THE HENRY J. KAISER FAMILY FOUNDATION

FACT SHEET

MEDICARE

MEDICARE AT A GLANCE

September 2005

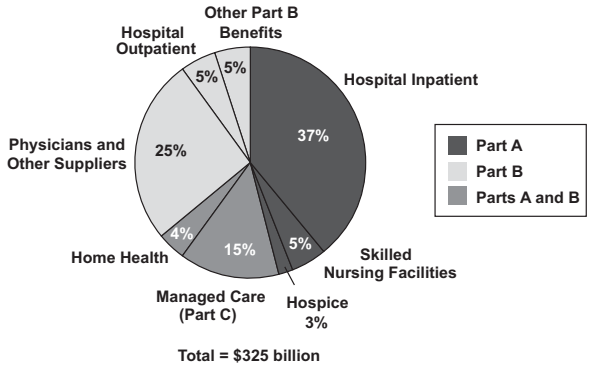
Overview of Medicare

Medicare is the federal health insurance program covering nearly 42 million Americans—35.4 million seniors and 6.3 million people under age-65 with permanent disabilities. Most individuals 65 and older are entitled to Medicare Part A if they or their spouse are eligible for Social Security payments and have made payroll tax contributions for 10 years. People under 65 who receive Social Security Disability Insurance (SSDI) payments generally become eligible for Medicare after a two-year waiting period.

Medicare benefits are expected to total $325 billion in 2005, accounting for 13% of the federal budget (CBO).

Figure 1

Medicare Benefit Payments by Type of Service, 2005



Total = $325 billion

Note: Does not include administrative expenses such as spending for implementation of the Medicare drug benefit and the Medicare Advantage program. Excludes low-income subsidy payments and items not assigned to particular services.
SOURCE: Congressional Budget Office, Medicare Baseline, March 2005.

Medicare's Structure

- **Part A**, the Hospital Insurance program, pays for inpatient hospital, skilled nursing facility, and hospice care. Accounting for 45% of spending in 2005, Part A is funded by a dedicated tax of 2.9% of earnings paid by employers and employees (1.45% each).
- **Part B**, Supplementary Medical Insurance, pays for physician, outpatient, and preventive services. Part B accounts for over 35% of spending in 2005 and is funded by general revenues and beneficiary premiums.
- **Part C** refers to private Medicare Advantage plans, such as HMOs, that provide Part A and B benefits to enrollees (Part D beginning in 2006) and accounts for 15% of benefit spending in 2005.
- **Part D** refers to the outpatient prescription drug benefit that will begin January 2006 and is funded by general revenues, beneficiary premiums, and state payments.

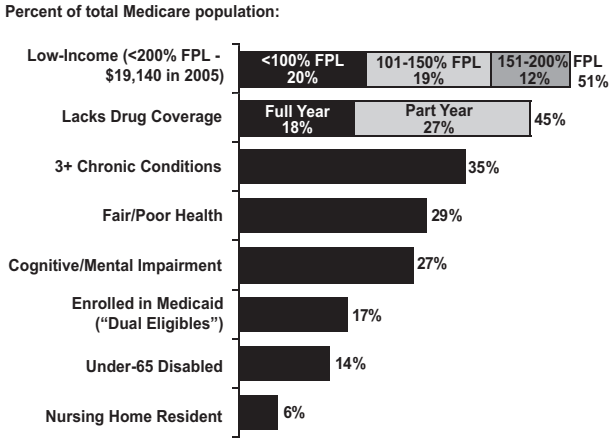
Characteristics of People on Medicare

Medicare covers a diverse population: 35% of beneficiaries have three or more chronic conditions, 29% are in fair/poor health, and 27% have cognitive impairments. A relatively small share of beneficiaries (12%) account for a large share (69%) of total spending.

Many on Medicare live with modest incomes and assets; 51% have incomes below 200% of poverty ($19,140/single and $25,660/couple in 2005); and 48% of non-institutionalized Medicare beneficiaries have countable assets (savings accounts, stocks, bonds, etc.) below $10,000.

Figure 2

Characteristics of the Medicare Population



SOURCE: Medicare Current Beneficiary Survey, 2002 Cost and Use File; Income data from CBO, July 2004.

Medicare and Prescription Drugs

Beginning in January 2006, beneficiaries will have access to private plans that contract with Medicare to provide the new Part D prescription drug benefit. Beneficiaries will be able to enroll in prescription drug plans (PDPs) and get all other benefits from traditional Medicare, or they can enroll in Medicare Advantage plans, such as HMOs or PPOs, for all Medicare benefits, including drug coverage.

Medicare will provide additional help for beneficiaries with limited incomes and assets under the new drug benefit. HHS estimates that 14.4 million beneficiaries will be eligible for premium and cost-sharing subsidies in 2006 and that 10.9 million will receive them.

The Role of Supplemental Coverage

Medicare covered less than half (45%) of beneficiaries' total health care services in 2002. Gaps in coverage (notably long-term care, dental, and until 2006, prescription drugs) combined with relatively high cost-sharing requirements resulted in

seniors spending an estimated 22% of their income on health care services and premiums in 2003 (AARP, 2004). To help with Medicare's gaps, most had some form of supplemental insurance in 2002 like retiree health benefits from a former employer (35%), Medigap (21%), or Medicaid (17%) for those with extremely low incomes. Medicaid pays Medicare premiums and cost-sharing requirements for over seven million people on Medicare, the majority of whom are also entitled to full Medicaid benefits like prescription drugs (until Part D begins in 2006) and long-term care.

Medicare Premiums and Cost-Sharing

Medicare beneficiaries generally pay a monthly premium for Part B services ($78.20 in 2005) in addition to deductibles and other cost-sharing requirements. Beginning in 2006, individuals who enroll in Part D will also pay a monthly premium for drug coverage (estimated average $32.20/month). Beginning in 2007, those with incomes over $80,000 ($160,000 per couple) will pay a higher, income-related monthly Part B premium.

Figure 3

Medicare Premiums and Deductibles, 2005–2010

	2005	2006	2007	2008	2009	2010
Premiums (monthly)						
Part A	$375	$386	$403	$421	$438	$457
Part B	$78.20	$87.70	$87.70	$87.70	$89.30	$92.00
Part D	--	$32.20*	$41.22	$43.73	$46.31	$48.94
Deductibles						
Part A	$912	$956	$1,004	$1,056	$1,108	$1,164
Part B	$110	$123	$123	$123	$125	$129
Part D	--	$250	$270	$290	$310	$331

Note: * 2006 Part D premium is national average beneficiary premium based on bids received from Medicare prescription drug plan applicants (CMS, August 2005). Premium for Part A only required of those with less than 40 quarters of work required to automatically qualify for Medicare Part A.
SOURCE: CMS; 2005 Annual Report of the Board of Trustees of the Medicare Trust Funds, March 2005.

Medicare Advantage

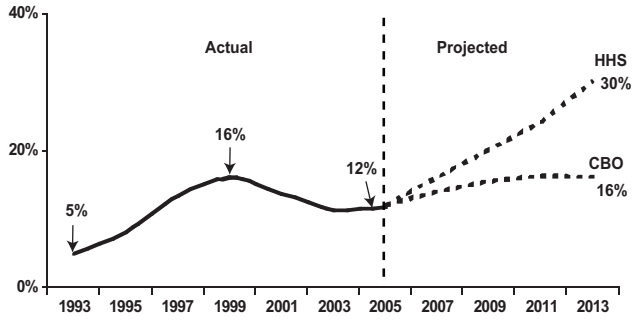
Today, 12% of beneficiaries are enrolled in Medicare Advantage plans, such as HMOs, PPOs and PSOs; 88% have traditional fee-for-service Medicare coverage.

After a period of steady growth in plan participation and enrollment in the 1990s, changing payment rates and other factors led to a decline in the number of participating plans from 346 in 1998 to 143 in 2004. Today, 4.9 million Medicare beneficiaries are enrolled in Medicare HMOs, PPOs, and PSOs, down from a peak of 6.3 million in 2000.

In the future, Medicare Advantage plans are expected to play a larger role in covering people on Medicare and in providing the new drug benefit. By 2013, enrollment in Medicare Advantage plans is projected to range from 16% (CBO, 2005) to nearly 30% (HHS, 2005) of the Medicare population.

Figure 4

Share of Medicare Beneficiaries Enrolled in Medicare Advantage Plans



Note: All actual data are from December of the given year, except 2005 data are from July.
SOURCE: Actual: CMS, Medicare Managed Care Contract (MMCC) Plans Monthly Summary Report. Projections: President's FY 2006 Budget, Office of Management and Budget, February 7, 2005; CBO from CBO Medicare Baseline, March 2005.

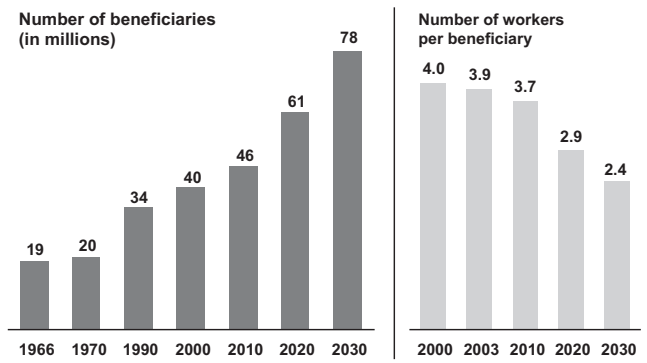
Medicare Spending and Future Outlook

Net federal spending on Medicare is estimated to grow from $290 billion in 2005 to $444 billion in 2010 (CBO). Annual growth in Medicare spending is influenced by factors that affect health spending generally, including increasing volume and utilization of services, increasing prices of health care services, expensive new technologies, and also the new drug benefit beginning in 2006. HHS projects the net federal cost of the drug benefit to be $724 billion between 2006 and 2015.

Implementation of the Medicare drug benefit is the most immediate challenge facing the program. Over the long-term, Medicare will face the fiscal challenges of an aging baby-boom generation and a declining number of workers per beneficiary.

Figure 5

Historical and Projected Number of Medicare Beneficiaries and Number of Workers per Beneficiary



SOURCE: 2001 and 2005 Annual Reports of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

Assets in the Part A Health Insurance trust fund are projected to exceed income beginning in 2012 and trust fund reserves are projected to be exhausted in 2020. Over time, greater resources will be required to maintain benefits and meet the needs of the Medicare population.

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