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RSC Info Alert: CMS Office of the Actuary report on "Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers"

CMS actuaries prepared an alternative scenario to the findings in the Medicare Trustees Report as "the projections shown in the report do not represent the 'best estimate' of actual future Medicare expenditures." The alternative scenario according to CMS actuaries presents "a more plausible outcome for future spending."

Under the Assumptions Used in the Medicare Trustees Report, CMS Actuaries Found:
"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 payment rates to physicians would likely have serious implications for beneficiary access to care; utilization, intensity, and quality of services; and other factors." (Page 10)

Physician Payments: "By the end of the 75-year period, Medicare payments would be only one-third of the relative current private health insurance prices and half of those for Medicaid. If such payment differentials were allowed to occur, Medicare beneficiaries would almost certainly face increasingly severe problems with access to care." (Page 5)

- At today's levels, Medicaid payment rates have already contributed to access problems. CMS cited a 2006 survey by the Center for Studying Health System Change that found that 14.6 percent of physicians had no Medicaid patients and that 21% were not accepting new Medicaid patients. By comparison, only 4% of physicians were not accepting new privately insured patients. (Page 5)

Provider Productivity Adjustments: CMS previously estimated that market basket reductions in PPACA would result in "negative total facility margins for about 15 percent of hospitals, skilled nursing facilities, and home health agencies." CMS projected that the number of facilities, agencies and hospitals with negative margins would be increased to 35% in 2030 and 40% in 2050 forcing these entities to withdraw from the Medicare program, merge with other provider groups, or shift significant portions of Medicare costs to their non-Medicare, non-Medicaid payers as they would be unable sustain continuing negative margins. (Page 6)

Purpose of the Alternative Scenario: CMS stated that "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 current law, is likely to portray an unduly optimistic outcome." (page 11)

In relation to Medicare cuts under PPACA, CMS actuaries stated that "in our view (and that of the independent outside experts we consulted), neither of these update reductions is sustainable in the long range, and Congress is very likely to legislatively override or otherwise modify the reductions in the future to ensure that Medicare beneficiaries continue to have access to health care services." (Page 1)

Highlights **of the CMS Alternative Scenario**

Alternative scenario makes two significant changes to the assumptions used for the current-law projection:

- Medicare payments to physicians are assumed to be updated annually by the increase in the Medicare Economic Index (MEI) in all future years instead of SGR.
- The productivity adjustments required in PPACA would be applied through 2019 but then phased out over the next 15 years.
- For 2034 and later, Medicare Part A and B per capita cost growth rates are assumed to equal the pre-PPACA "baseline" growth rates.

Note: The following findings double-count Medicare cuts in PPACA to both pay for the newly created entitlement programs and improve the Program's solvency – which in practice cannot occur.

Medicare Unfunded Obligations Projections for 75-year Budget Window:

- The Medicare Trustees Report found that this unfunded obligation over the 75-year budget window would be $30.8 trillion (Page 244). **However, under the alternative scenario, this number would jump to $46.1 trillion**, according to CMS actuaries.

Medicare Part A (HI):

- Medicare trust fund reaches exhaustion (insolvency) in 2028 - 1 year earlier than under the official Medicare Trustees Report as it assumes PPACA cuts will be maintained for the first 10 years. (Page 11). This is higher than 2009 estimates due to the additional .9 payroll tax on individuals with incomes over $200,000.
- Long-range 75-year projections: If the productivity adjustments were to become impractical and phased out over 2020-2034, the HI cost rate in 2084 would be 9.2% - compared to 5% under the official Medicare Trustee Report's estimate.
- If the productivity adjustments were gradually phased out after the first 10 years, the long-range HI deficit would be 1.91% of taxable payroll – more than double the .66% of taxable payroll under the official Medicare Trustee Report's estimate.

Medicare Part B:

- Part B expenditures would be 21.8 percent higher by 2019 under the alternative scenario than under the official Medicare Trustees Report's estimate.

- Part B is expected to increase more rapidly reaching 1.98% of GDP by 2020, and 5.07% of GDP by 2080 – as compared to 1.61% by 2020 and, 2.47% of GDP by 2080 under the official Medicare Trustee Report's estimate.

Total Medicare:
- Total Medicare spending is projected to be 4.28%of GDP in 2020 and 10.70% by 2080 as compared to 3.91% of GDP in 2020 and 6.37% in 2080 under the official Medicare Trustee Report's estimate.
- CMS actuaries found that "most of the significant change in the projected level of Medicare expenditures between the 2010 Trustees Report and last year's report would go away under the alternative projections."

CMS closed with the finding that "the projections shown in the 2010 Trustees Report for current law <u>should not be interpreted as our best expectation of actual Medicare financial operations in the future</u> but rather as illustrations of the very favorable impact of permanently slower growth in health care costs, if such slower growth can be achieved."

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