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Medicare Actuary Tells Congress: It Is Worse Than You Think

On April 23, 2012, the Centers for Medicare and Medicaid Services (CMS) issued its official 2012 Medicare Trustees Report [RPC Analysis]. The trustees report made assumptions about cost reductions that are mandated under current law. However, some of the assumptions are unlikely to occur such as the projected physician reimbursement cuts under the sustainable growth rate (SGR) formula. On May 18, the CMS actuary released the Medicare "alternative projection," which looks at the financial footing of Medicare using more realistic assumptions.

The alternative data paint a dire picture – demonstrating the need to strengthen Medicare. Below are the report's key findings:

1. Alternative Scenario More Realistic Than 2012 Trustees Report

"The Trustees Report is necessarily based on current law; as a result of questions regarding the operations of certain Medicare provisions, however, <u>the projections shown in the report under current law are clearly unrealistic with respect to physician expenditures and, in addition, may well understate expenditures for most other categories of health care providers</u>." (Page 1)

"…the long-range implications of the productivity adjustments mandated by the Affordable Care Act are very uncertain, but they could have serious consequences for the Medicare program if left unchanged. Likewise, the large reductions in Medicare payments rates to physicians would likely have serious implications for beneficiary access to care; utilization, intensity, and quality of services; and other factors." (Page 12-13)

2. Non-Partisan Medicare Actuary Warns Congress

"Our intent is to help inform Congress and the public at large that an evaluation of the financial status of Medicare, based on the provisions of <u>current law, is likely to portray an unduly optimistic outcome</u>. This paper is also an attempt to promote awareness of these issues, to illustrate and quantify the amount by which the Medicare projections are potentially understated, and to help inform discussions of potential policy reactions to the situation." (Page 13-14)

3. Congress Will Override Projected SGR Cuts

"Reflecting the accumulated impact of the 2007 through 2012 payment reduction overrides, and the requirement that future payment updates must be determined as if these overrides had not occurred, for 2013 the scheduled payment update is estimated to be –30.9 percent. A large negative update is extremely unlikely to occur. As noted, Congress has overridden all of the scheduled reductions from 2003 through 2012. Moreover, the projected –30.9 percent update for 2013 is much larger than most of those previously avoided. Despite their improbability, the negative physician updates are scheduled to occur under current law and are therefore included in the Part B estimates shown in the 2012 Medicare Trustees Report." (Page 3)

4. President's Health Care Law May Cause Providers to Stop Offering Services

"In the Office of the Actuary's April 22, 2010 memorandum on the estimated financial effects of the Affordable Care Act, we noted that by 2019 the update reductions would result in negative total facility margins for about 15 percent of hospitals, skilled nursing facilities, and home health agencies. This estimated percentage would continue to increase, reaching roughly 25 percent in 2030 and 40 percent by 2050. In practice, providers could not sustain continuing negative margins and, absent legislative changes, would have to withdraw from providing services to Medicare beneficiaries, merge with other provider groups, or shift substantial portions of Medicare costs to their non-Medicare, non-Medicaid payers. In practice, Congress would presumably act to adjust Medicare payment rates as necessary before such a situation developed."

5. Private Sector Productivity Gains Can't Match the Law's Productivity Cuts

"Based on the historical evidence of health sector productivity gains, the labor-intensive nature of health care services, and presumed limits on the extent of current excess costs and waste that could be removed from the system, actual health provider productivity is very unlikely to achieve improvements equal to the economy as a whole over sustained periods. Despite this conclusion, the payment update reductions are scheduled to occur under current law and are therefore included in the 2012 Medicare Trustees Report … These outcomes, while highly desirable, are far from certain. Until such gains can be demonstrated, it is more reasonable to expect that provider costs per service will continue to increase in the long range more in line with long-term past input price growth." (Page 5)

6. IPAB Medicare Cuts "Challenging"

"The Board's efforts are complicated by provisions that prohibit increases in beneficiary cost-sharing requirements and that exempt certain categories of Medicare expenditures from consideration. As a result of the other savings provisions incorporated into current law, the estimates in the 2012 Medicare Trustees Report result in reductions in Medicare growth rates in just one year, 2019, and by only 0.1 percent in that year. In the absence of these other provisions, however, reducing cost growth rates to the degree required by the IPAB provision would be challenging." (Page 6)

7. Part A Spending 145 Percent Higher Than Current Projections

"Under current law, HI [hospital insurance] costs are projected to increase to 2.73 percent of GDP in 2080, or roughly 60 percent greater than their current level. Under the illustrative alternative to current law, costs would be 4.14 percent of GDP in 2080, or roughly 145 percent greater than their current level." (Page 16)

8. Part B Spending 14 Percent Higher Than Current Projections

"Under current law, the scheduled 31-percent reduction in physician payment rates for 2013 would result in an estimated 4.2-percent reduction in aggregate Part B expenditures. Replacing this rate reduction with an increase of 1 percent would instead lead to overall expenditure growth of about 4.8 percent. Expenditures under the alternative projections would thus be 9.4 percent higher than under current law in 2013 and would grow to be 13.6 percent higher by 2021." (Page 17)

9. Long Term, Medicare Will Consume 10 Percent of the U.S. Economy

"Under the alternative physician projection, Medicare spending is projected to be 4.18 percent of GDP in 2020 and to grow to 7.76 percent by 2080, while expenditures increase to 9.97 percent of GDP in the full alternative projection. These results compare to 3.96 percent of GDP in 2020 under current law, increasing to only 6.69 percent in 2080. In other words, if these elements of current law are not sustained in all future years, then Medicare expenditures in 2080 could be about 50 percent greater than projected under current law, with about one-third of that difference attributable to the elimination of the SGR mechanism for physician payments." (Page 19)

10. There Are "Difficult Challenges That Lie Ahead"

"…the current-law projections should not be interpreted as the most likely expectation of actual Medicare financial operations in the future but rather as illustrations of the very favorable impact of permanently slower growth in health care costs, if such slower growth can be achieved. The illustrative alternative projections shown here help to quantify and underscore the likely understatement of the current-law projections in the 2012 Trustees Report … (E)xpectations must be tempered by awareness of the difficult challenges that lie ahead in improving the quality of care and making health care far more cost efficient. The sizable differences in projected Medicare cost levels between current law and the illustrative alternative scenarios highlight the critical importance of finding ways to bring Medicare costs – and health care costs in the U.S. generally – more in line with society's ability to afford them." (Page 21)