Medicare

Updated March 2014

What is Medicare?

Medicare is a federal health insurance program signed into law in 1965 by President Lyndon B. Johnson. The program is administered by the Centers for Medicare and Medicaid Services (CMS) and provides health insurance for individuals age 65 or over, individuals with certain disabilities and people with end-stage renal disease (ESRD) or amyotrophic lateral sclerosis (ALS, also known as Lou Gehrig's disease).[i]

The program, as it stands now, categorizes its insurance coverage into four distinct "parts"[ii]:

- **Part A**: Hospital Insurance; helps cover inpatient, hospice, skilled nursing facility services, and certain home health care services. Those who are eligible due to age or disability, and thus receive a Social Security cash benefit, are automatically enrolled. Most beneficiaries do not pay a premium for Part A.
- **Part B**: Medical Insurance; helps cover outpatient services, doctor services, and other medical services. Enrollment in Part B is voluntary, and approximately 93 percent of those eligible do enroll. Most beneficiaries pay a set monthly premium for Part B.
- **Part C**: Medicare Advantage (MA); private health plans administer Parts A and B, usually in addition to other benefits, including Part D. Enrollment in MA plans is voluntary and approximately 28 percent of Medicare beneficiaries choose to enroll in a MA plan. Costs vary by plan.
- **Part D**: Prescription Drugs; covers prescription drugs. Individuals eligible for Part A or enrolled in Part B may voluntarily enroll in Part D. Costs vary by plan and income level.

Eligibility and Enrollment

To be eligible for Medicare, an individual or their spouse must have worked for at least 40 quarters (or around 10 years) in Medicare-covered employment or qualify for Railroad Retirement Benefits, be 65 years old, and be a citizen or permanent resident of the United States.[iii]

Eligibility is also extended to younger persons with a permanent disability, though there is generally a two-year waiting period for this demographic.[iv] To qualify, these individuals must have received Social Security Disability Insurance payments for at least 24 months. An additional condition of their qualification is that they must be evaluated to determine that their medical condition is a total and permanent disability, as defined by the Social Security Administration. Medicare also covers certain disabled widows and widowers and adult children of retired, deceased, or disabled workers.[v]

Lastly, individuals of any age that have ESRD or ALS are eligible for Medicare upon diagnosis, with no waiting period.[vi]

Approximately one in seven Americans, or 52 million people, are covered by Medicare; a number which has more than doubled since the program began in 1965.[vii] Most of the population aged 65 and over receives coverage through Medicare, and of the 52 million with Medicare coverage, approximately 8 million (or 17 percent) are disabled individuals.[viii]

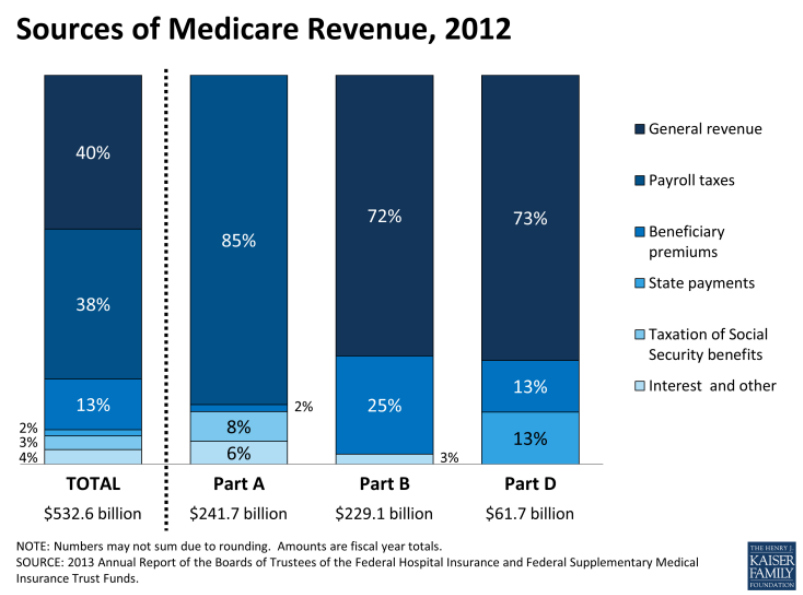
Most beneficiaries receive coverage through traditional or original fee-for-service (FFS) Medicare, while about 28 percent of beneficiaries are enrolled in a MA plan.[ix] MA plans are paid a capitated rate, or a set fee per beneficiary per month, which is risk-adjusted to account for the health status of beneficiaries, as opposed to FFS which pays a fee per service delivered.[x]

Supplemental Coverage

Despite providing beneficiaries with many important benefits, the Medicare program does not always provide the full range of benefits needed by all beneficiaries. Many beneficiaries obtain some form of supplemental coverage to either fill gaps in benefits or to assist with cost-sharing requirements. Most beneficiaries obtain this supplemental coverage through their employer, while approximately 20 percent have a Medicare supplemental plan known as Medigap.[xi] Additionally, certain qualifying low-income Medicare beneficiaries receive financial support from Medicaid and are known as dual eligibles (eligible for both Medicare and Medicaid).[xii]

Medicare Financing and Spending

There are two distinct funds through which Medicare is financed. Specifically, Part A is funded by the Hospital Insurance (HI) Trust Fund, which is comprised of revenue from payroll taxes, interest, taxation of Social Security benefits and other sources. Part B is funded by the Supplementary Medical Insurance (SMI) Trust Fund, which is comprised of general revenue, beneficiary premiums, and interest.[xiii] Part D receives funding through general revenues, beneficiary premiums and payments from states.[xiv] Total income for the Medicare program in 2012 amounted to $532.6 billion.[xv]



Medicare spending totaled approximately $551 billion in 2012 and is expected to almost double by 2023.[xvi] Many factors contribute to the growth in spending for the Medicare program, including the growing number of beneficiaries, particularly those of the aging baby boomer population, as well as an increased volume and greater complexity of services being consumed and the rising cost of those services.[xvii] Given the trends in spending growth, limited access to new revenue, and near-future predictions for the depletion of the Medicare HI Trust Fund, the fiscal health of the Medicare program is an area of major concern for policymakers, as well as beneficiaries. The HI Trust Fund is expected to be insolvent beginning in 2026.[xviii]

The Evolution of Medicare

Medicare was originally established to provide coverage for individuals 65 and older, who significantly lacked insurance at the time.[xix] However, since its inception the program has evolved in a number of significant ways. The following table highlights a few of the key changes made to the program over the past four decades[xx]:

1965	Medicare, Title XVIII of the Social Security Act, was signed into law by President Lyndon B. Johnson.
1972	Under the Social Security Amendments of 1972, Medicare eligibility was extended to include those under age 65 who have long-term disabilities or ESRD.
1997	The Balanced Budget Act of 1997 established the Medicare+Choice program, a program for private health plan offerings in Medicare, now known as Medicare Advantage or Medicare Part C.
2003	The Medicare Modernization Act of 2003 established prescription drug coverage under Medicare, known as Medicare Part D.
2010	Most recently, the Affordable Care Act of 2010 (ACA) made a number of changes to the program which include certain benefit enhancements, reduced payments to the Medicare Advantage program, and the establishment of the Independent Payment Advisory Board (IPAB), which will make recommendations aimed at reducing costs to the program.

Significant changes to the Medicare program were made with the passage of the Affordable Care Act of 2010 (ACA) and a number of these changes have specific influence on the fiscal sustainability of the program. The ACA imposes approximately $716 billion in spending reductions for the Medicare program over a ten-year period.[xxi] This reduction in spending is achieved through reductions in payments to the MA program, the establishment of the Independent Payment Advisory Board and the reduction of annual updates to certain provider payment rates, among other measures.[xxii] Additionally, the ACA established new revenues to the program through an increase in payroll taxes for high-income workers, as well as other new taxes on investment income and medical device sales.[xxiii]

While the ACA makes important changes that begin to address spending growth and extend trust fund solvency through 2026, Medicare's fiscal challenges remain. Medicare accounted for 15.1 percent of the federal budget in 2010, making its fiscal viability central to broader concerns regarding the federal deficit.[xxiv] Policymakers are faced with the task of finding ways to reduce health care costs and increase revenues to the program while ensuring that beneficiaries can access quality and affordable health care. These challenges are not easily solved and Medicare will undoubtedly be at the forefront of ongoing policy discussion around both controlling health care costs and reducing the national debt.

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[i] http://www.kff.org/medicare/upload/1066-14.pdf
[ii] http://www.kff.org/medicare/upload/1066-14.pdf
[iii] http://www.nhpf.org/library/the-basics/Basic_Medicare_01-24-11.pdf
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[xii] http://www.kff.org/medicaid/upload/4091-08.pdf
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