

# How Will Deficit Reduction Impact the Health Care System? Federal Budget Options

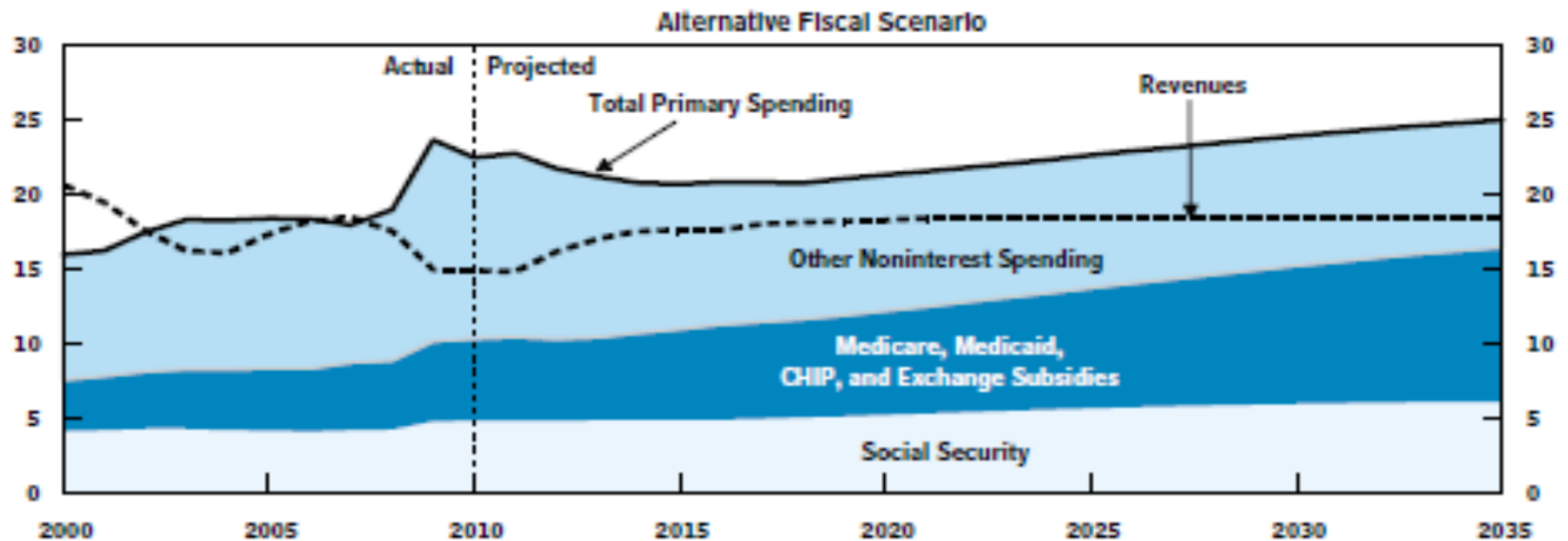
Policy Roundtable  
The Health Industry Forum

Robert D. Reischauer

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# Federal Revenues and Primary Spending, by Category, Under CBO's Alternative Long-Term Budget Scenario

## Percent of GDP



Source: Congressional Budget Office.

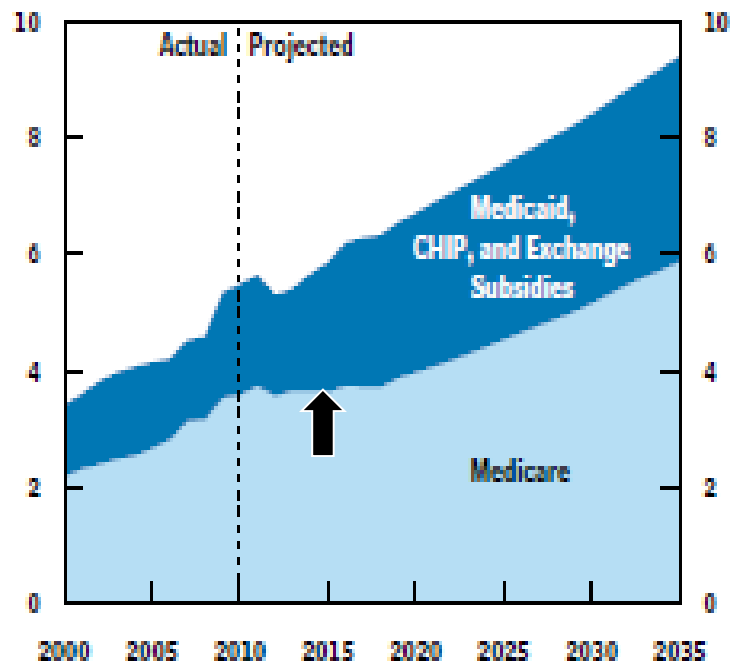
Notes: Primary spending refers to all spending other than interest payments on federal debt.

The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections through 2021 and then extending the baseline concept for the rest of the long-term projection period. The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period. (For details, see Table 1-1 on page 4.)

CHIP – Children's Health Insurance Program.

## Mandatory Federal Spending on Health Care, by Category, Under CBO's Extended-Baseline Scenario

(Percentage of gross domestic product)



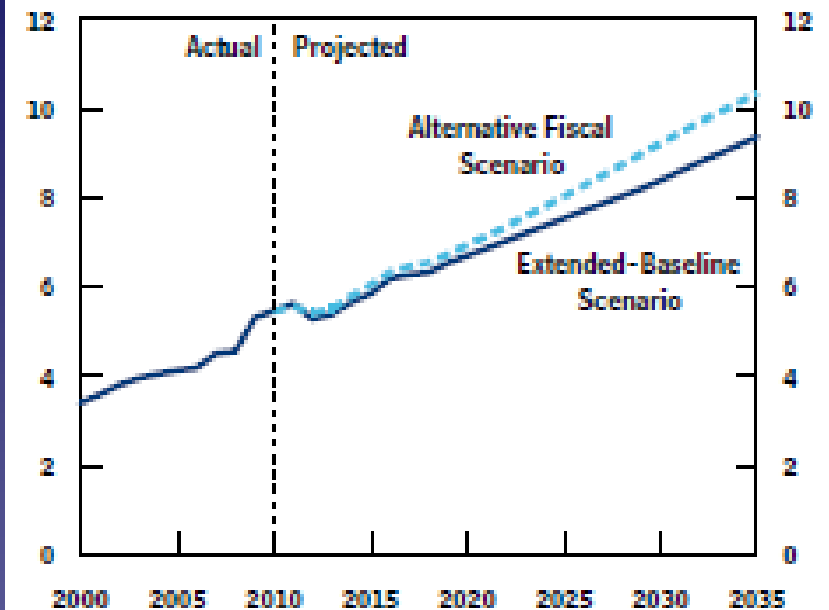
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CHIP – Children's Health Insurance Program.

## Mandatory Federal Spending on Health Care Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections through 2021 and then extending the baseline concept for the rest of the long-term projection period. The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period. (For details, see Table 1-1 on page 4.)

# Growth of Medicare Beneficiaries and Per-Beneficiary Expenditures

	<u>Annual % Increase</u>	
	# Beneficiaries	Per/B Spending
1980-1990	1.9	9.8
1990-2000	1.5	5.6
2000-2010	1.8	7.6
<b>2010-2020</b>	<b>3.0</b>	<b>2.9</b>
<b>2020-2030</b>	<b>2.4</b>	<b>4.8</b>
2030-2040	0.9	4.9

## Growth and Projected Growth in Per Capita Medicare Spending in Excess of Economic Growth.\*

Period	Excess Rate of Spending Growth (percentage points)
1975–2007	2.4
1980–2007	2.2
1985–2007	1.4
1990–2007	1.6
<b>2012–2021</b>	<b>−0.4</b>
<b>2020–2021</b>	<b>0.8</b>

\* Congressional Budget Office, *Long-Term Budget Outlook*, June 2011.<sup>1</sup> The excess rate of spending growth measures the amount by which Medicare spending per beneficiary exceeds GDP per capita, with adjustment for demographic factors such as the aging of the population.

# Possible Medicare/Medicaid Cuts 2012-21 (From Current Policy Baseline)

	Total Package	M+M Cuts
BCA Automatic Cuts	\$1.2 T	\$123B
Draft Democratic Plan	\$4.1T	\$475B
Draft Republican Plan	\$3.1T	\$684B
Bowles-Simpson	\$5.1T	\$402B
Gang of Six	\$4.9T	\$383-\$500B

# Two Broad Approaches

1. The incremental approach: traditional mechanism and tinker with new ideas
2. The revolutionary approach: create a new type of payment and delivery system for the future

# The Four Available Targets

1. **Beneficiaries**—current or future, all or less healthy, all or high income.
2. **Taxpayers**
3. **Providers**—institutional or individual or both.
4. **Existing Institutional Structure**



# Beneficiaries

1. Increase premiums (all or just higher income)
2. Surcharge on generous Medigap coverage
3. Higher deductibles (all or just new beneficiaries)
4. Increased coinsurance / new cost sharing (labs, home health)
5. Cover fewer services
6. Cover fewer people—raise eligibility age

# Tax Payers

1. Increase HI payroll tax
2. Include Medicare subsidy value as taxable income.

# Providers

1. Reduce annual payment updates—strengthen IPAB
2. Reduce payments for over-priced services/over-paid providers
3. Cut bad debt payments to hospitals
4. Reduce IME payments
5. Expand RX rebates
6. Equalized payments for similar interventions across provider types

# Incentives to Encourage Delivery System Restructuring

1. Readmission penalties
2. Prior authorization for advanced imaging
3. Expanded competitive bidding for DME
4. Value based purchasing
5. Limit tax exclusion for ESI premiums
6. Bundled payments/episode based payments
7. ACOs, Medical Homes, etc.
8. Capitation, premium support, vouchers

# Some Big Questions

1. **Wither the ACA?**
2. **To what extent will reductions in public sector health spending reduce access or compromise quality for beneficiaries?**
3. **Will reductions in public sector health spending shift costs onto the private sector?**
4. **Can cost growth of public sector health care programs costs be brought under control if private sector cost growth remains largely unrestrained?**
5. **Will government actions be required to slow the rate of growth of private sector health costs?**