Statement of

**John C. Goodman**
President and CEO
Kellye Wright Fellow

and

**Laurence J. Kotlikoff**
Senior Fellow

National Center for Policy Analysis

# 2013 Medicare Trustees Report

Ways and Means Committee
Health Subcommittee Subcommittee
United States House of Representatives

June 20, 2013

*Dallas Headquarters*: 12770 Coit Road, Suite 800 ▪ Dallas, Texas 75251 ▪ 972-386-6272 ▪ www.ncpa.org
*Washington Office*: 601 Pennsylvania Ave. NW, Ste 900, South Bldg ▪ Washington, D.C. 20004 ▪ 202-220-3082

Chairman Brady and members of the Subcommittee, I am John Goodman, President and CEO of the National Center for Policy Analysis (NCPA). My co-author, Laurence Kotlikoff, is a senior fellow at the NCPA. We are a nonprofit, nonpartisan public policy research organization dedicated to developing and promoting private alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector. We welcome the opportunity to share our views about the recent 2013 Medicare Trustees Report.

Even before the public saw the latest report of the Medicare trustees report, the White House had already crafted a carefully orchestrated story. Medicare's finances have improved, they told us. The trust fund will last longer. The unfunded liability is lower. One of the reasons is ObamaCare. The core of the new health reform law doesn't kick in until next year, but already it's improving things for seniors. The president's new budget carries much the same message. But is any of this really true?

Here is the rest of the story. The Trustees report is based on assumptions that even the Medicare actuaries are calling "clearly unrealistic." Ditto for the president's budget. Even with these unrealistic assumptions, the future looks bleak. The unfunded liability in Medicare, the Trustees tell us, is $34 trillion over the next 75 years. Looking indefinitely into the future, the unfunded liability is $43 trillion – almost three times the size of the economy. Based on more plausible assumptions, such as the ones reflected in the "alternative" scenario produced by the Congressional Budget Office, the long term shortfall is ***over three times*** that size.

To take one example of rosy optimism in the latest administration report, the Trustees assume that next January 1, there will be a 25% decrease in the fees Medicare pays doctors. Beginning next year, every doctor in America who participates in Medicare will take a 25% pay cut. The reason has nothing to do with ObamaCare. In the Balanced Budget Act of 1997 Congress declared that Medicare physician fees would grow no faster than the economy as a whole. But Congress has on 14 occasions postponed the cuts and not allowed them to take place.

A second problem actually does stem from ObamaCare. In order to pay for the expansion of health insurance for the young, the health reform law calls for steep cuts in spending on the elderly. Whereas Medicare spending per person in real terms has been growing at about the rate of growth of real GDP per person plus 2 percentage points, the ObamaCare law calls for a growth rate of GDP plus 0.04 percent. Over the next ten years that slower growth rate produces about $716 billion in savings. But it doesn't stop there. The health reform law mandates slower growth forever!

How is this possible? There are a number of demonstration projects that were supposed to find more efficient ways of delivering care. But three separate CBO reports have found that these programs are not working. As a result, Medicare will have to resort to a fall back mechanism: more cuts in provider fees.

Were these cuts actually to be implemented, the problem of Medicare would be basically solved. If Medicare grows no faster that the economy as a whole, we can keep on doing what we have been doing without the need for any fundamental change. Yet two graphs produced by the Medicare actuaries report show how draconian the suppression of provider fees will be. Medicare fees fall below Medicaid next year and then fall further and further behind Medicaid and the private sector as the years pass by.

From a financial point of view, senior patients will become less desirable than welfare mothers. On the hospital side, the actuaries office is predicting that one in seven hospitals will completely leave the Medicare system because of these pay cuts.

This is not a newly discovered problem. At the time the Affordable Care Act was passed, Medicare's Chief Actuary, Rick Foster, said the cuts envisioned would damage access to care. Harvard health economist Joe Newhouse predicted that seniors may have to seek health care at the same places frequented by Medicaid patients today – at community health centers and the emergency rooms of safety net hospitals.

Of course if Congress caves to political pressure and restores the cuts in provider fees (as it has done consistently for the past 16 years) the unfunded liability in Medicare will be much greater -- on the order of twice what the Trustees are now showing. Meanwhile, it's not as though other areas of government can't be easily cut to accommodate health care. We've made promises we can't keep in Social Security, disability insurance and elsewhere.

All told, the fiscal gap separating the present value of all future projected federal expenditures – Social Security, Medicare, Medicaid, Obamacare, defense, gassing up Air Force 1, servicing existing debt, you name it – and all future federal taxes and other receipts is a staggering $222 trillion.

Anyone in Washington who thinks there is no need to rush into a grand bargain on the budget any time soon should think about that number. Then think again. And again and again….

We appreciate the opportunity to submit our views on this important question and we offer any assistance we might give to help solve this significant public policy problem.