The Ryan Budget

By: John C. Goodman **August 20, 2012**

The political left is doing the St. Vitus dance over Paul Ryan's budget. This is the proposal Ryan put forth as Chairman of the House Republican Budget Committee to deal with the nation's fiscal crisis. Democrats are labeling it as "radical," and "extremist," especially Ryan's plans to reform Medicare.

The president has called the Ryan budget "social Darwinism." Democratic National Committee Chairwoman, Debbie Wasserman Schultz, said it "would end Medicare as we know it." Not to be outdone, Republicans have launched some rhetorical hand grenades of their own. Mitt Romney told CBS News' Bob Schieffer that "there's only one president that I know of in history that robbed Medicare $716 billion to pay for a new risky program of his own that we call ObamaCare."

As an indicator of the quality of the debate that is about to ensue in this political season, one Youtube video shows a Ryan look-a-like pushing an elderly patient in a wheelchair over a cliff. A counter video shows an Obama look-a-like pushing a similar patient over a cliff.

So how much difference is there between the two approaches to Medicare? As **Tom Saving and I** explained the other day, surprisingly, very little. There is no important difference in Medicare spending under the two approaches — 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 by "privatizing" it. 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. In the original Ryan budget, all seniors would have enrolled in private plans. However, in the latest version, everyone will have the option of remaining in the traditional Medicare program, just as they do today. So regardless of how much the private plans are paid, total spending won't be controlled unless there is a way to control traditional Medicare's costs. How would Ryan do that?

One new idea in the Ryan plan is to eventually increase the age of eligibility from 65 years old to 67 years old. But since the president has signaled a willingness to do the same thing in budget negotiations with Republicans, it's hard to make too much of this.

We know how spending will be curtailed under the president's approach. Under the 2010 heath reform law, the first line of attack will be demonstration projects and pilot programs that point the way to more efficient ways of delivering care. Unfortunately, three separate **Congressional Budget Office** reports have concluded that the demonstration projects are either not working or are producing lackluster results. If efficiencies cannot be found, the fallback mechanism under the law is to limit the growth of payments to providers.

Here's the problem with that. As the most recent **Medicare Trustees' report** points out, Medicare payments to physicians are 80 percent of what private insurers pay and they will fall to 40 percent over the next two decades. Medicare hospital fees are less than 70 percent of the amounts paid by private insurers, and this percentage will also decline over time. The Medicare actuaries predict that one in seven hospitals will not survive these cuts over the next eight years and seniors will have increasing difficulty finding doctors who will see them.

This is where the advantage goes to Ryan. If something in the Democratic approach actually works, Ryan is free to adopt it as part of his approach. But he is not locked into it. In an article in ***Health Affairs***, Saving and I proposed a number of ways Medicare spending could be curtailed without squeezing doctors and hospitals. These include allowing seniors to pay the market price for their services at walk-in clinics and other retail health care outlets. We also proposed allowing seniors to manage more of their own health care dollars through Health Savings Accounts.

The Ryan approach at least has the possibility of making these cuts less painful by turning to market-based reforms rather than suppressing provider fees.