MEDICARE: The US Government’s Most Popular Social Program

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The Social Security Act of 1965 established Medicare (& Medicaid)
Medicare Revolutionized US Health Care

• Only 56% of elderly had hospital insurance in 1965, just 54 yrs ago

• Remainder got only sporadic care

> 1 out of 7 Americans is now covered by Medicare
The Medicare Revolution

• Medicare (& Medicaid) pumped big $$ into health care demand

• Demand spurred new investment in health care technology & capacity

• Health sector took off as a “big business” environment

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**Health sector profit margins**

<table>
<thead>
<tr>
<th>Category</th>
<th>Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drug manufacturers</td>
<td>20.8%</td>
</tr>
<tr>
<td>Industry average</td>
<td>15.4%</td>
</tr>
<tr>
<td>Medical instruments and supplies</td>
<td>12.5%</td>
</tr>
<tr>
<td>Medical appliances and equipment</td>
<td>9.5%</td>
</tr>
<tr>
<td>Hospitals</td>
<td>3.7%</td>
</tr>
<tr>
<td>Health plans</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Source: Yahoo! Business
The Medicare Revolution

- US spent $3.7+ trillion on health care in 2018

- Medicare (& other govt. programs) finance about half of that now

- Health care = 17.9 % of GDP

- More than we spend on food (10%), or housing (15%), or education (7.3%), or defense (3.5%)
Why Is Medicare So Popular?

• Benefits perceived as “earned” thru payroll contributions to M/C trust fund (i.e. it’s not welfare)

• Benefits available to elderly (mainly) regardless of means

• Range of benefits perceived as fair & equitable
Will Medicare Run Out of Money?

• **Bottom line: NO!**
  (notwithstanding big boomer influx)

• Even tho costs dramatically up, program is far too popular to fail

• **THE ELDERLY VOTE!**
Virtually all eligible seniors sign up for Medicare

They will never find cheaper health insurance
Providers Love Medicare Too

• > 40% of hospital inpatient days = Medicare (Parts A & C)

• 25% of physician revenues come from Medicare

• Durable medical equipment, hospice & ambulance firms also highly dependent on Medicare payments
But will Medicare Run Out of Money?

- Beneficiary contributions may ↑
- Taxes may ↑
- Controls may increase
- Benefits may shift

But Medicare will survive!

(Trust me)
What IS Medicare?

• Federally sponsored health insurance, linked to Social Security eligibility

• In 2015 Medicare covered:
  • > 55 million elderly & permanently & totally disabled Beneficiaries
  • Plus 500,164 beneficiaries with end-stage renal disease
Q: are the elderly becoming the Worried Well now that “everyone” is insured?

“Well, Bob, it looks like a paper cut, but just to be sure, let’s do a lot of tests.”
Medicare Part A – Hospital Insurance

Also hospice, home health care & (limited) nursing home services

**Automatic coverage for social-security-eligible beneficiaries – NO PREMIUM!**

**SUBJECT TO:**

- **Annual deductible** ($1,364 in 2019) +
- **$341 daily co-payment** after 60\(^{th}\) day of hosp. care, $682/day from day 61-90, plus lifetime reserve of up to 60 more days.
DRGs – Hospitals get paid flat sum (per diagnosis) for each Medicare hospitalization

“We’ll have you out of here in no time.”
Medicare Part B – Physician Insurance

Also covers durable medical equipment, physical & occupational therapy, outpatient hospital, & ambulance services

PREMIUM BASED - Coverage: a) not automatic, & b) means-tested), but govt subsidy = approx. 75% of cost

Subject to:
• Annual deductible ($185 in 2019) +
• 20% coinsurance requirement
Part C – Medicare Advantage

The Medicare private preferred provider plan option, chosen by 34% of Medicare beneficiaries

- Plans provide benefits = to fee-for-service Medicare
- but can vary-cost-sharing
  - & usually waive deductibles
  - plus provide additional benefits

Premium costs vary by plan
- Enrollees usually limited to plan providers
Part D – Prescription Drug Coverage

All Medicare Beneficiaries eligible to enroll (voluntary, but most enroll)

Premium = 26% of benefit costs (stiff penalty for “late” enrollment)

Government subsidizes rest thru tax revenues

Benefits provided by private Rx Drug Plans (PDPs)

Premiums vary by plan coverage
Medex or Medigap = voluntary wrap-around “medicare extension” insurance
Supplementary premium-based insurance plans to cover varying:

• Coinsurance,
• Deductibles, &
• Additional Benefits (sometimes)
• Premiums vary by plan
Figure 7
Sources of Medicare Revenue, 2016

The chart shows the sources of Medicare revenue for the year 2016. The total revenue is $710.2 billion, with General revenue accounting for 45%, Payroll taxes for 36%, and Premiums for 13%. Transfer from states, Taxation of Social Security benefits, Interest, and Other account for less than 1% each.

- **TOTAL**:
  - General revenue: 45%
  - Payroll taxes: 36%
  - Premiums: 13%
  - Transfer from states: <1%
  - Taxation of Social Security benefits: <1%
  - Interest: 1%
  - Other: <1%
  - Total: $710.2 billion

- **Part A**:
  - General revenue: 87%
  - Payroll taxes: 3%
  - Premiums: 8%
  - Transfer from states: <1%
  - Taxation of Social Security benefits: <1%
  - Interest: <1%
  - Other: 1%
  - Total: $290.8 billion

- **Part B**:
  - General revenue: 75%
  - Payroll taxes: 23%
  - Premiums: 23%
  - Transfer from states: <1%
  - Taxation of Social Security benefits: <1%
  - Interest: <1%
  - Other: <1%
  - Total: $313.2 billion

- **Part D**:
  - General revenue: 78%
  - Payroll taxes: 13%
  - Premiums: 13%
  - Transfer from states: <1%
  - Taxation of Social Security benefits: <1%
  - Interest: <1%
  - Other: <1%
  - Total: $106.2 billion

**NOTE:** Data are for the calendar year.

**SOURCE:** 2017 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, Table II.B1.
Figure 2
Medicare Benefit Payments by Type of Service in 2017

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Advantage (Part A &amp; B services)</td>
<td>30%</td>
</tr>
<tr>
<td>Hospital inpatient services</td>
<td>14%</td>
</tr>
<tr>
<td>Outpatient prescription drugs (Part D)</td>
<td>11%</td>
</tr>
<tr>
<td>Physician payments</td>
<td>10%</td>
</tr>
<tr>
<td>Hospital outpatient services</td>
<td>7%</td>
</tr>
<tr>
<td>Skilled nursing facilities</td>
<td>4%</td>
</tr>
<tr>
<td>Home health</td>
<td>3%</td>
</tr>
<tr>
<td>Other services*</td>
<td>1%</td>
</tr>
</tbody>
</table>

Total Medicare Benefit Payments, 2017: $688 billion

NOTE: *Includes Medicare benefit spending on hospice, durable medical equipment, Part B drugs, outpatient dialysis, outpatient therapy, ambulance, lab, community mental health center, rural health clinic, federally qualified health center, and other Part B services.

SOURCE: KFF analysis of Congressional Budget Office, April 2018 Medicare Baseline.
“You don’t know how lucky you are! A quarter of an inch either way, and it would have been outside the area of reimbursable coverage.”
The #1 Reason for Medicare dis-enrollment: