



NIHCM

Medicare Facts

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Overview of Medicare

Medicare is a nationwide health insurance program that provides health benefits to 38 million individuals who have attained age 65, are disabled or have end-stage renal disease (ESRD). The program has two parts:

Part A, Hospital Insurance, covers inpatient hospital care, home health care, hospice care and up to 100 days of skilled nursing facility care. A deductible, currently \$760, is charged for the first hospital admission in each benefit period. If a hospital stay exceeds 60 days, co-insurance of \$190/day is charged for days 61-90. After day 90, "lifetime reserve days" must be used, and co-insurance of \$380/day is charged.

Part B, Supplementary Medical Insurance, covers physicians' services and other medical and health services, subject to a \$100 annual deductible and 20 percent co-insurance for most services.

Medicare Enrollment

Most individuals age 65 or older become entitled to Part A of Medicare in the same manner that they become entitled to Social Security: they have sufficient quarters of coverage under the Social Security system. Those not automatically entitled may purchase Part A benefits by paying a premium that reflects the actuarial value of the program.

Individuals receiving disability payments under Social Security are also entitled to Medicare Part A after a two-year waiting period. In 1995, Part A covered 37 million beneficiaries (33 million elderly and 4 million disabled).

Anyone age 65 or older and any younger person covered by Medicare Part A may also enroll in Medicare Part B by paying the monthly premium of \$43.80. In 1995, Part B covered about 36 million beneficiaries (32 million elderly and 4 million disabled).

From 1975 through 1996, Medicare enrollment grew at an average annual rate of 2.2% per year. Slower enrollment growth of 1.2% per year is expected until 2002, after which the rate will slowly begin to increase again. Much more rapid growth will begin in 2011, as the first baby boomers reach age 65.

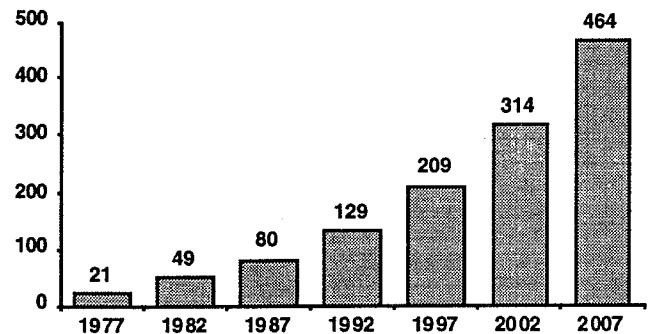
Medicare Expenditures

Total Medicare outlays will exceed \$200 billion in 1997, according to the Congressional Budget Office (CBO), having grown an average of over 10% per year since 1983. The growth rate has slowed slightly in the past year, and CBO projects that Medicare spending will grow 8.4% per year on average from 1996 to 2007, a rate still well in excess of general inflation. By 2007, total Medicare outlays are projected to reach \$464 billion.

This year, Medicare will consume 12.8% of total federal spending, up from 8.6% in 1990 and 4.2% in 1975. If no changes are made in current law, CBO projects that Medicare will account for 18% to 19% of federal spending in 2007.

Medicare Outlays, 1977-2007

[Dollars in billions]



Source: CBO, *Economic and Budget Outlook*, January 1997. Figures after 1996 are projected.

Some Medicare-covered services are growing faster than others. The Health Care Financing Administration (HCFA) reports that spending on inpatient hospital and physician services slowed markedly after 1983; but spending on hospital outpatient services, home health care and skilled nursing facilities continued to grow at double-digit rates. As a result, the distribution of Medicare spending has changed substantially over time. In 1983, inpatient care still accounted for almost 65% of Medicare program payments; by 1994, its share had fallen under 52%. Home health care, on the other hand, rose from only 2.6% of payments in 1983 to 8.6% in 1994.

The National Institute for Health Care Management is a nonpartisan research and educational organization established in 1993 by leading managed care companies. NIHCM supports fact-based research and analysis of health care issues and provides a forum for the dissemination of effective and innovative practices in health care management, financing and delivery.

Medicare Spending by Service

Type of Service	1983	1994
• Inpatient Hospital	64.6 %	51.7 %
• Physician and Related	25.6 %	26.3 %
• Hospital Outpatient	6.4 %	9.3 %
• Home Health Care	2.6 %	8.6 %
• Skilled Nursing Home	0.8 %	4.1 %

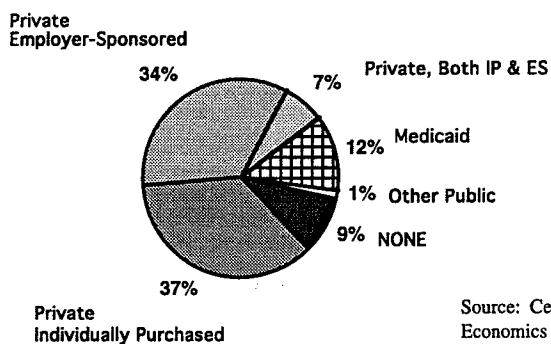
As in any health insurance program, a large portion of Medicare expenditures are associated with relatively few beneficiaries in any given year. In 1994, HCFA reports:

- Over half (51.3%) of enrollees received payments of less than \$500 each, representing only 1.6% of total Medicare benefits.
- Almost three-quarters of total Medicare payments (72.5%) were accounted for by the 11.1% of enrollees (1 in 9) who had payments of \$10,000 or more.

Supplemental Coverage

Medicare beneficiaries incur substantial liabilities for copayments and deductibles related to Medicare-covered services. In 1994, HCFA reports, these liabilities totaled over \$24 billion, roughly \$1 for every \$6 paid by Medicare. This total does not include the cost of services not covered by Medicare, such as outpatient prescription drugs. Not surprisingly, most Medicare enrollees have purchased private Medicare supplement insurance to help pay these additional costs. In 1993, 77% of Medicare enrollees had private supplemental coverage, about evenly split between employer-sponsored and individually purchased coverage. Another 14% had public supplemental coverage, mostly Medicaid. Only 9% of Medicare enrollees had no other medical coverage.

Medicare Enrollees with Supplemental Coverage, 1993



Medicare and Managed Care

There are several arrangements that allow Medicare beneficiaries to enroll in managed care plans:

- Risk contracts place the health plan at full risk for the cost of health services. Generally, risk contractors coordinate all services to the Medicare enrollee (i.e., both Part A and Part B are included).

- Cost contracts are "cost based" arrangements that allow beneficiaries to receive services either from a cost contract HMO or from providers not affiliated with the HMO. The health plan receives a predetermined capitated payment from Medicare for the services that it expects to provide. Payments are later reconciled with actual costs incurred.
- Health Care Prepayment Plans (HCPPs) are similar to cost contracts; however, they only provide Medicare Part B services.

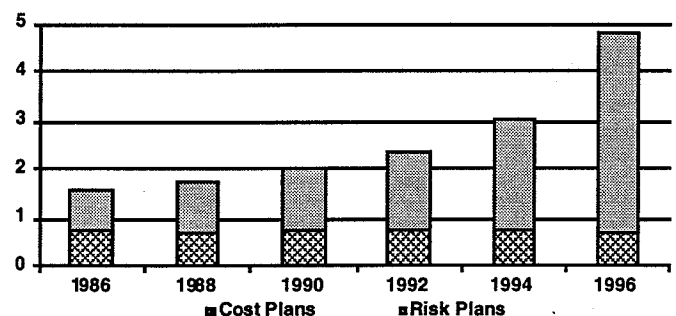
Since 1986, enrollment in Medicare managed care plans has tripled. However, Medicare managed care still lags significantly behind employment-based enrollment in managed care. As of January 1, 1997, HCFA reports 4.9 million beneficiaries -- about 13% of enrollees -- were enrolled in managed care plans:

- 4.2 million in 248 plans with risk contracts (11% of Medicare enrollees)
- 0.2 million in 36 plans with cost contracts
- 0.4 million in 49 HCPPs, and
- about 46,000 in 17 demonstration projects

In January 1997, enrollment began under a new HCFA demonstration program intended to broaden the types of health plans available to Medicare beneficiaries.

Medicare Managed Care Enrollment

[as of December, in millions]



Source: HCFA. Includes risk, cost, HCPP and demonstration enrollees

Managed care penetration for Medicare varies significantly across states and regions. While nine mostly rural states do not yet have any Medicare enrollees in managed care, five states have more than one-quarter of their Medicare population in managed care.

Percent of Medicare Enrollees in Managed Care (January 1997)

- California 38%
- Hawaii 34%
- Oregon 37%
- Arizona 35%
- Colorado 26%

Source: HCFA