

What Is Medicare?

Medicare is a federal health insurance program that covers individuals 65 and older, as well as some permanently disabled individuals under 65.¹

Medicare’s Alphabet of Parts

Medicare consists of four parts (A, B, C & D), each of which covers specific services and has different sources of funding (see Figure 1).

Parts A and B: Original Medicare

Parts A and B are “Original Medicare.” Part A is hospital insurance, which provides basic coverage for hospital services and associated post-hospital services.² Individuals are entitled to Part A if they are age 65 or older, have paid payroll taxes for at least 10 years (or have a spouse who paid), and are eligible for Social Security or Railroad Retirement benefits.¹ People under the age of 65 receiving Social Security or Railroad Retirement benefits may also be entitled to Part A (after an initial two-year waiting period).¹ Those who meet these eligibility criteria do not have to pay health insurance premiums for Part A.^a

Beneficiaries entitled to Part A coverage may also voluntarily pay a monthly premium to enroll in Part B, supplementary medical insurance that covers various physician, outpatient, home health, and preventive services.^{b,2}

Part C: Medicare Advantage

As an alternative to enrolling in Original Medicare, individuals have the option of enrolling in Part C, called the Medicare Advantage program (following the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003). Individuals who choose to have Medicare Advantage enroll in private plans, approved by Medicare, which provide coverage for all of the services covered by Original Medicare.^{c,1} Medicare Advantage plans also can include coverage for additional services (such as vision and hearing) and often include prescription drug coverage.³

Part D: Prescription Drug Benefit

Medicare beneficiaries enrolled in Parts A or B also can enroll in prescription drug plans (Part D).^d These private plans provide coverage for outpatient prescription drugs. Plans vary by benefit design, premiums, cost sharing, and drugs covered.¹

Figure 1. Services Covered & Sources of Funding for Medicare Parts A Through D

Part	Services Covered	Sources of Funding
Part A (Hospital Insurance)	inpatient hospital services, skilled nursing care, hospice care, and some home health services	dedicated payroll tax
Part B (Supplementary Medical Insurance)	physician services, outpatient services, and some home health and preventive services	beneficiary premiums and general revenues
Part C (Medicare Advantage)	all Part A and Part B services, except hospice	dedicated payroll tax, beneficiary premiums, and general revenues
Part D (Prescription Drug Benefit)	outpatient prescription drugs	beneficiary premiums, general revenues, and state transfer payments

^a People over 65 who have not met the eligibility criteria may pay a premium for Part A coverage.

^b An individual with higher income pays higher Part B premiums.

^c When people enroll in Part C they must also enroll in Part B.¹ Original Medicare continues to cover hospice services and some new Medicare benefits.³

^d Individuals who choose not to enroll immediately in Parts B or D will have to pay a penalty if they enroll later.

Differences Between Medicare And Medicaid

Medicare

- Covers most North Carolinians ages 65 and older, as well as some disabled North Carolinians
- Eligibility is determined by age, work history, and disability status
- Funded by the federal government

Medicaid

- Covers specific populations of low-income North Carolinians
- Eligibility determined by income, resources, age, and health status
- Funded jointly by North Carolina and the federal government

Medicare Financing

Part A

Part A is funded through the Hospital Insurance (HI) Trust Fund. Employee and employer payroll taxes are the main sources of funding for the HI Trust Fund (see Figure 1).¹ Interest on federal securities, federal income taxes on Social Security benefits, and Part A premiums also contribute to the HI Trust Fund's revenue. Financing the HI Trust Fund is expected to be an issue in the future. Medicare Trustees predict the HI Trust Fund's expenditures will exceed its income after 2022, causing the fund to become insolvent in 2029.¹

Part B

Part B is funded through the Supplementary Medical Insurance (SMI) Trust Fund. Beneficiary

premiums and federal general revenues finance the SMI Trust Fund (see Figure 1).¹

Part C

Funding for Part C comes from both the HI Trust Fund and the SMI Trust Fund (see Figure 1).¹ Beneficiaries who enroll in Part C typically pay both a monthly Part B premium and an additional premium to their Medicare Advantage plan.⁵

Part D

Beneficiary premiums, general revenues, and state transfer payments fund Part D (see Figure 1).^{e,5} Premiums paid by beneficiaries vary by plan. In addition, beneficiaries with higher income pay higher premiums and low-income beneficiaries can receive premium subsidies.¹

Who Is In Charge Of Medicare?

The Centers for Medicare & Medicaid (CMS), within the Department of Health and Human Services (DHHS), is responsible for administering the Medicare program.⁴ The Social Security Administration provides administrative support, including determining whether individuals are entitled to Medicare. The Internal Revenue Service (IRS), within the Department of Treasury, also assists with administration of Medicare by collecting payroll taxes.⁴

Medicare By The Numbers (2017)¹

Total Enrollment: 58 million

Total Medicare Spending:
\$708 billion

Federal Medicare Spending:
\$597 billion

Percent of Total Federal Spending: 15%

Percent of GDP: 3.1%

^e State transfer payments (also called "clawback payments") are payments from states to Medicare for the

cost of drugs that states would be expected to pay for dual eligible beneficiaries, through Medicaid, that was instead paid by Medicare, through Part D.¹

Medicare In North Carolina

In 2017, almost 1,878,000 North Carolinians received hospital and supplementary medical coverage through Original Medicare or Medicare Advantage and other plans (see Figures 2 and 3). Enrollment in prescription drug plans (both stand-alone and Medicare Advantage plans) reached approximately 1,384,000.

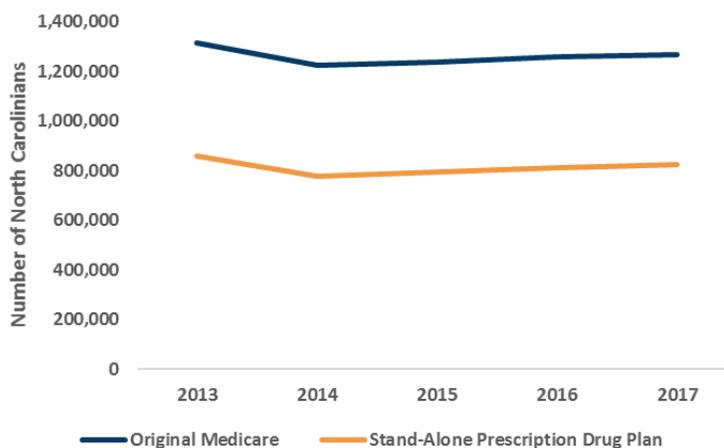
Between 2013 and 2017, enrollment in Original Medicare declined by approximately 3.6%, while enrollment in Medicare Advantage plans increased by almost 76% (see Figures 2 and 3). Enrollment in stand-alone prescription drug plans and Medicare Advantage prescription drug plans followed similar trends. Enrollment in stand-alone prescription drug plans fell slightly, while enrollment in Medicare Advantage prescription drug plans increased by about 81% (see Figures 2 and 3).

Gaps In Coverage

Although the various parts of Medicare cover many types of health care services, beneficiaries still face gaps in coverage and high out-of-pocket spending.

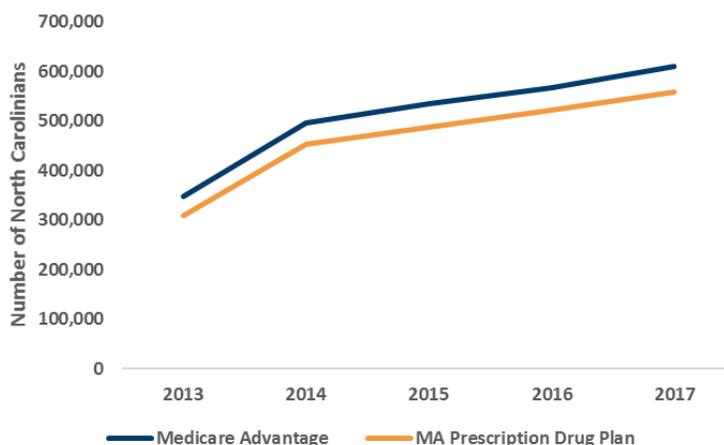
Original Medicare does not cover long-term services and supports, dental services, hearing aids, and eyeglasses.^{f,5} For beneficiaries' portion of the cost of services covered under Original Medicare, there is also no cap on annual out-of-pocket spending.¹

Figure 2. Enrollment In Original Medicare and Stand-Alone Prescription Drug Plans In NC (2013-2017)



Note: Data from Medicare Enrollment Dashboard Data File. Centers for Medicare & Medicaid Services. Available at https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/CMSProgramStatistics/Downloads/Enrollment_Dashboard_Data_File.zip. Accessed May 16, 2018.

Figure 3. Enrollment In Medicare Advantage Plans and MA Prescription Drug Plans In NC (2013-2017)



Note: Data from Medicare Enrollment Dashboard Data File. Centers for Medicare & Medicaid Services. Available at https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/CMSProgramStatistics/Downloads/Enrollment_Dashboard_Data_File.zip. Accessed May 16, 2018.

^f Medicare does cover post-acute care long-term services and supports.

Supplemental Health Insurance

Medicare beneficiaries can obtain a few different types of health insurance to pay for costs not covered by Medicare.

Health insurance coverage provided by employers is the most common type of supplemental insurance for Medicare beneficiaries.⁵ However, over time, the number of employers offering health insurance coverage has declined.

Medigap plans are another supplemental insurance option. Private insurance companies offer Medigap plans as a way to cover costs, including deductibles, coinsurance, and copayments, not covered by Medicare Parts A and B.⁵

Rather than obtain supplemental health insurance, some Medicare beneficiaries decide to enroll in Medicare Advantage plans (Part C). Medicare Advantage plans can cover services not covered by Original Medicare and have an annual catastrophic cap out-of-pocket spending.¹

Medicare Reform

The passage of the Patient Protection and Affordable Care Act (ACA) and other legislation resulted in changes to Medicare, including changes to the program's payment structure. The Medicare program now acts as an incubator for health care payment and delivery reform. The Center for Medicare and Medicaid Innovation, tests new payment and delivery models, such as accountable care organizations, and evaluates their effects on spending and quality of care.⁵

As part of the 2015 Medicare Access and CHIP Reauthorization Act (MACRA), Congress changed the method for updating Medicare payment rates, and introduced new payment models that act as alternatives to Medicare's current fee-for-service payment model.¹

Medicare Enrollment In North Carolina (2017)⁶

Original Medicare: 1,267,739

Medicare Advantage (and other health plans): 610,250

Stand-Alone Prescription Drug Plans: 826,273

Medicare Advantage Prescription Drug Plans: 557,677

Dual Eligibles

Some Medicare beneficiaries can qualify for, and receive, Medicaid benefits. These beneficiaries are called "dual-eligible beneficiaries" or "dual eligibles." Medicare beneficiaries qualify for Medicaid based on financial and need-based criteria (and are typically in poorer health and older than the rest of the Medicaid population). Certain dual eligibles, called "full-dual" beneficiaries, are eligible for full Medicaid benefits, including medically necessary long-term services and supports, behavioral health benefits, transportation, and wrap-around benefits.⁷ Other dual eligibles, called "partial-dual" beneficiaries, are eligible only for assistance with Medicare premiums and cost sharing. Dual eligibles often have high health care costs. While 21% of the Medicare population in North Carolina are dual eligibles, they account for 37% of Medicare expenditures.⁷

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