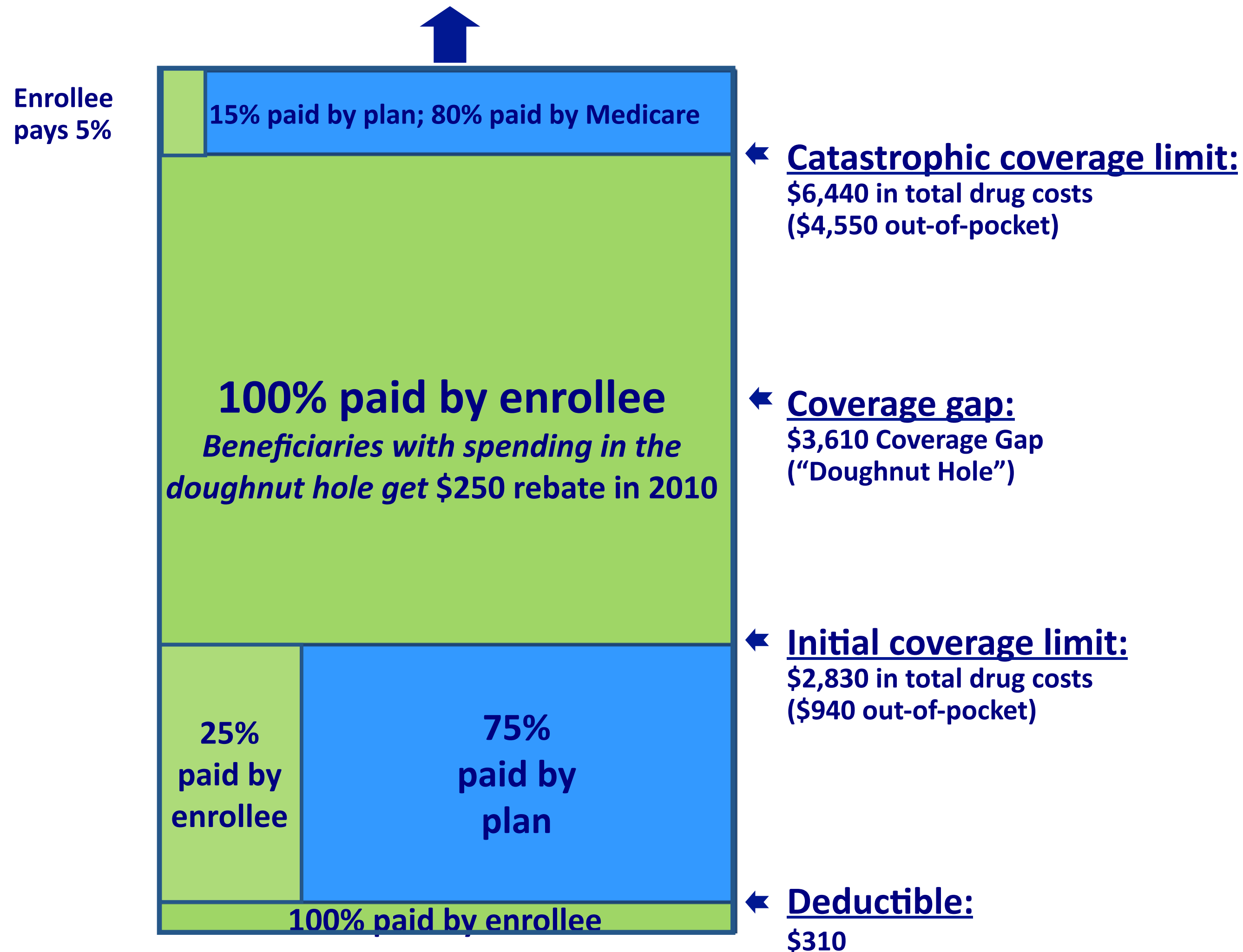
Exhibit 6

Standard Medicare Prescription Drug Benefit, 2010



SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit in 2020 under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.

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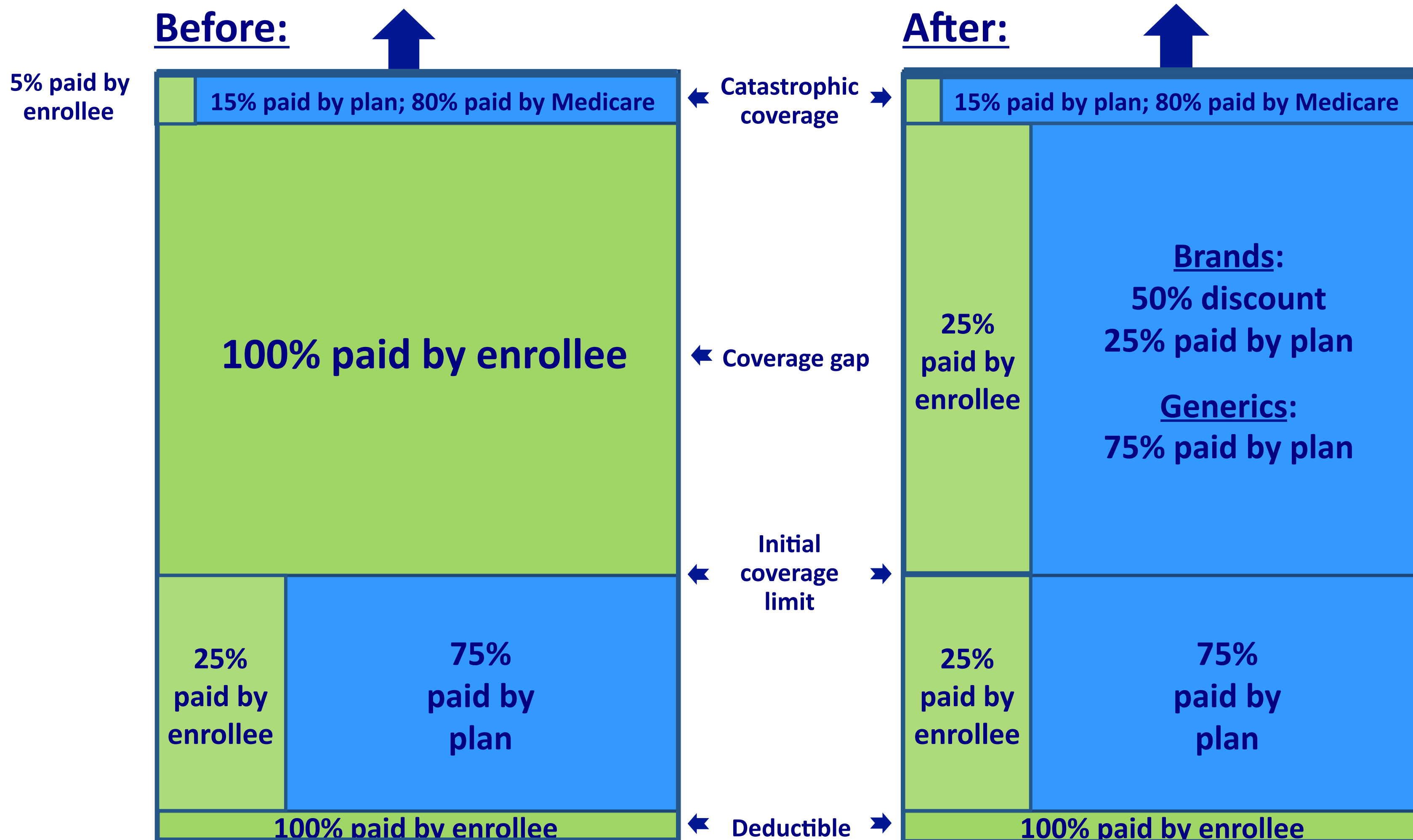
Exhibit 7

Standard Medicare Prescription Drug Benefit, 2020

Before and After Health Reform



SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit in 2020 under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.

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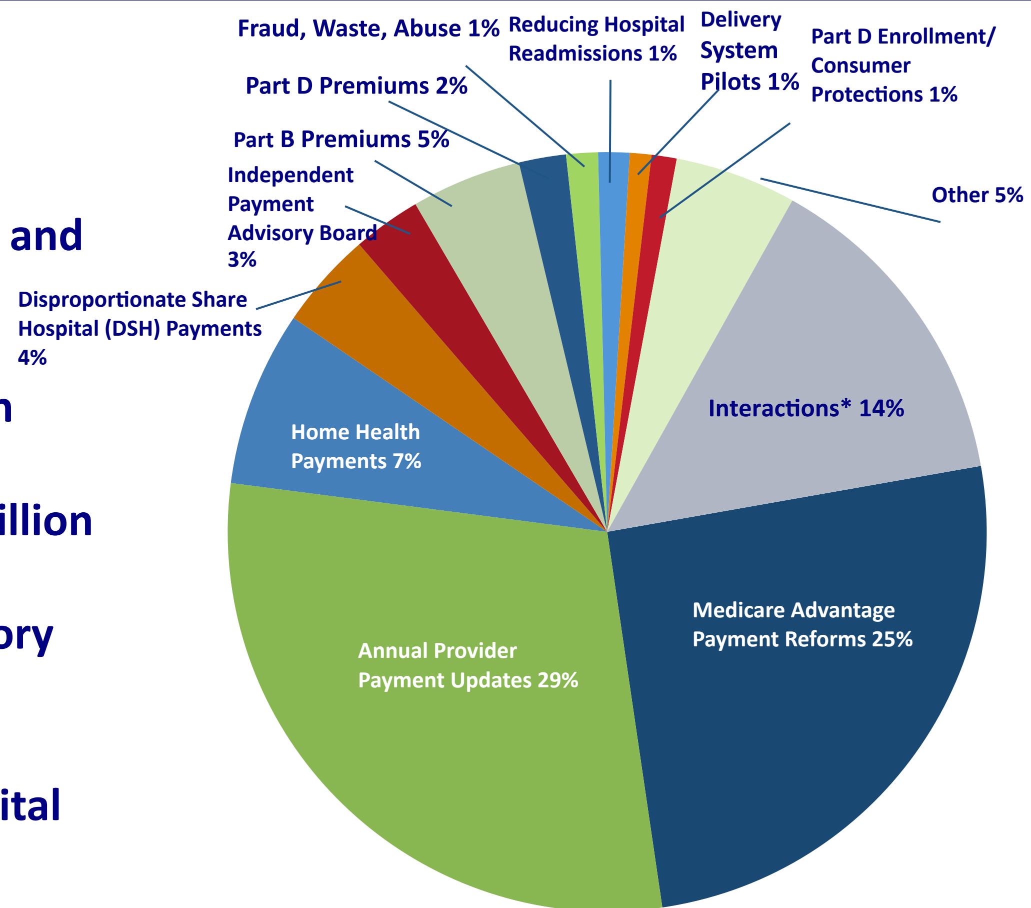
Exhibit 8

Health Reform: Medicare Savings

Sources of Savings

- Provider payments, including DSH and home health - $219 billion
- Medicare Advantage – $136 billion
- Income-related premiums – $36 billion
- New Independent Payment Advisory Panel – $16 billion
- Delivery system reforms and hospital readmissions – $12 billion



Ten-Year Medicare Savings = $533.1 Billion

Source: Kaiser Family Foundation analysis of Congressional Budget Office (CBO) cost estimates as provided on March 20, 2010.

Notes: *Savings include interactions with Medicare Advantage and TRICARE; spending includes implementation of Medicare changes, Part D interactions with Medicare Advantage provisions, Part B interactions with Part D provisions, and Medicaid interactions with Medicare Part D provisions.

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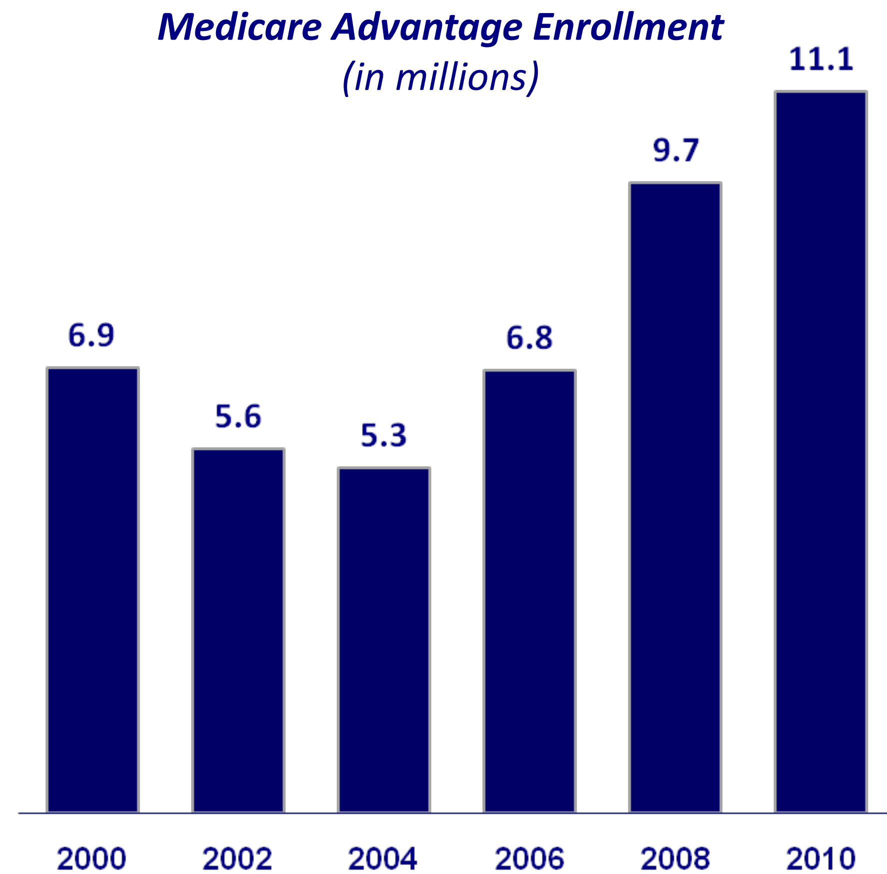
Exhibit 9

Medicare Advantage: A Key Issue in the Health Reform Debate

- **Beneficiaries have choice of fee-for-service “original” Medicare or can enroll in a Medicare Advantage (MA) plan (such as HMOs and PPOs)**
- **Medicare Advantage plans are paid a fixed amount per enrollee**
    - **But more than it would pay under traditional Medicare**
- **Relatively high payment to plans has resulted in an increase in plan availability and enrollment**
- **“Overpayments” to plans shorten the life of the Part A Trust Fund and increase Part B premiums**
- **Thus, an issue during the health reform debate**



25% of beneficiaries are enrolled in Medicare Advantage plans in 2010

Source: Kaiser Family Foundation, Medicare Advantage 2010 Data Spotlight: Plan Enrollment Patterns and Trends. Marsha Gold, Dawn Phelps, Gretchen Jacobson, and Tricia Neuman, June 2010.

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Exhibit 10

Medicare Advantage Savings: Implications for Beneficiaries

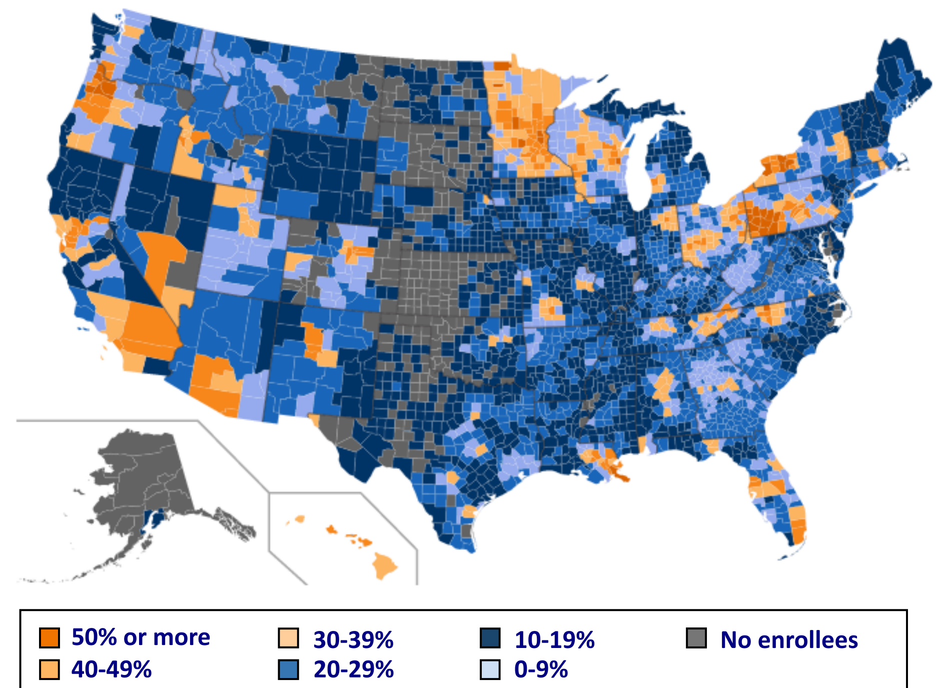
Key Provisions

- Freezes benchmarks for 2011; phases in reductions, based on FFS costs in county
- Reduces plan's share of rebate from 75% to 50% for most plans (2012)
- Provides new bonus and higher rebates to plans receiving high quality ratings (2012)

Impact on Beneficiaries

- Fewer enrollees (CBO)
- Fewer extra benefits (CBO)
- Possibly fewer plans

Medicare Advantage Penetration



25% of beneficiaries are enrolled in Medicare Advantage plans in 2010

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Exhibit 11

Numerous delivery system, quality and payment reforms

- Federal Coordinated Health Care Office in CMS for dual eligibles (2010)
- New Center for Medicare and Medicaid Innovations (2011)
- Shared Savings/Accountable Health Organizations (2012)
- Reduces payments for preventable hospitalizations (2012)
- Independents at Home demonstration project with shared savings (2012)
- Value-based purchasing for hospitals (2012)
- National pilot to bundle payments for hospital and post-acute care (2013)
- Reduces payments for hospital-acquired conditions (2015)
- Establishes mandatory physician quality reporting program (2015)
- The CBO estimates that these initiatives will reduce Medicare spending by $12 billion over ten years

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Exhibit 12

Independent Payment Advisory Board with unprecedented authority to recommend reductions in Medicare spending

- **Creates new board with 15 full-time members, appointed by President, confirmed by U.S. Senate**
- **Requires the board to recommend specific Medicare savings proposals if Medicare spending exceeds target growth rates**
- **Requires the HHS Secretary to implement board's recommended proposals , unless Congress enacts an alternative with equivalent savings**
- **Prohibits board from recommending proposals that would ration care, reduce benefits, increase cost-sharing, or modify benefits, eligibility, premiums, or raise taxes, or reduce payments for certain providers (before 2018)**
- **Requires board to make recommendations to slow the growth in health care spending outside of Medicare – though these recommendations are not binding**
- **CBO projects the Board will achieve Medicare savings of $15.5 b (2015-2019)**

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Exhibit 13

New Medicare-related revenue sources in the health reform law

- **Medicare savings attained through increases in premiums paid by higher income Medicare beneficiaries under Parts B and D.**
- **Freezes income threshold for Part B premium at $85,000/ individuals and $170,000/couples; income thresholds will no longer be indexed for inflation (2011)**
- **Establishes new income-related Part D premium, with same, fixed income thresholds as Part B (2011)**
- **Increases the Medicare Part A tax from 1.45% to 2.35% on earnings over $200,000/individuals and $250,000/couples (2013)**

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Exhibit 14

Medicare Part A Trust Fund

Projection: Health reform legislation will extend the life of the Medicare Part A Trust Fund from 2017 to 2029

Assets as a share of annual spending:

150%
100%
50%
0%

2004 2009 2014 2019 2024 2029

Pre-health reform:
2017 projected insolvency date

Post-health reform:
2029 projected insolvency date

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Exhibit 15

Rate of Medicare Spending Projected to Slow

Congressional Budget Office Projections

Medicare Baseline Spending
(in $ billions)

Year	Baseline Medicare Spending	Medicare Spending AFTER Health Reform
2010	$521	$523
2011	$570	$570
2012	$580	$571
2013	$635	$617
2014	$696	$652
2015	$725	$675
2016	$787	$732
2017	$819	$748
2018	$854	$771
2019	$943	$845

Projected Savings: $50 billion (2015); $100 billion (2019)

NOTE: Estimates do not take into account future changes to the Sustainable Growth Rate formula to prevent reduction in fees.
SOURCE: Medicare Baseline Spending before reform from CBO, March 2009 Baseline: MEDICARE; after reform from Kaiser Family Foundation analysis of CBO cost estimates of health reform legislation, March 20, 2010.

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Exhibit 16

Future Challenges

- **Assessing the implications of Medicare provisions in the 2010 health reform law for seniors and people with disabilities on an ongoing basis**

- **Maintaining and improving access to care, and quality of care, in the face of pressure to constrain the growth in Medicare spending**

- **Assuring health care is affordable to people on Medicare, particularly those with modest incomes and serious health needs**

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For additional information about Medicare and health reform visit www.kff.org

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