Medicare's fiscal challenges and the framework for assessing payment adequacy

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Advising the Congress on Medicare issues

MEDPAC

Medicare faces serious challenges with long-term financing

Percent of GDP

Projected

Projected point at which general revenues reach 45% of Medicare outlays

Total Medicare spending

HI deficit

General revenue transfers

State transfers

Premiums

Tax on benefits

Payroll taxes

12%

10%

8%

6%

4%

2%

0%

1966 1976 1986 1996 2006 2016 2026 2036 2046 2056 2066 2076

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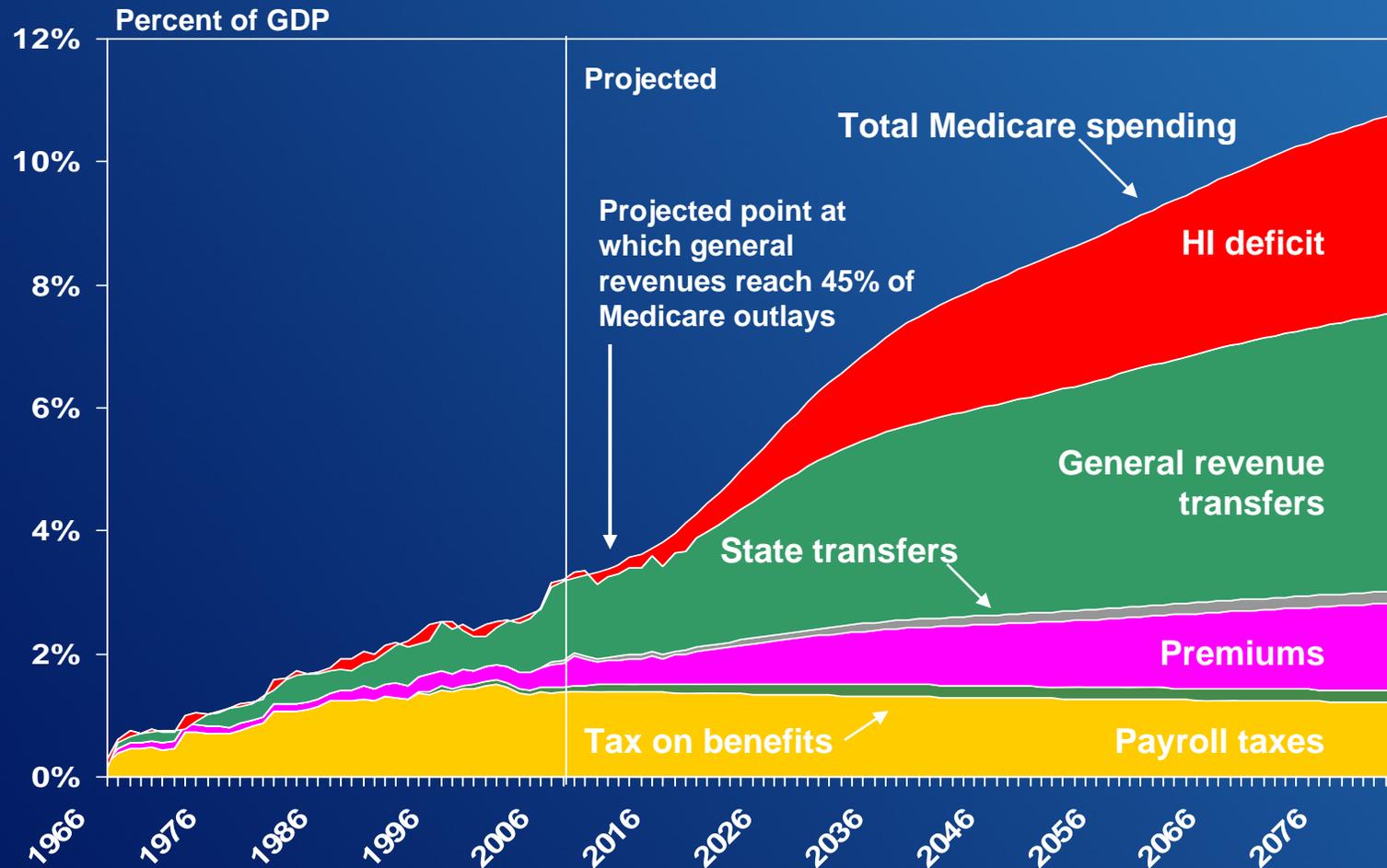
Regional variations in Medicare spending suggest opportunity to reduce variation and increase value

Per capita spending by hospital referral region, 2005

- $8,560 to $14,360
- $7,830 to $8,560
- $7,190 to $7,830
- $6,640 to $7,190
- $5,280 to $6,640

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Source: Dartmouth Atlas of Health Care

3
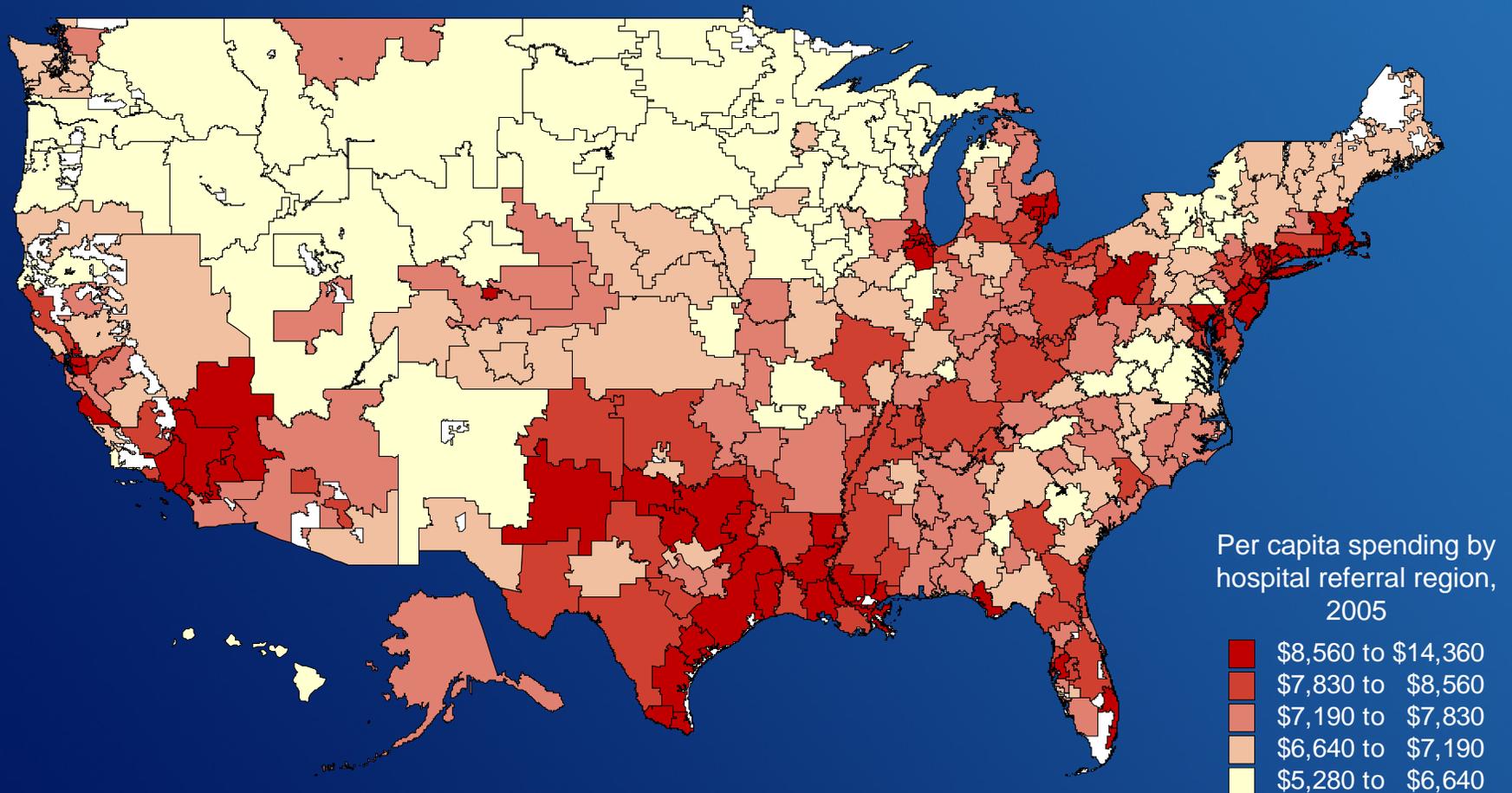
Medicare's financial status

- Hospital Insurance Trust Fund (Part A) exhausted in 2019
- Supplementary Medical Insurance Trust Fund (Part B and D) will account for a rising share of general revenue
  - Will rise even more if Part A shortfall is addressed through general revenue funding

Medicare beneficiaries are already facing growing financial liability
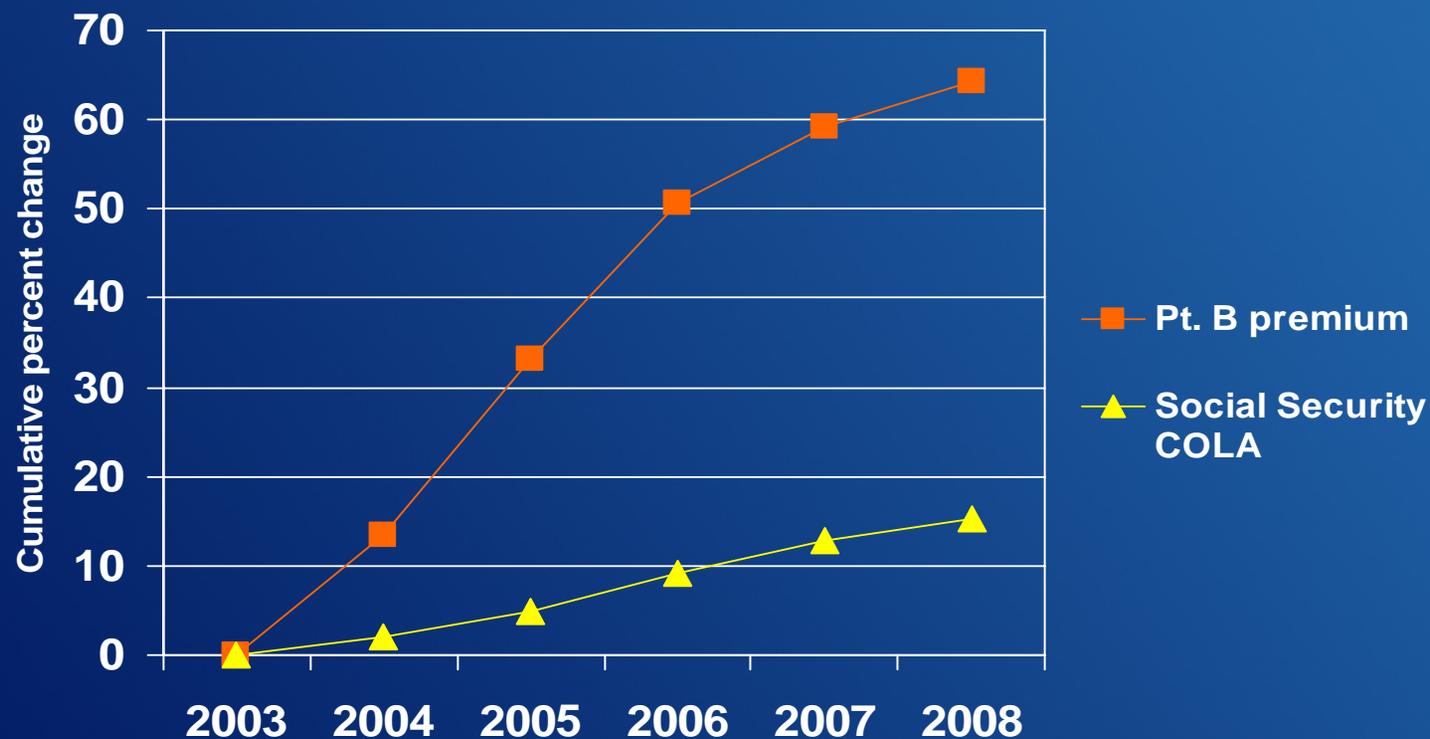
Note: COLA (cost-of-living adjustment).
Source: Social Security Administration and Medicare trustees' report.

Addressing Medicare's fiscal challenges

- Restraining payments is critical to program sustainability and beneficiary affordability
- Additional policies are needed to slow volume growth and improve quality

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The framework for
assessing payment adequacy

Current method for setting updates

| Are current payments adequate? | What cost changes are expected?
+ input prices
- productivity |

Update recommendation

Current framework for assessing payment adequacy

- Beneficiaries' access to care

- Capacity and supply of providers

  - Entry of new providers and closure of providers

- Volume of services

- Quality of care

- Access to capital

- Payments, costs and Medicare margins

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Exploring efficiency is an evolution not a revolution

- **MedPAC is required to consider the costs of efficient providers**
- **Identification of efficient providers**
  - This year: Hospitals
    - High quality and low cost
  - Future years: other sectors

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Data and methods are evolving

- Quality metrics
    - Risk-adjusted mortality
    - Risk-adjusted readmissions
    - Quality metrics will evolve over time
- Cost metrics
    - Cost per unit of output
        - Risk-adjusted standardized cost per discharge
    - Future: hospital's effect on longitudinal efficiency