THE HENRY J. KAISER FAMILY FOUNDATION

FACT SHEET

MEDICARE

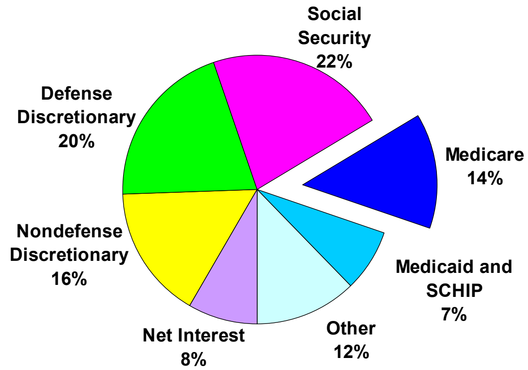
MEDICARE AND THE PRESIDENT'S FISCAL YEAR 2009 BUDGET PROPOSAL

FEBRUARY 2008

Medicare is the nation's health insurance program for people age 65 and older and people under age 65 with permanent disabilities. The program, which currently covers 44 million people, helps to pay for many important health care services, including physician visits, hospitalizations, and prescription drugs. Medicare spending is expected to be about $420 billion in Fiscal Year 2009, or 14% of federal spending, rising to $553 billion in 2013, or 16% of the federal budget (Figure 1).

Figure 1

Composition of Federal Spending in FY 2009



FY 2009 Total Outlays = $3.0 trillion

SOURCE: OMB, Fiscal Year 2009 Budget, February 2008. Baseline Category Totals.

THE PRESIDENT'S FY 2009 BUDGET AND MEDICARE

The President's FY 2009 budget forecasts a deficit of $407 billion (2.7% of GDP) in FY 2009 and then a surplus of $29 billion (0.2% of GDP) in 2013. The proposed budget includes $208.2 billion in net mandatory savings over five years, most of which is achieved through Medicare spending reductions.

The President's FY 2009 budget proposes to reduce net Medicare spending by $178 billion over the next five years, and by more than a half trillion ($556.4 billion) over a ten-year period. The budget proposes to reduce the average annual growth rate in Medicare spending from 7.2% to 5% over five years.

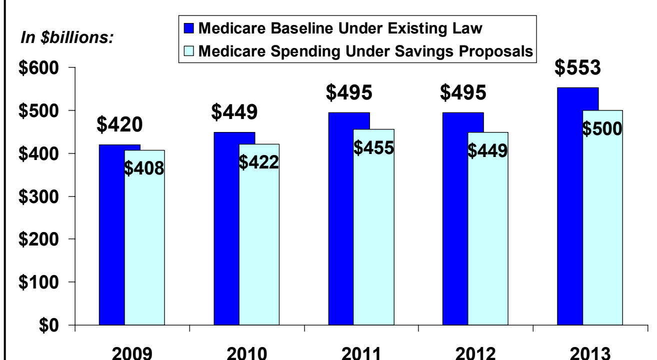
The President's legislative proposals would reduce Medicare spending by $12.2 billion in FY 2009, and by $53 billion in 2013 (Figure 2). The Administration proposes an additional $645 million in savings from administrative changes in FY 2009, and $4.7 billion over five years.

PROPOSED LEGISLATIVE CHANGES

The President's FY 2009 budget includes Medicare legislative proposals that would result in $178 billion in net Medicare savings over five years. This figure includes $184.4 billion in gross Medicare savings from legislative proposals, offset by $6.5 billion in spending to extend the Qualified Individual (QI) program and interactions that reduce Part B premiums (Figure 3). Proposed savings are generated by changes in payments to virtually all types of Medicare providers. Over a five-year period, hospitals - including long-term care and inpatient rehabilitation facilities - would absorb the largest share of total spending reductions to providers ($125.3 billion), followed by skilled nursing facilities ($17.0 billion), home health agencies ($11.0 billion), and hospice providers ($5.1 billion).

Figure 2

Projected Savings from Medicare Legislative Proposals in the President's FY 2009 Budget 2009-2013



SOURCE: OMB, Fiscal Year 2009 Budget, February 2008.

Provider Payment Reductions ($178.7 billion over five years). The Administration would reduce the rate of growth in spending for providers through a variety of proposals. Specifically, the budget would: freeze provider payment updates ($112.9 billion), reduce payments to hospitals for indirect medical education (IME) ($21.8 billion), and reduce hospital disproportionate share payments ($20.7 billion). The budget would also reduce payments to providers automatically by 0.4% in any year that general revenues exceed 45% of Medicare spending ($0 in savings within the five-year budget window from 2009 to 2013).

The President's budget also includes proposals to achieve savings through other types of changes in payments to providers ($20.1 billion over five years). It would*:* phase out Medicare bad debt payments over four

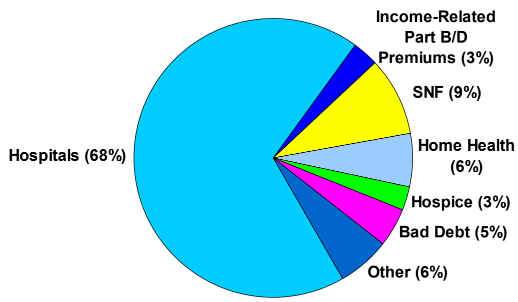
The Henry J. Kaiser Family Foundation Headquarters: 2400 Sand Hill Road, Menlo Park, CA 94025 (650) 854-9400 Fax: (650) 854-4800
Washington Offices and Barbara Jordan Conference Center: 1330 G Street, NW, Washington, DC 20005 (202) 347-5270 Fax: (202) 347-5274 **Website:** www.kff.org

years ($8.5 billion); extend competitive bidding to clinical laboratory services ($2.3 billion); reduce rental periods for oxygen equipment ($3.0 billion) and power wheelchairs ($0.7 billion); and support value-based purchasing for hospitals ($1.7 billion).

Figure 3

Composition of Proposed Medicare Legislative Savings in the President's FY 2009 Budget

2009-2013



Gross Medicare Spending Reductions = $184.4 Billion*

NOTES: *Excludes spending on QI Extension/Interactions Reducing Part B Premiums, and savings from Medicare administrative proposals.
SOURCE: OMB, Fiscal Year 2009 Budget, February 2008.

Beneficiary Premium Increases ($5.8 billion). The budget contains two provisions to increase the amount of Medicare premiums paid by some beneficiaries.

- *Eliminate the annual indexing of the income-related Part B premium ($2.6 billion).* Under current law, individuals with incomes over $82,000 in 2008 ($164,000 per couple) are required to pay a higher premium than others, affecting an estimated 1.7 million beneficiaries in 2007. Income levels are updated annually, which limits how many beneficiaries face higher premiums. The President's proposal would result in an increase in the number and share of beneficiaries paying higher premiums.
- *Establish a new income-related premium for the Part D drug benefit ($3.2 billion).* Under current law, all beneficiaries who enroll in a specific Part D plan (except those receiving a low-income subsidy) pay the same monthly premium amount; premiums can vary by plan. The President's proposal would structure an income-related premium similar to the Part B premium.

Both of these provisions were included in the President's FY 2008 budget, but not adopted.

PROPOSED ADMINISTRATIVE CHANGES

The FY 2009 budget includes five-year net spending reductions of $4.7 billion through administrative proposals, including: withholding Medicare payments for hospital-acquired conditions ($0); adjusting for case-mix distribution in the SNF payment system ($4.7 billion); phasing out the hospice-specific wage index adjustment ($2.3 billion); increasing the inpatient length of stay threshold that triggers transfer payment adjustments ($0.5 billion); and program integrity actions relating to Medicare payment systems ($0.5 billion). These reductions would be offset by $3.2 billion in additional spending on a proposal to normalize Part D risk scores.

OTHER BUDGET-RELATED ISSUES

Response to the "Medicare Funding Warning". In 2007, for the second year in a row, the Medicare Trustees projected that general revenues will exceed 45% of total Medicare spending within a seven-year timeframe (by 2013). This prompted them to issue a "Medicare funding warning", which requires the President to respond through proposed legislation submitted to Congress. The Administration's legislative response, entitled the "Medicare Funding Warning Response Act of 2008", has three main provisions:

- Implementing a national system of electronic medical records, providing cost and quality information to Medicare beneficiaries, and implementing a system of provider pay-for-performance in Medicare;
- Amending the medical malpractice liability system to include a statute of limitations and limits to recovery of noneconomic and punitive damages; and
- Establishing an income-related premium for Part D, as proposed in the FY 2009 budget.

Total savings from these proposals were not specified. Congress is required to consider this legislation on an expedited basis but its prospects are uncertain.

Medicare Advantage. The President's FY 2009 does not propose direct spending reductions for Medicare Advantage plans. The budget includes $8.9 billion in reductions over five years by eliminating IME payments for Medicare Advantage enrollees, but the reductions come from payments to hospitals rather than plans. MedPAC estimates that Medicare Advantage plans receive, on average, 13% more per beneficiary relative to traditional Medicare. According to CBO, Medicare could save $157 billion over 10 years if plans were paid no more than 100% of costs in the traditional program.

Physician Payments. The FY 2009 budget does not propose reductions in physician payment rates; however, baseline estimates assume that annual payments to physicians will reflect scheduled reductions in future years, as the sustainable growth rate (SGR) formula requires. The budget projects lower spending on physician payments through FY 2012. If Congress acts to prevent a cut of 10% in physician payment rates (scheduled to take effect on July 1, 2008), spending under Medicare Part B will increase. With monthly premiums paid by beneficiaries covering 25% of Part B costs, an increase in Part B spending would lead to an increase in the monthly Part B premium.

OUTLOOK AND IMPLICATIONS

The Administration's FY 2009 budget would reduce Medicare spending by $178 billion over the next five years, and $556 billion over ten years. If enacted, the proposed reductions could have significant implications for health care providers, and Medicare beneficiaries' access to care. Dealing with rising health costs pose a key challenge for federal policymakers, yet one which is not unique to the Medicare program but rather affects the entire health care system, with implications for providers and beneficiaries alike.

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