

The Basics

Medicare

Medicare (Title XVIII of the Social Security Act) is the federal health insurance program administered by the Centers for Medicare and Medicaid Services for Americans aged 65 and older and for younger adults with permanent disabilities. Traditional Medicare consists of two parts: Part A, the Hospital Insurance program, and Part B, the Supplementary Medical Insurance program. Medicare beneficiaries living in certain areas may also enroll in a private health insurance plan under Part C, which began in 1997 as Medicare+Choice but is now known as the Medicare Advantage program since the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003.

Since Medicare began in 1965, the number of people served by the program has more than doubled. Total Medicare spending for its 41.7 million enrollees for fiscal year 2004 is estimated at \$296.7 billion.

WHO IS ELIGIBLE?

Individuals who receive Social Security cash benefits on the basis of age or disability are automatically entitled to Medicare Part A benefits. Part B enrollment is voluntary, but 95 percent of those eligible do enroll. Beneficiaries must pay a monthly premium (\$66.60 in 2004) for Part B coverage.

- **At age 65**, individuals become eligible if they or their spouse paid Social Security taxes for at least 40 calendar-year quarters (or about 10 years of work) or if they qualify for Railroad Retirement Benefits (see Supplemental Security Income [SSI] Electronic Booklet for more information). In 2003, 35 million beneficiaries aged 65 and older participated in Medicare.
- Individuals **under age 65** can become eligible for Medicare if they received Social Security Disability Insurance (SSDI) payments for at least 24 months. To qualify for SSDI, an applicant's medical condition must be evaluated and determined to be a total and permanent disability as defined by the Social Security Administration. In addition to workers who are disabled, Medicare also covers certain disabled widows and widowers and disabled adult children of retired, deceased, or disabled workers. In 2003, 6 million beneficiaries qualified as disabled.
- Individuals **under age 65 with end-stage renal disease** are eligible for Medicare if they or their spouse paid into the Social Security system for at least 40 quarters.

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WHAT SERVICES ARE COVERED?

Under Part A, the following services are covered:

- Inpatient hospital care up to 90 days per spell of illness and an 60 additional days per lifetime.
- Skilled nursing facility care for 100 days per spell of illness following a minimum of a three-day hospital stay.
- Intermittent home health care up to 100 visits per spell of illness following a minimum of three-day hospital stay.
- Hospice care.
- Inpatient psychiatric care for up to 190 days during a beneficiary's lifetime.

Under Part B, the following services are covered:

- Physician services (including office visits).
- Medical equipment.
- Lab and diagnostic services.
- Outpatient hospital services.
- Physical, occupational, and speech therapy.
- Outpatient mental health services.
- Home health care not preceded by a hospital stay and any visits over the 100-day Part A limit.
- Blood for transfusions (three pints per year).

Available in January 2005:

- One initial preventive physical exam (within six months of enrollment), which includes preventive services such as mammograms, pap smears, screenings for diabetes, glaucoma, prostate and colorectal cancers, and cardiovascular disease, and vaccinations for pneumonia, flu, and hepatitis B.
- Some types of orthopedic shoes and inserts for those with severe diabetes.

Available in January 2006:

- Optional coverage of outpatient prescription drugs, known as "Part D" under the MMA.

WHAT ARE THE COST-SHARING REQUIREMENTS FOR BENEFICIARIES?

Beneficiaries are responsible for significant cost-sharing requirements, including deductibles, coinsurance, and copayments. For example, in 2004, beneficiaries paid a \$876 deductible for each inpatient hospitalization covered under Part A and a \$100 annual deductible for Part B covered services.

Under Medicare Advantage, private plans must cover both Part A and B services, but the cost-sharing requirements may differ as long as the average projected liability per person is the same or smaller. Beneficiaries who enroll in Medicare Advantage may also receive some benefits and services not covered by traditional Medicare, such as those listed here.

WHAT IS NOT COVERED?

- Routine or annual physical exams after initial preventive exam.
- Hearing exams and hearing aids.
- Routine eye care and most eyeglasses.
- Dental care and dentures (in most cases).
- Routine foot care (with limited exceptions).
- Vaccinations (except those specifically identified by Medicare).
- Long-term custodial care at home or in a nursing home.
- Services obtained outside the United States.

HOW IS MEDICARE FINANCED?

Part A is financed primarily through *payroll taxes*; employees and employers each pay 1.45 percent of wage earnings (self-employed individuals pay 2.9 percent). Revenue from the payroll tax is held in the Hospital Insurance Trust Fund and is used to pay Part A benefits.

Part B is financed by *beneficiary premiums* and by *federal general revenues*. Premiums collected from beneficiaries cover about 25 percent of total annual costs for Part B services.

In 2003, about half of all Medicare revenues came from payroll taxes (51.2 percent). General revenues accounted for 29.8 percent of the total; premiums represented 9.9 percent.

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For more information:

■ Centers for Medicare and Medicaid Services, "2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance Trust and Federal Supplementary Medical Insurance Trust Funds" (March 23, 2004), www.cms.hhs.gov/publications/trusteesreport/.

■ Social Security Administration, "SSI Electronic Booklet," www.ssa.gov/pubs/11000.html.

■ Kaiser Family Foundation, www.kff.org/medicare.