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HIGH-RISK SERIES

Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others

Medicare Program

Current State of the Medicare Program

Overview of Medicare's Challenges

We designated Medicare as a high-risk program in 1990 due to its size, complexity, and susceptibility to mismanagement and improper payments. Addressing Medicare's short-term and long-term challenges is vitally important, not only for the millions of aged and disabled individuals who depend upon the program for health care coverage, but also for the families of these individuals who might otherwise bear the cost of their health care, the taxpayers who finance the program, and the health care providers who depend upon receiving fair compensation for their services. The aging of the population, coupled with the growth in per capita health care costs, will magnify these challenges over time. Therefore, continued close attention will be necessary to ensure that Medicare is sustainable for generations to come.

Ongoing Challenges

Medicare continues to pose challenges to the federal government for many of the same reasons we designated it a high-risk program. Specifically, Medicare's substantial size and scope result in the current program having wide ranging effects on beneficiaries, the health care sector, and the overall U.S. economy. In 2016, Medicare was projected to spend \$696 billion and provide health care coverage to over 57 million beneficiaries. Medicare pays about 60 percent of the health care costs of beneficiaries enrolled in fee-for-service (FFS) who do not reside in institutions.¹ Over 1 million health care providers, contractors, and suppliers—including private health plans, physicians, hospitals, skilled nursing facilities, durable medical equipment (DME) suppliers, ambulance providers, and many others—receive payments from Medicare. Every year, Medicare pays over a billion claims submitted by these health care providers. Consequently, Medicare must be closely monitored because even relatively small changes can have large short-term effects in the aggregate. For example, Medicare provider payment rates that are set too high unnecessarily financially burden beneficiaries—through higher premiums and cost sharing—taxpayers, and the federal budget. Payment rates that are set too low may diminish providers' willingness to treat Medicare beneficiaries and adversely affect their access to appropriate, high-quality health care.

¹The remainder of these health care costs are financed by beneficiaries' direct spending, private supplements—such as Medigap—and other public sources.