

Mediscare: The Surprising Truth

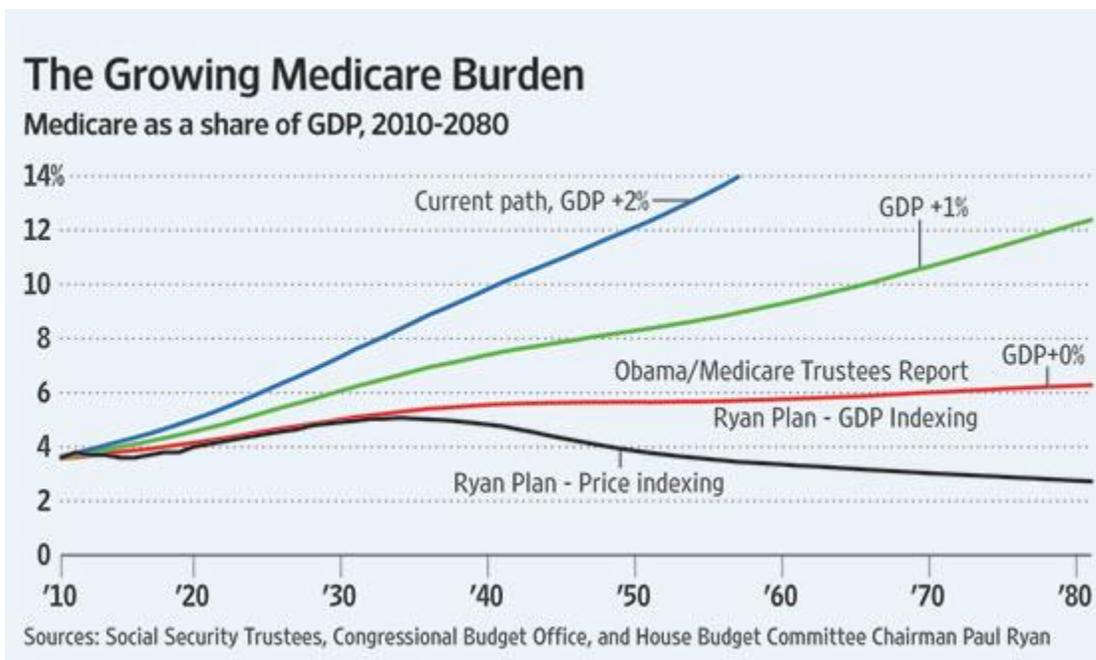
Republicans are being portrayed as Medicare Grinches, but ObamaCare already has seniors' health care slated for draconian cuts.

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The Obama administration has repeatedly claimed that the health-reform bill it passed last year improved Medicare's finances. Although you'd never know it from the current state of the Medicare debate—with the Republicans being portrayed as the Medicare Grinches—the claim is true only because ObamaCare explicitly commits to cutting health-care spending for the elderly and the disabled in future years.

Yet almost no one familiar with the numbers thinks that the planned brute-force cuts in Medicare spending are politically feasible. Last August, the Office of the Medicare Actuary predicted that Medicare will be paying doctors less than what Medicaid pays by the end of this decade and, by then, one in seven hospitals will have to leave the Medicare system.



But suppose the law is implemented just as it's written. In that case, according to the Medicare Trustees, Medicare's long-term unfunded liability fell by \$53 trillion on the day ObamaCare was signed.

But at what cost to the elderly? Consider people reaching the age of 65 this year. Under the new law, 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 law's 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.

What does this mean in terms of access to health care? No one knows for sure, but it almost certainly means that seniors will have difficulty finding doctors who will see them and hospitals who will admit them. Once admitted, they will enjoy fewer amenities such as private rooms and probably a lower quality of care as well.

Are there better ways of solving the problem? The graph nearby shows three proposals, including the new law, and compares them to the current system. For the past 40 years, real Medicare spending per capita has been growing about two percentage points faster than real gross domestic product (GDP) per capita. Since real GDP per capita grows at just about 2%, that means Medicare is growing at twice the rate of our economy—and is clearly unsustainable. If nothing is done, we'll see a doubling of the Medicare tax burden in less than 20 years.

There are currently an array of proposals to slow Medicare spending to a rate of GDP growth plus 1%. These include a proposal by President Obama's debt commission, chaired by Bill Clinton's former chief of staff, Erskine Bowles, and former Sen. Alan Simpson; one by former Clinton budget director Alice Rivlin and Rep. Paul Ryan (R., Wis.); and another by former Sen. Pete Domenici and Ms. Rivlin. Unlike the Medicare Trustees, the Congressional Budget Office (CBO) also scores ObamaCare at GDP plus 1%.

Of greater political interest is the House Republican budget proposal, sponsored by Mr. Ryan. This proposal largely matches the new law's Medicare cuts for the next 10 years and then provides new enrollees with a sum of money to apply to private insurance (premium support). Even though the CBO assumed premium support would increase with consumer prices (price indexing), the resolution that House Republicans actually voted for contains no specific escalation formula. A natural alternative is letting premium support payments grow at the annual rate of increase in per-capita GDP (GDP indexing).

In light of the heated rhetoric of recent days, it is worth noting that for everyone over the age of 55, there is no difference between the amount of money the House Republicans voted to spend

on Medicare and the amount that the Democrats who support the health-reform law voted to spend. Even for younger people, the amounts are virtually identical with GDP indexing.

The law's spending path depends on making providers pay for all the future Medicare shortfalls. But since no one can force health-care providers to show up for work, short of a health-care provider draft this reform ultimately cannot succeed. The House Republican path, on the other hand, would make a sum of money available to each senior to choose among competing private plans—much the way Medicare Advantage provides insurance today for about one out of every four Medicare beneficiaries.

That's a good starting point. But we believe that a truly successful overhaul of Medicare will require at least three additional elements.

First, there must be general system reform. You cannot credibly hold senior health-care spending way below everyone else's spending, nor can we make taxpayers pay for all the future elderly's health care. We must create a reform that reduces the rate of growth of health-care costs for everyone—young and old.

The best reform proposal for the non-elderly, interestingly, is a health plan Mr. Ryan has cosponsored with Sen. Tom Coburn (R., Okla.). It would give all Americans the same tax relief for health insurance and encourage market forces to constrain costs.

Second, if federal spending is to be contained, young people need to be able to save in tax-free accounts during their working years in order to replace the dollars they will not be getting from Medicare.

Finally, providers need to be able to repackage and reprice their services under Medicare in ways that lower costs and improve quality. Anyone who saves Medicare a dollar should be able to keep 25 cents (or some other significant amount). Once that happens, private-sector innovations will spring up overnight.

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