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SAVING & GOODMAN:
Obama murdered Medicare
But the market can bring her back to life

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Illustration: Obama's Medicare by Alexander Hunter for The Washington Times

The health care reform law enacted in spring will have a devastating impact on elderly and disabled Medicare enrollees if its provisions are not substantially changed.

The law creates a new mechanism to reduce the rate of increase in Medicare payments to doctors and hospitals. As a result, Medicare payments will fall below Medicaid rates before the end of this decade, and they will fall increasingly behind the rates paid by all other payers in succeeding decades.

To appreciate what that means, consider that Medicare currently pays about 20 percent below what private insurance pays. At those rates, hospitals lose money on Medicare patients. Under the spending cuts called for in the Affordable Care Act (ACA), payments will get worse in the future.

According to estimates from the Office of the Medicare Actuary, Medicare will be paying just two-thirds of what private payers spend by the end of the decade and just one-half as much by midcentury. Moreover, as Medicare rates fall increasingly below Medicaid rates, the elderly and the disabled will be the last patients doctors will want to see - if they have time for them at all.

Compounding these problems is the fact that the ACA will create a huge rationing problem systemwide. Although the law is expected to create as many as 34 million newly insured people, all funds to create new health care providers were zeroed out of the bill. Subsequently, the administration has promised new funds to increase supply, but they will be nowhere near the increase in demand.

Additionally, Medicare spending cuts will create enormous financial stress for the nation's hospitals. According to the actuary's office, more than one in seven health care facilities will be unprofitable before the end of the decade. That number will climb to one in four by 2030 and to 40 percent by midcentury.

One way to think about these changes is to consider the reduction in spending on Medicare beneficiaries relative to the expected path prior to the legislation. Under the new health care law, the average senior on Medicare will receive $2,300 less in annual benefits within 10 years and $3,844 less after 20 years. (All numbers are measured at current prices.) By midcentury, average spending per beneficiary will be $9,413 less than it would have been.

How does the new law bring about these spending cuts when previous attempts to limit Medicare fees for doctors have been blocked by Congress for seven straight years? Answer: The new law gives an independent commission the power to make cuts, without congressional approval. Congress can override the commission, but only if it substitutes its own proposal, cutting spending by just as much. Even then, the president is free to side with the commission and veto Congress' proposal.

Under current law, it generally is illegal for Medicare beneficiaries to pay extra (out of their own pockets) to top up Medicare's payment fees. But suppose we allow Medicare beneficiaries to make up for these spending cuts with their own funds? To do so, seniors will have to spend more than 10 percent of the average Social Security check by 2017 - just to stay even. By 2030, they will need to spend one-fifth of their Social Security benefits, and today's young people will need one-half of their Social Security income for this purpose.

Fortunately, there is a better alternative. Instead of encouraging draconian price controls that will drive doctors and hospitals out of the market and leave Medicare beneficiaries with less access to care, we should allow the market to respond to patient needs.

During the Clinton administration, the majority of the members of the National Bipartisan Commission on the Future of Medicare favored a "premium support" approach. Medicare would be converted from a top-down pricing system to a bottom-up system, in which providers would compete for patients. Individuals could shop for health care plans and use their premium support amount as full or partial payment. Such a reform would bring to all parts of Medicare what competition already has done for participants in Medicare's new Part D drug program.

If the premium support amount were adjusted upward with the growth in per-capita national income, the resulting cost growth would be very similar to the path the health overhaul bill has set us on.

But unlike the price controls imposed by the ACA, premium support would not cause any providers to go out of business. Significant changes would occur in health care delivery. With Medicare participants paying directly for some of their health care, there would be an increase in the variety of delivery systems as providers competed for patients based on price and quality. A reform structured in this way would free doctors and patients from the cost-increasing, quality-reducing constraints of the current system.

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