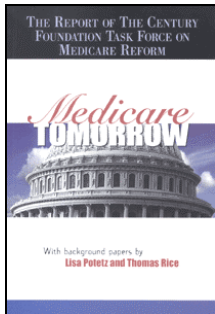


MAJOR THEMES OF *MEDICARE TOMORROW: THE REPORT OF THE CENTURY FOUNDATION TASK FORCE ON MEDICARE REFORM*



This report examines recent changes to Medicare and proposed reforms to the program, with an emphasis on how they may affect Medicare beneficiaries and their families. It puts forth a set of principles that should be used as the basis for any substantial reforms to Medicare. The report suggests that policymakers ought to focus on what a well-designed Medicare program should look like rather than dwelling primarily on the program's potential financing difficulties. The volume also includes background papers on competition-based reforms to Medicare, written by Lisa Potetz; and on supplemental and employer-sponsored insurance, written by Thomas Rice.

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Medicare's Future Costs are Hard to Predict, and Their Burden Should Be Shared Fairly

- Forecasts of Medicare spending depend on uncertain projections of medical costs, demographic change, and economic growth. They can and should inform policy choices, but they cannot and should not dictate them.
- The proportion of the population that will be enrolled in Medicare in the future is virtually certain to rise, and costly but beneficial advances in medicine are likely to become available. For these reasons, Medicare's spending is likely to rise in coming decades both as a share of the economy and on a per-capita basis. Medical and pharmaceutical advances may reduce morbidity and disability for older Americans. If society values these improvements highly, it may wish to support higher Medicare spending.
- From its inception in 1966 to the present, Medicare's per capita spending growth has resembled that of private health insurance. From 1992 to 1997, Medicare's costs rose more quickly, from 1998 to 2001 more slowly. Spending is now rising more rapidly in both Medicare and private insurance. Because changes in medical technology, practice, and delivery affect both sectors, the underlying growth in Medicare is unlikely to depart substantially from that of private plans.
- Many seniors and disabled Americans are not well-off financially. In 1999, over one-half of Medicare beneficiaries had annual family incomes of less than \$25,000, while one in seven people in Medicare and living in the community had a family income of less than \$10,000.
- Under current law, the portion of total Medicare expenditures that beneficiaries will pay for is already rising.

Medicare's Coverage is Inadequate

- The lack of most outpatient prescription drug coverage in Medicare is the most glaring absence in the program's benefit package. While this problem is worst for lower-income Medicare beneficiaries who lack insurance and do not qualify for Medicaid, it affects those in all income categories. Half of all beneficiaries without prescription drug coverage have incomes above 175 percent of the poverty line, or about \$13,700 annually.

- Prescription drugs can prevent the onset or recurrence of major conditions that might otherwise require hospitalization and surgery. They are especially important for managing treatable chronic illnesses such as diabetes, arthritis, and hypertension.
- Unlike most private insurance plans, Medicare lacks “stop-loss” protections that pay for very high medical expenses above a cap. Adding this feature would help the small number of beneficiaries who incur very high hospitalization bills or large cost-sharing liabilities.

Medicare Should Actively Seek Ways to Improve the Value of the Services It Pays For

- Medicare has taken steps toward improving the quality of care delivered by providers and by private health plans that contract with the program. These include collecting quality information from plans and developing useful consumer assessment surveys. The program needs to build on these steps and to explore the usefulness of techniques such as disease management and strategies that steer beneficiaries who are facing difficult and high-cost procedures to particular medical facilities. Because Medicare is such an influential payer, these quality initiatives could improve the delivery of care in the medical system as a whole.
- The program needs to adopt and refine methods for disseminating information about providers and plans so that Medicare beneficiaries can make informed and meaningful choices about their coverage.

Medicare’s Character as a Social Insurance Program Must be Preserved

- Social insurance offers collective protection against a set of risks that private insurance markets are unlikely to insure against at an affordable cost for beneficiaries. Because Medicare requires contributions from all or most citizens and is offered on terms that are similar for everyone, regardless of risk or income, it spreads risk across the population and discourages the separation of low and high health risks. Because of this risk-pooling feature, the program has had considerable success in protecting beneficiaries against the potentially ruinous effect of large medical expenses.
 - Medicare helps protect against the large expenses that can—and do—occur as the price of medical services and procedures rises. Since the benefit package is uniform and premiums do not rise with age, these protections are particularly important for older, poorer, and sicker Americans. Women and minorities are especially likely to be represented in this group.
 - Certain kinds of competition-based health plans, such as medical savings accounts, would break up the risk pool and encourage adverse selection in fee-for-service Medicare. Other competition-based plans, such as premium support, could result in segmentation of beneficiaries, affecting poorer and sicker people in Medicare the most. For this reason, such potential market-based reforms need to be evaluated with great care.
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For more information about the Task Force Report or other Medicare-related activities please visit the MedicareWatch website at www.medicarewatch.org.