



Medicare and Medicaid: The Basics

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Why Are Medicare and Medicaid at the Center of National Policy and Budget Debates?

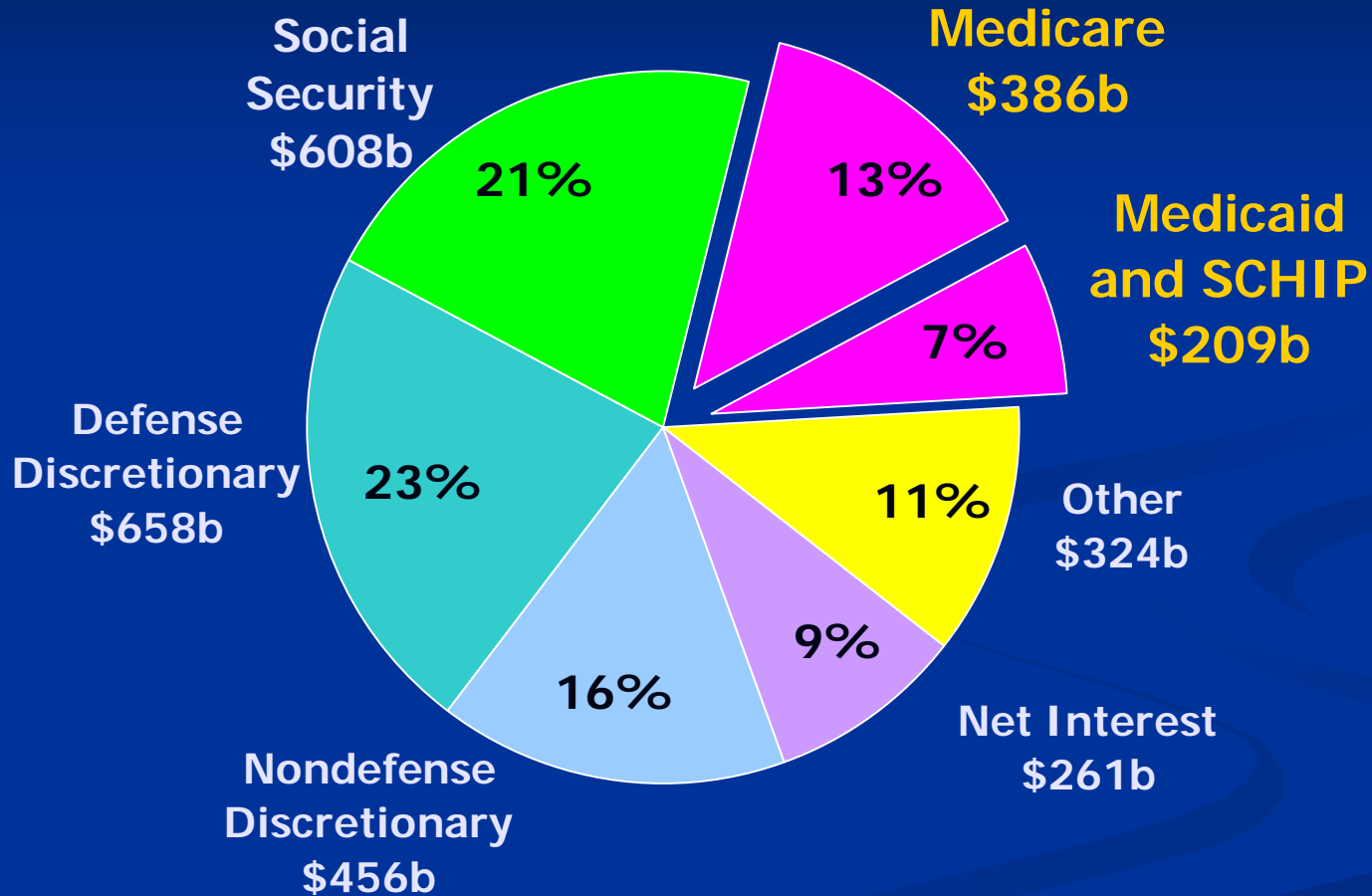
■ Medicare

- Established in 1965 to provide health and economic security to seniors; expanded in 1972 to cover younger adults with disabilities and people with end-stage renal disease
- Medicare covers individuals without regard to income or medical history
- Covers 44 million people, including 37 million people age 65 and older and 7 million under age 65 with disabilities

■ Medicaid

- Established in 1965 to provide an entitlement to medical assistance to people receiving cash assistance
- Medicaid has evolved into the nation's health coverage program for low-income individuals and families
- States administer Medicaid within broad federal guidelines
- Covers 55 million low-income people, including 28 million children, 7 million elderly, and 8 million disabled

Together, Medicare and Medicaid Will Account for 20% of Federal Spending in 2008

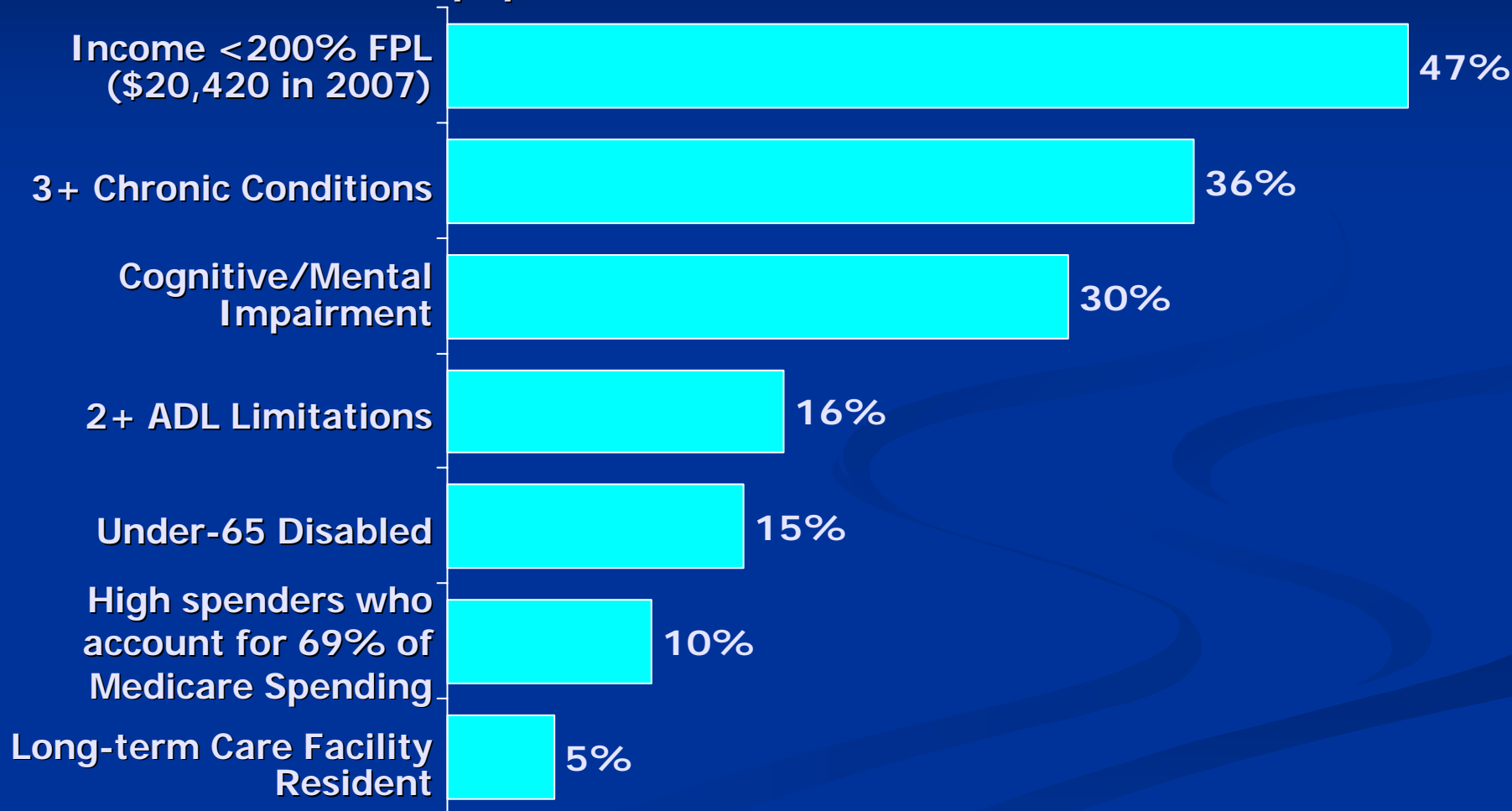


2008 Total Outlays = \$2.9 Trillion

An Overview of the Medicare Program

Medicare Covers a Population with Diverse Needs and Significant Vulnerabilities

Percent of total Medicare population:

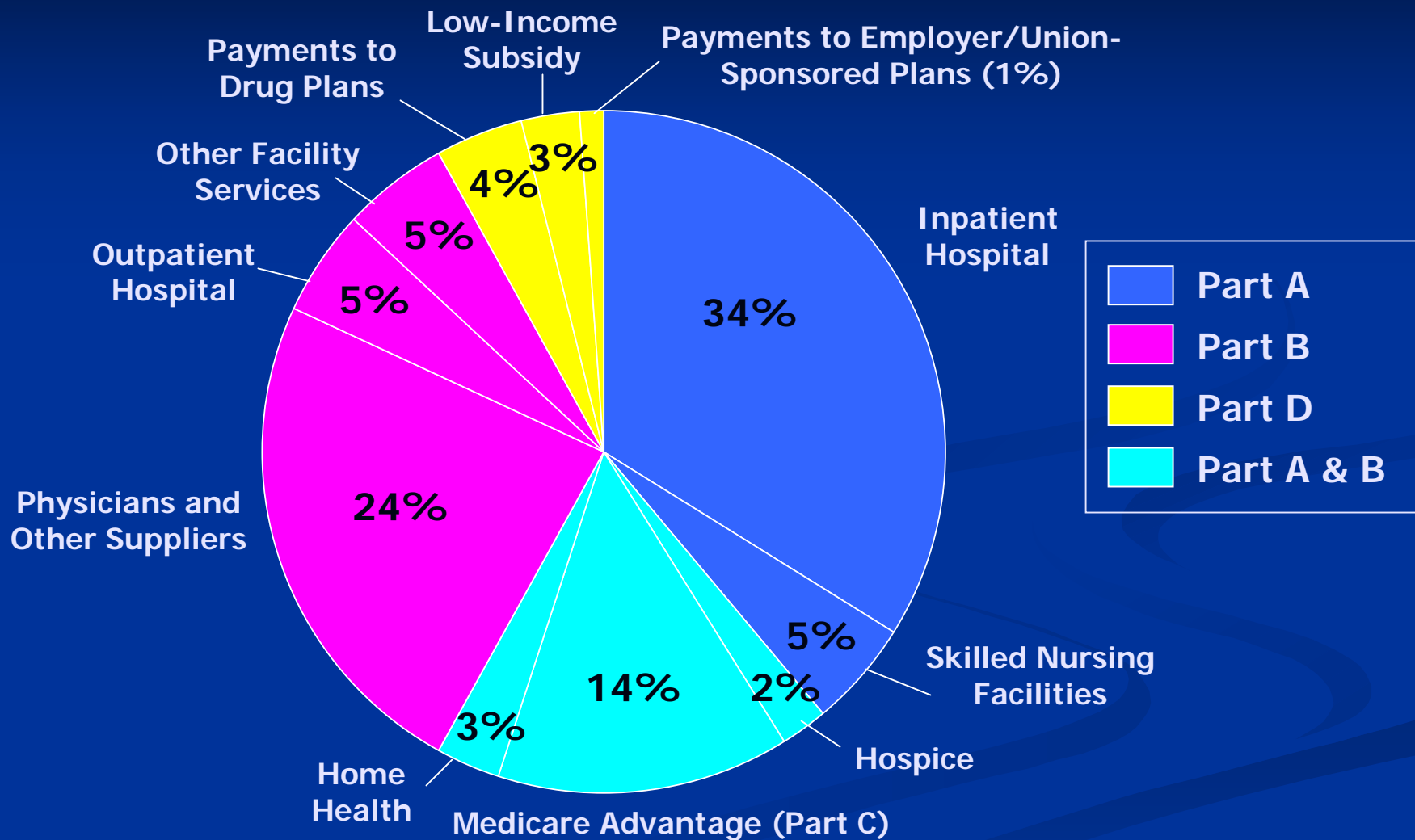


Note: ADL is activity of daily living. SOURCE: Income data from 2005, U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement. All other data are from the Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2003 Cost and Use file.

What Benefits Does Medicare Cover?

- **Part A – Hospital Insurance Program (44 million)**
 - Helps pay for inpatient hospital care, skilled nursing facility care, home health services, and hospice care
 - Individuals are entitled to Part A if they or their spouse have contributed payroll taxes for 10 years or more
- **Part B – Supplementary Medical Insurance (41 million)**
 - Helps pay for physician services, outpatient hospital care, preventive services, home health visits
 - People receiving Social Security at age 65 automatically get Part B unless they opt out
- **Part C –“Medicare Advantage” plans (8 million)**
 - Private plans that receive payments from Medicare to provide Medicare benefits to enrollees, such as HMOs, PPOs, Private Fee-for-Service, and Medicare MSAs
 - Medicare Advantage plans provide coverage of Parts A, B, and (usually) D benefits
 - Beneficiaries who are entitled to Part A and enrolled in Part B can enroll in a MA plan
- **Part D – Medicare Prescription Drug Benefit (24 million)**
 - Provided by private stand-alone prescription drug plans (PDPs) or Medicare Advantage prescription drug (MA-PD) plans
 - Enrollment is voluntary, not automatic
 - Premiums, covered drugs, cost-sharing vary across plans
 - Additional subsidies (“extra help”) available to people with low incomes and modest assets

Medicare Benefit Payments by Type of Service, 2006



Total Benefit Payments = \$374 Billion

Medicare Private Plan/Advantage Enrollment is Rising Steadily After a Decline Earlier in the Decade

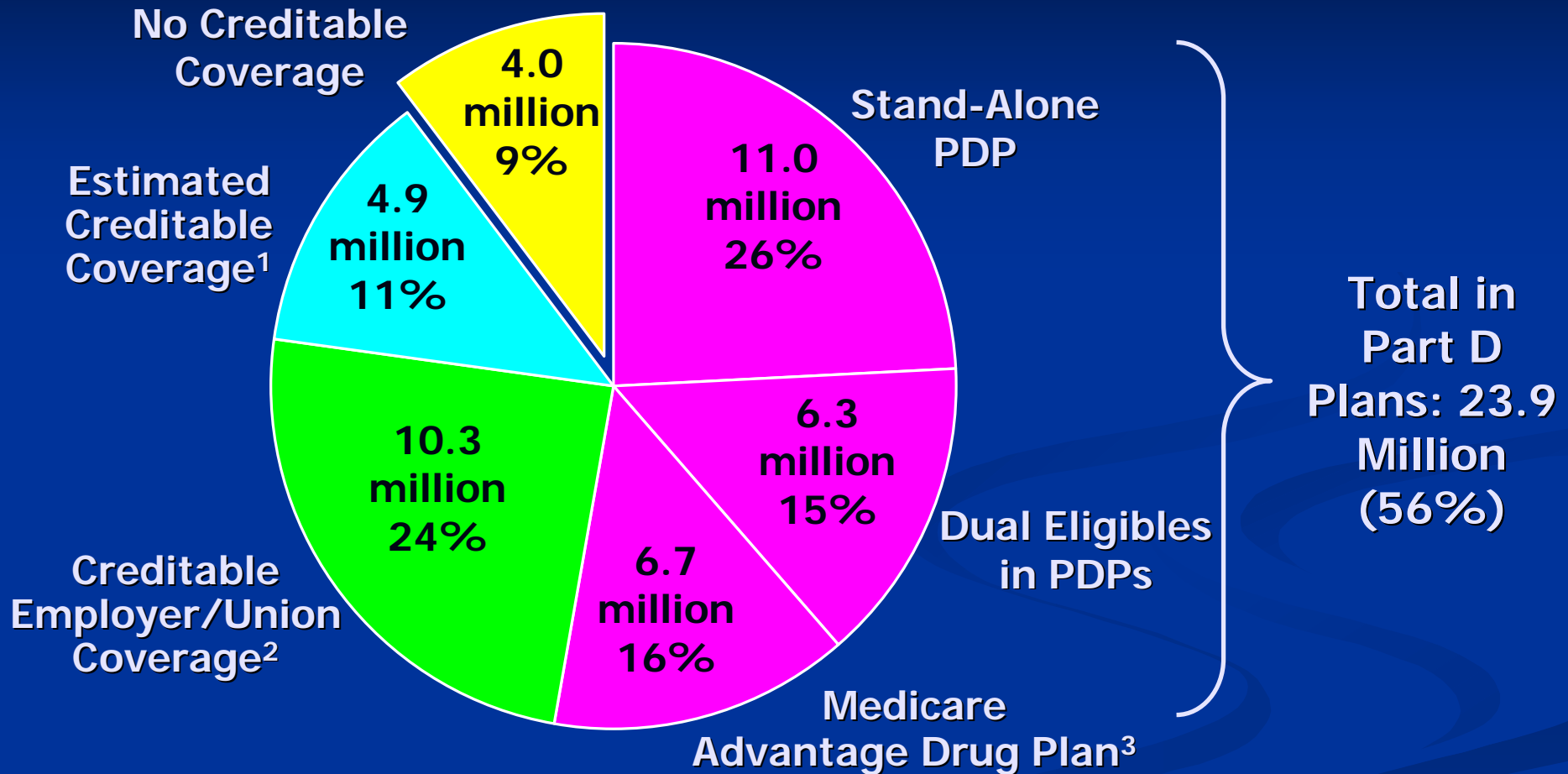
In millions:



Note: Includes local HMOs, PSOs, and PPOs, regional PPOs, PFFS plans, Cost contracts, Demonstrations, HCPP, and PACE contracts.
SOURCE: Mathematica Policy Research, Inc. "Tracking Medicare Health and Prescription Drug Plans Monthly Report" December 1999-2006. CMS Medicare Advantage, Cost, PACE, Demo, and Prescription Drug Plan Contract Report, Monthly Summary Report, June 2007.

Exhibit 9

Approximately 90% of Medicare Beneficiaries Have Prescription Drug Coverage (as of January 2007)

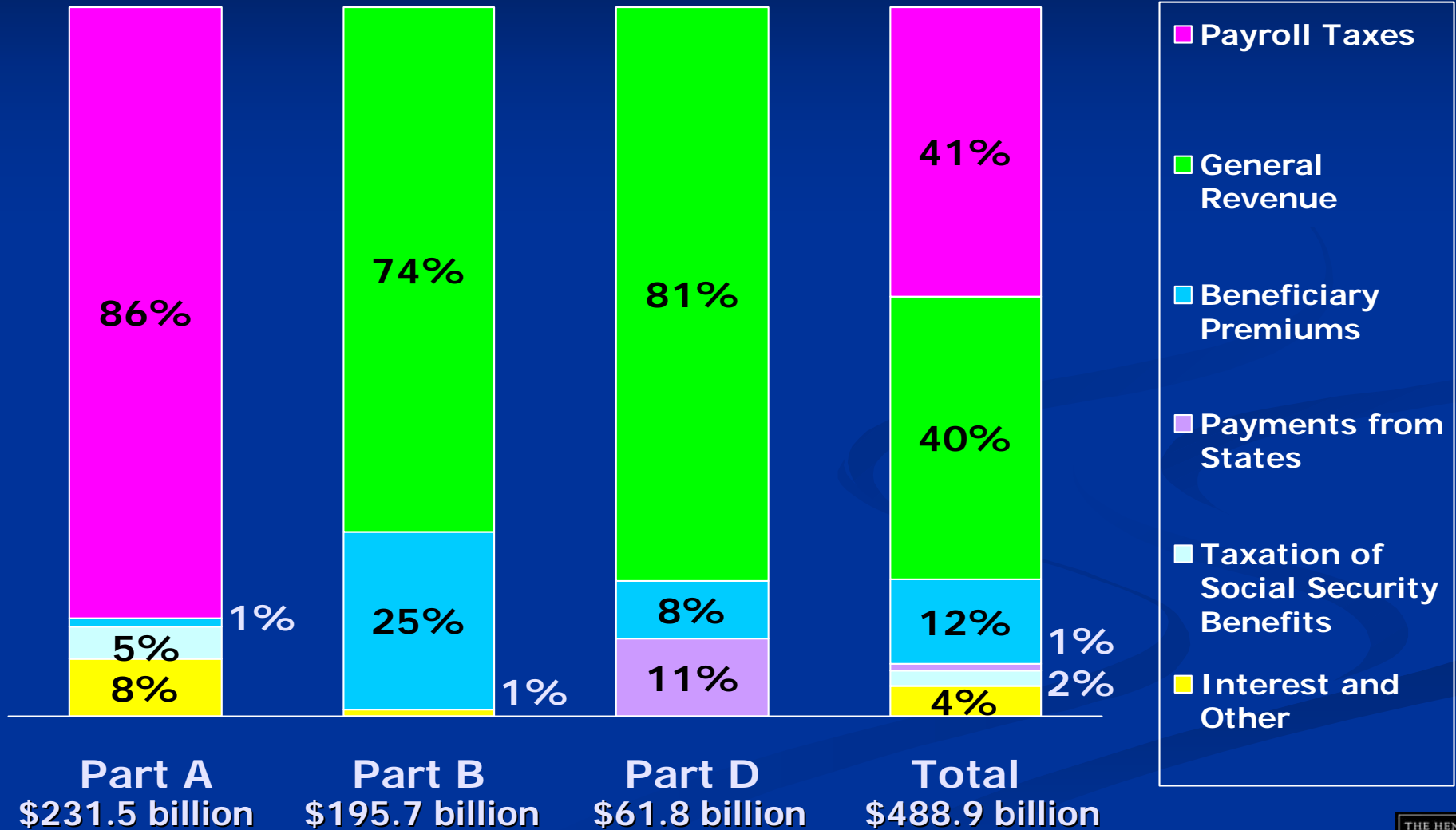


Total Number of Beneficiaries = 44 Million

Note: Estimates are rounded to the nearest whole number, therefore do not sum to total. ¹ Includes Veterans Administration, Indian Health Service, employer plans without retiree subsidies, employer plans for active workers, and state pharmaceutical assistance programs. ² Includes employer/union, FEHB, and TRICARE coverage. ³ Approximately 0.5 million dual eligibles are enrolled in Medicare Advantage drug plans and are reported in this category. SOURCE: HHS, January 30, 2007. Data as of January 16, 2007.

How is Medicare Financed?

Sources of Medicare Revenue, FY2008



SOURCE: 2007 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

An Overview of the Medicaid Program

The Roles of Medicaid

Health Insurance Coverage

27 million children and 14 million adults in low-income families; 8 million persons with disabilities

Assistance to Medicare Beneficiaries

7 million aged and disabled; 17% of Medicare beneficiaries

Long-Term Care Assistance

1 million nursing home residents; 43% of long-term care services

MEDICAID

Support for Health Care System and Safety-net

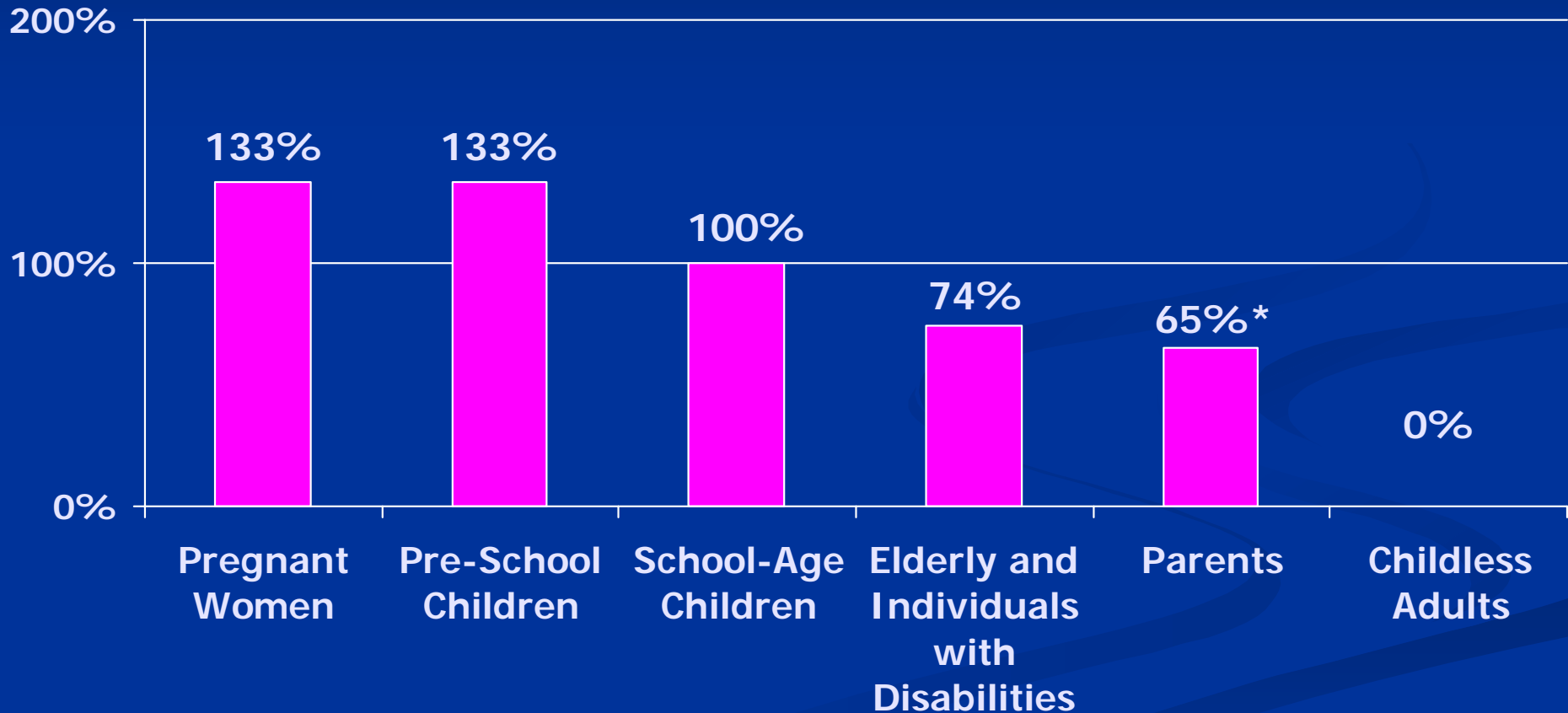
15% of national health spending

State Capacity for Health Coverage

44% of federal funds to states

Minimum Medicaid Eligibility Levels, 2006

Income eligibility levels as a percent of the Federal Poverty Level:



Note: The 2006 HHS Poverty Guidelines were \$9,800 for a single person and \$20,000 for a family of four.

* The level shown for parents (65% of poverty) reflects the national median Medicaid income eligibility level for working parents in 2006.

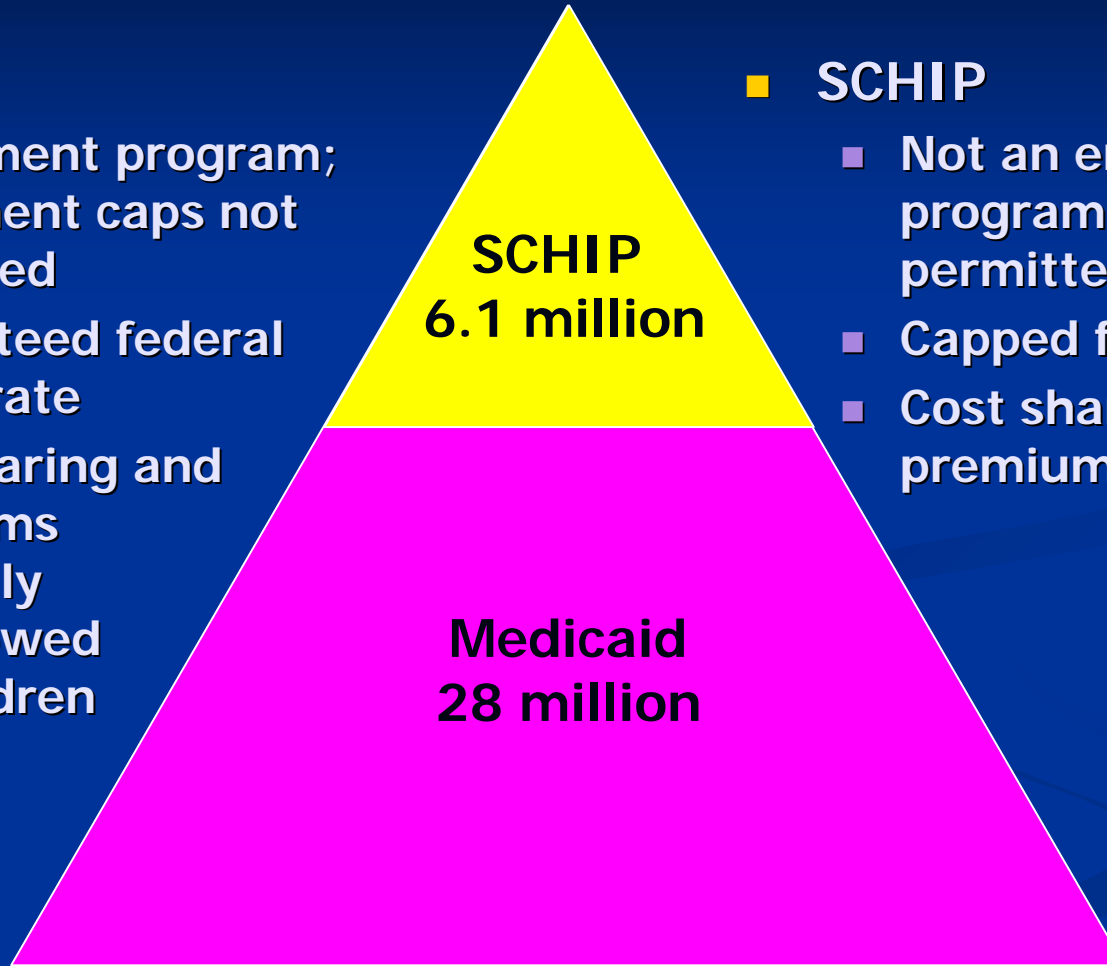
SCHIP Builds on Medicaid for Children's Coverage

■ Medicaid

- Entitlement program; enrollment caps not permitted
- Guaranteed federal match rate
- Cost sharing and premiums generally not allowed for children

■ SCHIP

- Not an entitlement program; enrollment caps permitted
- Capped federal financing
- Cost sharing and premiums permitted



2005 Enrollment (Children)

What Benefits Does Medicaid Cover?

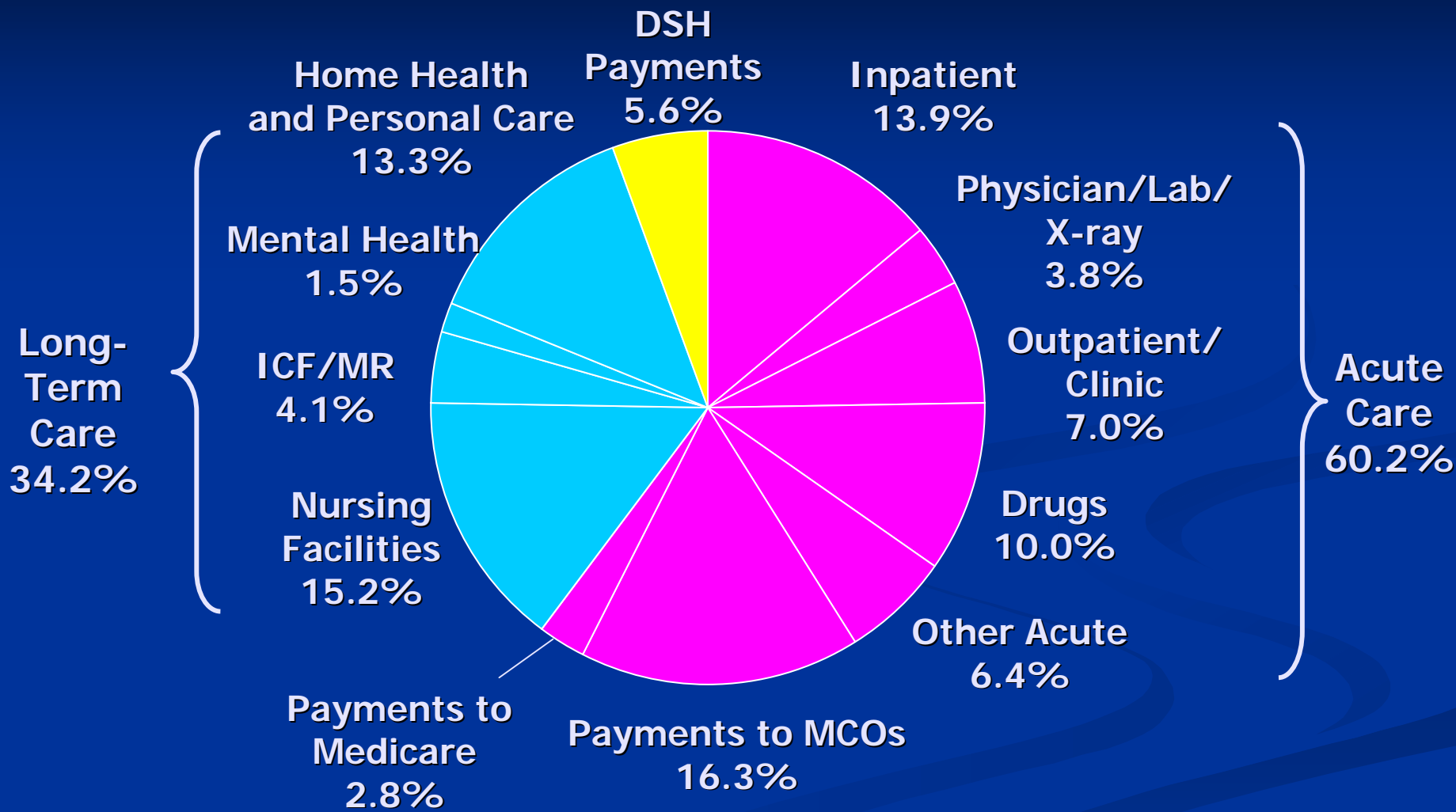
“Mandatory” Items and Services

- Physician services
- Laboratory and x-ray services
- Inpatient hospital services
- Outpatient hospital services
- Early and periodic screening, diagnostic, and treatment (EPSDT) services for individuals under 21
- Family planning
- Rural and federally-qualified health center (FQHC) services
- Nurse midwife services
- Nursing facility (NF) services for individuals 21 or over

“Optional” Items and Services

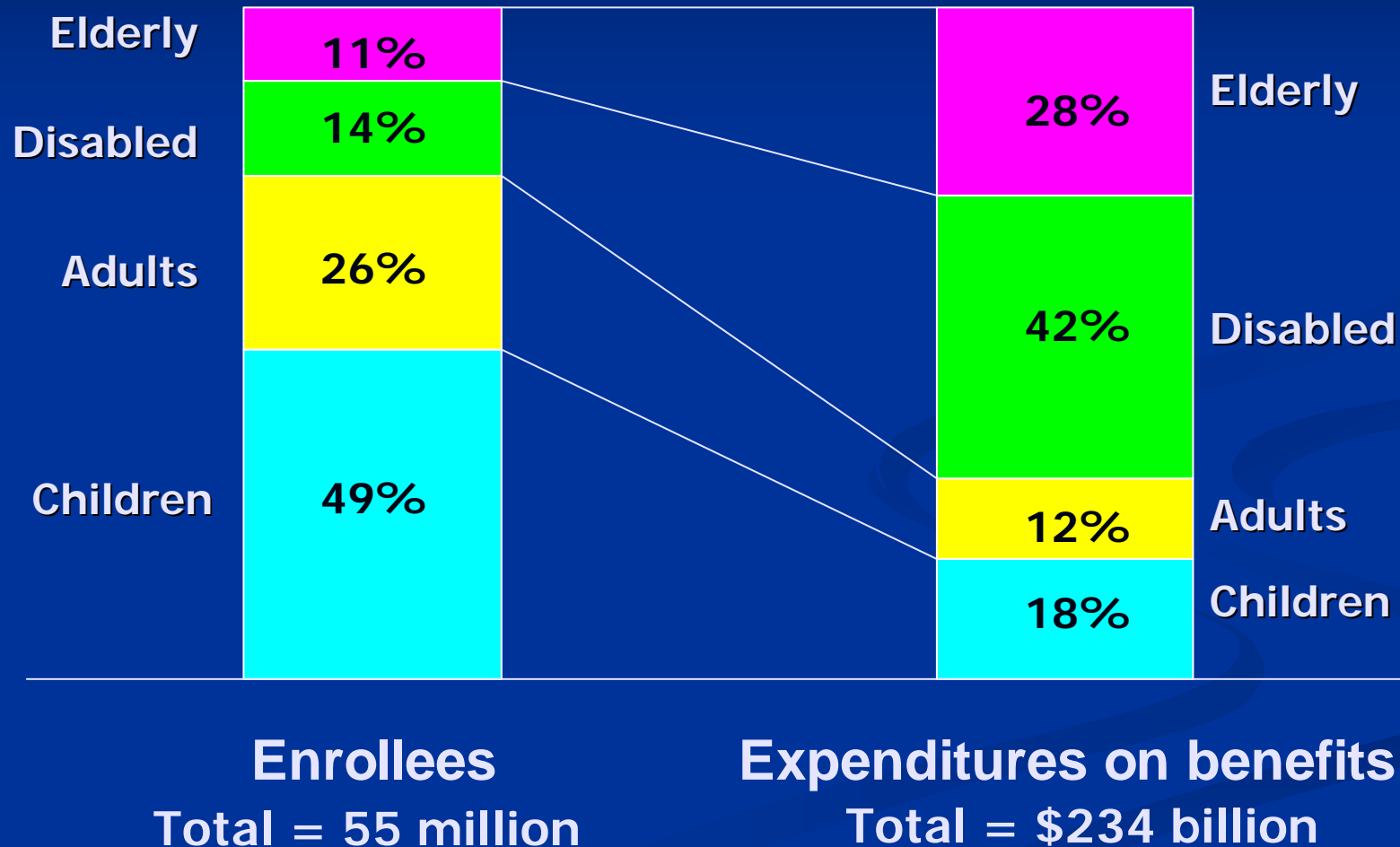
- Prescription drugs
- Clinic services
- Dental services, dentures
- Physical therapy and rehab services
- Prosthetic devices, eyeglasses
- Primary care case management
- Intermediate care facilities for the mentally retarded (ICF/MR) services
- Inpatient psychiatric care for individuals under 21
- Home health care services
- Personal care services
- Hospice services

Medicaid Expenditures by Service, 2005



Total = \$305.3 billion

Medicaid Enrollees and Expenditures by Enrollment Group, 2003



How is Medicaid Financed?

- **Federal government matches state spending on open-ended basis**
 - No predetermined limits on federal matching funds
 - Enables states to respond to changing needs
- **Federal medical assistance percentage (FMAP) for services varies by state, ranging from 50% to 76%**
 - States with lower per capita income get higher federal match
 - Overall, federal government pays 57% of Medicaid costs
- **Medicaid is second largest component of state budgets, after elementary and secondary education**

Looking Ahead

Key Issues in Medicare

- Dealing with health care cost pressures that influence Medicare spending trends
- Setting fair payment for providers and private plans, without putting program in financial jeopardy
- Monitoring the drug benefit, ensuring access to plans, and increasing low-income subsidy enrollment
- Assessing the role and value of private Medicare Advantage plans in Medicare

Key Issues in Medicaid

- Improved state revenues and low Medicaid spending growth provides relief after years of fiscal stress and new opportunities to expand coverage
- Some states discussing near-universal health coverage
 - Medicaid is a base on which states build coverage expansions
- On-going Medicaid pressures expected to persist
 - Increasing health care costs
 - Increasing uninsured / declines in employer coverage
 - Increasing aged and disabled
 - Tension in federal / state financing for Medicaid

On the Horizon for Medicare and Medicaid

■ Short term

- SCHIP reauthorization
- The role of private plans in Medicare

■ Long term

- Pressures in health care system
 - Rising health care costs
 - Rising numbers of uninsured
- Demographic pressures
 - Increasing numbers of aged and disabled
- Federal and State fiscal pressures
 - Pressure to cut federal deficit and restrain government health spending
 - State revenues plummeted and are now recovering, but intense focus on Medicaid cost containment remains