



## Ten Myths in the Medicare Ad Wars

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If you like public policy, this is potentially an ideal time to have a serious national discussion about the future of Medicare. What we are getting instead is something akin to school yard taunts. The best thing you can say about Mitt Romney and Medicare is that he is confused. The best thing you can say about Barack Obama is that he has trouble with the truth.

Here is my prediction. Seniors are not going to be fooled by sound bites and smears. They really are going to figure this out. And it's not going to be good for President Obama.

### Myth Number One: [Health Reform](#) Is Good For Seniors.

Millions of taxpayer dollars (that's our dollars) have been spent on [Andy Griffith television ads](#) and other advertisements trying to convince seniors that they are big winners under health reform. If the Federal Trade Commission FTC could claim jurisdiction over these ads, a lot of Obama administration folks would be headed for the hoosegow.

In fact, 40% of the cost of giving subsidized insurance to young people is being paid for by reduced spending on the elderly and the disabled. For the next 10 years, the spending reduction totals \$716 billion. That's no small change.

The Obama ads and the White House Television talking points stress new benefits for seniors: a free annual wellness exam and the eventual closing of the "donut hole" for drug coverage. What they conceal is that for every \$1 spent on new benefits, seniors will lose \$9 in other spending — which gives a whole new meaning to the term "bait and switch."

Consider people reaching the age of 65 this year. Under ObamaCare, the average amount spent on these enrollees over the remainder of their lives will fall by about [\\$36,000 at today's prices](#). That sum of money is equivalent to about three years of benefits. For 55 year olds, the spending decrease is about \$62,000 — or the equivalent of six years of benefits. For 45 year olds, the loss is more than \$105,000, or nine years of benefits.

In terms of the sheer dollars involved, the planned reduction in future Medicare payments is the equivalent of raising the eligibility age for Medicare to age 68 for today's 65 year olds, to age 71 for 55 year olds and to age 74 for 45 year olds. But rather than keep the system as is and raise the age of eligibility, the reform law instead tries to achieve equivalent savings by paying less to the providers of care.

### **Myth Number Two: Seniors Will Not Lose Any Medicare Benefits.**

To begin with, one in four Medicare beneficiaries is in a Medicare [Advantage](#) plan. These plans may be overpaid by Medicare, but they are required to “spend” their overpayments on extra benefits for the enrollees. These include extra drug coverage, dental benefits, etc. Over the next 10 years, ObamaCare will reduce spending on these plans by \$156 billion and this reduction will inevitably lead to a loss of benefits. The remainder of the cuts in Medicare spending will mainly be in the form of reduced payments to providers. Although *promised benefits* won't change under orthodox Medicare, in the very act of reducing provider fees, health reform will cause seniors to get *less care*. So while the White House claim that beneficiaries will not lose benefits may not be technically a lie, surely the FTC would pounce on a private company if it said the same things.

Remember: lower payment to providers means less access and less access means less care. One [study](#) of the Children's Health Insurance Program found that simply enrolling children in CHIP did not result in more health care. That is, they had the same number of doctor visits, etc. However, increasing the fees CHIP pays to doctors does result in more care. And presumably the converse is true as well.

According to the Medicare Office of the Actuary's [memorandum](#), in about two years, Medicare payments to doctors will fall below Medicaid rates and will fall further and further behind Medicaid with each passing year. Medicare payments to hospitals will basically match the Medicaid rate, indefinitely into the future. What will this mean? Seniors will be lined up behind welfare mothers in the attempt to find doctors who will see them and institutions that will admit them. As [Harvard University](#) health economist Joe Newhouse has [explained](#), seniors will likely have to seek care at community health centers and safety net hospitals. As the Medicare Office of the Actuary has [explained](#), in a few short years, hospitals will begin closing and senior citizens will have increasing difficulty obtaining access to care.

### **Myth Number Three: Health Reform Has Made Medicare More Solvent.**

Remember, all the health reform act does is pay doctors and hospitals less money. On paper this makes the Medicare trust fund appear to last longer because its expected expenses go down. But if you think this is a legitimate way to make Medicare more solvent, why not be even more aggressive? We could wipe out Medicare's \$43 trillion unfunded liability entirely if we reduce doctor and hospital fees all the way to zero!

The problem is: seniors would not be able to find a doctor who would see them or a hospital that would admit them.

### **Myth Number Four: ObamaCare Is Fully Paid For.**

The White House claims that ObamaCare makes a small profit — that is, that it actually reduces the deficit.

Yet last Sunday on ABC's This Week, Cokie Roberts baldly asserted that the (ObamaCare) cuts in Medicare spending will never happen. In fact she asserted this with such an air of inside-the-Beltway authority that none of the other talking heads on the program dared to challenge her. She may be right.

We've already been through this exercise with a piece of Republican legislation — the 1996 budget act. The Republicans decided to balance the budget, in part, by slowing in the growth of Medicare doctors' fees. However, in the following years, Congress repeatedly [stepped in at the last minute](#) to delay the reductions. The next point of reckoning will come in January, 2013, when a 10-year "doctor fix" will require about [\\$271 billion](#).

Think about that for a moment. Republicans and Democrats together have promised various constituencies almost \$1 trillion benefits — to be paid for by taking \$1 trillion away from Medicare providers over the next 10 years. Yet, like Cokie Roberts, no one in [Washington](#) thinks that Congress will stick to the bargain.

If it doesn't, that means that ObamaCare was never really paid for, that it will create a new entitlement that will add hundreds of billions of dollars to the deficit, and that nothing has happened to make Medicare more solvent.

By the way, neither the Congressional Budget Office nor the Office of the Medicare Actuaries thinks the cuts are sustainable. That's why both agencies have put out "[alternative](#)" [projections](#) of Medicare finances for future years — which is Washington's way of telling Congress, "We don't believe you."

#### **Myth Number Five: Health Reform Is Going to Make Medicare More Efficient.**

An alternative to cutting provider fees is to slow the growth of Medicare by making the whole system more cost effective.

The goal here really isn't a partisan issue. The Obama administration has continued a number of the pilot programs and demonstration projects started under the Bush administration. These are designed to find ways of making Medicare less costly through pay-for-performance, coordinated care, managed care, home-based care, electronic medical records, etc. The Congressional Budget Office has looked at these efforts on [three separate occasions](#) and each time has concluded that they are not working or, in the few cases where there are positive signs, the performance is lackluster.

In the absence of such efficiencies, the law basically mandates a reduction in provider fees.

#### **Myth Number Six: ObamaCare Takes \$716 Billion out of the Medicare Trust Fund; by Repealing the Act, We Can Put the Money Back.**

Governor Romney says that ObamaCare robs Medicare in order to create a new entitlement for young people. That's a fair statement. But then he goes on to say that the money came from the Medicare Trust Fund and that he wants to put it back. That's not OK. There is no money to be put back into Medicare. Both political parties have tried to "pay for" benefits by squeezing the Medicare providers.

Romney can un-squeeze the providers if the Republicans win the next election and repeal ObamaCare. But that still leaves Medicare with an unfunded liability on the order of about [\\$86 trillion](#).

### **Myth Number Seven: There Is a Medicare Trust Fund**

Both Republican and Democrats talk as though there is a real Medicare Trust Fund. There isn't. Almost all federal trust funds work the same way. They hold no real assets. They are nothing more than accounting conventions, designed to keep track of the inflow of taxes and dedicated premiums and the outflow of benefits. This is true of the Social Security Trust Fund, the Unemployment Insurance Trust Fund, the Highway Trust Fund, etc.

Like Social Security, Medicare operates on a cash flow basis. The accounting "surplus" in the trust fund cannot be used to pay even a dollar of benefits. To pay Medicare benefits, the federal government must first tax or borrow.

### **Myth Number Eight: By Privatizing the Program, Paul Ryan Would Destroy Medicare as We Know It.**

As [Tom Saving and I](#) explained the other day, there is no important difference in Medicare spending under Barack Obama's budget and under the Ryan budget — even when the estimates of the president's budget are made by his own Office of Management and Budget and the Ryan plan is projected by Ryan himself. Nor is there much difference in implementation — at least till this point.

Much has been made of the fact that Paul Ryan would create "vouchers," allowing seniors to buy private insurance. To hear the critics tell it, this would radically transform Medicare. But we already have a voucher program under Medicare. It's called Medicare Part C, or the Medicare Advantage program. One out of four beneficiaries has taken advantage of it to enroll in the same kind of health insurance plans non-seniors typically have.

President Obama has long favored reducing the payments to these plans and significant cuts are part of the Affordable Care Act (ObamaCare). However, neither the president nor any other prominent Democrat is calling for the abolition of these very popular plans. To the contrary. The administration is busily shoring them up with "[bonus payments](#)," fearful that a significant number of plans leaving the market would anger elderly voters.

Although Paul Ryan clearly favors an expansion of private Medicare plans, his budget implicitly endorses the very same cuts in payments to them that are incorporated in current law.

### **Myth Number Nine: The Ryan Plan Is the Romney Plan.**

For better or for worse, Governor Romney has declined to endorse the Ryan budget. He proposes to repeal ObamaCare along with its cuts in Medicare spending. He appears to endorse Ryan's plan to improve the way seniors enter private insurance plans, however. In place of the byzantine structure we now have, he would adopt a more efficient "competitive bidding" [approach](#).

### **Myth Number Ten: Medicare Doesn't Need Reform.**

Medicare has the same funding problem as Social Security. The promises we have made far exceed the expected premiums and dedicated taxes. Absent ObamaCare, the [unfunded liability in both programs is about \\$107 trillion](#) — about 6 1/2 times the size of the entire U.S. economy. A sensible approach to the reform of both programs is to move to a funded system in which each generation saves to pay for its own [pension](#) and [post-retirement health care benefits](#). Beyond that, we need to free the doctors, the patients and the entrepreneurs. Currently they are dealing with a bureaucratic system that gives each of them perverse incentives. When they act on those incentives they make costs higher, quality lower and access more difficult than would otherwise be the case.

How to liberate the actors in the system and leave them free to solve problems rather than create them is the subject of my new book, [Priceless: Curing the Healthcare Crisis](#).