

# Straight Talk for Seniors

# Will Health Care Reform Change Your Health Care?

## FINANCING THE MEDICARE PROGRAM

### How is the Medicare program structured and financed?

There are four parts to Medicare:

- **Part A** covers in-patient services, primarily hospital care. It is paid for by worker's and employer's payroll taxes, not current beneficiaries. There are continuing concerns about the solvency of the program.
- **Part B** covers outpatient services, primarily doctor services. It is financed 75% by general revenues (various taxes, mostly on income)



and 25% by beneficiary premiums (currently \$110.50 per month).

- **Part C** is called Medicare Advantage (MA). Under MA, private insurance plans such as HMOs and PPOs offer coverage for Medicare services. About 24% of Medicare recipients are in an MA plan.
- **Part D** covers prescription drugs. If people on Medicare do not have other drug coverage (typically from employer retiree coverage), they choose from various private sector plans. When you join a Part D plan, the government makes a payment of about \$1,100 annually to an insurance company. Most of Part D is paid for by general revenues with about 11% paid for by beneficiaries through monthly premiums. Part D had a coverage gap or "donut hole" where coverage ended after about \$2,830 in total drug costs, and picked up again later.

### How will the new health reform law affect Medicare spending?

***Under health reform, no guaranteed Medicare benefits will be cut or eliminated.***

According to the independent, non-partisan Congressional Budget Office (CBO), which is in charge of Medicare budget estimates, the

new law will save Medicare about \$400 billion over the next 10 years. Specifically:

- About 50% of the savings will come from slowing the rate of payment increases to providers, including hospitals, nursing homes, and home health agencies. Many providers—whose profits will increase with newly insured patients—have agreed to these new payments.

**Note:** The law does not reduce payments to doctors. In fact, it increases payments to primary care doctors (general practitioners) by 10%. Medicare doctor payment issues were addressed in a separate bill, not primarily in health reform.

- About 30% of savings will come from reductions in payments to Medicare Advantage plans. This year, private insurance companies running MA plans are paid about \$1,100 more per person on average (about 13%) than what is paid for people in original Medicare. As a result of health reform, starting in 2012, payment rates to MA plans will be gradually reduced in many parts of the country, so they will be about the same as rates under original Medicare. It is unclear how MA plans will respond to these changes. They may choose to increase premiums, reduce extra benefits, or even leave the Medicare program. *However, they are not allowed to cut any basic benefits provided under original Medicare.*

- About 10% of savings comes from reducing fraud and waste and from program efficiencies.
- About 5% of savings comes from a new Independent Payment Advisory Commission that will recommend policies to reduce cost growth in the program without cutting benefits.
- Some savings will come from higher income beneficiaries (individuals with adjusted gross income above \$85,000 and couples above \$170,000) paying higher Medicare premiums.

Medicare spending is growing and will continue to do so. According to CBO, over the next 10 years, the new law will slow the rate of growth slightly—from 6.8% per year to 5.5% (or from about 4% per person to 2%, adjusted for inflation).

### What affect will health reform have on Medicare solvency?

Because of the Medicare spending reductions, the CBO projects that the new law will extend the solvency of the Medicare Part A Trust Fund for an additional nine years—from 2017 to 2026.

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