

# Medicare @50

JULY 2015

## ADDITIONAL RESOURCES

### MEDICARE AT 50:

WHO ARE THE BENEFICIARIES?

[http://actuary.org/files/Medicareat50\\_Beneficiaries\\_0715.pdf](http://actuary.org/files/Medicareat50_Beneficiaries_0715.pdf)

### MEDICARE AT 50:

IS IT SUSTAINABLE FOR 50 MORE YEARS?

[http://actuary.org/files/Medicareat50\\_Sustainability\\_0715.pdf](http://actuary.org/files/Medicareat50_Sustainability_0715.pdf)

### MEDICARE'S FINANCIAL CONDITION:

BEYOND ACTUARIAL BALANCE

[http://actuary.org/files/MedicareTrustees\\_Final\\_07\\_24\\_15.pdf](http://actuary.org/files/MedicareTrustees_Final_07_24_15.pdf)

### ESSENTIAL ELEMENTS

MEDICARE'S LONG-TERM  
SUSTAINABILITY CHALLENGE

<http://actuary.org/filesEE-MedicareSustainabilityChallenge.pdf>



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## MEDICARE AT 50

### Does It Meet the Needs of the Beneficiaries?

Medicare provides health insurance coverage for a broad range of health care services, including both inpatient and outpatient hospital care, post-acute care, and physician services. With the notable exception of adding the prescription drug program in 2006, however, Medicare's traditional fee-for-service benefit package has remained mostly unchanged since it was enacted in 1965.

Beneficiaries have the option of choosing a private Medicare Advantage (MA) plan instead of the traditional Medicare program. MA plans must offer all of the services covered by the traditional program, but can also offer extra benefits. Medicare provides only very limited coverage of long-term care services and supports, regardless of whether beneficiaries enroll in traditional Medicare or Medicare Advantage.

Beneficiaries are required to pay a portion of the cost for nearly all of their Medicare-covered services. This is known as "cost sharing," and is typical with most health insurance. But unlike most private coverage, the traditional Medicare program does not limit the amount a beneficiary is required to pay in cost sharing during a year. Such an out-of-pocket cap would protect beneficiaries from catastrophic expenses. To limit out-of-pocket spending, many traditional program beneficiaries obtain supplemental coverage, for instance Medigap coverage. MA plans, unlike traditional Medicare, are required to include an out-of-pocket cap and have more flexibility in terms of offering alternative cost-sharing requirements.

With Medicare's traditional benefit package largely unchanged over its history, there are calls for a restructuring to provide greater financial protection and also to encourage beneficiaries to seek cost-effective care.

### **WHAT TRADITIONAL MEDICARE COVERS**

Traditional Medicare provides fee-for-service benefits through Part A, the Medicare Hospital Insurance program, and Part B, the Supplementary Medical Insurance program. Medicare Part A covers inpatient hospital care, skilled nursing facility care, home health care services that are preceded by an inpatient stay, and hospice care. Medicare Part B covers services provided by doctors and other health care professionals, outpatient care, home health care services that are not preceded by an inpatient stay, diagnostic tests, durable medical equipment, and some preventive care services. Prescription drug coverage is available through Medicare Part D.

### **MEDICARE DOESN'T COVER LONG-TERM CARE AND SOME COMMONLY USED SERVICES**

Although Medicare covers home health and skilled nursing facility care for beneficiaries needing temporary convalescence from an illness or surgical procedure, it does not cover most long-term care services and supports. In particular, it does not cover custodial care for beneficiaries in need of help with the basic activities of daily living, such as bathing, dressing, and feeding.

Paying for long-term care can be challenging. Enrollment in private long-term care insurance is relatively low and eligibility for long-term care

benefits under Medicaid requires having only limited income and assets. Medicare beneficiaries with assets above the allowed thresholds would need to "spend down" most of their assets before being eligible for Medicaid to help pay for their nursing home care.

Some other services that are widely used today, including vision, dental, and hearing care, generally are not covered under the traditional Medicare program. Medigap plans generally don't cover these services either, but coverage can be available through Medicare Advantage.

### **COST-SHARING REQUIREMENTS**

As noted above, like most health insurance plans, Medicare uses patient cost-sharing requirements, such as deductibles, copayments, and coinsurance, to help balance the cost of the program with the generosity of the benefits provided. Whereas private health insurance programs typically have integrated benefit structures that are designed to manage hospital and non-hospital expenses in a coordinated fashion, the Medicare Part A and Part B benefits are structured very differently from each other—and the patient cost-sharing provisions are not coordinated between the two.

### **NO OUT-OF-POCKET LIMIT IN TRADITIONAL MEDICARE**

One of the most significant limitations of traditional Medicare is that it does not place an annual limit, or cap, on a beneficiary's cost-sharing liability. The lack of an annual limit on cost sharing leaves beneficiaries unprotected against catastrophic health costs.

### **ABOUT THIS SERIES**

In the *Medicare at 50* series, the American Academy of Actuaries explores various aspects of the Medicare program and potential implications for future policymaking. Together, these papers provide a comprehensive overview of the current status of the Medicare program and of issues that should be considered when making future changes.

## **MOST BENEFICIARIES IN TRADITIONAL MEDICARE HAVE SUPPLEMENTAL POLICIES**

Because there is no cost-sharing limit, supplemental coverage is a necessity for beneficiaries who desire protection against the costs associated with catastrophic illness. Most beneficiaries enrolled in traditional Medicare have supplemental coverage that provides such protection by filling in the cost-sharing requirements. Supplemental coverage can be in the form of an individually purchased Medigap plan, retiree benefits provided by a former employer, or Medicaid in the case of low-income beneficiaries. Although such coverage protects against catastrophic costs, it also reduces the incentives for beneficiaries to seek cost-effective care.

## **MEDICARE ADVANTAGE PLANS OFFER CATASTROPHIC PROTECTION AND BENEFIT DESIGN FLEXIBILITY**

In contrast to traditional Medicare, MA plans have some flexibility on how to structure cost-sharing requirements—and very few use the traditional program’s cost-sharing structure. In addition, all MA plans are required to provide an annual cost-sharing limit, which in 2015 can be no more than \$6,700. MA plans also may offer extra benefits not typically covered in traditional Medicare, such as vision, hearing, dental, and wellness programs. An extra premium may be required for those additional benefits.

## **REVISING THE TRADITIONAL MEDICARE PROGRAM’S BENEFIT STRUCTURE**

To address some of the limitations of the current benefit design, proposals have been suggested that would combine a new cost-sharing limit with a unified Part A and Part B deductible. The copayment and coinsurance requirements also could be restructured. These changes would result in more coordinated Part A and Part B cost-sharing requirements and would bring the traditional program’s benefit design more in line with the structure of private health insurance programs.

Unifying the Part A and Part B deductibles has the potential to better align beneficiary incentives designed to reduce unnecessary care and promote more cost-effective care. But the majority of Medicare beneficiaries have supplemental coverage that can limit the effectiveness of the incentives in Medicare’s cost-sharing requirements. Beginning in 2020, Medigap plans will be prohibited from covering the Part B deductible for new Medicare beneficiaries. Additional changes also may need to be considered to avoid limiting the effectiveness of any new cost-sharing design incentives.

Changes to the traditional program’s plan design and/or to supplemental coverage could result in additional program costs or savings, depending on the specific changes made. For instance, a relatively high combined deductible could reduce Medicare program spending, whereas a relatively low combined deductible could increase spending.

## **BENEFICIARY CHOICE**

Medicare beneficiaries face a wide array of choices when making their coverage decisions. They can opt for the traditional Medicare program, with or without a supplemental Medigap plan. Or they can choose from one of the many MA plans that are available to them. They also have a choice among Part D prescription drug plans. Although these options provide a greater opportunity for beneficiaries to choose the plan or combination of plans that best meet their needs, the multitude of choices can make decision-making difficult.