

MEMORANDUM

TO: Honorable Kevin Brady, Chairman, Subcommittee on Health,
Committee on Ways and Means, U.S. House of Representatives

FROM: Glenn Hackbarth, Chairman, Medicare Payment Advisory Commission
Tricia Neuman, Senior Vice President, Henry J. Kaiser Family Foundation

CC: Honorable Jim McDermott, Ranking Minority Member

DATE: June 13, 2013

SUBJECT: An analysis of the share of Medicare beneficiaries who would benefit from an annual out-of-pocket maximum over multiple years

In response to your request at the February 26, 2013 hearing on Medicare benefit redesign, the Medicare Payment Advisory Commission (MedPAC) and the Kaiser Family Foundation have examined the share of beneficiaries in traditional Medicare who would benefit from an annual out-of-pocket (OOP) maximum over longer time periods.

In any given year, adding an OOP maximum to the Medicare benefit package would protect a small percentage of beneficiaries incurring very high levels of cost sharing against the economic impact of catastrophic illness. But given the uncertainties in an individual's health needs and spending, a larger percentage of beneficiaries would reach the OOP maximum at some point over a longer period of time. This analysis provides estimates of the share of beneficiaries who would reach the OOP maximum one or more times in various time periods up to 10 years.

Most beneficiaries in traditional Medicare pay much less out of pocket than their cost-sharing liability because they have supplemental coverage through Medigap, employer-sponsored retiree plans, or Medicaid. In 2009, 83 percent of all beneficiaries in the traditional Medicare program had supplemental coverage.¹ Therefore, our analysis considers two ways of measuring an OOP maximum. In Table 1, the OOP maximum is measured in terms of beneficiaries' cost-sharing liability for Medicare-covered services, and assumes that supplemental payments made on behalf of the beneficiary would count toward the OOP maximum. In Table 2, our analysis uses the concept of "true" OOP and assumes the portion of cost-sharing liability incurred by the beneficiary but paid by supplemental insurance would not count toward the OOP maximum. Consequently, a much smaller share of beneficiaries would reach the true OOP maximum. The treatment of supplemental coverage generally—including how it counts toward an OOP maximum—is a matter of policy, and would have important implications for the budgetary effects of an OOP maximum for the federal government, states (Medicaid), employers, and beneficiaries.

We contracted with the Actuarial Research Corporation to estimate the percentage of fee-for-service (FFS) Medicare beneficiaries with cost-sharing obligations that reach a \$5000 threshold

¹ Neuman, P. 2013. *Changing Medicare's Benefit Design: Implications for Beneficiaries*. Menlo Park, CA: KFF.

in annual cost-sharing liability in one or more years during a period ranging from 1 to 10 years. The analysis assumed cost-sharing requirements for Part A and Part B services under current law and followed a cohort of beneficiaries in FFS Medicare in the first year over 10 years. (The cohort included beneficiaries who died during the 10-year period.) The analysis also assumed beneficiaries' current supplemental coverage and no changes in their coverage over the 10-year period. The \$5000 OOP maximum was expressed in 2009 dollars—the year of data used in MedPAC's June 2012 analysis—and has been adjusted by the projected growth rate in the average FFS Medicare spending per beneficiary for subsequent years.²

Results in Table 1 show that while only 6 to 7 percent of FFS Medicare beneficiaries would have cost-sharing liability that reaches \$5000 in one year, 19 percent of beneficiaries would have cost-sharing liability that reaches the \$5000 maximum in one or more years over five years and 32 percent over 10 years. Table 1 also shows the results by beneficiaries' age in the first year. As expected, older beneficiaries are more likely to reach the OOP maximum compared with younger beneficiaries, but the overall pattern of increases in the percentage of beneficiaries reaching the OOP maximum over time is similar across all age groups.

Table 1. Percent of FFS beneficiaries with \$5000 or more in annual cost-sharing liability for 1 year or more over a 10-year period

Year	Total FFS beneficiaries	Younger than 65	Ages 65-74	Ages 75-84	85 or older
1	6.5%	6.6%	5.9%	6.8%	9.8%
2	10.5%	11.3%	9.6%	10.8%	14.4%
3	13.8%	14.2%	12.9%	14.3%	17.8%
4	16.7%	16.7%	16.1%	16.7%	21.9%
5	19.4%	18.8%	18.8%	19.9%	24.0%
6	22.0%	21.5%	21.5%	22.4%	26.4%
7	24.6%	24.4%	24.2%	24.4%	29.2%
8	27.1%	27.5%	26.6%	26.7%	30.9%
9	29.5%	30.2%	28.9%	29.1%	34.1%
10	31.9%	32.3%	31.6%	31.4%	35.7%

Source: Actuarial Research Corporation analysis for MedPAC and the Kaiser Family Foundation, June 2013.

Similarly, Table 1A in the attachment shows the results under a \$7000 maximum in annual cost-sharing liability. Given the higher threshold compared with Table 1, a smaller share of beneficiaries would reach the \$7000 annual maximum in one or more years over this time period. For example, about 4 percent of FFS Medicare beneficiaries would reach \$7000 in annual cost-sharing liability in one year whereas 13 percent of beneficiaries would reach the threshold at some point in five years and 22 percent in 10 years. The patterns over time and across age groups are similar to those under a \$5000 maximum in Table 1.

² Medicare Payment Advisory Commission. 2012. *Report to the Congress: Medicare and the Health Care Delivery System*. Washington, DC: MedPAC.

Table 2 looks at the share of beneficiaries who would reach the true OOP maximum, taking into account their current supplemental insurance and assuming no changes in their supplemental coverage over the 10-year period. For example, Table 2 shows that only 0.5 percent of beneficiaries would reach the \$5000 true OOP maximum in the first year and 3 percent would reach the true OOP maximum in 10 years. (Table 2A in the attachment shows results for the \$7000 true OOP maximum.) Results in Table 2 are much lower than those in Table 1 because beneficiaries with supplemental insurance would require much higher Medicare spending to reach the true OOP maximum, since their supplemental insurers pay some, if not all, of Medicare’s cost-sharing requirements on their behalf. Given the lower probability of reaching an OOP maximum with supplemental insurance, however, some beneficiaries may decide not to purchase supplemental coverage.

Table 2. Percent of FFS beneficiaries with \$5000 or more in annual true out-of-pocket spending for 1 year or more over a 10-year period

Year	Total FFS beneficiaries	Younger than 65	Ages 65-74	Ages 75-84	85 or older
1	0.5%	1.0%	0.5%	0.4%	0.5%
2	0.9%	1.7%	0.8%	0.7%	0.9%
3	1.3%	2.3%	1.1%	1.0%	1.3%
4	1.7%	2.8%	1.4%	1.3%	1.6%
5	1.9%	3.3%	1.7%	1.5%	1.9%
6	2.2%	3.7%	1.9%	1.7%	2.1%
7	2.4%	4.1%	2.1%	1.8%	2.4%
8	2.6%	4.4%	2.3%	2.0%	2.6%
9	2.8%	4.7%	2.4%	2.1%	2.8%
10	3.0%	5.0%	2.6%	2.3%	2.9%

Source: Actuarial Research Corporation analysis for MedPAC and the Kaiser Family Foundation, June 2013.

The estimates presented in Tables 1 and 2 show that the share of FFS Medicare beneficiaries expected to have cost-sharing liability above the OOP maximum increases when looking over multiple years, and that those rates decline when the presence of supplemental insurance is taken into account. The share of beneficiaries expected to exceed the OOP maximum over a 10-year period based on their Medicare cost-sharing liability alone is substantially greater than when their supplemental coverage is taken into account. To the extent these policy changes move beneficiaries to limit or drop supplemental coverage, the share of beneficiaries expected to exceed the OOP spending limit over time would be expected to be higher compared to the results presented in Table 2.

We hope that you find this information to be useful. If you wish further details, please contact Mark Miller at MedPAC (202) 220-3700 or Tricia Neuman at the Kaiser Family Foundation (202) 347-5270.

Table 1A. Percent of FFS beneficiaries with \$7000 or more in annual cost-sharing liability for 1 year or more over a 10-year period

Year	Total FFS beneficiaries	Younger than 65	Ages 65-74	Ages 75-84	85 or older
1	4.2%	4.2%	3.6%	4.9%	6.0%
2	6.7%	6.8%	5.9%	7.7%	8.6%
3	9.2%	9.8%	8.4%	9.7%	12.4%
4	11.4%	11.4%	10.7%	11.9%	15.2%
5	13.2%	12.7%	12.6%	13.7%	17.7%
6	15.1%	14.3%	14.8%	15.5%	19.2%
7	17.1%	16.9%	16.8%	16.9%	21.5%
8	18.8%	18.5%	18.8%	18.0%	22.5%
9	20.6%	21.5%	20.1%	19.8%	24.9%
10	22.0%	22.7%	21.6%	21.3%	25.6%

Source: Actuarial Research Corporation analysis for MedPAC and the Kaiser Family Foundation, June 2013.

Table 2A. Percent of FFS beneficiaries with \$7000 or more in annual true out-of-pocket spending for 1 year or more over a 10-year period

Year	Total FFS beneficiaries	Younger than 65	Ages 65-74	Ages 75-84	85 or older
1	0.3%	0.6%	0.3%	0.2%	0.3%
2	0.6%	1.0%	0.5%	0.4%	0.6%
3	0.9%	1.5%	0.8%	0.6%	0.8%
4	1.1%	1.9%	1.0%	0.7%	1.1%
5	1.3%	2.2%	1.1%	0.8%	1.3%
6	1.4%	2.4%	1.3%	1.0%	1.4%
7	1.6%	2.7%	1.4%	1.1%	1.6%
8	1.7%	2.9%	1.6%	1.1%	1.7%
9	1.8%	3.2%	1.7%	1.2%	1.8%
10	2.0%	3.4%	1.8%	1.3%	2.0%

Source: Actuarial Research Corporation analysis for MedPAC and the Kaiser Family Foundation, June 2013.