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Medicare challenge: When will Congress be up to the task?

October 17, 2014 by Bob Gatty

REPRINTS



Earlier this month in the Horizon Ballroom of the International Trade Center in Washington, D.C., the Medicare Payment Advisory Commission (MedPAC) heard a report from two staff analysts that portends deep and serious trouble for Medicare, its patients, its providers and the taxpayers who pay the bill.

While the annual Medicare trustees report issued earlier this summer offered some reason for optimism, estimating that the Medicare Trust Fund would hold out until 2030 at current rates, four years later than last year's projection, the MedPAC discussion indicates that the next generation of Medicare beneficiaries could have something to say about that.

At the end of the day, these analysts explained, tons more people will be eligible for Medicare with far fewer taxpayers supporting them as they live longer and cope with the costly impact of expanding waistlines and attendant illnesses in addition to the typical maladies of old age.

It's no secret that as baby boomers age they will increase the strain on Medicare. The report by MedPAC's Julie Somers and Kate Bloniarz shows that Medicare's projected enrollment will more than double by the year 2050 to more than 90 million recipients. Compounding that factor is that today there are about three workers for every beneficiary, but by 2030 that ratio will drop to just more than two to one, they said. Meanwhile, life expectancy continues to lengthen—increasing from about 47 years of age in 1900 to just under 80 in 2010, thanks in large measure to the miracles of modern medicine. A Centers for Disease Control and Prevention (CDC) report published in 2009 estimated the projection peak age for deaths for those born in 2009 will reach 90, and about half of those born this year will make it to the next century.

All of that, of course, means steady escalation in the numbers of Medicare beneficiaries as the years unfold and that, of course, means a corresponding increase in costs. Consider that obesity among adults has more than tripled in recent years and shows no sign of abating.

Diabetes rates are rising as well, the MedPAC analysts observed. A study published by the American Diabetes Association estimates that the number of Americans with diagnosed diabetes is projected to increase by 165 percent from 11 million in 2000 to 29 million in 2050, with the prevalence rate among Americans nearly doubling from 4 percent to 7.2 percent. Much of that load can be expected to fall on Medicare.

Another important consideration, Somers and Bloniarz said, is that the share of beneficiaries in private health plans will rise at a slower rate than over the past decade. In addition, the number of beneficiaries with employer-paid retiree health coverage likely will continue to drop as the share of employers offering such coverage has declined over the last decade, impacting future retirees and adding further to the pressure on government-supported healthcare. So, in the near term:

- Rapid growth will occur in the number of beneficiaries.
- New beneficiaries will have experienced a decline of indemnity plans and the rise of PPOs.
- New beneficiaries will have greater longevity on average, but potentially higher disease burden due to obesity and related diseases.
- The recent recession has worsened some near-term retirees' financial well-being.

And, over the longer term:

- The share of beneficiaries in the oldest age categories will increase.
- Diversity of the Medicare population will increase.
- Some workers will have experience with narrower network insurance plans and high-deductible plans.
- Employer retiree coverage will decrease.

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All of that poses a critical challenge for a Congress that is politically divided and seemingly unable to agree on just about anything.

Medicare is 14 percent of the federal budget today. And note: Of Medicare benefit payments last year, skilled nursing facilities received five percent, while six percent was spent on hospital outpatient services and three percent on home healthcare.

Medicare Advantage took the biggest chunk, at 25 percent, followed by hospital inpatient services, 24 percent; physician payments, 12 percent; outpatient prescription drugs, 11 percent; and other services, 14 percent.

If the election projections hold true, it is entirely possible that the controversial Medicare proposals in the 2014 budget resolution developed by House Budget Committee Chairman Paul Ryan (R-WI) will advance in a Republican-dominated Congress.

Ryan proposes to replace Medicare's guarantee of health coverage with a premium-support voucher and to increase the eligibility age from 65 to 67. Those changes would shift substantial costs to beneficiaries and are strongly opposed by Democrats and President Obama. If the new Congress passes them and also succeeds in its goal of repealing the Affordable Care Act, many 65- and 66-year-olds would be left without any health coverage, according to the Center on Budget and Policy Priorities. Of course, President Obama in all likelihood would veto such efforts, and Republicans, most likely, would be unable to override those vetoes.

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