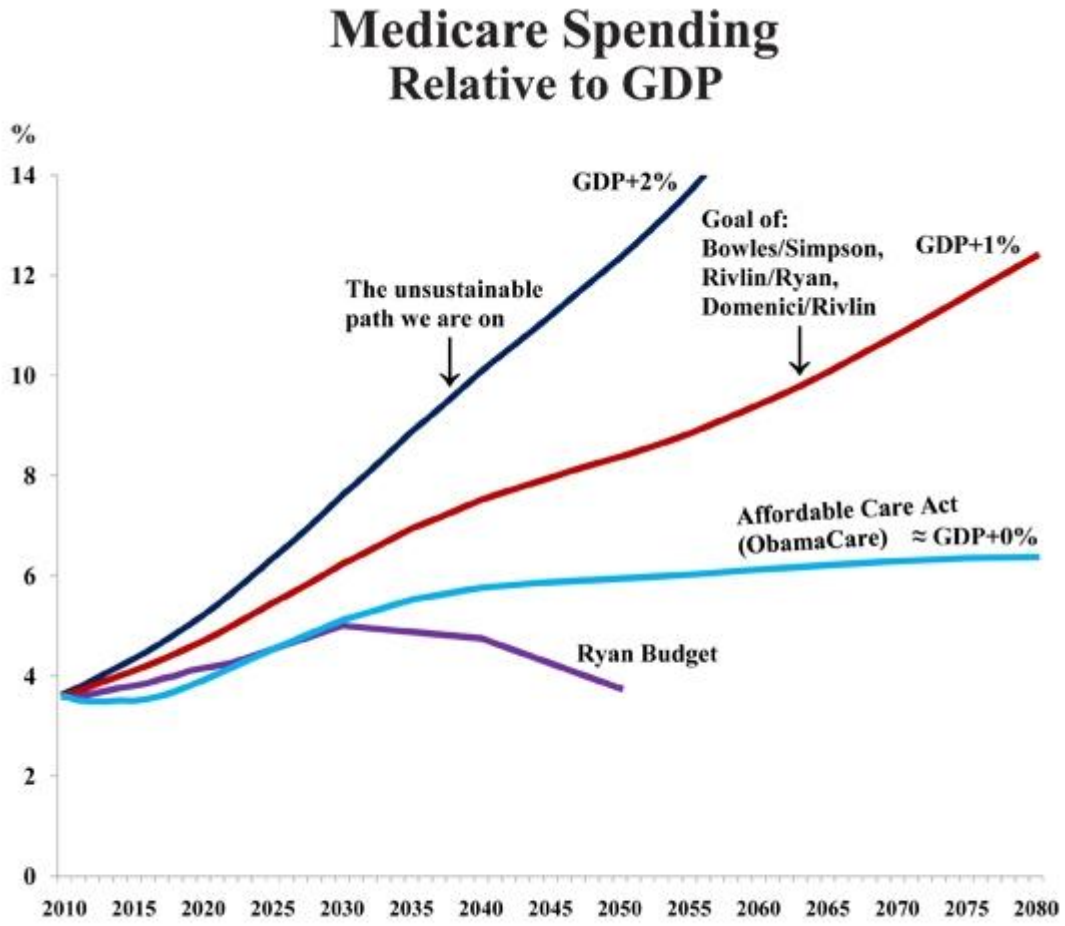
HEALTH CARE NEWS

The End of Medicare?

By: John C. Goodman **May 18, 2011**

Is this "the end of progressive government?" asks E.J. Dionne in *The Washington Post*. Do Republicans intend to break "America's promise to seniors and to the poor?" asks Jon Cohn in *The New Republic*. Will the Republicans leave "the old and the poor without health care," as Ezra Klein suggests?

There's no question in Paul Krugman's mind. The "savings will come entirely from … denying medical care to those who can't afford to top up their premiums," he says. It's "radical," "irresponsible," and "extreme," adds Dionne.



Sources: Estimate of the result of the Affordable Care Act is from table III.A2 from the 2010 Medicare Trustees Report. Growth rate assumptions begin in 2010 and are age-adjusted.

They're writing about the Medicare reform in House Budget Chairman Paul Ryan's Republican budget plan. Consider the following graphic. The top line in the graph shows projected Medicare spending based on the trend for the past four decades. Basically, the growth rate of real spending on Medicare (4 percent) has been about twice the rate of growth of real per capita income (2 percent).

You don't have to be an economist or mathematician to know this relationship is unsustainable. If you are consuming something where the price is growing faster than your income, eventually it will crowd out every other thing you are consuming. If we somehow managed to stay on the path we are on, today's teenagers in their retirement years would have nothing to eat, nothing to wear, no place to live, but they would have really great health care.

The only question is whether we are going to get off the current path in a planned, orderly way or whether we are going to let unplanned chaos do the trick.

Slow Growth Fantasy

The line second to the bottom in the graph shows the path of Medicare spending under the health care bill Congress passed last year. Whereas the path we are on is the rate of growth of GDP + 2%, under ObamaCare the growth rate will be close to the rate of growth of GDP + 0%. This means that under the new health reform law, Medicare will grow no faster than national income.

What will keep Medicare spending at such a low growth rate? The Obama administration has a long list of ideas for making the health care system more efficient—electronic medical records, pay-for-performance, evidence-based medicine, coordinated care, integrated care, managed care, etc. But since there is no evidence any of this will work, it also has a fallback strategy: price controls.

Under the legislation, Medicare payments to doctors and hospitals will fall further and further behind what all other health plans are paying. According to the Medicare Actuaries Office, Medicare payment rates will be below Medicaid's before this decade is over. This reduced spending—which will mainly consist of lower fees for doctors and hospitals—will continue into the future and will be enforced by an independent commission.

Patients Will Be Pinched

There will be a price to pay for all of this in terms of access to care. From a revenue perspective, seniors will become less desirable as patients than welfare mothers. Medicaid patients in many places today have difficulty finding doctors who will see them, and they turn to community health centers and the emergency rooms of safety-net hospitals as the next best alternative. In just a few years, the elderly and the disabled will join them.

Meanwhile, the supply of services will contract, with an estimated one in seven hospitals leaving Medicare by the end of this decade.

To give you some idea of how radical this change is, on the day Barack Obama signed the Affordable Care Act legislation, he cut Medicare's long-term, unfunded liability in half. The new Paul Ryan budget manages to top even ObamaCare by roughly tracking the Affordable Care Act spending for the next decade and then allowing Medicare spending to grow no faster than the consumer price index.

Recognizing the Truth

Other than the magnitude of the spending cuts, the two approaches are different in this respect: ObamaCare keeps paper benefit promises in place, but steadily reduces the price it will pay for them. This is how the administration can claim that the elderly have not lost any benefits. They haven't lost any "promised benefits." But if the fees Medicare will pay become so low that no doctor will provide services for those amounts, this is a distinction not worth making.

If seniors cannot get care at these artificially low prices, they will have to pay out-of-pocket for concierge doctors and other services.

The Ryan approach promises not a fixed package of benefits but a fixed sum of money for each retiree (adjusted for expected health care costs). If other Ryan reforms fail to slow the overall rate of growth of health care spending, retirees will have to add money from their own resources to be able to have the full insurance package Medicare would have provided under current law.

Both these approaches could involve substantial shifting of costs to seniors. ObamaCare's expected impact on seniors, based on the analysis of Rick Foster, Medicare's Chief Actuary, are grim. With additional reforms, a Ryan-type plan could take us to midcentury with seniors having the same type of benefits Medicare now promises—but delivered more efficiently—and with a payroll tax rate no higher than the one we have today. But this will require us to recognize the truth.

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