

RECORD, Volume 27, No. 1*

Dallas Spring Meeting

May 30–June 1, 2001

Session 7PD

Comprehensive Medicare Reform

Track: Health

Moderator: JAY C. RIPPS

Panelists: ROLAND E. KING
CORI E. UCCELLO
DALE H. YAMAMOTO

Recorder: JAY C. RIPPS

Summary of Panel Discussion

This panel discussion consisted of four presentations by the panelists and responses to questions from the audience.

Presentation 1: Mr. King

Mr. King, former chief actuary of the Health Care Financing Administration (HCFA) and a member of the American Academy of Actuaries Medicare Reform Task Force, addressed the financial condition and prospects of Medicare, drawing on the work of the Task Force. He described in broad terms types of reform that have been proposed, including the following:

Proposals for Reform:

- Reduce payments to health-care providers
- Reduce or eliminate Medicare coverage for some services
- Increase Medicare deductibles or co-payments
- Managed care and contracting out services
- Increase FICA tax rate
- Increase SMI premiums
- Shift payment of benefits from the HI trust fund
- Direct transfer of general revenues to the Medicare program
- Raise the age of benefit eligibility
- Require retirees to be covered by employer health plans
- Implement income-adjusted premiums or benefits

Conclusions — AAA Medicare Reform Task Force

- Medicare faces urgent financial problems that demand action
- Congress should act now to deal with these problems
- Medicare's financial condition should be evaluated using HI and SMI combined
- Of the many proposals for reform, the most promising are increased cost sharing by beneficiaries and increased use of managed care and competitive bidding

Audience members questioned whether the Academy's Task Force or current reform proposals dealt with improving quality controls or reducing the frequency of "heroic" and expensive procedures performed at the end of life — despite "do not resuscitate" orders or living wills to the contrary — as ways to reduce Medicare Costs. The panelists responded that, though both of these were potentially fruitful areas for new policy initiatives, neither had been dealt with by the Task Force or appeared to be included in current reform proposals.

Another audience question related to whether more diversity could and should be introduced into Medicare, given the diversity of the beneficiary population and their diverse needs. The panelists responded that the increased use of managed care and competitive bidding favored by the Task Force would have the effect of introducing more diversity and more consumer choice.

Presentation 2: Mr. Yamamoto

Mr. Yamamoto, who chaired the 2000 Medicare Technical Advisory Panel, spoke about the work and conclusions of the Panel. The Panel was asked by the Medicare Trust Funds Board of Trustees to review the assumptions and methods used by HCFA's office of the Actuary for projecting Medicare's costs and income. Mr. Yamamoto reported that the Panel concluded overall methods and assumptions were reasonable, except that the assumed long-term rate of growth of Medicare's health-care costs was adjudged to be low. The Panel's report contains 10 "Findings" and 28 "Recommendations"; those interested in reading the full report can find it on the HFCFA Web site. In summary, the Panel recommended:

- More consistency between assumptions used to project the Hospital Insurance (HI) Trust Fund and the Supplemental Medical Insurance (SMI) Trust Fund
- Increased clarity in the description of the projection models used and in the communication of assumptions and results
- Increased use of additional pertinent information and research, other than that performed by the Office of the Actuary
- More explicit assumptions about the size and effects of shifts in benefits between the HI and SMI Trust Funds
- More explicit and precise reflection of the impact of managed care options on projected costs
- Recognition of continuing near-term shifts from inpatient to ambulatory care.
- Assuming long-term growth in health-care costs at a rate 100 basis points (1%) higher than the projected per-capita growth in gross domestic product (versus current assumption of a health-care cost increase rate **equal to** the growth in per capita GDP)
- Increased use of stochastic modeling techniques
- Greater differences between high and low cost projections
- Increased staffing for the Office of the Actuary

Audience members asked whether the Panel recommended research regarding the reasons for the wide range of variations in clinical practices across the U.S. and ways to narrow the range, and whether the Panel explicitly considered the impact of a likely nursing shortage on near-term hospital costs. To both questions, the panelists responded that it did not.

Presentation 3: Ms. Uccello

Ms. Uccello summarized current Medicare reform proposals being considered by Congress, with special emphasis on adding prescription drug coverage.

She stated Congressional Budget Office estimates of prescription drug expenditures by Medical enrollees of \$104 billion in 2004, as compared to projection costs of current Medicare benefits of \$192 billion in 2004 (HI and SMI combined) — a potential increase in costs of over 50% if full coverage of drug costs were added to Medicare. She indicated that most Medicare enrollees currently have prescription drug coverage, but a substantial number (approximately 27%) do not.

Ms. Uccello reviewed the key provisions of four Medicare reform proposals:

Descriptor	Chief Sponsor
Senate Bill 10	Senator Daschle
Immediate Helping Hand	President Bush
Breaux- Frist I	Senators Breaux and Frist
Breaux- Frist II	Senators Breaux and Frist

All these proposals include some form of prescription drug coverage; the Breaux-Frist proposals also include broader structural reforms. Exhibit I is a high level summary of the key provisions at each proposal.

An audience member asked whether the proposals to add prescription drug coverage to Medicare consider the potential impact on employer sponsored health plans of the recent court discussion regarding the Age Discrimination in Employment Act of 1967 (ADEA). The response was that Congressional staff experts appear to understand this issue to be important, but that they do not appear to have reached any conclusions about it yet.

Presentation 4: Mr. Yamamoto

Mr. Yamamoto spoke about potential reactions of employers to the introduction of prescription coverage into Medicare. According to a survey conducted by Hewitt Associates for the Henry J. Kaiser Family Foundation, 20% of employers who now cover retiree prescription drug costs would drop the coverage. The other 80% of employers indicated they would retain coverage as a supplement to Medicare, as they do for other types of retiree medical expenses. It appears that the inclusion of prescription drug coverage in Medicare would lead to substantial reductions in employers' retiree prescription drug costs — on the order of 30-35%.