Office of Senator Tom Coburn, M.D.
Policy Analysis

Examining Medicare Spending: What's Realistic to Expect?

CMS Office of the Actuary Says 2013 Alternative Scenario Is More Realistic Than Estimate in Medicare Trustee's Report

About Medicare Spending Projections

On May 31, 2013, the Medicare Trustees released their annual report assessing the future of Medicare spending.[1] However, the Office of the Actuary at the Centers for Medicare and Medicaid Services (CMS) also produced a 2013 "alternative scenario" of Medicare spending. Here is how the Office of Actuary explained the purpose of the second examination of Medicare outlays:

> "The future of The Trustees Report is necessarily based on current law; as a result of questions regarding the operations of certain Medicare provisions, however, the projections shown in the report under current law are clearly unrealistic with respect to physician expenditures and, in addition, may well understate expenditures for most other categories of health care providers. The purpose of this memorandum is to present a set of Medicare projections under hypothetical alternatives to these provisions to help illustrate and quantify the potential magnitude of the cost understatement under current law."[2]

The Actuary's office said their intent was "to help inform Congress and the public at large that an evaluation of the financial status of Medicare, based on the provisions of current law, is likely to portray an unduly optimistic outcome." They said they also wanted to "promote awareness of these issues, to illustrate and quantify the amount by which the Medicare projections are potentially understated, and to help inform discussions of potential policy reactions to the situation."[3] As the Actuary's office ominously warned, "the sizable differences in projected Medicare cost levels between current law and the illustrative alternative scenarios highlight the critical importance of finding ways to bring Medicare costs—and health care costs in the U.S. generally—more in line with society's ability to afford them."[4]

The Trustees Report is Based On Current Law, Not What is Most Realistic

"In the 2013 *Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, the Board warns that "actual future Medicare expenditures are likely to exceed the intermediate projections shown in this report, possibly by quite large amounts." The Trustees Report is necessarily based on current law…the projections shown in the report under current law are clearly unrealistic with respect to physician expenditures and, in addition, may well understate expenditures for most other categories of health care providers." (page 1)

If Status Quo Continues, Seniors Could Have Reduced Access to Care

"It is reasonable to expect that Congress would find it necessary to legislatively override or otherwise modify the reductions in the future to ensure that Medicare beneficiaries continue to have access to health care services." (page 1, 2)

[1] http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/downloads/tr2013.pdf
[2] http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/2013TRAlternativeScenario.pdf
[3] http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/2013TRAlternativeScenario.pdf
[4] http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/2013TRAlternativeScenario.pdf

Official Report Assumes A 25% Reduction in Physician Reimbursements…..

"Medicare payment rates for physician services as determined by the Sustainable Growth Rate (SGR) system are scheduled to be reduced by roughly 25 percent in 2014…in our view the scheduled physician payment reduction is implausible, and there is a strong likelihood that the productivity adjustments will not be sustainable in the long range." (page 1)

…..But Large SGR Cuts Are "Extremely Unlikely"

"The 2007-13 physician payment update legislation requires payment updates for subsequent years to be determined as if the legislation had not occurred. This requirement has the effect of accumulating the impact of the scheduled payment reductions and applying this accumulated impact in the following year. As a result, the scheduled payment update for 2014 is estimated to be -24.7 percent. *A large negative update is extremely unlikely to occur*. As noted, Congress has overridden all of the scheduled reductions from 2003 through 2013. Despite its improbability, the negative physician update is scheduled to occur under current law and is therefore included in the Part B estimates shown in the 2013 Medicare Trustees Report." (page 3)

Status Quo Leads to Medicare Payment Rates Roughly Half Their Current Level

"To illustrate the implications of the productivity adjustments and the physician payment reductions, simulated future Medicare price levels under current law were compared to private health insurance and Medicaid. Medicaid payment rates equal Medicare payment rates in 2011, and both decline in tandem relative to private health insurance payment rates over the next 75 years…By the end of the long-range projection period, Medicare and Medicaid payment rates for inpatient hospital services would both represent roughly 41 percent of the average level for private health insurance. (page 6-7)

Plummeting Provider Medicare Payment Rates Could Care Seniors' Access…..

"For physician services, Medicare payment rates are updated according to the SGR formula in current law…Medicare physician payment rates decline to 61 percent of private health insurance payment rates in 2014 due to the scheduled reduction in the Medicare physician fee schedule of about 25 percent under the SGR formula in current law. (In practice, Congress is very likely to override this reduction, as it has consistently for 2003 through 2013.) Under current law, the Medicare rates would eventually fall to 31 percent of private health insurance levels by 2087 and to less than half of the projected Medicaid rates." (page 7-8)

…….And Cause Some to "Withdraw From Providing Services To…Beneficiaries."

"In the Office of the Actuary's April 22, 2010 memorandum on the estimated financial effects of the Affordable Care Act, we noted that by 2019 the updated reductions would result in negative total facility margins for about 15 percent of hospitals, skilled nursing facilities, and home health agencies. This estimated percentage would continue to increase, reaching roughly 25 percent in 2030 and 40 percent by 2050. In practice, providers could not sustain continuing negative margins and, absent legislative changes, would have to withdraw from providing services to Medicare beneficiaries, merge with other provider groups, or shift substantial portions of Medicare costs to their non-Medicare, non-Medicaid payers. In practice, Congress would presumably act to adjust Medicare payment rates as necessary before such a situation developed." (page 8-9)

President's Former Aide: Providers Could "Accept Fewer Medicare…Patients"

"[I]n an article for *Foreign Affairs*, former CBO and OMB Director Peter Orszag said, '[One] approach is to simply reduce payments to providers—hospitals, doctors, and pharmaceutical companies. This blunt strategy can work, often quite well, in the short run. It is inherently limited **over** the medium and long term, however, unless accompanied by other measures to reduce the underlying quantity of services provided. If only Medicare and Medicaid payments were reduced, for example, providers would shift the costs to other patients and also accept fewer Medicare and Medicaid patients." (page 9)

Long Term: Hospital Spending 135% Higher Than Currently Projected

"Under current law, HI costs are projected to increase to 2.56 percent of GDP in 2080, or roughly 55 percent greater than their 2012 level. Under the illustrative alternative to current law, costs would be 3.87 percent of GDP in 2080, or roughly 135 percent greater than their 2012 level." (page 16)

Long Term: Physician Spending 60% Higher Than Currently Projected

"In the full alternative scenario, Part B is expected to increase more rapidly – reaching 4.09 percent of GDP by 2080. The Part B cost in 2080 would be nearly 60 percent larger than the current law projection, under the illustrative alternative to current law, reflecting both the larger payment rate updates for all providers and the absence of the nearly 25-percent reduction in physician payment rates in 2014 under the current-law SGR formula." (page 17-18)

Medicare Spending to Grow to Consume Nearly 1 in 10 Dollars in Economy

"Medicare expenditures as a percent of GDP are predicted to be 3.88 percent in 2020 and grow to 6.5 percent in 2080 under current law, "while expenditures increase to 9.34 percent of GDP in the full alternative projection…In other words, if these elements of current law are not sustained in all future years, then Medicare expenditures in 2080 could be about 45 percent greater than projected under current law." (page 18)

Medicare Spending "Likely to Exceed the Projections" of Official Report

"[T]he current-law projections should not be interpreted as the most likely expectation of actual Medicare financial operations in the future but rather as illustrations of the very favorable impact of permanently slower growth in health care costs, if such slower growth can be achieved. The illustrative alternative projections shown here help to quantify and underscore the likely understatement of the current-law projections in the 2013 Trustees Report…expectations must be tempered by awareness of the difficult challenges that lie ahead in improving the quality of care and making health care far more cost efficient. The sizable differences in projected Medicare cost levels between current law and the illustrative alternative scenarios highlight the critical importance of finding ways to bring Medicare costs – and health care costs in the U.S. generally – more in line with society's ability to afford them." (page 20)