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MEDICARE AND THE PUBLIC INTEREST

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** The opinions presented in this article are those of the author solely and should not be interpreted as the opinions of the author's employer or the Society of Actuaries.*

Medicare[1] is a program that was created to serve the public interest. Its intent from day one has been to ensure that seniors are able to afford quality health care in their later years of life. This concept is one that virtually all Americans have espoused from the inception of the program through today regardless of their views on this subject.

However, something has changed since the program was created and implemented in 1965. What has changed is that the program is now seen as unsustainable in its current form by most people, whereas until the last few years, most people thought the program was sustainable. This statement may suggest that today Medicare is not popular with the public. Yet, the opposite appears to be the case, in that many groups are strongly lobbying to preserve and protect Medicare and do whatever is necessary.

Is this a contradiction in public views, or are there some forces at work here driving a mismatch of perception and reality? The distinction between the concept of what is desired from Medicare and the implicit assumption that Medicare, as designed, can achieve that concept, may be what is muddying the waters. Consider what Medicare was designed initially to do and what it has become.

In 1965, Medicare was constructed to cover the last five to 10 or more years of life only for a modest segment of the population, or those who made it to age 65. It included significant incentives to control costs through a hospital inpatient deductible, a deductible for non-hospital services and significant cost sharing above those deductibles. The program was supposed to cost around $10 billion dollars a year, after 25 years (1990)

However, humankind, Mother Nature and lawmakers have exerted negative pressure upon the plan. Moreover, what did we do while these interventions occurred? Little has been done by

CONTINUED ON **PAGE 22**

… Medicare was constructed to cover the last five to 10 or more years of life only for a modest segment of the population. …

the public or the politicians to prevent this pressure. In fact, additional negative pressures have come about. Consider the following:

- Since 1965, life expectancy has increased from 70 to 78 years of age. The life expectancy of a 65-year-old today has increased by roughly 25 percent since 1965. Yet, we have never increased the age of eligibility, which translates into many more years of benefits for seniors and many fewer resources available for other programs. In turn, there are greater deficits for future generations.

- The program was expanded in 1973 to include under age 65 individuals meeting certain criteria. Today, this population is between 10 and 15 percent of the total Medicare population with cost proportions in a similar range or a little lower.

- The deductibles and cost sharing elements of the program have effectively dwindled over time, as the lawmakers have not modified deductibles consistent with increases in medical costs. Further, they have added other services not initially covered. This has increased costs, both due to less cost sharing, but also higher utilization driven by the lower cost sharing.

- In an effort to control costs, the program implemented several controls on utilization of certain types of services and price restraints intended to save money. Examples include: Diagnosis Related Groups for Part A commonly known as DRGs, Resource Based Relative Value Schedules commonly known as RBRVS for Part B, APCs or Ambulatory Payment Classifications related to the Medicare Outpatient Prospective Payment System for hospital outpatient or related type services, and other changes intended to control utilization and/or provider charges under Medicare. While these provisions have had some initial success, they have had the long-term impact of increasing utilization in other areas within the program, creating more distortions/inefficiencies within the system, and shifting costs to under age 65 markets. The overall result has been a unintended consequences and large amounts of new regulations. Medicare today includes a multitude of provisions and rules, which have created a system with numerous complexities. Overall, these have created furious debates, greater confusion and less than anticipated savings.

- Any funding changes have created much larger Federal deficits (Part B costs are usually covered 70 to 75 percent from general revenue) or higher costs for future and/or current participants (higher payroll taxes from the working population and higher Part B premiums).

The result has been a program that has runaway costs, with annual expenditures presently near $500 billion. The program that was supposed to have cost roughly $10 billion in 1990 has actually cost about $110 billion instead. Costs have increased by a multiple of roughly five over the last 20 years. With that, the government has had to spend the Trust Funds created for this program and much more. Further, the program has created enormous unfunded liabilities estimated to be in excess of $30 trillion, and that does not include the ever-increasing demands on general revenue from other than Part A on the Federal Budget. Keep in mind the entire U.S. economy is about $15 trillion per year.

What should all of this mean for the public interest? In our opinion, it clearly suggests focusing on getting back to the initial concept of finding a system that can provide affordable quality health care for seniors while being financially sustainable across each ensuing generation. The current system is not sustainable, and its continuation will no longer follow the purpose of the program. We should, therefore, not preserve and protect Medicare as it is

now; we should, instead, overhaul the system and mitigate the problems thereby retaining the initial concept.

To fix the system, we believe the first step is to recognize that the current management system being used for Medicare should be scrapped; it is dysfunctional. We need a new system that will change with the environment. The Medicare Trustees have now warned Congress and the executive branch of government that Medicare has been in financial trouble for all but the first year of its existence. That means the Trustees have warned the government every year since 1967 about the direction of the program. In addition, the warnings have become more dire over time. Yet to this day, we have collectively continued to "grow and kick this enormous problem down the road.

Once a new process is created, the next step should be to create a solution, which is then monitored and adjusted as actual experience emerges. That solution to be successful should follow actuarial and economic principles as to insurance and soundness, needs of the population, deficit and growth considerations, and generational aspects.

A solution is not simply a matter of some combination of more revenues and less benefits. That may be part of the solution, but we, the public, do not have sufficient resources to satisfy the insatiable demand for services that somebody else always pays for. Nor is a system desirable where services are cut so that necessary care becomes unavailable. Instead, what is in the public interest is a system that continually strives to optimize resources so that as many people can benefit from the overall system. We feel that Medicare does not seem even remotely close to achieving this and there is no time like the present to begin a move to change that. Our next article will consider possible steps toward a solution that fits within this profile. In the meantime, let a real debate begin on what to protect and the process to be followed.

ENDNOTES

[1] For a description of current summary of Medicare benefits and provisions go to medicare.gov/ Medicare Basics.

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