NATIONAL CENTER FOR POLICY ANALYSIS

Save Our Seniors by Delaying ObamaCare

Issue Brief No. 114 by John C. Goodman and Devon Herrick September 2012

Regardless of whether they are supporters or opponents of the Affordable Care Act (ACA, or ObamaCare) members of Congress will have to revisit the legislation soon to correct some serious flaws. Here is a revenue neutral approach to begin the necessary corrections: Delay the scheduled cuts in Medicare spending by five years and pay for that expense by delaying the 2014 starting date of ObamaCare by two years.

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Over the next 10 years, more than half the cost of ObamaCare ($716 billion) is to be paid for by reduced Medicare spending. The Obama administration had hoped to achieve these reductions by increased efficiency, based on the results of pilot projects and demonstration programs.

The problem: The Congressional Budget Office (CBO) has said in three consecutive reports that these projects are not working as planned and are unlikely to save money.[1] If the necessary savings do not materialize, the Independent Payment Advisory Board, a bureaucracy established by the ACA, has the power to reduce doctor and hospital fees to such an extent that access to care for the elderly and disabled will be severely impaired. Thus, it is imperative to delay the scheduled Medicare cuts.

There is also a reason to delay the starting date for offering subsidized coverage for uninsured nonseniors through state-run health insurance exchanges: almost no state is ready for the scheduled 2014 opening of the exchanges and a majority have not even tried to get ready.

Medicare: The Pilot Projects Aren't Working. Over the past two decades, Medicare has conducted demonstration projects for disease management and care coordination, and for value-based payment. Disease management and care coordination demonstrations consisted of 34 programs that were designed to save money by reducing hospitalization. The CBO found:[2]

- On average, the 34 programs had little or no effect on hospital admissions.
- In nearly every program, spending was either unchanged or increased relative to the spending that would have occurred in the absence of the program.

There were four value-based payment demonstration programs under which Medicare made bundled payments to hospitals and physicians to cover all services connected with heart bypass surgeries. The CBO found that "only one of the four…yielded significant savings for the Medicare program" and in that one Medicare spending only "declined by about 10 percent."[3]

These findings are consistent with private sector studies as well as the experience in other countries**.** The latest survey of the academic literature found that report cards on hosptial quality don't improve quality and they may do more harm than good.[4] The latest study of provider pay-for-performance initiatives found these don't work either.[5] In addition, the most recent results show no reason to be hopeful about Accountable Care Organizations established under the health reform law, and the most recent survey of all the academic literature found that electronic medical records don't improve quality or reduce costs.[6,7] Even when they work, Medicare pilot programs are often not applicable to every doctor and hospital across the country.[8] One reason: what works for one group of doctors and hospitals may not work for another.

Scholars associated with the Brookings Institution identified 10 of the best hospital regions in the country and then tried to identify common characteristics that could be replicated. There were almost none. Some regions had doctors on staff. Others paid fee-for-service. Some had electronic medical records. Others did not.[9] A separate study of physicians' practices found much the same thing.[10] There were simply not enough objective characteristics that the practices had in common to allow an independent party to set up a successful practice by copycat alone.

Medicare Fee Cuts Will Harm Seniors. When nothing else works, ObamaCare has a fall back mechanism: reduce fees paid to doctors and hospitals. Yet the Medicare actuaries tell us that squeezing the providers in this way will put one-in-seven hospitals out of business in the next eight years, as Medicare fees fall below Medicaid's.[11] As Harvard University health economist Joseph Newhouse predicts, senior citizens may be forced to seek care at community health centers and in the emergency rooms of safety net hospitals, just as Medicaid recipients do today.[12]

Consider people reaching the age of 65 this year. Under the ACA, 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.[13]

In terms of the sheer dollars involved, the planned 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.

Deficit Impact (billions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2019
CBO March 2010 Estimate											
Medicare & Medicaid Cuts	$2	-$2	-$11	-$17	-$42	-$50	-$59	-$75	-$92	-$108	-$454
Coverage Provisions	$0	$1	$0	-$2	$55	$107	$158	$180	$192	$206	$897
Proposal: Delay Medicare/Coverage											
Delay 2013 Medicare Cuts to 2018	$0	$0	$0	$17	$42	$50	$59	$75	$75	$64	$382
Delay Coverage 2 Years	$0	$0	$0	$0	-$55	-$107	-$103	-$73	-$34	-$26	-$398
Net Effect on Deficit	$0	$0	$0	$17	-$13	-$57	-$44	$2	$41	$38	-$16

Source: James C. Capretta, "An Analysis of 'Save Our Seniors,'" National Center for Policy Analysis, March 13, 2012. Available at http://www.ncpa.org/pub/an-analysis-of-save-our-seniors.

What does this mean in terms of access to health care? In most places around the country Medicaid patients already have extreme difficulty finding doctors who will see them.[14] In a few more years seniors will have even greater access problems than welfare mothers on Medicaid. Once admitted, they will certainly enjoy fewer amenities (no private room, no meal choices and no cable TV perhaps), as well as a lower quality of care. We will have a two-tiered health care system, with the elderly getting second class care.

State Exchanges Are Not Ready. Beginning in 2014, state health insurance exchanges are supposed to be up and running for individuals and families who lack access to health coverage through their job and do not qualify for Medicaid and other public programs. Up to a certain income level, the health insurance will be subsidized by the federal government. But more than one-third of states — 16 — have done almost nothing to prepare for the 2014 scheduled opening of the state-based exchanges. Another 20 states have made some progress but not enough.[15] Health insurance exchanges will require significant investments in information technology. However, cash-strapped states are hesitant to spend scarce cash until the Supreme Court has ruled on the constitutionality of the individual mandate.

A Temporary Solution. A two-year delay in implementing coverage expansion provisions would protect seniors for five years from the inevitable rationing that will occur once the cuts to Medicare provider fees take place. In the interim, Congress could consider a slew of reforms that will work — by empowering patients, freeing doctors and allowing competition in the market place.[16] The net effect of both measures on the deficit would be a small surplus of $16 billion over 10 years. [See the table.]

Bottom line: Delaying the start of these two major provisions will protect seniors, save taxpayers money and allow lawmakers time to enact health reforms that actually work.

Endnotes

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2 Nelson, "Lessons from Medicare's Demonstration Projects on Disease Management and Care Coordination."

3 Lyle Nelson, "Lessons from Medicare's Demonstration Projects on Disease Management, Care Coordination, and Value-Based Payment," Congressional Budget Office, Issue Brief, January 2102. Available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-18-12-MedicareDemoBrief.pdf.

4 David Dranove, "Quality Disclosure and Certification: Theory and Practice," *Journal of Economic Literature*, 48 (2010): 935-963; Robin M.A. Clarke, Chi-hong Tseng, Robert H. Brook and Arleen F. Brown, "Tool Used To Assess How Well Community Health Centers Function As Medical Homes May Be Flawed," *Health Affairs*, Vol. 31, Web First, February 2012. Available at http://content.healthaffairs.org/content/early/2012/02/13/hlthaff.2011.0908.full.html. Another study found data reliability affect hospital rankings. See Crystal Phend, "Hospital Rankings Stumble on Data Reliability," *MedPage Today*, January 07, 2011. Available at http://www.medpagetoday.com/PublicHealthPolicy/GeneralProfessionalIssues/24220.

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6 Amy Goldstein, "Experiment to Lower Medicare Costs Did Not Save Much Money," *Washington Post*, June 1, 2011.

7 Ashley D. Black et al., "The Impact of eHealth on the Quality and Safety of Healthcare: A Systematic Overview," *PloS Medicine*, 2011. Available at http://www.plosmedicine.org/article/info%3Adoi%2F10.1371%2Fjournal.pmed.1000387. Access to records electronically resulted in more test orders rather than less. See Danny McCormick et al., "Giving Office-Based Physicians Electronic Access To Patients' Prior Imaging And Lab Results Did Not Deter Ordering of Tests," *Health Affairs*, Vol. 31, No. 3, March 2102, pages 488-496.

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10 Mark Kelley, "Productivity Still Drives Compensation in High Performing Group Practices," *Health Affairs Blog*, December 20, 2010. Available at http://healthaffairs.org/blog/2010/12/20/productivity-still-drives-compensation-in-high-performing-group-

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[12] Joseph P. Newhouse, "Assessing Health Reform's Impact on Four Key Groups of Americans," *Health Affairs*, Vol. 29, No. 9, September 2010, pages 1,714-1,724.

[13] Thomas Saving and John Goodman, "What Health Reform Means For Medicare," *Health Affairs Blog*, May 12, 2011. Available at http://healthaffairs.org/blog/2011/05/12/what-health-reform-means-for-medicare/.

[14] Devon Herrick, "More Bad News about Medicaid," *John Goodman's Health Policy Blog*, April 19, 2011. Available at http://healthblog.ncpa.org/more-bad-news-about-medicaid/.

[15] Robert Pear, "Many States Take a Wait-and-See Approach on New Insurance Exchanges," *New York* Times, February 27, 2012. Available at http://www.nytimes.com/2012/02/27/health/policy/a-wait-and-see-approach-for-states-on-insurance-exchanges.html.

[16] Thomas Saving and John Goodman, "A Better Way to Approach Medicare's Impossible Task," *Health Affairs Blog*, November 15, 2011. Available at: http://healthaffairs.org/blog/2011/11/15/a-better-way-to-approach-medicares-impossible-task/.

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