SUMMARY

Medicare became law only in 1965 in part to mitigate the adverse effect of rising health care costs on seniors' income. Those costs were driving many millions of seniors below the poverty line. In the pre Medicare environment, nearly 30% of seniors had fallen below the poverty level. In the intervening years, the percent of seniors with income below poverty level has dropped nearly three times.

While the benefits to seniors have dramatically improved their lot, the cost to society is the elephant in the room that needs to be addressed in Congress. This report looks at the components that are driving up Medicare costs.

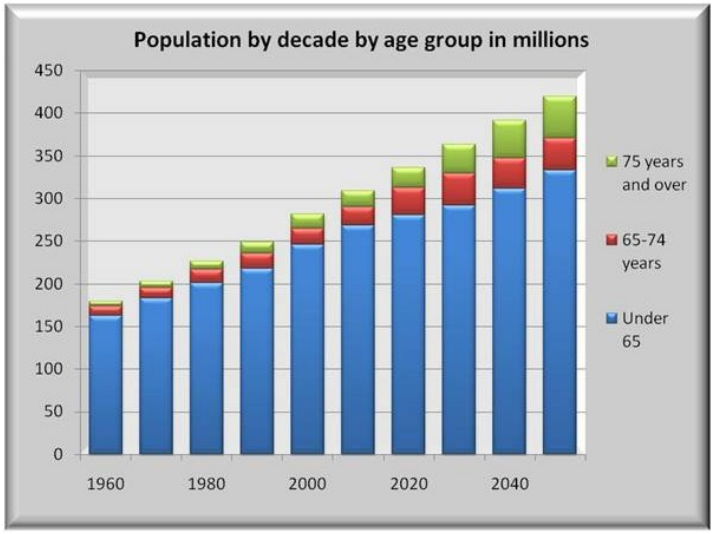
DISCUSSION

Overall population is increasing demands for care

As expected, growing populations result in growing health care costs. What is evident from the graph below is that in addition to overall growth, the percent of people 65 years and old is increasing.

Two factors are contributing. One is that the baby boomers as a group are beginning to move into the senior group. They are followed by a drop off (percent wise), in younger people. Projections refer to the increasing mix of older people with fewer people working to pay into Medicare.

But this trend is not permanent, and once the baby boomer "bubble" works its way through the population, the mix of retirees to workers stabilizes. But that is out past the year 2040, beyond the range of most forecasts. In short, solve the Medicare problem expected for the next 30 years and only minor changes will likely be needed after that.



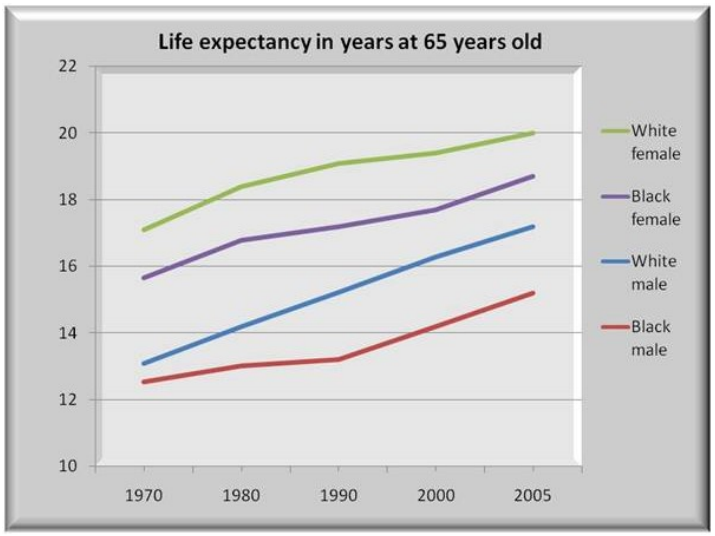
Source: Center for Disease Control – Health, United States 2008 Figure 01

Greater life expectancy adds to aging population

The second factor contributing to the growth of seniors is their increasing life expectancy. The graph below shows that all major groups of seniors have benefited from better health care. Life expectancy at birth show lower increases.

The question is whether these significant increases will continue into the future. If they continue, then the percent of seniors will continue to increase. If trends tend to slow, then the population age mix may stabilize.

On the other end of the age scale, if birth rates rise, this will create a greater percentage of younger people. And there is some evidence of this occurring, though not equally among different races.



Source: Center for Disease Control – Health, United States 2008 Figure 14

It may be 30 years before age group % stabilizes

On the assumption that the mix of aged people stabilizes in the 2040-2050 range, this still represents a significant change from today where less than 15% of population is 65 and over. By the time it stabilizes, seniors will represent over 20% of population and may for some time to come beyond that.

Current Medicare premiums assessed on workers is not enough to cover those future costs. Two events clearly need to happen. One is to increase the "premiums" paid into the system. Options include raising all rates uniformly or raising the wage ceiling on which premiums are based. The other is to take costs out of Medicare.

Another analysis has shown huge discrepancies being paid in Medicare indicating excess care being provided to some and not others that needs to be addressed.

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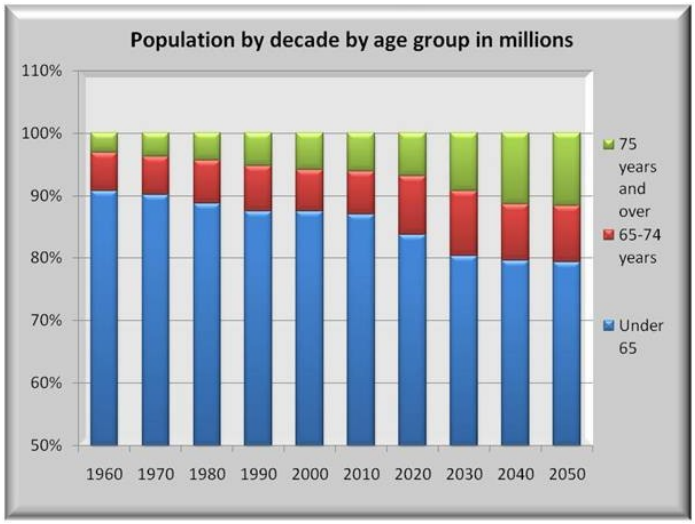


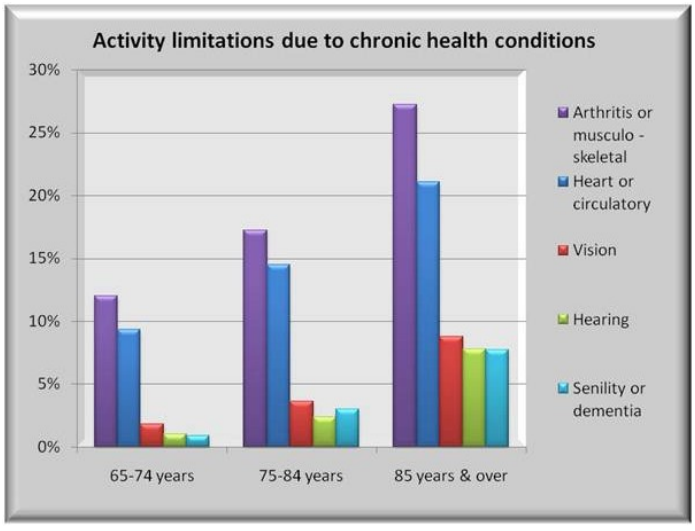
Source: Center for Disease Control – Health, United States 2008 Figure 01

As people get older, their health demands increase

It is common knowledge that seniors slow down as they age. The graph below shows the 5 most common reasons seniors reduce their activity level. As they age, each factor grows in significance.

Nearly 3 in 10 seniors over 85 will become limited by arthritis or musculoskeletal conditions. 2 in 10 seniors over 85 will be limited by heart or circulatory conditions. Though climbing with age, vision, hearing and senility are factors in less than 1 in 10 seniors 85 and older.

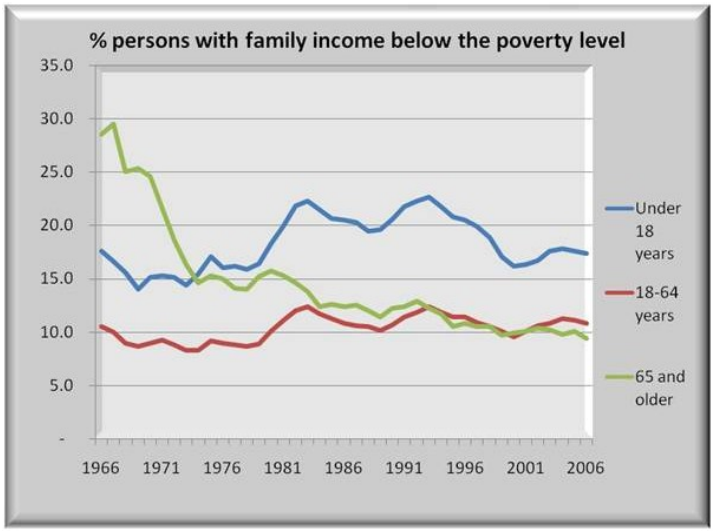
While the graph shows the number of medical conditions increasing with aging, it does not indicate severity. But on volume alone, seniors require more health care. This can be mitigated somewhat by more exercise and healthier diets, the two largest slowdown factors. Less can be done about vision, hearing, senility or dementia.



Source: Center for Disease Control – Health, United States 2008 Figure 13

Medicare a key factor in improving poverty levels

Medicare became law only in 1965 in part to mitigate the adverse effect of rising health care costs on seniors' income. Those costs were driving many millions of seniors below the poverty line. The success of Medicare was dramatic as shown in the graph below. With pre Medicare environment, nearly 30% of seniors had family income below the poverty level. In the short span of 7 years, the percent of seniors with family income below poverty level dropped to 15%, roughly in half. Gradual reductions since have lowered that threshold to about 10%.



Source: Center for Disease Control – Health, United States 2008 Figure 04

Price inflation creates higher bills for seniors

The graph below highlights cost trends for four groups of people from 1996 to 1996. Except for a slight break around, 1998 - 2000, costs have trended upward every year for every age group. Within each age group, there is another consistent trend. Seniors 65-74 years incur only about half the expense that seniors 85 and over do, while those 75-84 years incur more than half again as much as seniors 65-74. This confirms the comments above that as people age their health demands increase.

Now these data are per enrollee. So price inflation is causing costs for all seniors to rise. As seniors age, their costs continue to rise. And finally, as the baby boomer bubble moves into the senior ranks, the total number of seniors increases dramatically. It is sort of a "perfect storm" where all factors are pointing towards Medicare costs consuming more and more of the nation's economic output.

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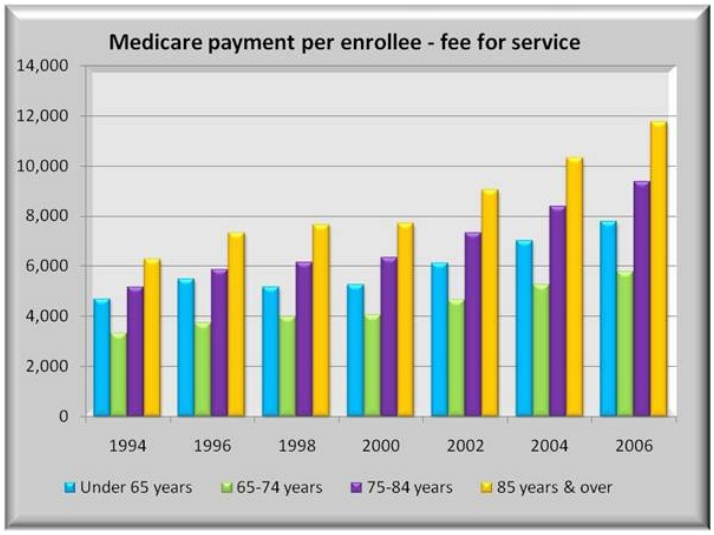
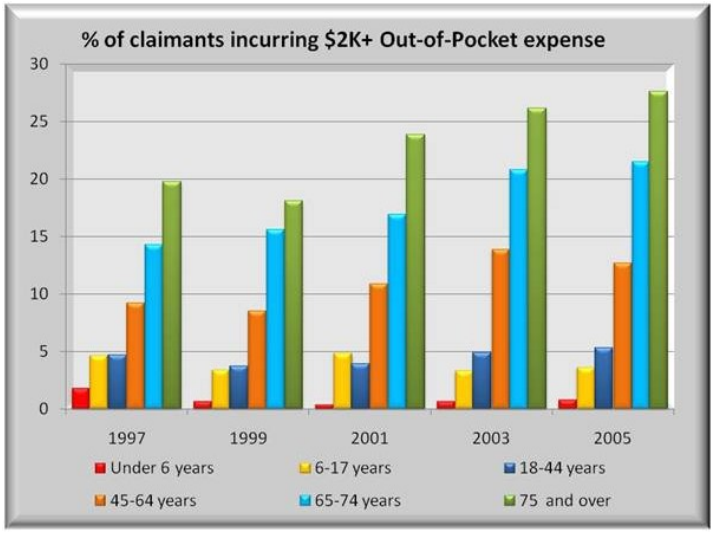


Source: Center for Disease Control – Health, United States 2008 Table 143

Cost sharing of Medical Expense Also Rising

In nearly all cases where medical expense is incurred, insurance picks up a large share of the costs, but not all. Amounts paid by individuals are called "cost sharing" or deductibles and co-payments, or out-of-pocket expense. Below are 6 age groups that incurred over $2,000 in out-of-pocket expense. This threshold allows a focus on the more expensive medical encounters. Cost sharing for all seniors has consistently risen over the entire period. Any solutions to rising Medicare costs that reduce benefits, shifting more costs to seniors should at least take into account that seniors have for years, been paying higher out-of-pocket costs for health care.

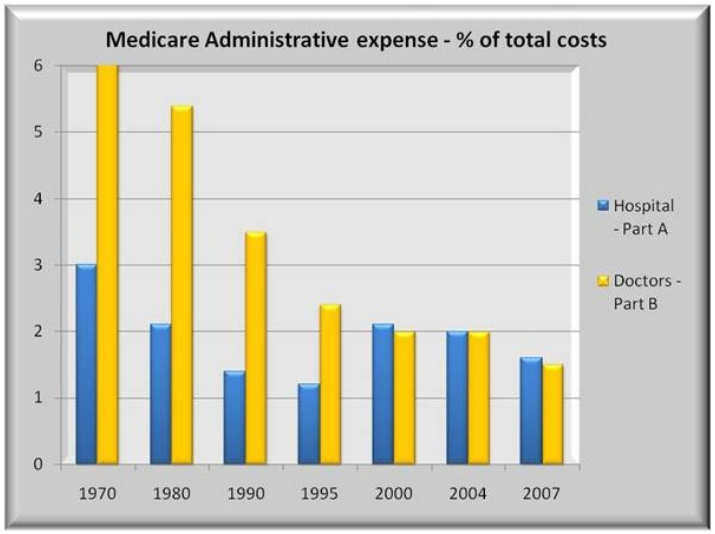


Source: Center for Disease Control – Health, United States 2008 Table 133

One Example of Government Run Medicare

While overall Medicare costs have continued to rise, there is one component that is trending favorable - Administrative Expense. Early on, there were inefficiencies in Medicare part B as these tended to be smaller dollar claims but the same amount of manual effort to record claims into the system. As automation and standardization increased, these costs came down such that since 2000, the administrative costs per claim dollar for both hospitals and doctors are roughly equal.

What is far more telling is that since 2000, these administrative costs have (a) stayed level and (b) averaged just two (2%) of total costs. In the 1980's private insurers, primarily non-profit, had administrative costs of about 5%. Today, insurers are frequently incurring administrative costs of more than 20% on large blocks of their businesses. In at least one area, government appears to have done better.



Source: Center for Disease Control – Health, United States 2008 Table 142

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