

Medicare Long-Run Current-Law Sustainability Issues

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Background

- ACA
 - Current law requires that all Part A and most Part B payment updates be reduced by annual growth in economy-wide productivity (MFP) indefinitely; the Trustees Report must be calculated under current law.
 - Concern: If payments don't keep up with the cost of providing care, the availability and quality of care for Medicare beneficiaries could fall below that received by individuals with private insurance.

2010-11 Technical Panel Recommendation

“The Panel recommends that the Medicare Board of Trustees continue to present alternative projections in which average Medicare spending per beneficiary rises faster than the current-law baseline” and “...recommends inclusion of the alternative projections...in the form of a chart (and related text) that compares long-range Medicare expenditures as a percent of GDP under (i) current law...(iii) an alternative with both an SGR modification as above and assumed payment rate increases for other providers that are not as constrained as required by the productivity adjustments.”

Background, cont.

- MACRA
 - Previously, the Trustees Report showed current-law projections based on the sustainable growth rate (SGR) system. These projections were unrealistic because SGR updates had been regularly overridden.
 - Under MACRA, long-run physician payment rate updates under current law are now:
 - 0.75 percent annually for physicians in alternative payment models (APMs), with expiration of 5-percent bonus in 2025.
 - 0.25 percent for those in the merit-based incentive payment system (MIPS), with expiration of \$500-million add-on in 2025.
 - Concern: If payments don't vary based on economic conditions and keep pace with the average rate of physician cost increases, access to Medicare-participating physicians becomes a significant issue in the long run.

2016 Trustees Report

“Absent a change in the delivery system or level of update by subsequent legislation, the Trustees expect access to Medicare-participating physicians to become a significant issue in the long term under current law.” (page 2)

“However, if the health sector cannot transition to more efficient models of care delivery and achieve productivity commensurate with economy-wide productivity, and if the provider reimbursement rates paid by commercial insurers continue to follow the same negotiated process used to date, then the availability and quality of health care received by Medicare beneficiaries would, under current law, fall over time compared to that received by those with private insurance.” (page 3)

2016 Trustees Report, cont.

“At the request of the Trustees, the Office of the Actuary at CMS has prepared a set of illustrative Medicare projections under a hypothetical modification to current law. A summary of the projections under the illustrative alternative is contained in appendix V.C of this report....Readers should not infer any endorsement of the policies represented by the illustrative alternative by the Trustees, CMS, or the Office of the Actuary. Appendix V.C also provides additional information on the uncertainties associated with the productivity adjustments to specific provider payment updates and the scheduled physician updates.” (page 4, footnote 3)

“The difference between the illustrative alternative and the current-law projections demonstrates that the long-range costs could be substantially higher than shown throughout much of the report if the MACRA and ACA cost-reduction measures prove problematic and new legislation scales them back.” (page 5)

2016 Trustees Report, cont.

“Also, as a result of the uncertain long-range adequacy of physician payments and payments affected by the statutory productivity adjustments, actual future Medicare expenditures could exceed the intermediate projections shown in this report, possibly by quite large amounts.” (page 17)

“The financial projections shown for the Medicare program in this report reflect substantial, but very uncertain, cost savings deriving from provisions of the ACA and MACRA that lower increases in Medicare payment rates to most categories of health care providers. Without fundamental change in the current delivery system, these adjustments would probably not be viable indefinitely.” (page 43)

“Readers should interpret the projections shown in this report as illustrations of the very favorable impact of permanently slower growth in health care costs, if such slower growth is achievable.” (page 43)

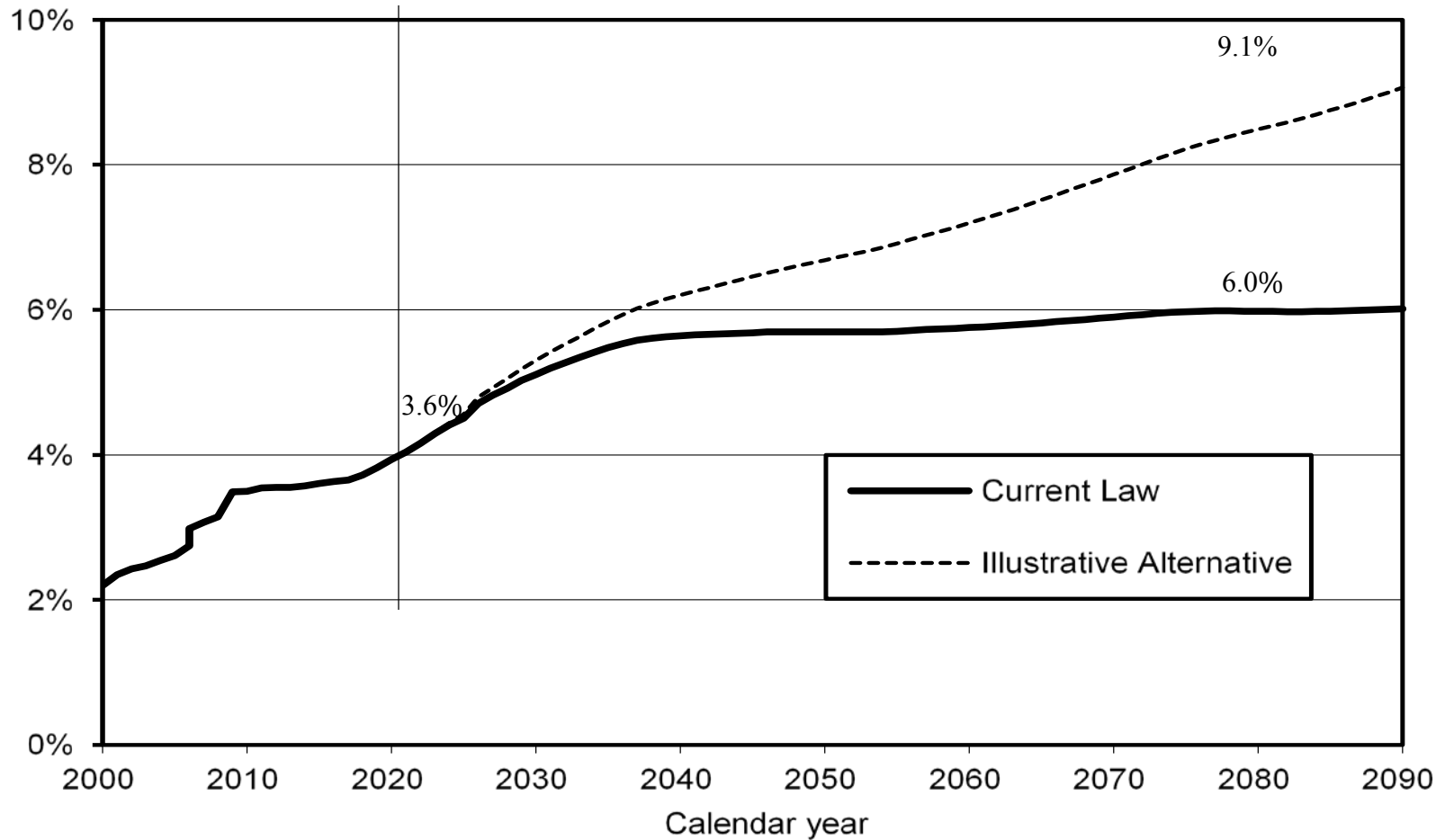
2016 Trustees Report, cont.

Illustrative Alternative

- ACA
 - Phase out payment update reductions from 2020 through 2034 from market basket minus economy-wide MFP (MB-1.1) to health sector MFP (MB-0.4).
 - Eliminate cost-reducing actions of the Independent Payment Advisory Board (IPAB).
- MACRA
 - Transition physician payment updates from 0 percent specified in current law in 2025 to the Medicare Economic Index (2.2 percent) in 2040 and later.
 - Eliminate expiration of 5-percent bonus for physicians in APMs and \$500 million for physicians in MIPS.

2016 Trustees Report, cont.

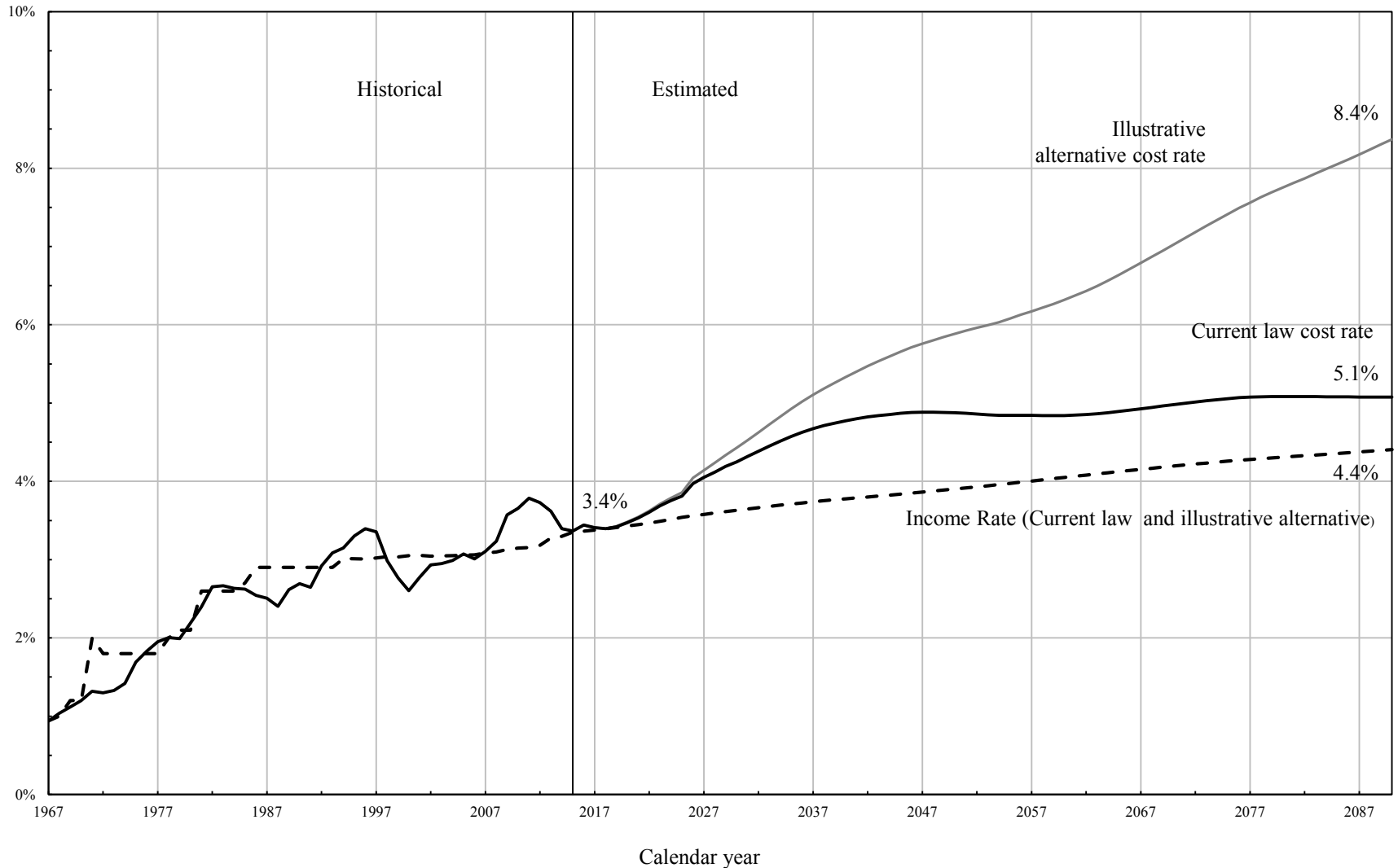
Figure I.1.—Medicare Expenditures as a Percentage of the Gross Domestic Product under Current Law and Illustrative Alternative Projections



Note: Percentages are affected by economic cycles.

2016 Trustees Report, cont.

Figure 4. Projected HI income and costs as a percentage of taxable payroll under the illustrative alternative projection compared to current law



2016 Trustees Report, cont.

Table 1. HI actuarial balances under the illustrative alternative scenario compared to the 2016 Trustees Report
(as a percentage of taxable payroll)

	2016 Report (current law)	Alternative projection
Valuation periods:		
25 years, 2016-2040:		
Summarized income rate	3.67%	3.67%
Summarized cost rate	4.24	4.44
Actuarial balance	-0.58	-0.77
50 years, 2016-2065:		
Summarized income rate	3.79	3.79
Summarized cost rate	4.50	5.14
Actuarial balance	-0.72	-1.35
75 years, 2016-2090:		
Summarized income rate	3.91	3.92
Summarized cost rate	4.63	5.77
Actuarial balance	-0.73	-1.85

2016 Trustees Report, cont.

Table 3. Projected Part B expenditures as a percentage of Gross Domestic Product (GDP) under current law and the illustrative alternative, selected years 2015-2090

Part B expenditures as a percentage of GDP		
Calendar year	Current law	Alternative projection
2015	1.56%	1.56%
2020	1.70	1.70
2030	2.30	2.41
2040	2.50	2.80
2050	2.45	2.97
2060	2.44	3.21
2070	2.45	3.49
2080	2.41	3.74
2090	2.38	3.98

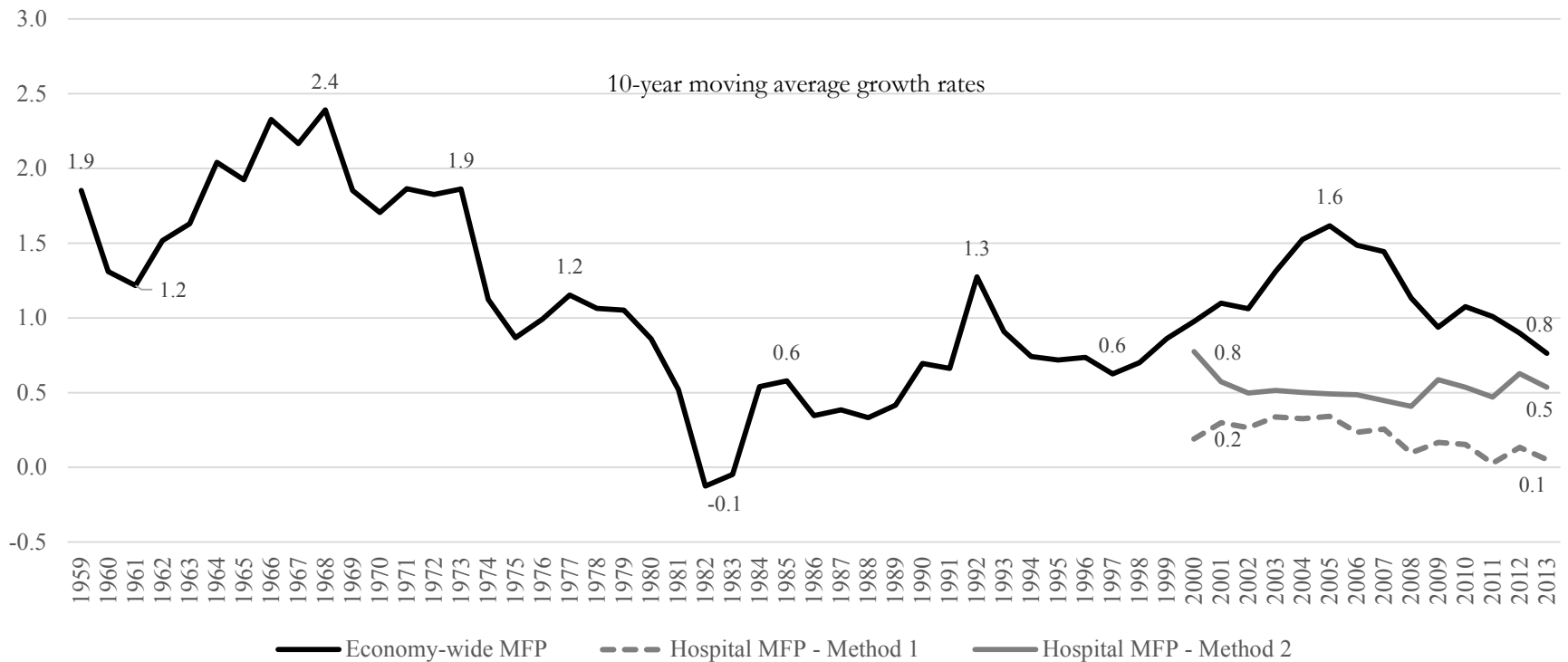
Sustainability

- OACT analysis of various sustainability measures
 - ACA
 - Hospital productivity estimates
 - Comparison of Medicare and private prices
 - Margin simulations
 - MACRA
 - Comparison of Medicare and private prices

Sustainability, cont.

- OACT Hospital productivity estimates

- In the 2016 Trustees Report, hospital productivity was assumed to be 0.4 percent over the long run compared to 1.1 percent for economy-wide productivity.

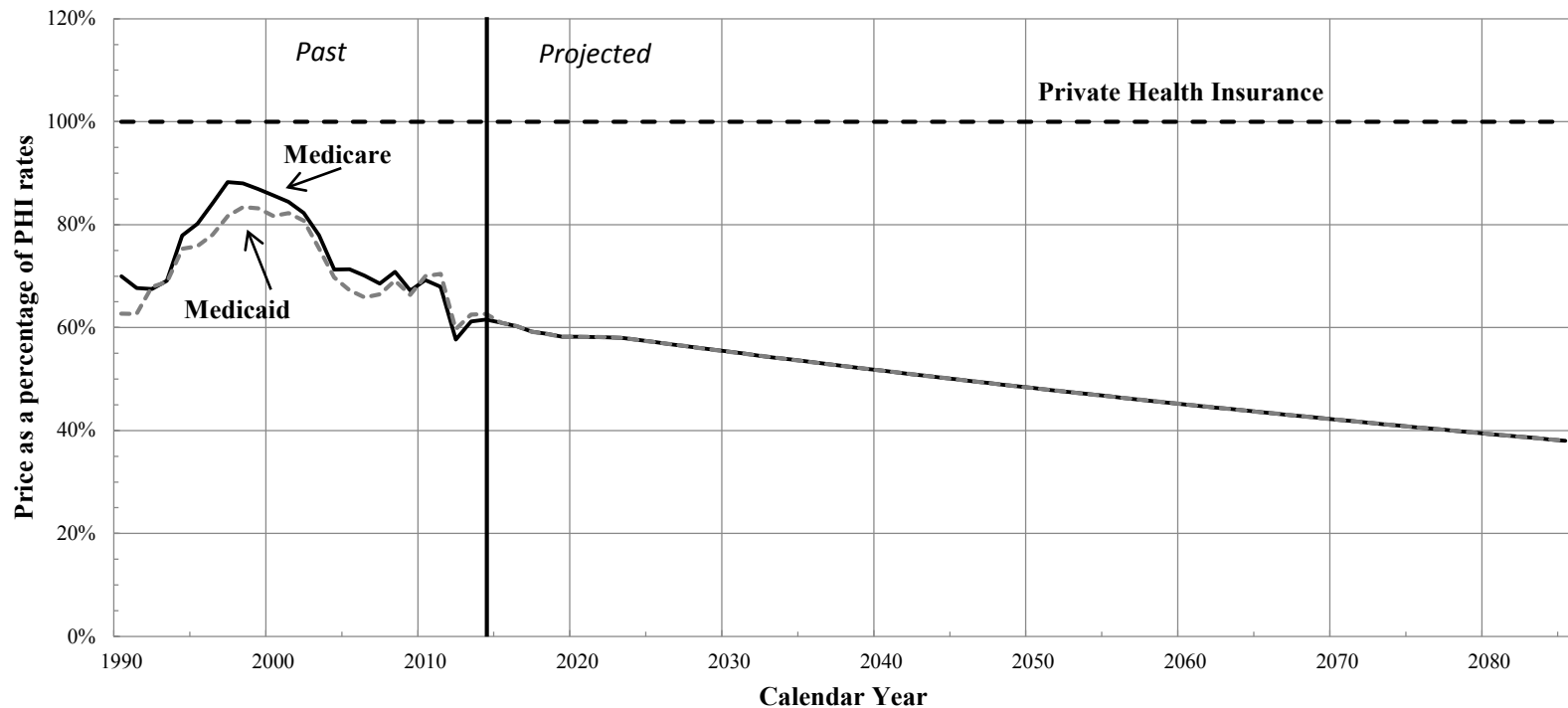


Source: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/ProductivityMemo2016.pdf>

Sustainability, cont.

- OACT Comparison of Medicare and private hospital prices
 - For 2010-2015, MFP reductions to Medicare payments were half of the original estimates while other negative payment adjustments were greater than MFP.

Figure 1. Illustrative comparison of relative Medicare, Medicaid, and private health insurance prices for inpatient hospital services under current law



Sustainability, cont.

- OACT Hospital margin simulations

Table 1. Simulated Proportion of Part A Providers with Negative Total Facility Margins

Provider Type	2011	Current Base Year 2014	Historical Experience Scenario		Achievable Productivity Scenario	
			2019	2040	2019	2040
Hospital*	30%	30%	35%	56%	33%	50%
SNF	40%	39%	47%	69%	47%	67%
HHA	36%	37%	72%	87%	72%	86%

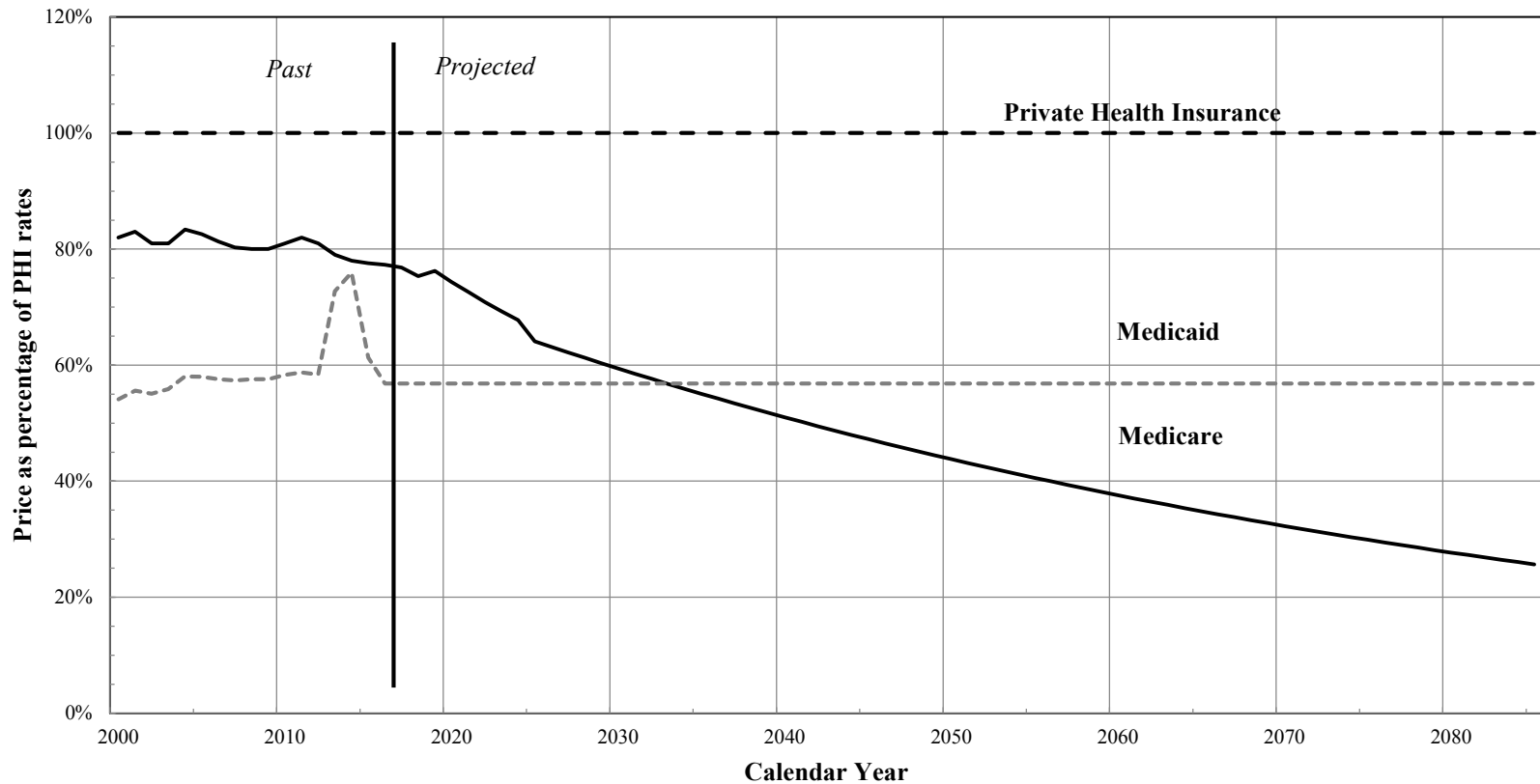
*The percentage of hospitals with negative Medicare margins was 66 percent in 2011 and 70 percent in 2014, increasing under the achievable productivity scenario to 87 percent in 2019 and to 99 percent in 2040.

- MedPAC
 - The Medicare hospital margin will fall to -9 percent by 2016 due to high commercial rates leading to a lack of cost pressure.
 - However, the median overall Medicare margin for relatively efficient hospitals will be slightly negative in 2016.

Sustainability, cont.

- OACT Comparison of Medicare and private physician prices
 - Current-law Medicare rates will be less than SGR Medicare rates by 2048 and 30 percent lower by 2090.

Figure 2. Illustrative comparison of relative Medicare, Medicaid, and private health insurance prices for physician services under current law



Sustainability, cont.

- Recent external research
 - Productivity
 - Hospital labor productivity is less than economy-wide productivity. (BLS)
 - Hospital MFP for three procedures is highly positive when reflecting changes in “outcomes.” (Romley)
 - Commercial versus Medicare Prices
 - Lack of private cost pressures leads to higher private prices, higher costs, and lower Medicare margins. (MedPAC)
 - Hospital market power leads to high commercial prices; weak correlation between Medicare and commercial spending levels. (Cooper, Ginsburg)
 - Medicare price cuts lead to price spillovers and reductions in costs. (White)
 - In some circumstances, commercial insurers may follow Medicare in pricing physician services. (Clemens and Gottlieb)
 - Medicare payment cuts under BBA slowed quality improvement for common Medicare episodes. (Wu and Shen)

Sustainability, cont.

- Recent external research
 - Access
 - Medicare—Hospitals have the excess capacity and financial incentive to see Medicare patients; physician access is as good as or better than for the privately insured. (MedPAC)
 - Medicaid—Mixed evidence. (MACPAC)

Conclusions/Questions?

- What additional analysis should support the sustainability issues?
- Does the language used in the Overview adequately describe the future uncertainty for the Medicare program associated with the sustainability issues?
- Is there value in producing an alternative to current law?
- If so, what are the appropriate assumptions to support the alternative scenario? Do the Trustees Report appendix and OACT memorandum sufficiently describe the issues?

References

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Clemens and Gottlieb, “Do Physicians’ Financial Incentives Affect Medical Treatment and Patient Health? ”

<http://www.ncbi.nlm.nih.gov/pmc/articles/PMC4144420/pdf/nihms586155.pdf>

Wu and Shen, “Long-Term Impact of Medicare Payment Reductions on Patient Outcomes” <https://www.ncbi.nlm.nih.gov/pubmed/24845773>

MACPAC, <https://www.macpac.gov/topics/access-and-quality/>