

# AMERICA'S SENIORS AND HEALTH INSURANCE REFORM:

## *Protecting Coverage and Strengthening Medicare*

### ***Introduction***

Since its inception in 1965, Medicare has provided a needed – and respected – health care service to our nation's senior citizens and certain individuals with disabilities. However, rising health care costs, persistent gaps in the use of recommended services, and the threat of Medicare insolvency all undermine the health care that the program's beneficiaries need and deserve. Health insurance reform will serve to strengthen the health care that our seniors receive.

### ***Escalating Health Care Costs***

**America's seniors shoulder an increasing financial burden to get the care they need – a burden that could be alleviated.**

The United States spends more on health care than any other developed country – \$2.4 trillion in FY 2008, increasing to \$4.4 trillion in FY 2018.<sup>1</sup> Medicare is the single largest payer within this system, with expenditures in FY 2008 of \$386 billion, rising to \$797 billion by 2018.<sup>2</sup>

The growth in Medicare spending is unsustainable. In fact, the Medicare Hospital Insurance Trust Fund, which pays for Medicare Part A, is now projected to be exhausted in 8 years, sometime during 2017. If trends continue, by 2035 only 50 percent of estimated Medicare Part A costs would be covered by payroll taxes.<sup>3</sup> Without any changes, there will not be sufficient assets to pay for benefits, threatening access to Medicare for seniors and people with disabilities across America.

The rise in health care costs is not just borne by the Federal government. Through premiums, cost-sharing and other out-of-pocket expenses, America's seniors shoulder an ever-increasing share of the burden. It has been estimated that the typical older couple may need to save \$300,000 to pay for health care costs not covered by Medicare alone.<sup>4</sup>

Rising Medicare costs will also eat into seniors' Social Security benefits. The average Part B plus Part D premium is estimated to equal about 12 percent of the average Social Security benefit in 2010, and 16 percent of the average benefit in 2025. Cost-sharing adds to this burden,



Source <sup>4</sup>

on average, another 15 percent in 2010, and 19 percent in 2025. Taken together, this means that if no action is taken, Medicare premiums and cost-sharing could eat up more than one-third of Social Security benefits in the next 15 years.<sup>5</sup>

**Overpayments to Private Plans.** Part of the rise in Medicare costs – and in premiums for seniors – stems from extra subsidies to private insurance companies. Medicare Advantage is the part of the program that allows beneficiaries to receive services via private plans. Policy changes, particularly in 2003, ratcheted up payment levels to private plans. Medicare currently overpays private plans by an average of 14 percent, with overpayments as high as 20 percent in certain parts of the country.<sup>6</sup>

However, there is no evidence that this extra payment leads to better quality for Medicare beneficiaries.<sup>7</sup> Insurers, not beneficiaries or the Medicare program, determine how these overpayments are used – and this includes marketing and other administrative costs.<sup>8</sup> This means that seniors do not always get the full overpayments back in the form of extra benefits. Moreover, some plans offer lower cost-sharing for drugs and vision care but higher cost-sharing for services such as hospitalizations and home health services. As a result, seniors can end up spending more out of pocket under a Medicare Advantage plan, not less.<sup>9</sup>

Extra subsidies to Medicare Advantage plans are a problem for America's seniors. All Medicare beneficiaries pay the price of these insurance subsidies through higher premiums – even if they are not enrolled themselves in a Medicare Advantage plan. In fact, these subsidies will add \$3.60 per month to premiums for all Medicare beneficiaries in 2010.<sup>10</sup> This means that a typical older couple in traditional Medicare will pay almost \$90 next year on average to subsidize private insurance companies who are not providing their health benefits.

Eliminating these overpayments to Medicare Advantage plans could save the Federal government, taxpayers, and Medicare beneficiaries \$177 billion over the next 10 years.<sup>11</sup>

**Preventable Waste, Fraud and Abuse.** Waste, fraud and abuse also lead to rises in Medicare costs for all seniors. In the area of home health, for example, CMS observed that a small but growing number of home



Source <sup>24</sup>

health providers were abusing the system, especially in certain parts of the country – such as Florida’s Miami-Dade County, where a 1,300 percent cost increase since 2003 was fuelled largely by some home health agencies requesting extra money for care that went beyond what the patients’ actual medical condition warranted. These higher payments affect all beneficiaries, who share in the cost of services billed to Medicare through rising premiums. CMS took action this summer to address fraud in home health, but more work is needed through health insurance reform. Over the past year, CMS has prevented over \$450 million in improper payments.<sup>12</sup> Current proposals to reduce waste, fraud and abuse in health insurance reform legislation would save an additional \$1.3 billion over the next 10 years.<sup>13</sup>

**High Prescription Drug Prices.** Rising drug costs also contribute to the problem. A drug benefit was added to Medicare in 2006. However, its benefit includes a gap commonly called a “doughnut hole.” Under the standard Medicare drug benefit, beneficiaries in 2009 pay a deductible of \$295, then 25 percent coinsurance until total drug costs equal \$2,700. After that, coverage stops until out-of-pocket spending totals \$4,350. In 2007, over 8 million seniors hit the “doughnut hole.” For those who are not low-income or have not purchased other coverage, average drug costs in the gap are \$340 per month, or \$4,080 per year.<sup>14</sup> Evidence suggests that this coverage gap also reduces drug use, on average, by 14 percent<sup>15</sup> – posing a threat to management of diseases like diabetes or high blood pressure. Health insurance reform will cut the drug costs that seniors have to bear in the “doughnut hole” by 50 percent.

### **High Medicare Costs Due to Health System**

**Problems.** Medicare is not isolated from the rest of the health system. Its costs – and cost problems – reflect the gaps and problems that younger Americans experience. People with a chronic disease who are uninsured before acquiring Medicare use more Medicare services than those who had prior health insurance, driving up Medicare costs for everyone. A recent study found that previously uninsured near-elderly adults with heart disease, stroke or diabetes had 13 percent more doctor’s visits, 20 percent more hospitalizations, and 50 percent higher total medical costs once under Medicare than people with these chronic diseases who had prior insurance.<sup>16</sup>

Similarly, better treatment and prevention of illness in younger populations can also decrease Medicare costs down the road. Ninety-six percent of Medicare expenditures are spent on patients with multiple chronic conditions,<sup>17</sup> and much of the rise in Medicare costs in recent years stems from treatment of chronic diseases.<sup>18</sup> Obesity alone has been estimated to add \$20 to \$34 billion to Medicare costs per year.<sup>19</sup> Preventing obesity in one 70-year old could save \$39,000 in health care costs for the remainder of that person's life.<sup>20</sup>

In addition, Medicare currently pays hospitals an additional “disproportionate share (DSH)” payment, which observers have noted may help hospitals offset uncompensated care provided to the uninsured.<sup>21</sup> This payment totaled \$9.6 billion in 2006.<sup>22</sup> As such, there is a “hidden tax” where taxpayers and Medicare beneficiaries subsidize care for the uninsured. By expanding coverage to the uninsured, this cost-shifting will be reduced under health insurance reform, saving \$10 billion over 10 years.<sup>23</sup>

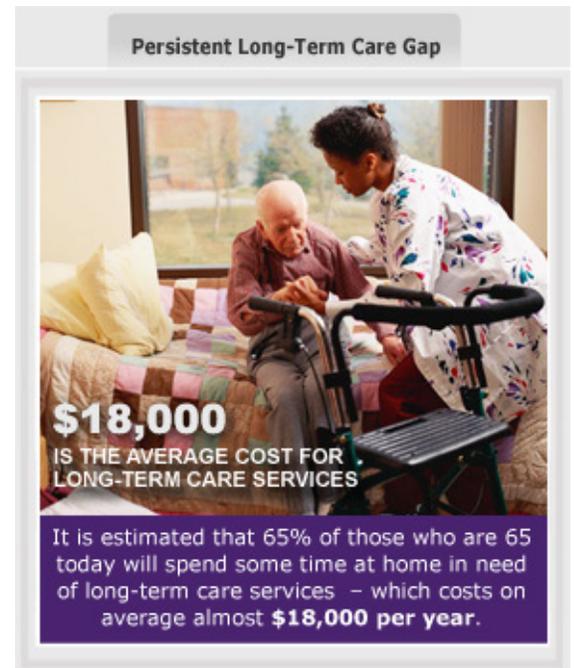
### ***Reduced Access***

**Medicare now and in the future will not continue to provide needed access to services if reforms are not made.**

#### **Imminent Doctors' Payment Cut will Limit Access.**

Because of a flawed system for paying physicians, Medicare is scheduled to reduce its fees next year. This means a 21 percent cut in payments beginning on January 1, 2010. According to a recent survey by the American Medical Association, if Medicare payments are cut by even half that amount – or 10 percent – 60 percent of physicians report that they will reduce the number of new Medicare patients they will treat, and 40 percent will reduce the number of established Medicare patients they treat. In addition, more than two-thirds of physicians will forgo investments in their practice, including the purchase of health information technology.<sup>24</sup> This all translates to decreased access to needed services for our nation's seniors.

**Jeopardized Access to Care in Rural Areas.** The situation is more pronounced in rural areas, where almost one in four Medicare beneficiaries live.<sup>25</sup> Rural providers operate on thinner Medicare margins or larger negative margins than their urban counterparts.<sup>26</sup> Consequently, more rural physicians and other providers are beginning



Source<sup>37</sup>

to stop accepting new Medicare patients.<sup>27</sup> Health insurance reform will eliminate the scheduled physician payment cut that threatens access for these beneficiaries.

### **Inadequate Supply of Primary Health Care**

**Providers.** The immediate physician payment problem compounds a larger issue of provider shortages. Currently, approximately 12 million seniors lack access to a primary care provider because of shortages in their communities.<sup>28</sup> Beyond primary care, there are also shortages of other health care fields, such as dentists and mental health providers,<sup>29</sup> which affect the ability of seniors to obtain care when they need it. Health insurance reform will invest in the provider workforce, to expand access to all of our nation's seniors.

**Persistent Long-Term Care Gap.** Long-term care is also an area that is not currently affordable or accessible for many seniors. It is estimated that 65 percent of those who are 65 today will spend some time at home in need of long-term care services<sup>30</sup> – which costs on average almost \$18,000 per year.<sup>31</sup> However, contrary to popular belief, Medicare and most private health insurance only pay for long-term care for a short period of time, meaning that most people pay out of their own income or assets.<sup>32</sup> Health insurance reform will create a new voluntary long-term care insurance program, and will focus on improving the quality of services provided.

### ***Persistent Gaps in Prevention and Quality***

**Too many seniors do not get recommended care, including needed preventive and primary care services to keep seniors healthier, longer.**

**Underused Prevention.** Many seniors do not receive recommended preventive and primary care, leading to less efficient and more expensive treatments. For example, 20 percent of women age 50 and over did not receive a mammogram in the past two years, and 38 percent of adults age 50 and over have never had a colonoscopy or sigmoidoscopy.<sup>33</sup> Seniors must also pay 20 percent of the cost of any preventive service on their own. For a colonoscopy that costs \$700, this means that a senior must pay \$140 – a price that can be prohibitively expensive. Under health insurance reform, that senior would not pay anything.



Source <sup>34</sup>

**Persistent Quality Problems.** Medicare currently does not place enough of an emphasis on improving the quality of care. Nearly 20 percent of Medicare patients who are discharged from the hospital end up being readmitted within 30 days, and of those admitted for a medical condition, half did not have a physician visit between discharge from the hospital and readmission.<sup>34</sup> The Medicare Payment Advisory Commission estimated that Medicare spent \$12 billion on potentially preventable hospital readmissions in 2005.<sup>35</sup> A renewed focus on health care quality under health insurance reform will improve patient health and avoid preventable treatment costs.

### ***Health Insurance Reform will Improve Access, Quality, and Affordability for America's Seniors***

**Lowering premiums and extending the solvency of Medicare.** Health insurance reform will reduce overpayments to private plans and clamp down on fraud and abuse to bring down premiums for all seniors and extend the life of the Medicare trust fund by 5 years.<sup>36</sup> This will make health care more reliable, affordable, and accessible for seniors.

**Lowering drug costs.** In an historic agreement, the drug industry has pledged to provide seniors in the “doughnut hole” coverage gap with a discount of at least 50 percent for medication costs, saving thousands of dollars for some seniors.

**Protecting and improving access to health care providers.** Health insurance reform will eliminate the 21 percent physician payment cut, ensuring that physicians will still be able to care for seniors. Reform will also invest in expanding the health care workforce in currently underserved areas through programs such as the National Health Service Corps, to enable millions of seniors to access services that they cannot easily access today.

**Focusing on primary care.** Health insurance reform will invest in advanced primary care services that will better coordinate and integrate care for our nation's seniors, to ensure that they get recommended treatments, particularly for chronic diseases. It will also increase payments to physicians who practice primary care.

**Prioritizing prevention.** Health insurance reform will ensure that no senior will have to pay anything to receive recommended preventive services that will keep them healthier.

**Improving quality and patient safety.** Health insurance reform will develop national priorities on quality, standardize quality measurement and reporting, invest in patient safety, and reward providers for high-quality care. Investments in comparative effectiveness research will empower seniors and their doctors with information on which treatments work and which don't, so that they can make more informed decisions.

**Making high-quality, affordable long-term care a reality.** Health insurance reform will create a voluntary long-term care insurance program to help cover the costs of support services for the millions who need them. Legislation will also establish new reporting, accountability, and oversight requirements for nursing homes, and impose stiffer penalties on nursing homes with serious quality deficiencies.

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