What Will President Obama Say About Medicare?

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By John Goodman

When President Barack Obama addresses the nation in his State of the Union message, the big topic on the minds of many in the public policy community will be out of control entitlement spending. Will the president follow the lead of Christine Romer, the former head of his Council for Economic Advisors, and endorse the recommendations of his own bipartisan deficit commission, chaired by former Sen. Alan Simpson, R-Wyo., and former Clinton White House aide Erskine Bowles? Or will he punt?

To just about everyone who has looked at the question, reining in entitlement spending means reining in health care spending, and that means slowing the growth of Medicare. When Bowles and Simpson proposed to do just that, there were howls of protest on the left, including New York Times columnist Paul Krugman, and the right. Yet here is something few people know. The Affordable Care Act, signed into law last spring, cuts future Medicare spending by much more than what Bowles and Simpson have proposed. In fact, if the law remains as is, future Medicare spending per capita will grow no faster than the economy as a whole. The problem is that no one -- not the Medicare's chief actuary, not the Congressional Budget Office, not anyone who has looked at the numbers -- thinks this is realistic.

One way to consider what's about to happen is in terms and dollars and cents. If you turned 65 and enrolled in Medicare this year, the lifetime value of your Medicare benefits decreased by about $35,000 on the day President Obama signed the health reform bill, at least on paper. That's the present value of average expected benefits for a 65-year-old, based on forecasts by the Medicare Trustees. For younger people, the loss will be even greater.

What does that mean in terms of seniors' potential out-of-pocket spending or their access to care? Strangely, no one really knows.

But here are some basic facts -- as objectively as we can report them, from the Congressional Budget Office and the Office of the Medicare Actuaries:

- More than half the cost of health reform will be paid for by reduced spending on Medicare beneficiaries -- about $523 billion over the next 10 years.

- This spending reduction consists of a slowdown in the growth rate of core Medicare reimbursements as well as actual cuts in subsidies to Medicare Advantage plans and other programs.

- While the law creates new benefits for Medicare beneficiaries -- such as a free annual checkups and other preventive medicine for seniors -- for every $1 in new benefits they face $10 in costs.

The cuts in Medicare Advantage subsidies will be especially harsh for seniors in some areas. By 2017, thousands of people in Dallas, Houston and San Antonio will see reductions of more than $5,000 a year, according to a study by the Heritage Foundation's Robert Book and the Ethics and Public Policy Center's James Capretta.

How will the growth in Medicare spending be controlled? To achieve the necessary targets, the new law gives an Independent Payment Advisory Board the power to recommend spending cuts. Congress must either accept these cuts or propose its own plan to cut costs as much or more than the panel's proposal. If Congress fails to substitute its own plan, the board's cuts will become effective. In this way, the growth rate for Medicare spending is officially capped. Moreover, the advisory board is barred from considering just about any cost control idea other than cutting fees to doctors, hospitals and other suppliers.

What exactly does it mean to slow the growth of Medicare spending to a rate that may be only half the rate of growth of health care spending for everyone else? We can only speculate.

The Office of the Medicare Actuaries is projecting that, by the end of this decade, Medicare payments to doctors and hospitals will be below the rates paid by Medicaid. Writing in Health Affairs, Harvard health economist Joe Newhouse notes that many Medicaid enrollees currently are forced to seek care at community health centers and safety net hospitals, and speculates that senior citizens may face the same plight in the not-too-distant future.

The Medicare actuaries have also projected what these low payment rates mean for the financial health of the nation's hospitals. Overall, the actuaries predict that:

- By 2019, one in seven facilities will become unprofitable and will probably be forced to leave the Medicare program.

- That number will grow to 25 percent of all facilities by 2030 and to 40 percent by 2050.

Basically, hospitals will not be able to provide seniors with the same kind of services they provide younger patients. To survive, we may see hospitals specialize in Medicare patients and provide far fewer amenities, and, in some cases, reduced access to expensive technology such as PET scans.

Newhouse surmises that seniors who can -- those with money -- will turn to concierge doctors, paying out-of-pocket for services that Medicare won't pay for. The current law stipulates that seniors cannot pay amounts in addition to Medicare fees when Medicare is paying the bill; and doctors who accept higher fees can do so only if they leave the program.

Enormous pressure will build to ease these restrictions. Providers can only cost-shift to other patients so much. If seniors are to get the same services other patients are getting, ultimately they are going to have to add on to Medicare's fee with out-of-pocket payments of their own.

We can argue about whether all this is good public policy. But the time has come to face the reality of what health reform is going to mean for some of our most vulnerable citizens. If we judge a scenario like this one to be unrealistic or intolerable, then we need to find a better way.