



BRIEF ANALYSIS

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How Not to Save Medicare

After a rancorous year-long debate over how to solve the financial crisis facing the Medicare trust fund, Congress and the president appear to have agreed to a compromise — slowing Medicare's rate of growth by \$138 billion over six years. However, as yet they have not agreed on how to do so.

Some of the proposed changes would be of little help. Others would cause more problems than they would solve. Either way, Congress and the president seem willing to approve minor changes that will only postpone the trust fund's imminent bankruptcy.

Shift Home Health Care Costs. Democrats propose to shift home health care expenses currently reimbursed under Medicare Part A (the trust fund that primarily pays hospital bills) to Medicare Part B (the Supplemental Medical Insurance program that pays physicians' fees and outpatient service charges, and is not part of the financially failing trust fund).

Shifting expenses covered under Part A to Part B would lower Part A expenditures and delay the trust fund's financial collapse, but the move obviously would increase Part B expenditures. Since seniors' premiums equal 25 percent of Part B's total cost and taxpayers fund the remaining 75 percent out of general revenues, increasing Part B costs would increase monthly premiums for seniors and raise taxes for everyone. While this might help Congress evade the political fallout from a failing trust fund, it would do nothing to solve the program's overall financial crisis.

Cut Provider Reimbursements. According to the Clinton administration, most of the president's proposed savings come from "reducing the amount of money the government pays hospitals, health maintenance organizations, home health agencies, skilled nursing homes and, to a lesser degree, physicians who treat Medicare patients." But Congress has used this ploy to solve

Medicare's funding problems for years. As a result, Medicare pays only about 70 percent of fee-for-service rates.

Such reductions in reimbursement rates have led physicians to limit the number of Medicare patients in their practices or refuse to accept new Medicare patients. Moreover, hospitals have been accused of releasing seniors too soon in order to save money. If this process continues, the problem

of health care rationing for seniors will worsen.

Unfortunately, the commission charged with reviewing rates recently provided political cover for cutting Medicare reimbursements. It recommended that hospital reimbursements remain the same in 1998 — which amounts to a cut, since hospitals would not get their usual increase.

In addition to these cuts, the administration has proposed reducing the amount it pays health maintenance organizations (HMOs) for providing comprehensive care. Currently, Medicare reimburses HMOs 95 percent of the average annual amount Medicare spends on a senior. Under the new proposal, that reimbursement would drop to 90 percent. While there is substantial evidence that Medicare overpays HMOs for the care they provide, cutting the rate may result in decreased quality of care as

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- Shift home health care costs
- Cut provider reimbursements
- Increase premiums for higher-income seniors
- Federalize Medigap policies

And How to Save It.

- Give seniors more options
- Permit medical IRAs

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HMO managements attempt to retain current profit levels. As a result, seniors may suffer. A recent study published in the *Journal of the American Medical Association* found that “elderly and poor chronically ill patients had worse physical health outcomes in HMOs than in FFS (fee-for-service) systems.” When seniors receiving poor quality care leave their HMO program and return to traditional Medicare, the government ultimately pays more, not less.

Increase Premiums for Higher-Income Seniors. Republicans initially proposed and Democrats are now considering forcing wealthier people to pay higher Part B premiums. Though in 1995 Republicans made a good case that *all* Medicare recipients should pay more, forcing only high-income seniors to pay more turns Medicare into a means-tested welfare program.

Social Security already imposes an earnings test on income-producing seniors below age 70 and a benefits test on other income such as interest, wages and dividends. Both provisions effectively function as a tax on productive and higher-income seniors. Increasing their premiums would simply add a third tax — mocking President Johnson’s promise that Medicare would not become a welfare program.

Federalize Medigap Policies. The American Medical Association (AMA) and its member physicians are frustrated with the complicated, irrational structure of the Medicare system. To solve this problem, the AMA would like to see Medicare Part A and Part B combined. Because some 75 percent of seniors are covered by some type of private, supplemental policy that pays deductibles and copayments, at an average cost of \$1,100 per year and rising fast, the AMA also would like this coverage included in the Medicare program. The two changes would simplify seniors’ deductibles and copayments, and the \$1,600 seniors currently pay for Part B premiums

and supplemental insurance would all go to the government.

While the AMA’s desire to simplify Medicare is admirable, federalizing the partly private system is not the right approach. The problem is that seniors with supplemental policies utilize about 28 percent more services than those without. But the solution is not to transfer that coverage to the government and give lawmakers an even larger program to demagogue. The solution is to move toward greater privatization.

How Congress Should Save Medicare. In the short term, Congress should give seniors more choices — and not just for HMOs. Each senior should be free to choose from a full range of private health plans, including HMOs, Medical Savings Accounts (MSAs), traditional fee-for-service insurance, preferred provider networks, provider service networks (doctors and hospitals organized to provide health coverage directly) and plans offered by associations such as AARP, unions or employers. Any senior also should be permitted to forgo the private options and stay in the current Medicare system.

While allowing patients to choose a private-sector option is a step in the right direction, Congress should go further. Workers should be able to create their own medical IRAs by redirecting their 2.9 percent Medicare payroll tax to individual savings accounts. Each employee’s account would grow over his or her working life and would pay for health care after retirement.

Conclusion. Incremental Medicare reforms are like painkillers, masking the symptoms while the disease worsens. Some of the proposed reforms may appear to offer hope, but that hope is false. If Congress wants to save Medicare, it should abandon palliatives and provide an authentic short-term and long-term cure.

This Brief Analysis was prepared by NCPA Vice President of Domestic Policy Merrill Matthews Jr.