

**BRIEF ANALYSIS**

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## Answers for Seniors About Medicare Reform

The U.S. Congress is on the verge of enacting the most sweeping reform legislation in the 30-year history of Medicare, the federal health insurance program that covers about 37 million seniors and disabled Americans. This Brief Analysis looks at the problems facing Medicare and answers some of the questions seniors have about the program.

**Why does Medicare need reform?** Federal budget experts across the political spectrum agree that the Medicare program is in financial crisis. This one program already accounts for 11 percent of the entire federal budget, and is exploding at the unsustainable pace of 10 percent per year. Congressional leaders are aiming to reduce the growth in the program to 5 percent per year.

Without fundamental change, the future looks bleak. Medicare will go bankrupt by 2002. In 2005, just 10 years from now, Medicare alone will add about \$100 billion a year to the federal deficit in today's dollars. By 2010, it will add almost \$200 billion a year in today's dollars, almost as much as the entire federal deficit today. Under the government's own projections, by the time today's young workers retire, paying all promised benefits will require increasing the current Medicare payroll tax rate of 2.9 percent at least threefold and perhaps sixfold. Without fundamental reform, Medicare premiums the elderly pay also will have to rise by three to seven times relative to their income.

### Seniors' Views on Medicare Reform

**Do you agree or disagree that Medicare must be reformed to protect its LONG-TERM financial health and keep the promise to future generations of retirees that they will still be able to receive benefits?**

63%	<b>STRONGLY AGREE</b>
28%	<b>SOMEWHAT AGREE</b>
4%	<b>SOMEWHAT DISAGREE</b>
3%	<b>STRONGLY DISAGREE</b>

**Would you favor or oppose balancing the (federal) budget if it means that spending on Medicare and Medicaid would continue to increase, but at a slower rate?**

66%	<b>FAVOR</b>
22%	<b>OPPOSE</b>

Source: Public Opinion Strategies, November 7, 1995.

**What options would be available to seniors under the Medicare reform proposal?** The proposal shifts power and control over Medicare dollars away from the government, hospitals and doctors to the elderly themselves. Under it:

- Each senior could choose from a full range of private health plans or stay with traditional Medicare.
- Private options would include HMOs, Medical Savings Accounts (MSAs), traditional fee-for-service insurance, preferred provider networks, provider service networks (doctors and hospitals in an area organized to provide health coverage directly) and plans offered by associations such as AARP, unions or employers.

- Any senior could stay in the traditional Medicare system, forgoing the private options entirely.

**What would seniors gain from Medicare reform?** Seniors could get better benefits—and a wide choice of private plans

for the same money currently being spent by Medicare. They could choose the health plan best suited to their needs, with the doctors, hospitals, treatments and services they prefer. They could benefit financially through cash rebates from the MSAs and other private plans. Finally, they could gain control over their health care dollars and avoid the limits on access to care that are increasing under Medicare.

Thus today's retirees would not suffer from a Medicare financing crisis—and neither would future generations.

**What is a Medical Savings Account and how would the Medicare MSA work?** Medical Savings Accounts are personal, individual accounts used to pay for routine and preventive health care and are combined with high-deductible, catastrophic health insurance that pays for major expenses. Beneficiaries pay all medical bills up to the deductible with MSA and out-of-pocket funds. Catastrophic insurance pays all bills above the deductible.

Under the Medicare reform proposal, private insurance companies such as Aetna and Prudential would offer high-deductible insurance policies to seniors as an alternative to traditional Medicare. If a senior chose an MSA plan, the federal government would transfer that senior's allotment of Medicare funds to the insurer, which would deduct the cost of the catastrophic insurance and deposit the rest of the money in the senior's MSA.

Seniors choosing a health plan with, say, a \$3,000 deductible could receive an MSA deposit as high as \$2,100. Thus when seniors entered the medical marketplace, they would pay the first \$2,100 out of the MSA and the next \$900 out of pocket. The plan would pay all expenses above \$3,000.

Any senior who spent less than the \$2,100 deposit would get to keep the balance. A senior who spent, say, \$1,500 on health care during the year would be able to withdraw the remaining \$600 at the end of the year. After paying normal income taxes, seniors could spend the money as they wished.

**How would someone pay medical bills with an MSA?** One option would be a health care debit card. Seniors would present the card to a doctor or hospital at the time a service was rendered, and funds would automatically be transferred from the patient's MSA to the doctor's or hospital's account. Another way would be to pay in cash and take or mail the receipt to the financial institution managing the MSA for reimbursement.

**Would seniors receive enough money to purchase sufficient health insurance under the reform proposal?** Yes. Currently, Medicare spending per retiree is about \$4,800 per year, which actuaries say would be

sufficient to purchase private health insurance. That allotment would grow by about 40 percent over the next seven years, to \$6,700 per person in 2002. But any senior who was dissatisfied with the amount of money he would receive or with his health insurance options could remain in traditional Medicare.

**How would the Republicans' plan affect the quality of care seniors receive?** Medicare's low reimbursement rates and its outdated limitations on new services and treatments are reducing access to care and quality of care for the elderly. Many doctors refuse to see new Medicare patients, and they often cannot prescribe the most effective therapy because Medicare won't pay enough. However, the private options that would be available to seniors, especially the Medical Savings Account with catastrophic insurance, would provide seniors with more choices, better benefits and enough money to pay their medical bills. Thus the plan would help to eliminate the Medicare health care rationing that now abounds.

**Would seniors need supplemental health insurance?** Seniors who remained in traditional Medicare could buy supplemental (medigap) insurance if they chose, but it is unlikely many seniors choosing one of the private sector options would want it.

**How would the Democrats' plan for saving Medicare differ from the Republicans' plan as far as benefits are concerned?** The Democrats' plan achieves its \$89 billion in savings by reducing what it pays to providers. As a result, the rationing of care that now occurs in Medicare would increase. And while the Democrats' plan would give seniors more opportunity to switch to health maintenance organizations (HMOs) than they have today, most seniors who are sick would probably continue preferring the greater freedom of choice they have under traditional Medicare. The Democrats' plan permits no MSA option for Medicare beneficiaries.

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