

Medicare

Lecture 4

Medicare vs. Medicaid

- Medicare covers over 65
 - Disabled, dialysis patients
 - Administered by federal gov't
- Medicaid covers poor
 - Means tested
 - Administered by individual states

4 parts of Medicare

- Part A (HI): automatically enrolled at 65
 - Covers hospitalization, nursing home, hospice
 - Financed by payroll tax (2.9% of earned income)

4 parts con't

- Part B (SMI): voluntary, 95% of eligible participate
 - Covers drs, outpatient diagnostic tests, medical equipment, home health care (since 1998)
 - Financed by premiums (25%) and gov't (75%)
 - Premium is now income related
 - \$80 – 100k: 65% subsidy
 - >\$200k: 20% subsidy

4 parts con't

- Part C: Medicare Advantage (voluntary)
 - Managed care plan
 - Plan receives a combination of part A&B payments
 - Incentives to reduce inappropriate care

4 parts con't

- Part D: Prescription Drugs (voluntary)
 - Financed by premiums and gov't subsidy
 - \$250 deductible
 - \$250 – 2,500: plan pays 75% of costs
 - \$2,500 – 5,100: plan pays 0 (doughnut)
 - > \$5,100: gov't pays 95%

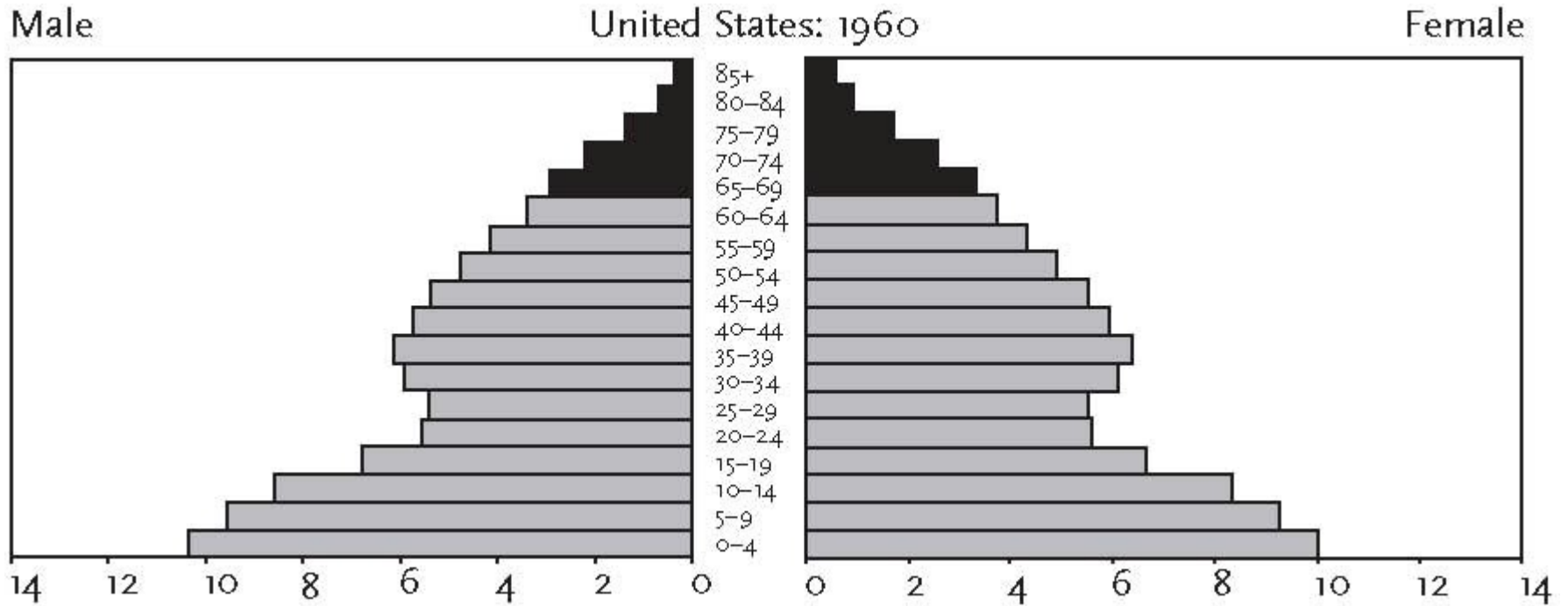
Medigap

- Private insurance
- Covers out of pocket expenses not covered by Medicare
- 75% of Medicare people purchase
 - (middle/high income)
- First dollar coverage, no incentive for consumers to limit medical expenses

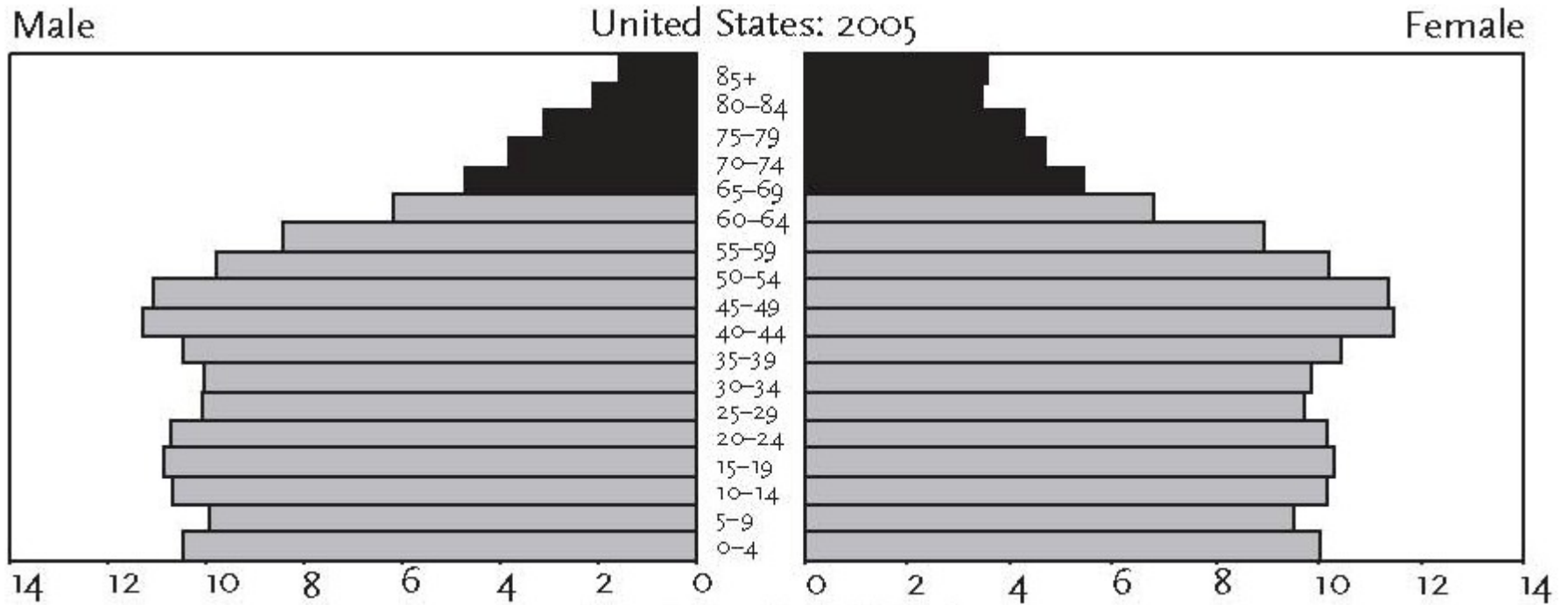
Problems w/ Medicare

- Redistribution
 - Medicare is financed by “pay-as-you-go”, takes taxes from workers today to pay for medical care
 - Wealthy receive same benefits as poor (changing)
- Efficiency
 - Very few incentives to lower health care costs
 - Moral hazard

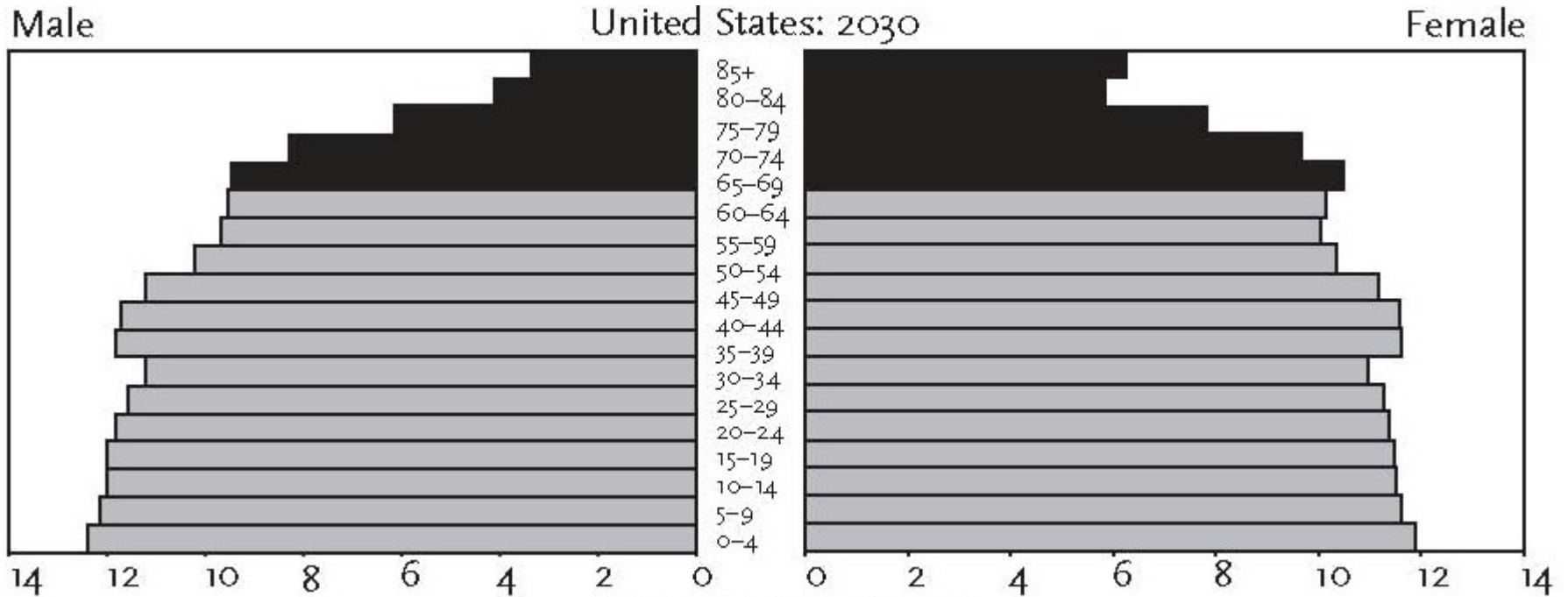
Population 1960



Population 2005



Population 2030



Medicare Finance

- Funded through payroll and income taxes
- As proportion of old people increases
 - Expenditures increase from 2.7% of GDP today
 - 5.4% of GDP in 2015, and increasing
 - As percent of federal budget, 21% in 2015
 - Raise taxes or reduce benefits

Medicare Reform

- Increase eligibility age to 67
- Reduce the increase in payments
- Increase Part A tax (payroll)
- Increase Part B premiums
 - Premium covers 25% of cost today
- Means testing
 - Wealthy pay higher premium than poor
- Medical IRA
 - Invest Part A tax in individual account

Medicare as Insurance

- Part A has
 - Very small deductible (Medigap)
 - Good “first dollar” coverage
 - Very limited catastrophic care
- Homeowners insurance
 - Pays for mowing lawn, painting, re-shingle roof
 - Doesn't pay if flooded, burns down

Medicare as Insurance

- Covers hospital care up to 90 days
- Covers nursing home (after hospital) 100 days
- Hospice
- Catastrophic care?
 - What happens if in the hospital >90 days?
 - Nursing home >100 days?
- “Upside down” or backwards from “real” insurance

Medicaid

- Means tested – welfare program for poor
- Administered by the states, partially funded by federal gov't
- Percent of Medicaid recipients who are poor (poverty line) ranges from 33% - 65%
- Percent of Medicaid recipients who are near poor (100 – 199% of poverty) ranges from 7% - 28%

Medicaid – con't

- Federally mandated groups must be covered
 - Cash assistance (TANF)
 - Low-income aged, blind, disabled who qualify for Supplemental Security Income (SSI)
 - Low-income pregnant women and children (WIC)
 - “medically needy” - high medical expenses
 - Low-income Medicare

State variation in Medicaid

- States may expand eligibility/add extra groups
- Typical additions
 - Uninsured with income below a given cutoff
 - Pregnant women and children above poverty (200%)
- Income limits vary across states

State Children's Health Insurance Program (SCHIP)

- Begun 1997, provides coverage for low-income kids whose family income was >Medicaid limits
- Federal matching funds for states to cover kids up to 19 years (income <200% poverty)
- “Crowd out”- it appears that a large number of enrolled kids have shifted from private insurance

SCHIP take-up rates

source: <http://content.healthaffairs.org/cgi/content/full/22/4/163/T3?ck=nck>

Low-income children	1996–97	1998–99	2000–01
Take-up rate for Medicaid/SCHIP (total U.S.)	69.2	60.5	65.7
Low-uninsurance communities	77.8	71.5	72.8
Moderate-uninsurance communities	65.8	57.8	65.7
High-uninsurance communities	59.2	52.3	59.3

Medicaid Expenditures

- Medicaid is the largest item in state budgets
- Number of beneficiaries has increased
 - 22 million in 1975
 - 60 million in 2005
 - Expenditures: \$450 billion in 2010
- Most of increase has been through expansion of covered groups (pregnant women/low-income kids)

Distribution of Enrollees and Expenditures

