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# **Introduction to the Medicare “Problem”**

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**“Making Medicare Sustainable” Conference**  
**July 23, 2008**  
**Washington, DC**

# Overview

- Origin and Funding Structure(s)
- Projected Financing
- Financing Reform Options – TBOFF & ABARFR
- How to Get From Here to There:  
Governance and Value-Based Purchasing

# The 1960s

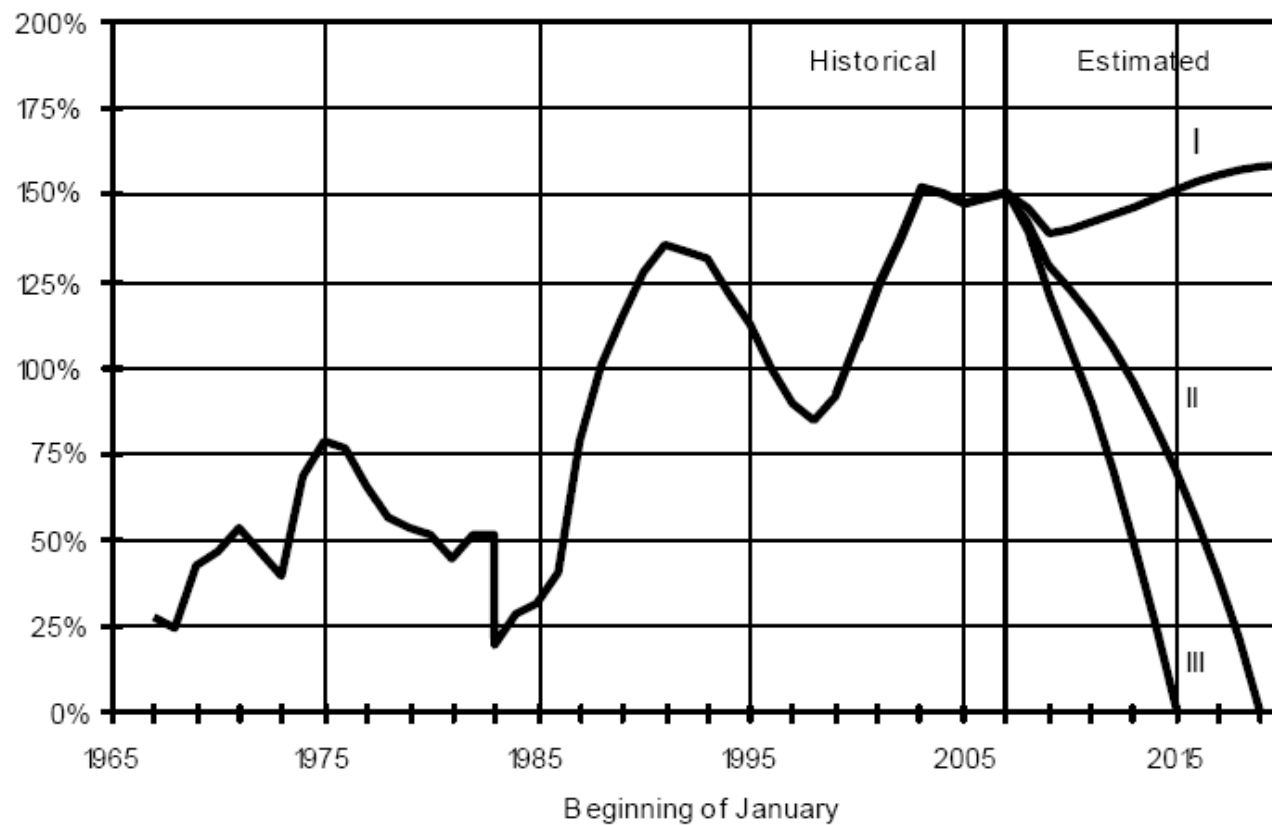
- 1960: Kerr-Mills
- After 1964 election, W&M Chair Wilbur Mills combined three bills before his committee into one bill:
  - Hospital insurance proposal (Medicare Part A)
  - Outpatient care proposal (Medicare Part B)
  - Health care for the poor (Medicaid)
- July 30, 1965: LBJ signs with Truman looking on in Independence, MO.
- Medicare begins 11 months later: July 1, 1966

# Funding Structure – Part A

- Payroll tax: currently 1.45% of wages (paid by both worker and employer) → goes into Hospital Insurance (HI) Trust Fund
- In 2007, it took in \$219 billion mostly from the payroll tax
- HI paid out \$203 billion mostly in benefit payments for inpatient health care
- HI Trust Fund at end of 2007: \$319.5 billion (cumulative money collected in excess of expenditures)
- Scheduled to break even until 2013 (approx), at which time trust fund will decline rapidly until it is exhausted in 2019 (approx)

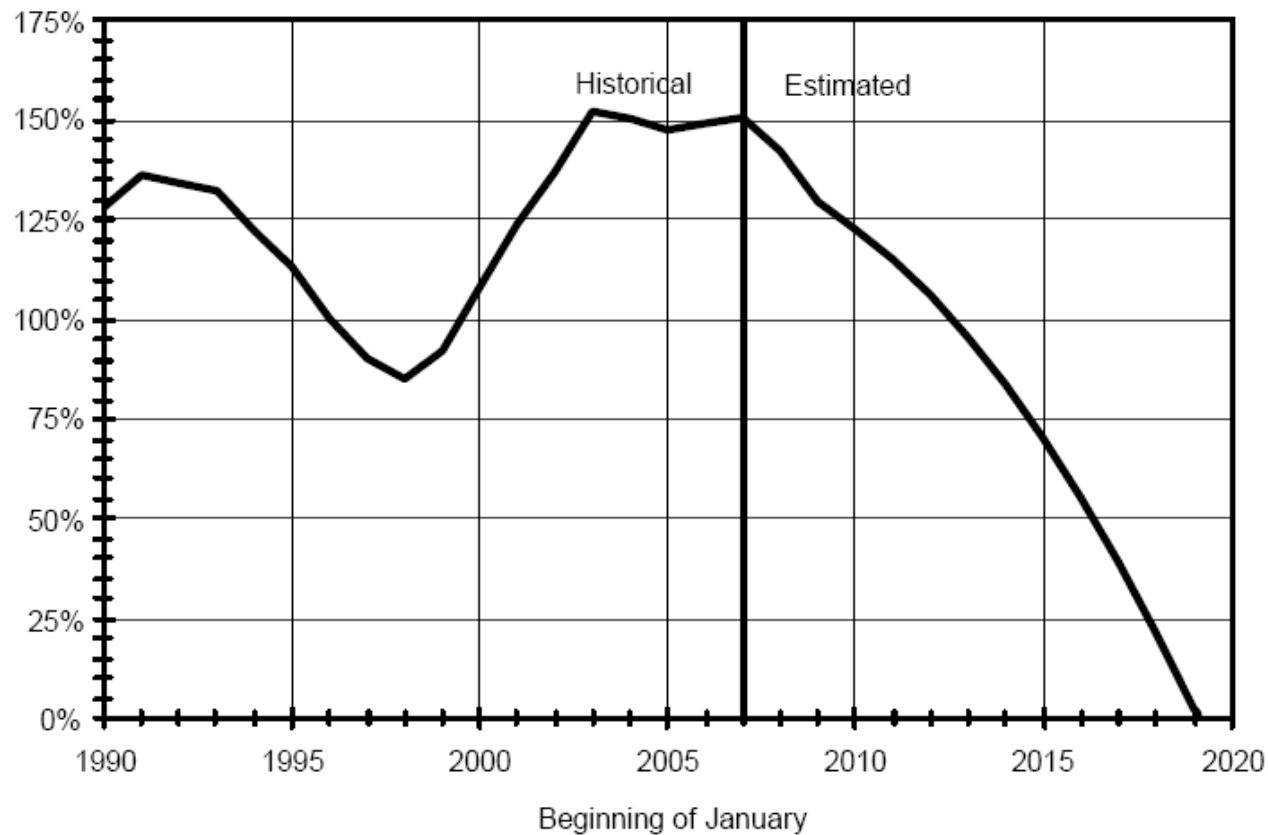
# Projected Financing – Trustees

Figure III.B2.—HI Trust Fund Balance at Beginning of Year as a Percentage of Annual Expenditures



# Projected Financing – Trustees

Figure II.E2.—HI Trust Fund Balance at Beginning of Year as a Percentage of Annual Expenditures



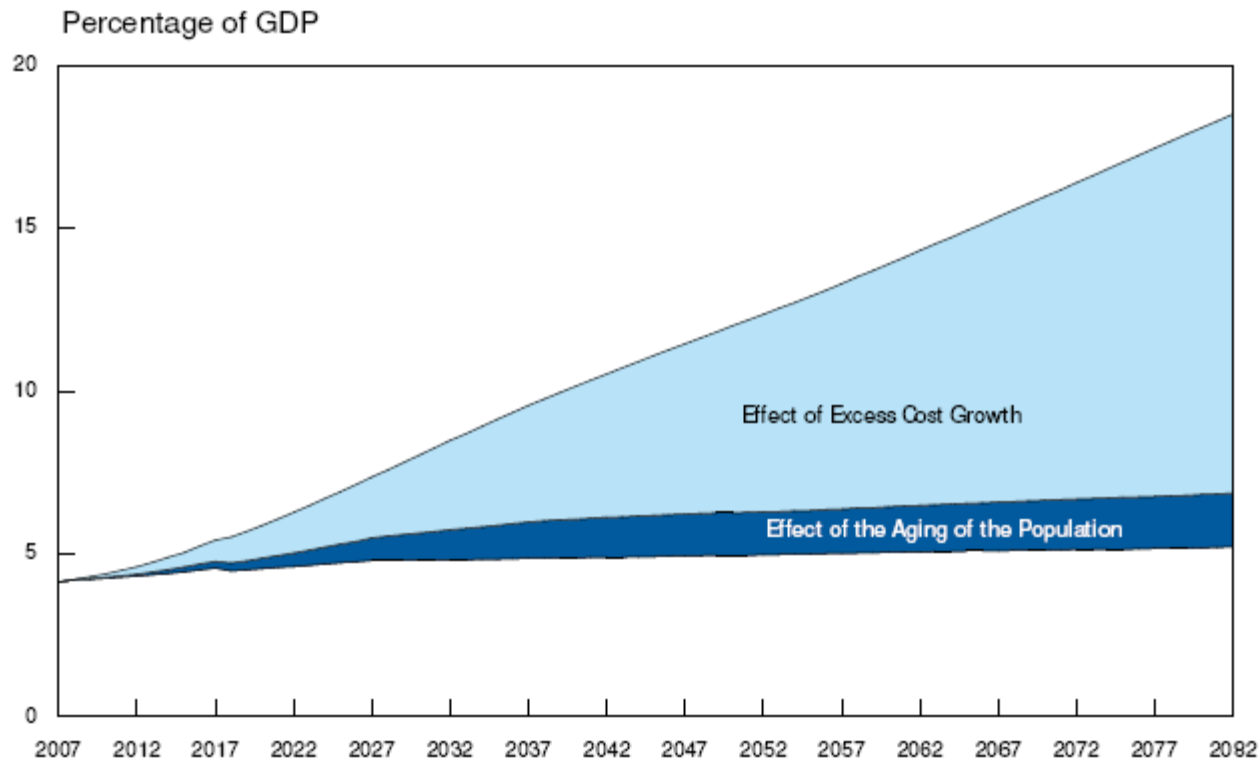
# Funding Structure – Parts B and D

- Supplementary Medical Insurance (SMI) Trust Fund gets about 78% of its income from direct transfers from the federal treasury
- As such, SMI Trust Fund won't go broke...but will require more and more general revenue transfers

# Projected Financing – CBO



## Sources of Growth in Projected Federal Spending on Medicare and Medicaid



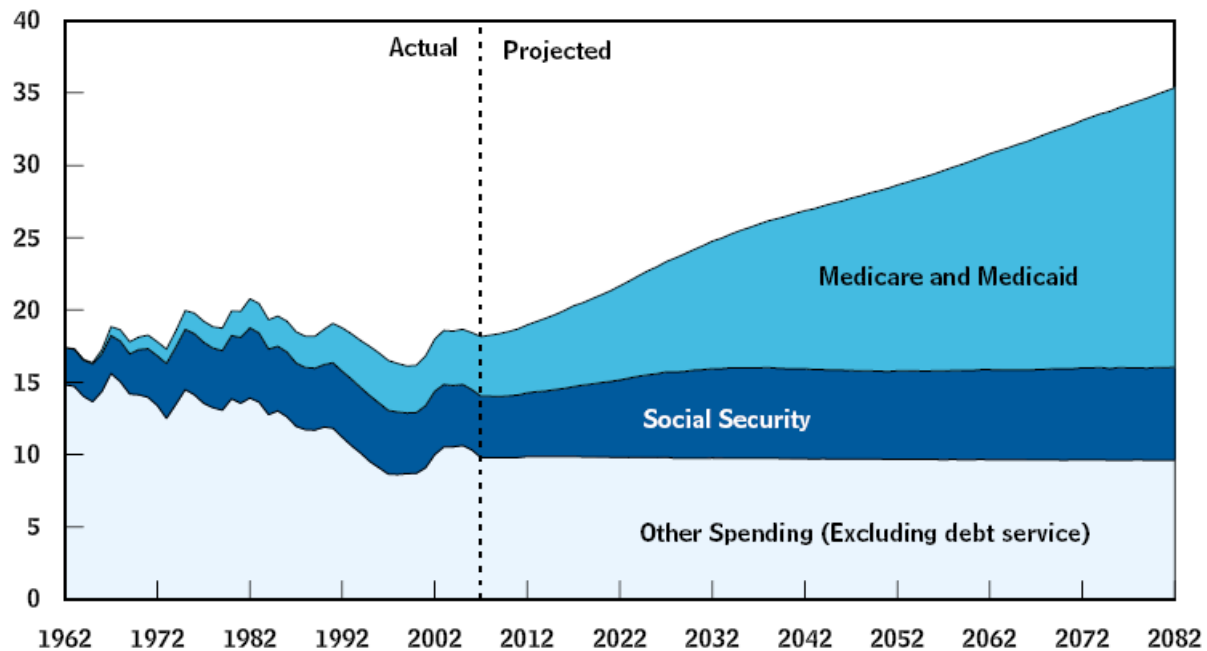
*Orszag Presentation, New America Foundation, Nov. 13, 2007*

# Projected Financing – CBO

**Figure 1.**

## Federal Spending Under CBO's Alternative Fiscal Scenario

(Percentage of gross domestic product)



Source: Congressional Budget Office.

# The Good, the Bad...

- The Good:
  - Health care access for all seniors
  - Has power to influence health care system
- The Bad
  - Costs are rising much faster than GDP, as in system as a whole
  - Difficulty overriding parochial interests in the name of efficiency, solvency and even quality

# Medicare Trigger

- MMA 2003 provision that stated if two consecutive annual Trustees reports predict...
- ...that general fund revenues are predicted to finance more than 45% total Medicare expenditures within six years...
- ...the President must submit, and the Congress must consider proposals to address Medicare spending

*Source: Horney and Kogan, CBPP, February 15, 2008*

# Medicare Trigger

- 2006 and 2007 Trustee Reports did just that; President Bush released his proposal February 15, 2008
- Higher cost sharing; medical malpractice damage caps; health IT; transparency
- Went largely unnoticed in Washington (and even more unnoticed since)

*Source: Horney and Kogan, CBPP, February 15, 2008*

# Financing Reform - TBOFF

- “Taking Back Our Fiscal Future”
- Conservative think tankers and former CBO directors, OMB officials
- Would change budget rules, force spending cuts to force Congress’ to pass other benefit cuts

# Financing Reform – A & G et al

- “A Balanced Approach to Restoring Fiscal Responsibility”
- Liberal think tankers plus Nobel level economists
- Put spending cuts and tax expenditure in proper perspective
- Too optimistic about Congress passing payment reforms without governance reform

# What We Will Do Today

- Lay out HOW to make Medicare a VBP and set program on sustainable trajectory
- Describe WHAT legislative and regulatory changes are necessary to enable VBP
- Describe Governance changes to enable all of the above
- Listen to Congressional leaders at lunch
- Listen to smart people (including you) debate all this afternoon