MEDICARE SPENDING GROWTH SINCE 2009

April 15, 2015

How substantial is the slowdown in Medicare spending growth?

From 2009 to 2012, Medicare spending per beneficiary (across Traditional Medicare and Medicare Advantage) grew at an average rate of 1.8 percent annually or less than 1/3 its rate of growth during 2000-2008. There was essentially no growth in Medicare spending on a per beneficiary basis in 2013 (see Table 1).

Table 1. Medicare per Beneficiary Annual Spending Growth Rates

Average Annual Growth	2000-2008	2009-2012	2013
Spending per Beneficiary	5.9%	1.8%	0.2%

Data Source: National Health Expenditure Accounts, Historical Tables
Growth for 2006 excludes growth due to introduction of Part D

We have updated our earlier estimate of Medicare spending growth by including an additional year now that 2013 spending data are available, and we have also included Medicare Advantage (a growing share of the Medicare program). This has resulted in a new estimate of Medicare spending $316 billion less over the 2009-2013 period than would have occurred if the 2000-2008 growth rates had continued through 2013 (Table 2). Our earlier estimate for Traditional Medicare alone was $116 billion in lower Medicare spending over the 2009-2012 period. Putting this into context, Medicare spent $551 billion dollars on benefit outlays in 2013. In other words, the accumulated difference in spending between 2009 and 2013 is equal to 57% of Medicare's benefit outlays in one year alone: 2013.

Table 2. Accumulated Difference in Medicare Spending between 2009 and 2013

Year	Actual Medicare Spending (2009-2013)	Medicare Spending for 2009-2013 Based on 2000-2008	Difference for Total Medicare	Difference for Traditional Medicare	Difference for Medicare Advantage
2009	$471.2	$480.0	-$8.8	-$3.5	-$5.3
2010	$489.2	$520.8	-$31.6	-$16.5	-$15.1
2011	$511.9	$564.8	-$52.9	-$34.7	-$18.2
2012	$532.2	$623.5	-$91.3	-$61.8	-$29.5
2013	$550.5	$681.8	-$131.3	-$81.5	-$49.8
Total (2009-2013)	$2,555.0	$2,870.9	-$315.9	-$198.0	-$117.9

Data Sources: National Health Expenditure Accounts, Historical Tables (Total Medicare)
Master Beneficiary Summary File (2000-2012 Traditional Medicare)
Medicare Enrollment Records, Common Working File, and Prescription Drug Event Files (2013 Traditional Medicare)
Growth for 2006 excludes growth due to introduction of Part D

How is the accumulated difference in spending calculated?

The difference in Medicare benefit spending in each calendar year between 2009 and 2013 is calculated as the difference between actual spending and what spending would have been if the average per beneficiary growth rate for 2000-2008 had continued through 2013. The 2000-2008 projected trends are calculated for Total Medicare and Traditional Medicare from their specific 2000-2008 growth trends. The Medicare Advantage spending differences are calculated as the residual after subtracting the Traditional Medicare differences from the Total Medicare differences. Annual per beneficiary spending growth rates in the National Health Expenditure data are very similar to those recorded in CBO's baseline estimates for Medicare spending when averaging across years, although individual year data may differ depending on when expenditures are recorded in each data source.

What policies have contributed to the Medicare spending growth slowdown?

- A CBO analysis in 2013 suggests that the recession appears to have played only a small role in reducing Medicare spending.[1] Its analysis estimated the effect of changes in wealth and income due to the recession on Medicare beneficiaries' use of health care services and found that the recession had little effect on the demand for health care services by beneficiaries. Moreover, the slowdown in per capita spending growth began prior to the recession suggesting that other factors have been at play.[2]

- Tying Medicare Advantage (MA) payment benchmarks to Traditional Medicare, and implementing the MA Quality Improvement Program, has created new incentives for MA plans to become more efficient while improving quality.

- The Medicare program is implementing a wide range of delivery system reforms to improve quality and lower costs such as fostering the growth of Accountable Care Organizations and testing bundled-payment arrangements. Initial results from some models suggest some promising impacts on both costs and quality. The Department has set a goal of having 30% of payments tied to quality and value through alternative payment models such as Accountable Care Organizations and bundled-payment arrangements by 2016 and 50% by 2018.

- Outside of these alternative payment models, Medicare is promoting better care coordination among providers by tying payment to value, such as by targeting excess hospital readmissions and hospital-acquired infections, and by adjusting provider payments based on the overall quality of care they provide.

- CMS has consolidated its enforcement efforts, expanded the scope of its program integrity activities, enhanced provider screening, and stiffened the penalties for fraud. The shift to preventing fraud before payments are made is complemented by CMS's use of advanced technology, such as predictive analytics, with a $5 to $1 return on investment. Anti-fraud programs recovered over $27.8 billion between 2009 and 2014, up from $9.4 billion during the prior five years (2004-2008). The CMS Open Payments Program is bringing transparency to financial relationships that physicians and hospitals have with health care manufacturing companies.

- Provider payment updates have been reduced by fixed amounts and adjusted for economy-wide productivity, which reduced updates in the hospital inpatient prospective payment system by approximately one half of one percent in fiscal year 2015. There are similar payment update reductions that apply to other providers except physicians. The competitive bidding program for durable medical equipment, which has already saved $400 million, is being expanded and is expected to save $17.2 billion for beneficiaries and $25.8 billion for the Medicare program over the next ten years.

- These savings to the program are also translating into savings for beneficiaries. For instance, just as there has been little to no growth in per beneficiary spending, Medicare beneficiaries are benefitting from Part B premiums remaining the same for the second year in a row. Premiums for Medicare Advantage plans have fallen nearly 6 percent since 2010.

In Summary

Medicare paid out approximately $316 billion less between 2009 and 2013 than would have occurred had pre-2009 spending trends persisted. This has substantially extended the projected solvency of the Hospital Insurance Trust Fund. Existing evidence suggests that these payment gains are in important part due to policy and administrative actions to improve Medicare's performance. These actions involve delivery system reform efforts as well as administrative actions to ensure prudent use of tax payer dollars.

[1] Michael Levine and Melinda Buntin, *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* (Washington, D.C.: Congressional Budget Office, August 2013).
[2] Council of Economic Advisors, *Trends in Health Care Cost Growth and the Role of the Affordable Care Act.* (Washington, D.C.: The White House, November 2013)