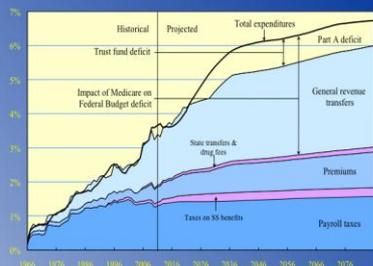


The Financial Status of Medicare

20th Annual Princeton Conference:
“The Health Care System in Transition”
May 22, 2013



Chart 3—Medicare sources of income and expenditures
(As a percentage of GDP; 2012 Medicare Trustees Report)



Richard S. Foster, FSA

Chart 1—Medicare “solvency,” “budget impact,” and “sustainability”: Which concept is which?

Trust fund solvency: Is a fund’s income adequate to cover its expenditures?

Budget impact: Does Medicare increase or reduce the Federal Budget deficit?

Sustainability: Can the Medicare program fulfill its intended purposes in the long run, at a cost that the nation can afford?

These three concepts are often confused but are fundamentally different. Questions related to one concept cannot be answered by information from another.

Chart 2—Financial status of Medicare Part A trust fund

(Costs and income as a percent of taxable payroll; 2012 Medicare Trustees Report)



Chart 3—Medicare sources of income and expenditures

(As a percentage of GDP; 2012 Medicare Trustees Report)

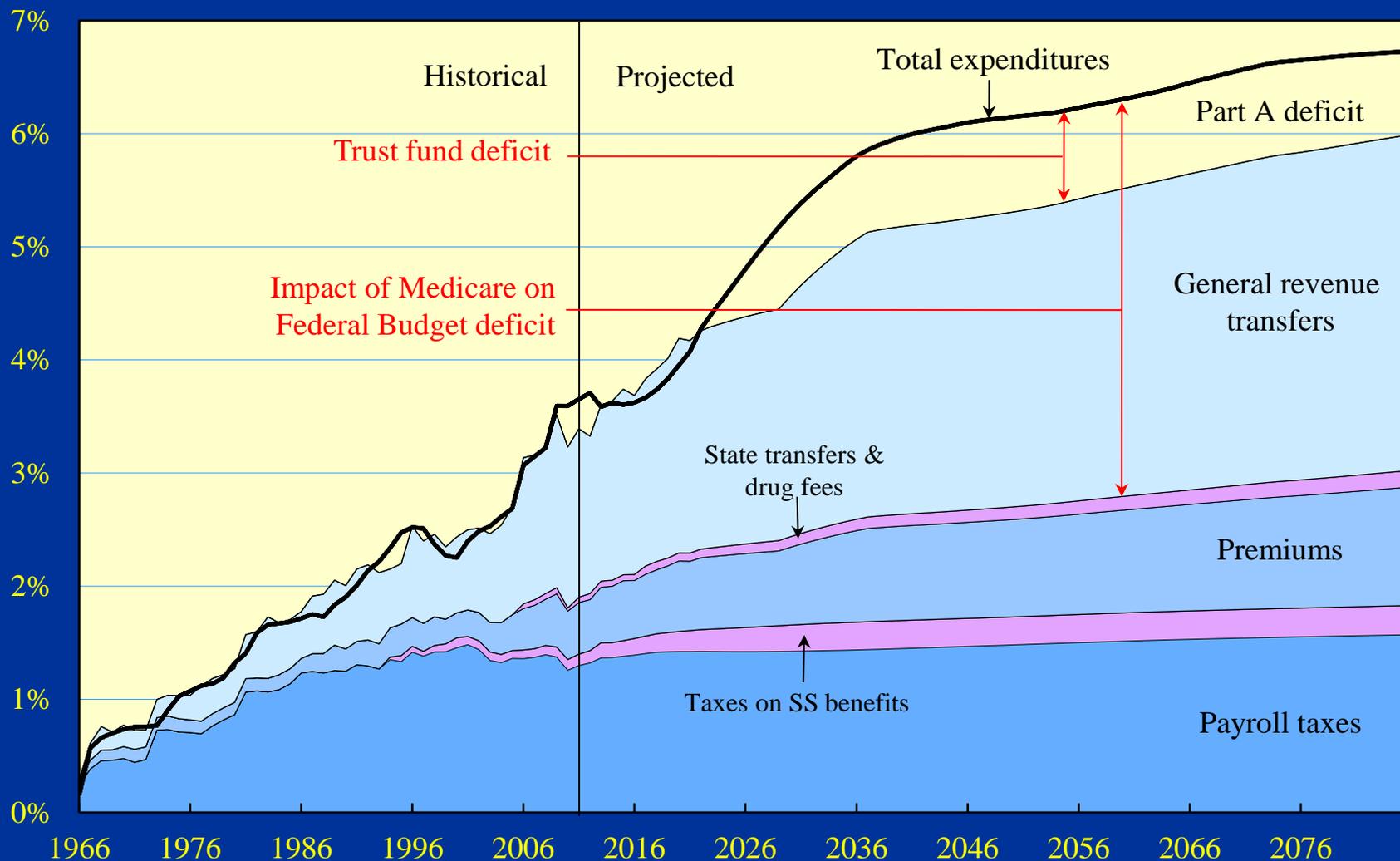


Chart 4—Total Medicare income less expenditures based on “trust fund” and “budget” perspectives (in billions)

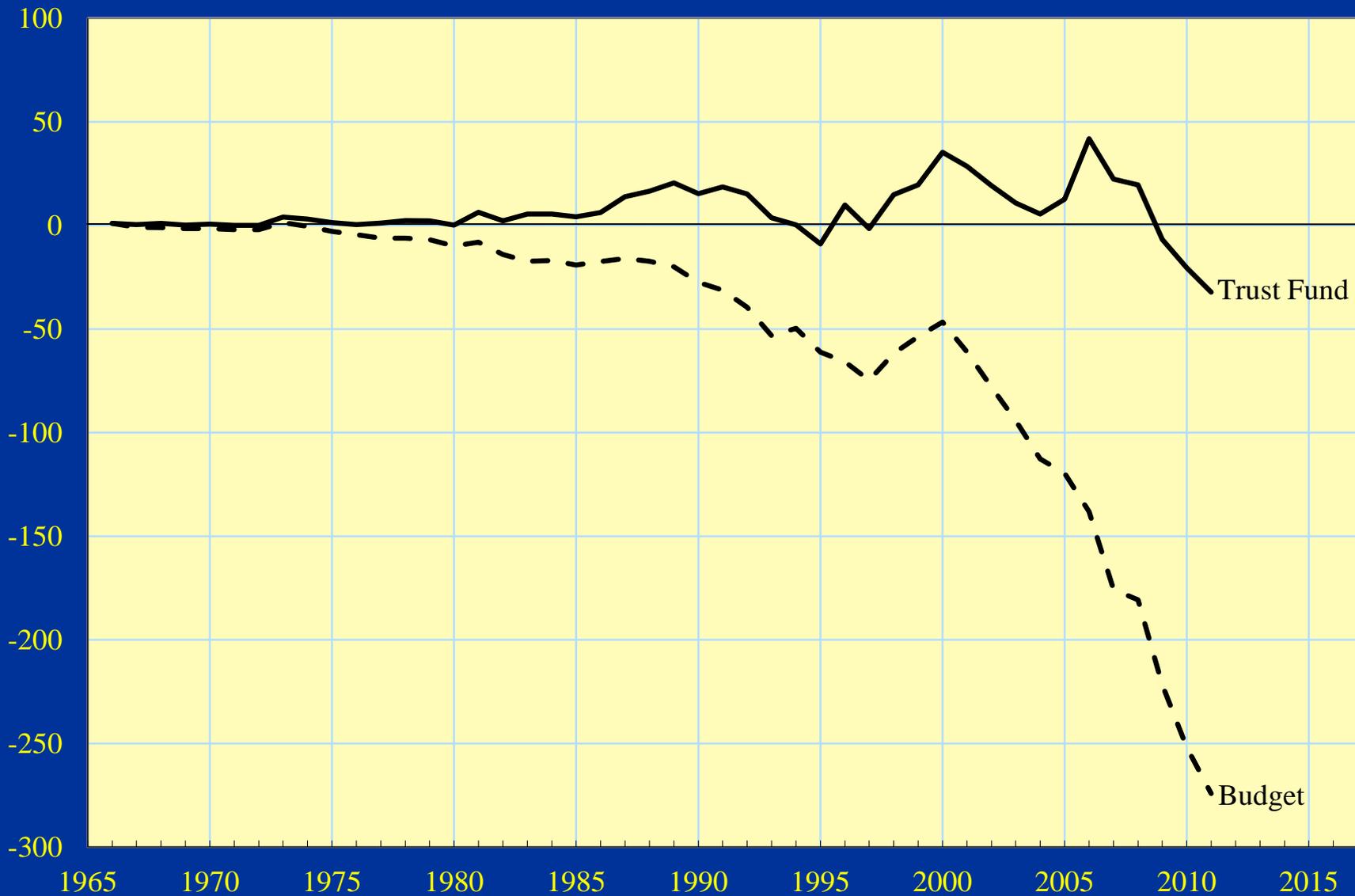


Chart 5—Comparison of relative Medicare, Medicaid, and PHI prices for inpatient hospital services under current law

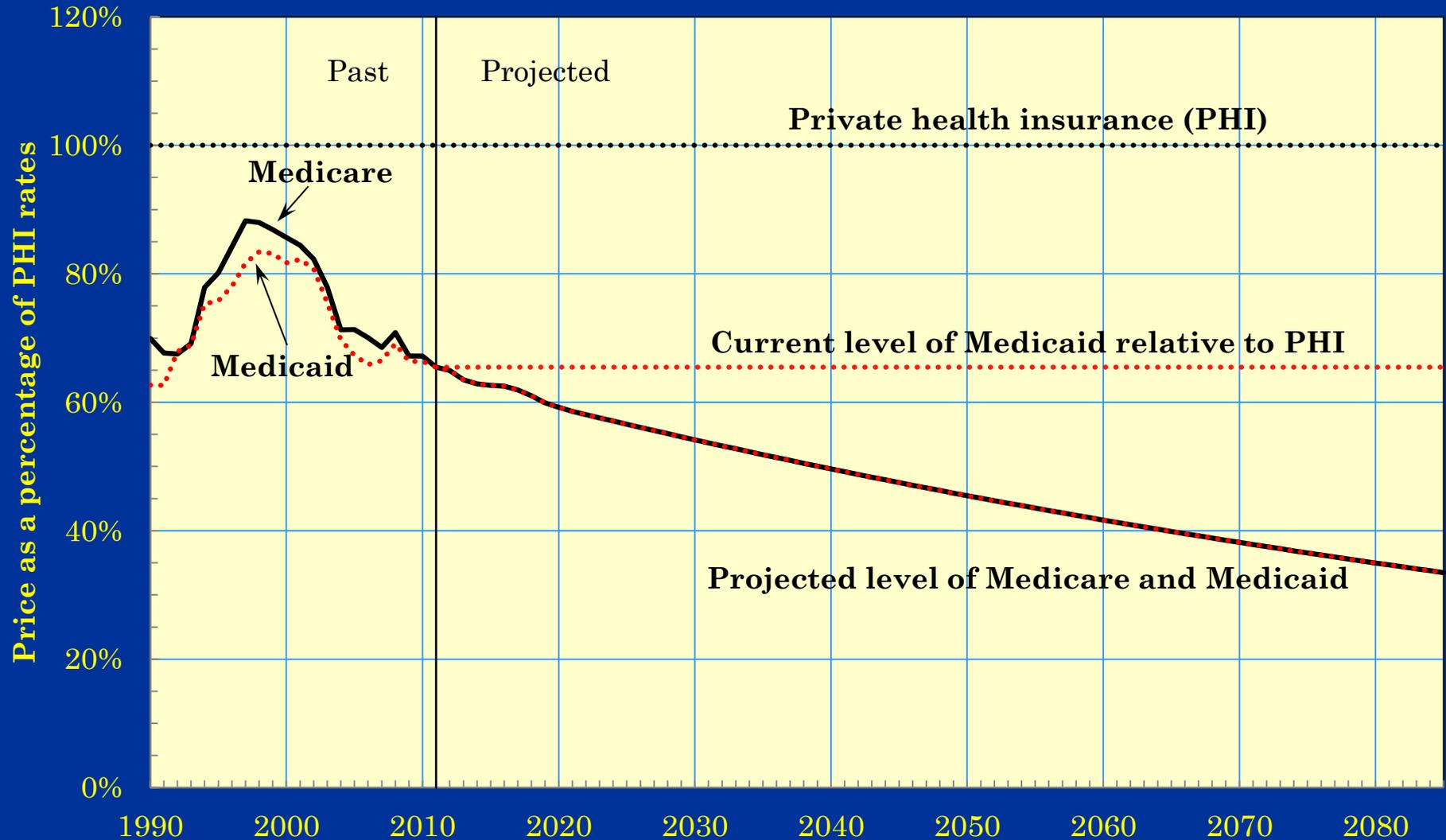


Chart 6—Comparison of relative Medicare, Medicaid, and PHI prices for physician services under current law

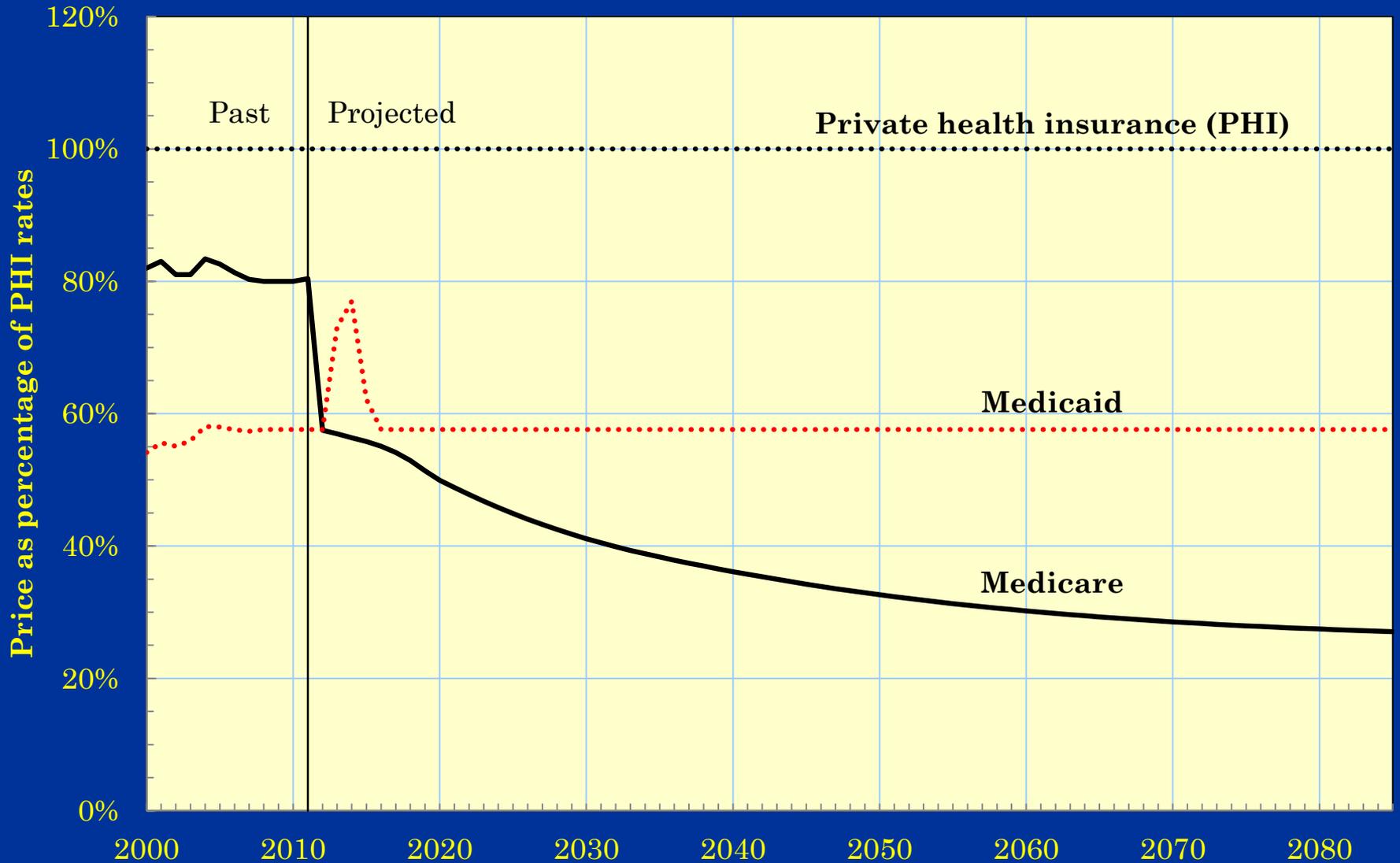


Chart 7—Medicare expenditures under current law and illustrative alternative projections (as a percentage of GDP)

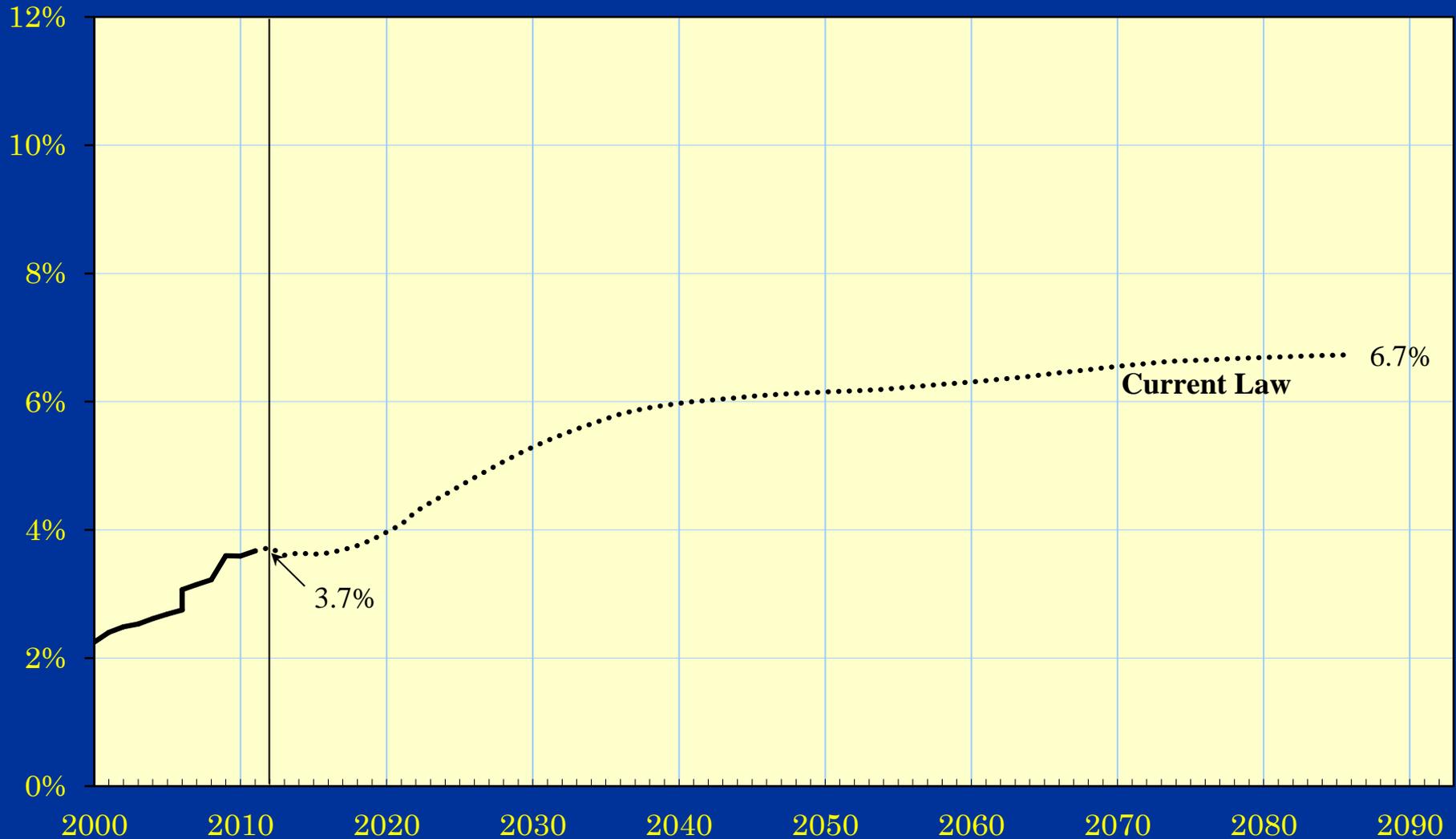
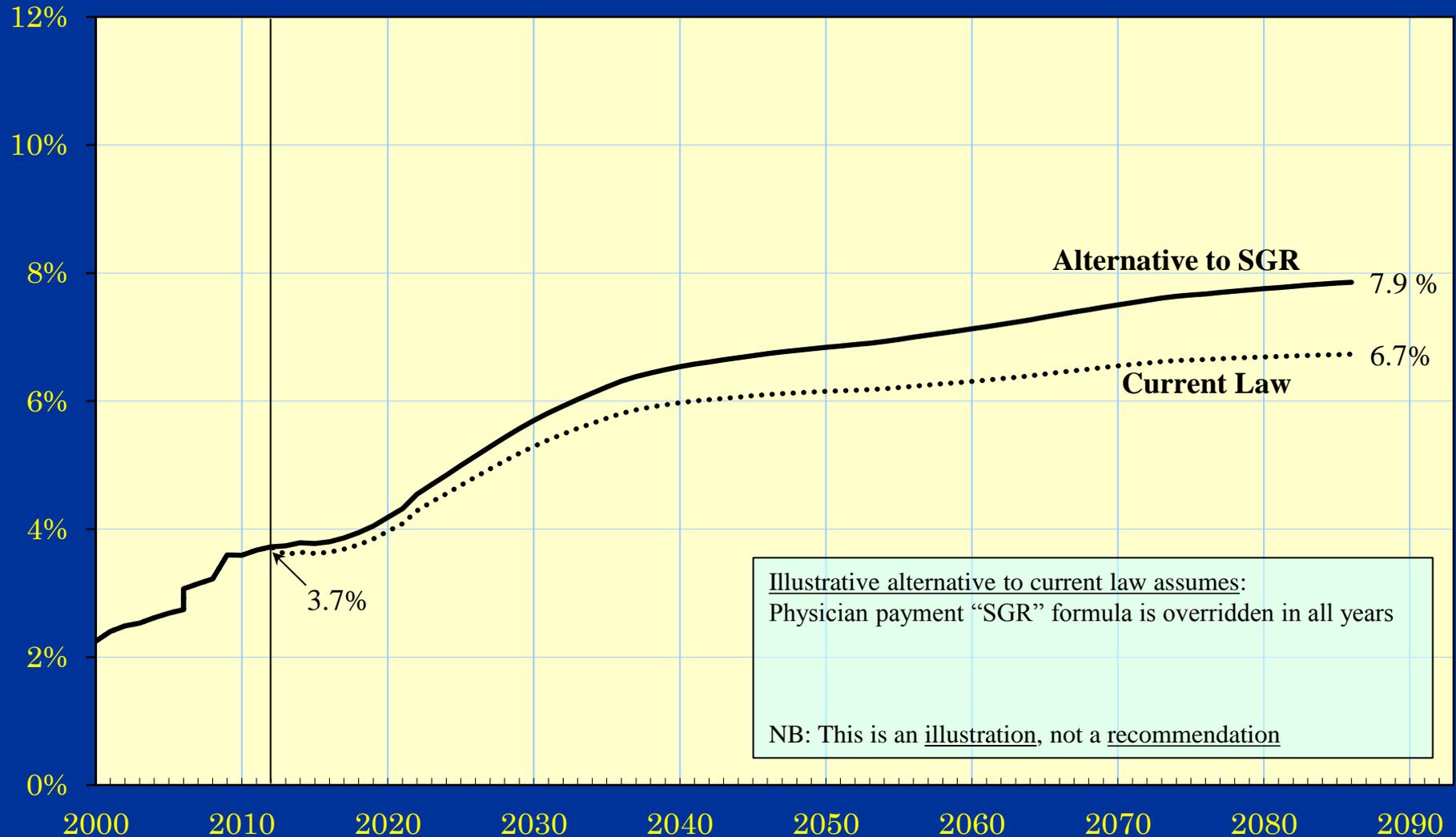


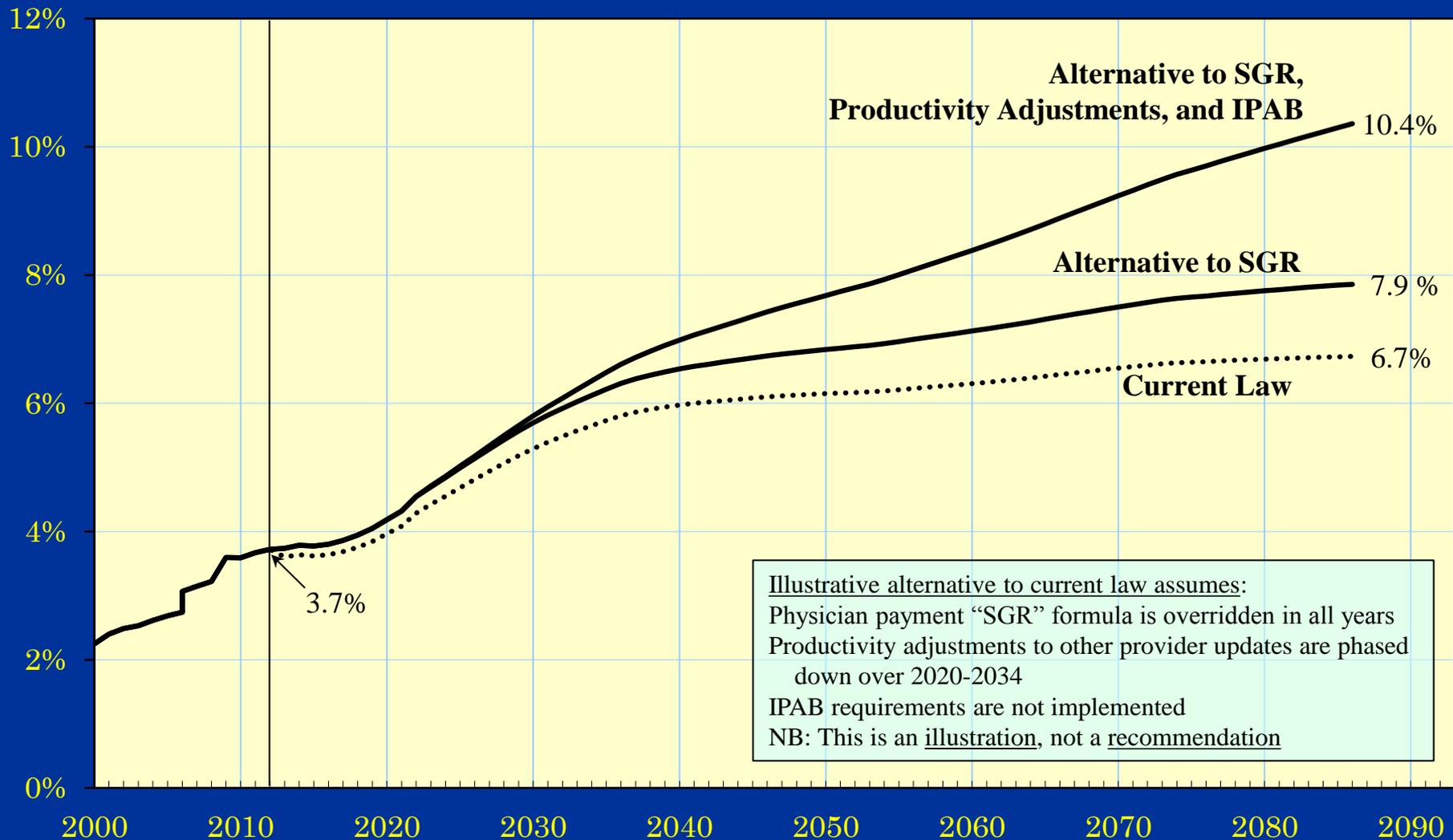
Chart 7—Medicare expenditures under current law and illustrative alternative projections (as a percentage of GDP)



Illustrative alternative to current law assumes:
Physician payment “SGR” formula is overridden in all years

NB: This is an illustration, not a recommendation

Chart 7—Medicare expenditures under current law and illustrative alternative projections (as a percentage of GDP)



Illustrative alternative to current law assumes:
Physician payment “SGR” formula is overridden in all years
Productivity adjustments to other provider updates are phased down over 2020-2034
IPAB requirements are not implemented
NB: This is an illustration, not a recommendation

Chart 8—Possible methods of reducing Medicare expenditures

Part I

	Slow growth rate?
• Reduce waste & inefficiency	✗
• Reduce fraud & abuse	✗
• Emphasize preventive care	✗
• Use electronic health records	✗
• Pay for performance	✗
• Reduce provider payment rates	✓
• Increase beneficiary cost-sharing	?
• Increase age of eligibility	✗

Chart 9—Possible methods of reducing Medicare expenditures Part II

- | | Slow growth rate? |
|---|-------------------|
| • Manage care | ? |
| • Introduce delivery, payment innovations | ? |
| • Develop national practice standards | ? |
| • Adopt new medical technology more prudently | ✓ |
| • Increase competition | ? |
| • Convert to “premium support” system | ✗ |
| • Convert to “premium support” with limited updates | ✓ |
| • Convert to “defined contribution” (global payment) system | ✓ |
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