OVERVIEW OF MEDICARE
Medicare is the federal health insurance program covering nearly 42 million Americans—35.4 million seniors and 6.3 million people under age 65 with permanent disabilities. Most individuals 65 and older are entitled to Medicare Part A if they or their spouses are eligible for Social Security payments and have made payroll tax contributions for 10 years. People under 65 who receive Social Security Disability Insurance (SSDI) payments generally become eligible for Medicare after a two-year waiting period.

Medicare benefits are expected to total $325 billion in 2005, accounting for 13% of the federal budget (CBO).

CHARACTERISTICS OF PEOPLE ON MEDICARE
Medicare covers a diverse population: 71% of beneficiaries have two or more chronic conditions, 29% are in fair/poor health, and 23% have cognitive impairments. A relatively small share of beneficiaries (10%) account for a large share (69%) of total spending.

Many on Medicare live with modest incomes and assets; 51% have incomes below 200% of poverty ($19,140/single and $25,660/couple in 2005); and 48% of non-institutionalized Medicare beneficiaries have countable assets (savings accounts, stocks, bonds, etc.) below $10,000.

MEDICARE’S STRUCTURE
- **Part A**, the Hospital Insurance program, pays for inpatient hospital, skilled nursing facility, and hospice care. Accounting for 45% of spending in 2005, Part A is funded by a dedicated tax of 2.9% of earnings paid by employers and employees (1.45% each).
- **Part B**, Supplementary Medical Insurance, pays for physician, outpatient, and preventive services. Part B accounts for over 35% of spending in 2005 and is funded by general revenues and beneficiary premiums.
- **Part C** refers to private Medicare Advantage plans, such as HMOs, that provide Part A and B benefits to enrollees (Part D beginning in 2006), and accounts for 15% of benefit spending in 2005.
- **Part D** refers to the outpatient prescription drug benefit that will begin January 2006 and is funded by general revenues, beneficiary premiums, and state payments.

MEDICARE AND PRESCRIPTION DRUGS
Beginning in January 2006, beneficiaries will have access to private plans that contract with Medicare to provide the new Part D prescription drug benefit. Beneficiaries will be able to enroll in prescription drug plans (PDPs) and get all other benefits from traditional Medicare, or they can enroll in Medicare Advantage plans, such as HMOs or PPOs, for all Medicare benefits, including drug coverage.

Medicare will provide additional help for beneficiaries with limited incomes and assets under the new drug benefit. HHS estimates that 14.4 million beneficiaries will be eligible for premium and cost-sharing subsidies in 2006 and that 10.9 million will receive them.

THE ROLE OF SUPPLEMENTAL COVERAGE
Medicare covered less than half (45%) of beneficiaries’ total health care services in 2002. Gaps in coverage (notably long-
Assets in the Part A Hospital Insurance trust fund are projected to exceed income beginning in 2012 and trust fund reserves are projected to be exhausted in 2020. Over time greater resources will be required to maintain benefits and meet the needs of the Medicare population.

**MEDICARE PREMIUMS AND COST-SHARING**

Medicare beneficiaries generally pay a monthly premium for Part B services ($78.20 in 2005) in addition to deductibles and other cost-sharing requirements. Beginning in 2006, individuals who enroll in Part D will also pay a monthly premium for drug coverage (estimated average $37.37/month). Beginning in 2007, those with incomes over $80,000 ($160,000 per couple) will pay a higher, income-related monthly Part B premium.

**MEDICARE ADVANTAGE**

Today, 12% of beneficiaries are enrolled in Medicare Advantage plans, such as HMOs and PPOs, while 88% have traditional fee-for-service Medicare coverage.

After a period of steady growth in plan participation and enrollment in the 1990s, changing payment rates and other factors led to a decline in the number of participating plans from 346 in 1998 to 143 in 2004. Today, 4.8 million Medicare beneficiaries are enrolled in Medicare HMOs, down from a peak of 6.3 million in 2000.

In the future, Medicare Advantage plans are expected to play a larger role in covering people on Medicare and in providing the new drug benefit. By 2013, enrollment in Medicare Advantage plans is projected to range from 16% (CBO, 2005) to nearly 30% (HHS, 2005) of the Medicare population.

**MEDICARE SPENDING AND FUTURE OUTLOOK**

Net federal spending on Medicare is estimated to grow from $290 billion in 2005 to $444 billion in 2010 (CBO). Annual growth in Medicare spending is influenced by factors that affect health spending generally, including increasing volume and utilization of services, increasing prices of health care services, expensive new technologies, and also the new drug benefit beginning in 2006. HHS projects the net federal cost of the drug benefit to be $724 billion between 2006 and 2015.

Implementation of the Medicare drug benefit is the most immediate challenge facing the program. Over the long-term, Medicare will face the fiscal challenges of an aging baby-boom generation and a declining number of workers per beneficiary.

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