Overview of Medicare

Source: Unless otherwise noted, the following was adapted from Department of Health and Human Services. (2011). Fiscal year 2012. Centers for Medicare and Medicaid Services. Justification of estimates for appropriations committees. Retrieved from http://www.hhs.gov/about/FY2012budget/cmsfy12cj_revised.pdf

History: Medicare was authorized by the Social Security Act of 1965 and signed into law by President Lyndon B. Johnson on July 30, 1965. Beneficiaries began enrolling on July 1, 1966.

In a Nutshell: Medicare is a national health insurance program for people age 65 or older and certain people younger than age 65, including those who have disabilities and those who have permanent kidney failure or amyotrophic lateral sclerosis (ALS; Lou Gehrig's disease).

Benefit Size: Medicare helps with the cost of health care, but it does not cover all medical expenses or the cost of most long-term care. Unlike Social Security, benefits from Medicare are based on the use of medical services, and so they range widely. In any given year, an elderly person who is healthy will receive much less in benefits than a person who is sick. In the calendar year 2010, the average benefit paid to retirees was $11,762 (Centers for Medicare and Medicaid Services, 2011).

Significance: Medicare appears to have had an impact on poverty among the elderly. Between 1959 and 1967 the poverty rate for people over 65 ranged from 30–35%. Between 1967 and 1974 the poverty rate for people over 65 dropped to 15% (DeNavas-Walt, Lee, & Proctor, 2005). This is a plausible impact. Even with Medicare coverage, health expenses, including premiums, accounted for 15% of Medicare household budgets as recently as 2009, three times the share of health spending in non-Medicare households (Henry J. Kaiser Family Foundation, 2011).

Academic researchers have attempted to estimate whether Medicare was the cause of various outcomes, including decreased private healthcare spending, increased healthcare utilization, decreased elderly poverty, and higher life expectancy and lower mortality figures, or whether they may have happened anyway or may be jointly related to some prior cause. One such study estimates that Medicare increased the survival rate of the elderly by about 13%.

Funding: Like Social Security, Medicare is funded by payroll taxes imposed by the Federal Insurance Contributions Act (FICA) and by monthly premiums of approximately $115 (as of 2011) deducted from Social Security benefit checks. In 2011, employers paid 1.45% of an employee's FICA tax and deducted 1.45% from the employee's salary. Unlike Social Security, there is no ceiling on taxable income. Also unlike Social Security, which is paid for out of payroll tax contributions, payroll tax contributions cover only 37% of the cost of Medicare. Thirteen percent comes from beneficiary premiums and 42% from the general fund. Other sources include the taxation of benefits and transfers from the states for prescription drug benefits.

Program Details: The implementation of Medicare is more complex than the implementation of Social Security. The program is divided into several parts, only one of which is completely covered by payroll taxes. The basic program covers inpatient hospital and some nursing care. Additional optional services, for additional premiums and co-pays, are available to cover doctors' visits and prescription drugs.

Changing Ratios: Because of the large number of retirees in the baby boom (the increase in the number of babies born in the 20 years following

World War II), the number of workers in the labor force relative to the number of retirees is changing. (The ratio decreased from 5:1 in 1960 to 3:1 in 2009, and is projected to reach 2.2:1 in 2030 [Vincent & Velkoff, 2011].) Not only is the number of people paying into the program relative to the number of beneficiaries becoming smaller and smaller, but the cost of health care is increasing at a very rapid rate. According to the Medicare Board of Trustees, Medicare's Hospital Insurance Fund is projected to exhaust its funds in 2024. At that point, revenues would only be sufficient to cover 90% of costs, declining to 75% by 2045 and rising to 88% in 2085. (Social Security Administration [SSA], 2011b).

What to Do: Like Social Security, there is a range of opinion as to how important Medicare is and what should be done to ensure its sustainability. Although both programs face similar demographic challenges, Medicare's financial outlook is further threatened by rapidly rising healthcare costs. Some believe that government should reduce or eliminate its role in health care, arguing that a more private market could achieve efficiency, lower costs, and improve freedom of choice. Others argue for a variety of reforms to improve access and quality, raise revenues, and lower costs, so that government can guarantee quality health care for all, regardless of their ability to pay.

Medicaid: Often confused with Medicare, Medicaid is a separate program that was authorized by the Social Security Act of 1965. Unlike Medicare, which is a social insurance program, Medicaid is a means-tested, needs-based social welfare or social protection program for people of all ages. It is a state-run program that receives matching grants from the federal government to provide hospital and medical coverage for people with low income and few or no resources. Like Medicare, it is rooted in the idea that everyone has a right to medical care, not just those who can afford it; unlike Medicare or Social Security, however, it is a welfare program rather than an insurance program. It does not distribute risk by guaranteeing a pension and health care for all those who paid into the system for a certain number of years; rather, it redistributes wealth by providing a public good to those unable to afford it on the private market. Although it is jointly funded by state and federal governments, each state has its own rules about who is eligible for and what is covered under Medicaid (SSA, 2011a).

For more information on Medicare, go to http://www.kff.org/medicare/upload/1066-14.pdf.

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