

ISSUE BRIEF

How Does Health Care Reform Impact Medicare

by West Virginians for Affordable Health Care

On March 23, 2010 President Obama signed into law the Patient Protection and Affordable Care Act (PPACA). This historic legislation made several changes to Medicare that include: improving the prescription drug benefits, expanding coverage for preventive services, cracking down on fraud and abuse, and reducing payments to hospitals, skilled nursing homes and home health agencies.

- *Closing the doughnut hole:* Currently, there is a \$310 deductible for prescription drugs. The government then pays 75 percent and the senior citizen pays 25 percent for prescription drugs until the total cost reaches \$2,830. At that point, the senior citizen reaches the “doughnut hole,” where he or she is totally responsible for an additional \$3,610 of prescription drug costs. Under reform, any senior citizen in Medicare who reaches the doughnut hole this year will receive a check of \$250. Next year, drug manufacturers will pay half of the cost for all brand name drugs purchased in the doughnut hole. Beginning in 2013 the federal government will contribute more for brand name prescription drugs, increasing their payments to 25 percent by 2020. At that time retirees will be paying 25 percent of the cost of brand name drugs and the combined payment by the federal government and drug manufacturers will be 75 percent. The federal government will also increase their contribution to generic drugs purchased in the doughnut hole. By 2020, they will pay 75 percent of the cost of generic drugs and seniors will only pay 25 percent.
- *Preventive services:* Beginning next January, everyone covered by Medicare will be eligible for an annual wellness visit, which includes a comprehensive health risk assessment. Additionally, effective preventive services will be covered by Medicare, and seniors will pay no deductible or copayment for these services.
- *Fraud and abuse:* Last year \$450 million in improper Medicare payments were discovered and stopped. The national reform law fights fraud and abuse by screening medical providers more closely, increases penalties for fraud and abuse, and increases resources to prosecute fraud and abuse.
- *Reduction in payment:* The national law reduces payments to private insurance companies that provide Medicare benefits (called Medicare Advantage), reduces payments to hospitals, and reforms how doctors and hospitals are paid. Medicare Advantage companies are currently paid 14 percent more than it cost to provide traditional benefits. The reform act will reduce this overpayment saving \$136 billion over ten years.

Hospitals, skilled nursing homes and home health agencies will see their annual payment increases reduced based on expected increases in productivity. The savings over ten years is projected to be \$196 billion.

Currently, Medicare pays doctors a fee-for-service. Every service they provide, they are paid a fee without regard to quality. The reform act establishes an Innovation Center in the federal agency that oversees Medicare to conduct pilot projects to test and evaluate different means of paying doctors and hospitals that improves quality and reduces cost.

These changes in Medicare are projected to slow the growth in Medicare from 6.6 percent a year to 5.4 percent and extend the life of the Medicare Trust Fund by nine years.