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Medicare: Implications of Recent Changes for Future Retirees

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Medicare Strengths and Challenges

- **Half of the elderly uninsured before Medicare. Gains in life expectancy and improved quality of life**
- **National program; near universal participation**
- **Elderly one of few groups where U.S. health and percent poor compares well internationally**
- **Innovator: Payments systems. Billing systems. Potential to leverage change to improve care.**
- **Compared to private insurance for under 65 population**
 - **Higher rates of satisfaction; fewer access problems**
 - **30 year record on costs: outperforms private insurance**
 - **Low administrative costs**
- **Yet benefit gaps and rise in medical care costs put beneficiaries and Trust Fund at risk**

Medicare Bill

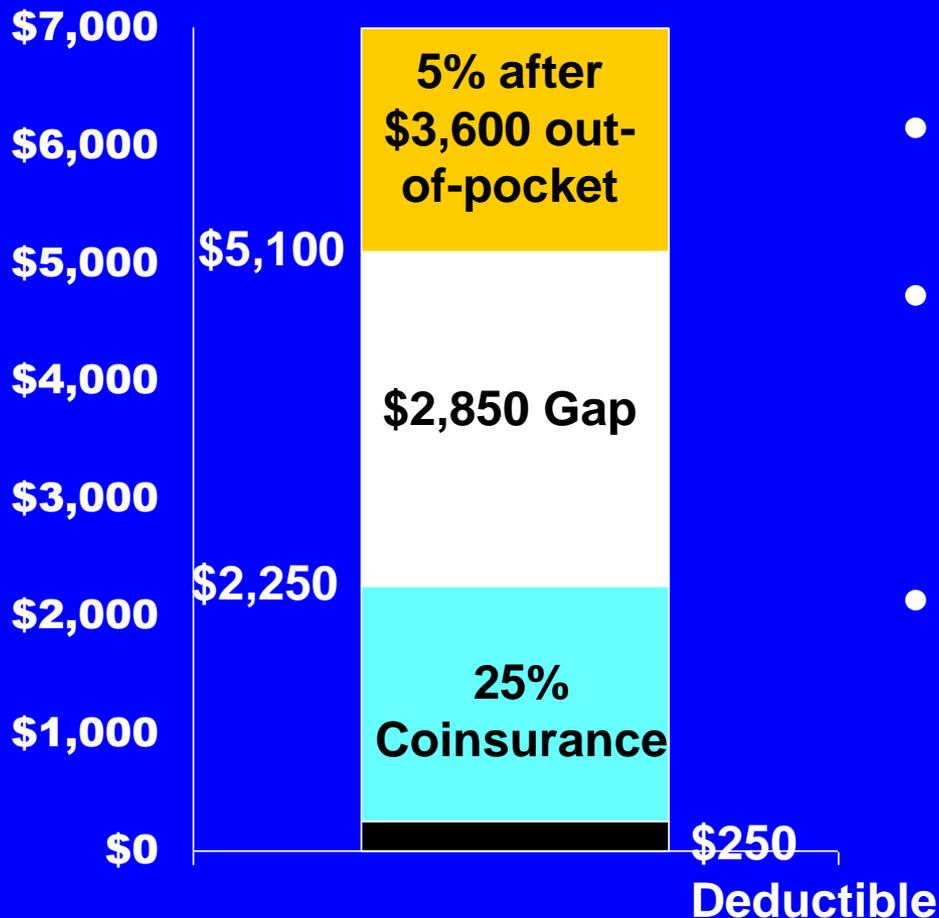
- **Prescription drug coverage**
- **Structural change**
 - **Increased role for private plans: PPO, HMO and new drug only plans.**
 - **Divides up Medicare risk pool**
 - **Premium support demos**
 - **Potential increased beneficiary liability**
- **Health savings accounts**

Prescription Drug Coverage Begins 2006

- **Benefit: Voluntary, optional Part D coverage**
 - Average premium \$35 per month. \$58 in 2013
 - \$250 deductible
 - 75% coverage from \$250 to \$2,250
 - Gap: No coverage between \$2,250-\$5,100
 - 95% coverage above \$5,100 (\$3,600 out-of-pocket)
 - Premiums, coinsurance/size of gap, formularies can vary by plan. “Actuarial equivalent”
 - Deductible and cost sharing thresholds indexed to increase with drug spending
- **Free standing “drug only” plans or HMO, PPO. No Medigap drug coverage allowed**
- **Subsidies for employer retiree RX coverage**
- **Low income subsidies premium/cost-sharing for beneficiaries with incomes below 150% poverty**

Prescription Drug Benefit 2006: Beneficiary Cost Sharing

Total spending by beneficiary



- **\$420 estimated annual premium**
- **Average spending in 2006=\$3,160**
- **About one-third of beneficiaries have drug expenses under \$1,000**
- **About one-fifth of beneficiaries have drug expenses over \$5,000**

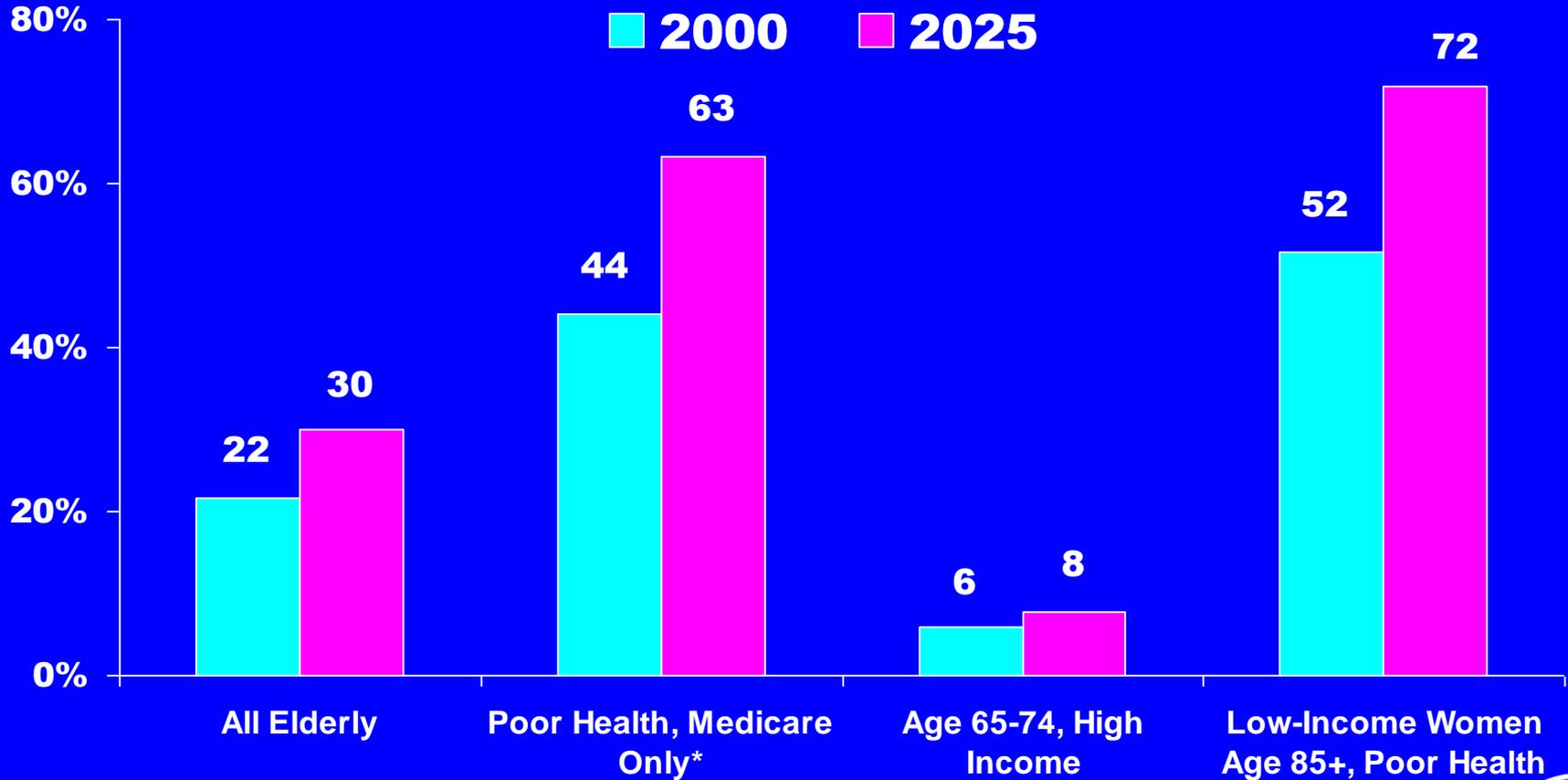
Employer Retiree Plans

- **New benefit much worse than employer retiree plans covering about 13 million beneficiaries**
- **Retiree plans subsidies– 28% payment for drug costs between \$250 & \$5000.**
- **Employers can provide premium and cost-sharing assistance**
- **Employer contributions do not count toward out-of-pocket calculation for catastrophic threshold**
- **Long term downward trend in retiree health coverage**

Structural Change: Privatization

- **Stand-alone private drug plans. 15 regions with two or more plans.**
- **Subsidies to HMOs and PPOs (in 2006) above Medicare payment levels**
 - **PPO encouraged. \$10 billion stabilization fund plus extra payments to attract plans**
- **Premium support demonstration in 2010. Move from defined benefit toward defined contribution**
- **Could leave those in traditional Medicare paying more if risk pool is older and sicker**
- **History of M+C unstable and failure to yield savings.**

Before Reform: Projected Out-of-Pocket Health Care Spending as a Share of Income, 2000 and 2025

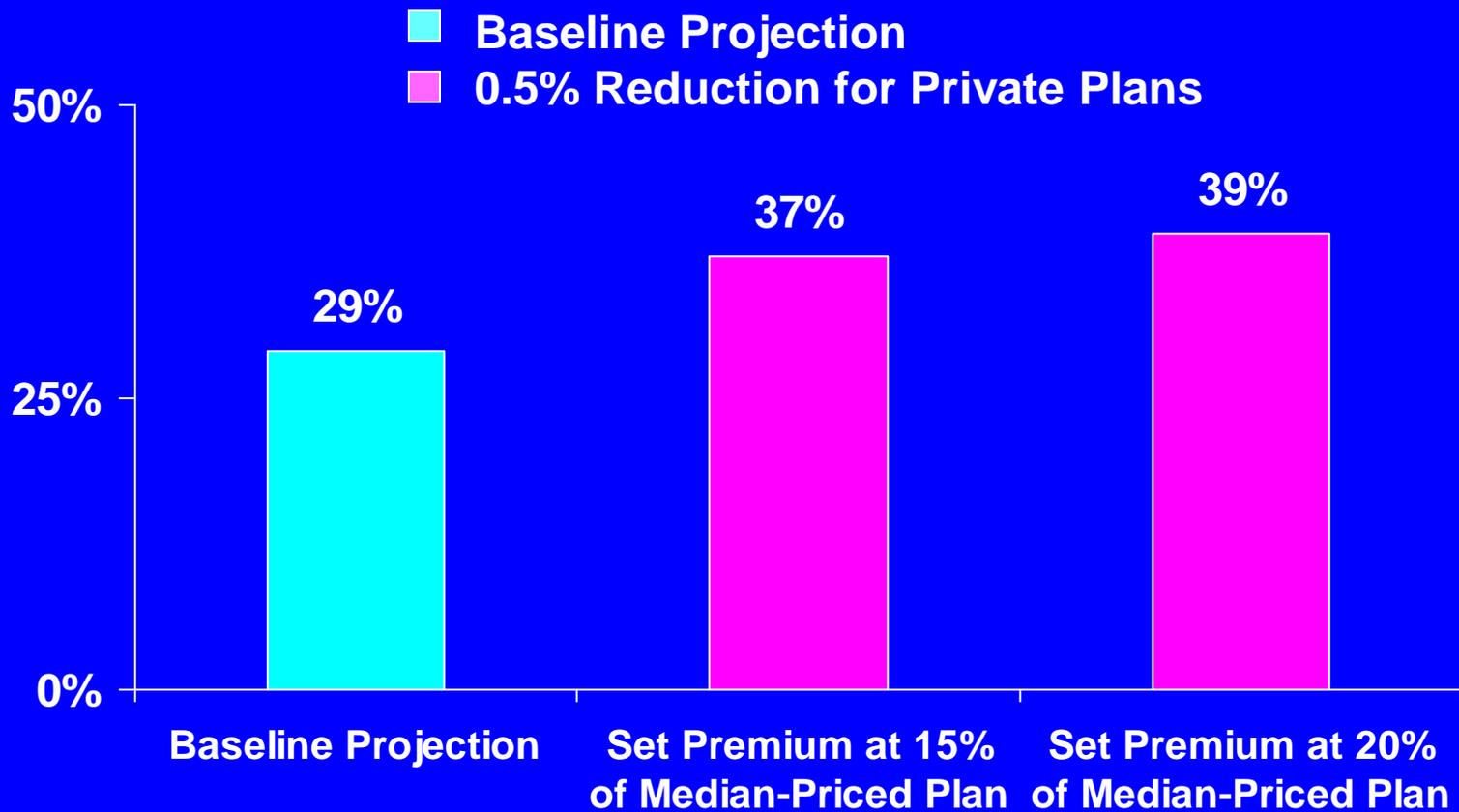


* No insurance beyond Medicare basic benefits

Source: Maxwell, Moon, Segal, *Growth in Medicare and Out-of-Pocket Spending: Impact on Vulnerable Beneficiaries*, The Commonwealth Fund, December 2000.



1999 Study Estimates of Out-of-Pocket Costs for “Average” Medicare Beneficiary in Traditional Medicare as a Share of Income Under Premium-Support Options, 2025



Source: Marilyn Moon, “Restructuring Medicare: Impacts on Beneficiaries,” May 1999.



Implications for Future?

- **RX benefit uncertain:**
 - Relief from RX costs IF drug plans emerge AND beneficiaries participate
- **Health savings accounts: new tax shelter. More likely for more affluent.**
- **Private plans**
 - Divide Medicare risk pool
 - Potential to increase beneficiary out of pocket liability.
- **Structural change could dilute power of Medicare to assure access or leverage system change.**