

# Understanding Trends in Medicare Spending, 2007–2014

## SYNOPSIS

The average amount Medicare spent on health services for each beneficiary age 65 and older declined by \$180 between the periods 2007–2010 and 2011–2014, after adjusting for provider payment rate changes. Most of the decrease can be attributed to lower spending for Medicare beneficiaries with certain chronic illnesses, particularly cardiovascular and endocrine conditions — possibly a result of efforts by health care stakeholders to control costs and improve efficiency. However, the rising prevalence of chronic kidney disease and certain other conditions reduced overall savings for Medicare.

## THE ISSUE

Prior studies show that chronic disease prevalence and population characteristics contribute less to changes in Medicare spending per beneficiary than the volume and type of health services provided. Commonwealth Fund–supported researchers sought to determine if this finding has remained true for recent Medicare spending on hospital, postacute, and physician services, which have been growing at historically low rates. With a better understanding of the factors contributing to Medicare spending growth, health care stakeholders will be better able to set improvement priorities and targets. For instance, if spending growth is primarily stemming from rising diabetes rates, then a heightened focus on diabetes prevention would be warranted. Alternatively, if diabetes-related spending per beneficiary is rising significantly, then improvements may be needed in how care is delivered to patients.

## KEY FINDINGS

- ▶ Higher prevalence of many diseases drove up per-person Medicare spending by \$125 between 2007–2010 and 2011–2014. However, large decreases in spending for some chronic conditions offset these population changes. For instance, while there was a large increase in the proportion of enrollees with chronic kidney disease, overall spending for this condition decreased by enough to lower per-beneficiary spending by nearly \$28.
- ▶ Cardiovascular disease spending saw the biggest reductions, decreasing by nearly \$192 per beneficiary because of declines in both disease prevalence and spending. The proportion of enrollees with cardiovascular disease decreased from 38 percent to 35 percent between the two periods. At the same time, spending declined for nearly all types of heart conditions, except heart failure.

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***The success of Medicare payment reforms . . . relies upon providers being able to reduce spending levels for beneficiaries with a given set of health care needs.***

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- ▶ Some chronic conditions saw increases in per-beneficiary spending. A rising number of older people with diagnosed depression led to an increase in spending for that condition. In contrast, a rise in spending for skeletal and joint conditions, as well as Alzheimer's disease or dementia, was linked to increases in spending levels as opposed to disease prevalence.
- ▶ The average age of beneficiaries shifted younger after a large influx of baby boomers into Medicare starting in 2011. Spending was lower, on average, for younger beneficiaries. However, when comparing beneficiaries with similar chronic conditions and other factors, younger enrollees had higher spending levels than older enrollees.
- ▶ The percentage of Medicare enrollees with Part D prescription drug benefits increased by seven percentage points between 2007–2010 and 2011–2014. While the researchers did not look at Part D spending per se, they found that Parts A and B spending increased among beneficiaries who had Part D or any other type of prescription drug coverage.

### The Big Picture

The decrease in per-beneficiary Medicare spending may reflect a shift toward value-based approaches to delivering and paying for health care services. The Centers for Medicare and Medicaid Services (CMS) launched a number of value-based initiatives before and during the study periods. For example, lower spending on chronic kidney disease may be partly a result of Medicare's new bundled payment program for dialysis, which launched in 2011. While the study did not examine the impact of CMS's value-based initiatives, the findings suggest these programs and other efforts to change care delivery may have contributed to lower spending.

### About the Study

Researchers compared spending on Medicare Parts A and B services, which include inpatient, outpatient, and postacute care, for a 5 percent sample of Medicare fee-for-service enrollees age 65 and older between 2007–2010 and 2011–2014, the latter period a time when per-beneficiary Medicare spending growth slowed. Annual per-beneficiary spending was obtained from the Master Beneficiary Summary File. All spending was adjusted to 2007 payment levels.

## THE BOTTOM LINE

To further lower per-beneficiary Medicare spending, it may be just as important to improve the efficiency of care delivery as it is to prevent disease.

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