From: Jacobs, Chris (RPC)
Sent: Monday, May 23, 2011 8:51 AM
To: Jacobs, Chris (RPC)
Subject: Medicare Actuary's Alternative Scenario

As previously noted, the Medicare actuary's office released their updated alternative scenario late on Friday. As the first page of the report indicates, the actuary's office prepared the report because several current law reductions in reimbursement rates – specifically, the scheduled 30 percent reduction in physician payments scheduled to take effect under the sustainable growth rate (SGR) mechanism in January 2012, and the productivity adjustments for other providers included in the health care law – are unrealistic and unsustainable: "It is reasonable to expect that Congress would find it necessary to legislatively override or otherwise modify the reductions in the future to ensure that Medicare beneficiaries continue to have access to health care services."

The report estimates that, if the productivity adjustments were to remain in effect, by 2085 "Medicare and Medicaid payment rates for inpatient hospital services would both represent roughly 33 percent of the average level for private health insurance." The report reiterates the actuary's projection from last year that the productivity adjustments could cause approximately 40 percent of providers to become unprofitable by 2050. Likewise, if the SGR reductions remain in effect, "Medicare [payment] rates would eventually fall to 27 percent of private health insurance levels by 2085 and to less than half of projected Medicaid rates." It's also worth noting that ALL of the economists with whom the actuary's office discussed these provisions "believed that the payment reductions were unsustainable," including liberal economists like David Cutler, who served as an unpaid advisor to Barack Obama's presidential campaign.

The alternative scenario assumes that the productivity adjustments included in the health care law are phased out from 2020 through 2035 – i.e., the full productivity adjustments go into effect for the first 10 years after the law's passage, and then phased out slowly so as to be completely eliminated 25 years after passage. The alternative scenario also assumes that the SGR mechanism is effectively repealed and replaced with growth in reimbursement levels pegged to medical inflation, beginning in 2012. (Prescription drug spending under Part D is unaffected in the alternative scenario.)

Results under the alternative scenario:

- The Part A Trust Fund exhaustion date is not materially changed (it is projected to occur in 2024 under both projections), but over the long term costs would increase much more rapidly – in 2080 Medicare Part A would comprise 3.92% of GDP, compared to 2.16% under the current law scenario.
- Over 75 years, Part A's unfunded obligations are nearly ***three times higher under the alternative scenario*** – $8.3 trillion compared to $3.0 trillion.
- Part B physician spending projections "would be 12.6 percent higher than under current law in 2012. The difference would grow to be 19.3 percent higher by 2019. The projected average annual expenditure growth rate over the 8 years is 5.4 percent under current law versus 7.8 percent for the MEI scenario."

- Part B spending over the long term is projected to rise at ***more than double the rate of current law projections***, comprising 4.78% of GDP in 2080, compared to only 2.43% under the current law scenario.
- Over 75 years, Part B's unfunded obligations are significantly higher under the alternative scenario – $21.0 trillion compared to $13.9 trillion under current law.
- **Overall Medicare spending would constitute 10.36% of GDP in 2080 under the alternative scenario, compared to 6.25% under current law**.

The illustrative alternative scenario illustrates first the truly dire picture of Medicare's financial state, and second how the health care law made that situation worse. Unrealistic assumptions and the double-counting of Medicare savings diverted to finance unsustainable new entitlements have only exacerbated America's current entitlement crisis. The Medicare program needs true reform, not more of Obamacare's budgetary gimmicks.

Chris Jacobs
Health Policy Analyst
Republican Policy Committee