

What's the problem?

The cost of Medicare is a major contributor to the federal government's trillion-dollar deficit. As funding for the program is stretched, quality and affordability of care for beneficiaries is threatened.

The cost of Medicare is expected to nearly double over the coming decade, from \$585 billion in 2013,ⁱ to \$1,064 billion in 2023.ⁱⁱ

The Medicare trust fund applies to only a fraction of the program, and even that portion is not sustainable over the long-term.ⁱⁱⁱ

Why does it cost so much and why is it so hard to fix?

1. More and more people are entering the program.

Supporting Facts:

Medicare beneficiaries have more than doubled from 19.1 million in 1966 to 52 million in 2013.^{iv} This number is projected to double yet again to 80 million by 2030.^v

During the same time that greater numbers of beneficiaries are entering the Medicare program, the number of workers per beneficiary is projected to decrease from 4.0 in 2000 to 2.3 in 2030 – meaning there will be less revenue from payroll taxes, which are a primary source of financing for the Medicare Hospital Insurance Trust Fund.^{vi}

2. These people are living longer and facing a growing number of chronic conditions. This means that they will be more expensive to care for, over a longer period of time.

Supporting Facts:

When Medicare began in 1965, the average lifespan in America was 70. In 2010, it was 78.7 and is projected to increase steadily for the foreseeable future.^{vii}

Ninety-four percent of Medicare expenditures involve individuals with multiple chronic conditions.^{viii} In 2010, 14 percent of Medicare beneficiaries had six or more chronic conditions and the annual Medicare payment was \$32,658 per beneficiary, compared with \$2,025 for those with only one or no chronic condition.^{ix} Those with six or more chronic conditions, while only 14 percent of the Medicare population, account for approximately half of all Medicare spending.^x

3. Patients with chronic conditions have an even greater need for coordinated care, but most Medicare beneficiaries receive care through a fragmented Medicare fee-for-service (FFS) payment system, which rewards quantity as opposed to quality.

Supporting Facts:

Approximately 75 percent of beneficiaries continue to receive coverage through traditional FFS Medicare.^{xi}

FFS Medicare pays doctors separate fees for each different service, such as a diagnostic test, or an office visit. This mode of payment pays for volume rather than for outcomes.^{xii}

In 2010, approximately 20 percent of hospitalized Medicare patients were readmitted to the hospital within a 30-day window. These readmissions are potentially preventable and in one year cost the Medicare program \$17.5 billion in inpatient spending alone.^{xiii}

4. Health care costs continue to rise.

Supporting Facts:

Over the last four decades, the average growth in health spending has exceeded the growth of the economy as a whole.^{xiv}

The United States spent \$2.7 trillion, or \$8,680 per person, on health care in 2011. This spending on health care represents 17.9 percent of gross domestic product (GDP).^{xv}

High spending in the larger health system is the result of a number of factors, including the price paid for services, the volume and complexity of services, and new medical technology.^{xvi}

The underlying costs of health care add to the unique challenges Medicare faces and place additional pressure on the program.^{xvii}

ⁱ <http://www.cbo.gov/sites/default/files/cbofiles/attachments/45471-Long-TermBudgetOutlook.pdf>

ⁱⁱ <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44172-Baseline2.pdf>

ⁱⁱⁱ <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2012.pdf>

^{iv} http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO2013_0.pdf

^v http://www.census.gov/compendia/statab/cats/health_nutrition/medicare_medicaid.html

^{vi} <http://facts.kff.org/chart.aspx?cb=58&sctn=170&ch=1808>

^{vii} <http://www.cdc.gov/nchs/data/hus/hus12.pdf#018>

^{viii} <http://www.rwjf.org/content/rwjf/en/about-rwjf/newsroom/newsroom-content/2010/03/two-thirds-of-medicare-spending-is-for-people-with-five-or-more-.html>

^{ix} <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Chronic-Conditions/Downloads/2012Chartbook.pdf>

^x <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Chronic-Conditions/Downloads/2012Chartbook.pdf>

^{xi} <http://www.medpac.gov/documents/Jun12DataBookEntireReport.pdf>

^{xii} http://www.medpac.gov/chapters/Jun12_Ch02.pdf

^{xiii} <http://www.academyhealth.org/files/2012/sunday/brennan.pdf>

^{xiv} http://www.kff.org/insurance/upload/7670_02.pdf

^{xv} <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/highlights.pdf>

^{xvi} <http://www.cbo.gov/publication/43288>

^{xvii} <http://www.kff.org/medicare/upload/7305-06.pdf>