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How Seniors Will Pay for ObamaCare

In many areas, Medicare Advantage enrollees will lose about one-third of their health insurance benefits. The cuts will finance new subsidies for younger people.

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By JOHN C. GOODMAN

Today marks the six-month anniversary of the enactment of the Patient Protection and Affordable Care Act, widely known as ObamaCare. It is a day when the first significant round of benefits kicks in, and the Obama administration is taking every opportunity to tout them to the American public.

Insurers, we are being told, will no longer be able to impose annual limits or lifetime caps on benefits, and they will face a higher standard before than can drop anyone's coverage. Children will be guaranteed access to insurance, regardless of health condition. And there is more to come in the future.

Yet the administration is strangely silent about who will bear the cost of these benefits. Search the government's own health-reform website and you'll get the idea that the whole thing is one big free lunch.

Image credit: Chad Crowe/*The* Wall Street Journal

The reality is that the cost of ObamaCare will be quite high for some people. By 2017, thousands of people in Dallas, Houston and San Antonio will be paying more than $5,000 a year in lost health-care benefits to make ObamaCare possible, according to a study published this month by Robert Book at the Heritage Foundation and James Capretta at the Ethics and Public Policy Center. For some New York City dwellers, the figure will exceed $6,000 a year. Unfortunate residents of Ascension, La., will pay more than $9,000 in lost benefits.

Who are these people? Are they the rich and the comfortable—the folks presidential candidate Barack Obama told us could afford to pay for health reform? Are they people who have excessively profited during a recession that's caused hardships for so many? Are they the ones who gained the most from the Bush tax cuts?

None of the above. According to the Book/Capretta study, the people getting hit with these very expensive tabs live in predominately low-income households. They are disproportionately minorities. They have trouble paying their own medical bills.

These are the enrollees in Medicare Advantage plans, health plans operated by private insurers (Cigna, Aetna, United Health, etc.) that provide extra benefits to the elderly and the disabled on top of standard Medicare coverage. The price they will pay for health reform will be a double whammy: less spending on Medicare coupled with reduced subsidies for their Medicare Advantage plans. In many areas, Medicare Advantage enrollees will lose about one-third or more of their health-insurance benefits.

Despite its popularity, conventional Medicare is actually a lousy health-insurance plan. It doesn't cover most drugs and it leaves beneficiaries exposed to thousands of dollars in potential out-of-pocket expenses. To protect themselves, most seniors purchase additional coverage known as "Medigap" insurance (either from an employer or purchased directly) and buy drug coverage (Medicare Part D) as well.

Many low-income seniors, however, have trouble paying three premiums to three plans, and all too often they find a decent Medigap plan unaffordable. For these retirees (about one in every four Medicare beneficiaries) Medicare Advantage plans have been a godsend. They have been able to enroll in comprehensive health plans that resemble the coverage many nonseniors have—often with no extra premium.

The hostility of the White House and many congressional Democrats toward these health plans is hard to explain. Ostensibly, they do everything President Obama says he wants to accomplish with health reform. They provide subsidized coverage to low- and moderate-income people who could otherwise not afford it. They have no pre-existing condition limitations, and some plans actually specialize in attracting and caring for patients with multiple illnesses. They provide an annual choice of plans.

On measures of quality and efficiency, they also score well. According to a study published in June by America's Health Insurance Plans (a trade group that represents Medicare Advantage insurers):

• Medicare Advantage enrollees had 33% more doctor visits (presumably representing more primary care), yet experienced 18% fewer hospital days and 10% fewer hospital admissions than conventional Medicare patients.

• They had 27% fewer emergency-room visits, 13% fewer avoidable admissions, and 42% fewer readmissions.

Other studies report similarly impressive results.

This is not to say that the Medicare Advantage programs could not be improved. Right now, almost all the enrollees are in HMOs. Very few have a health savings account plan. And there is no practical way for the chronically ill to manage their own budgets. By contrast, the Medicaid disabled—as part of pilot programs that have been in force for a decade—can hire and fire the people who provide them with services, and use any money they save to purchase other medical care.

Some complain that the government has been paying Medicare Advantage plans about 13% more than what would have been spent under conventional Medicare. This is partly explained by the influence of members of Congress who represent rural areas that would not otherwise be able to support these plans. In any event, these "overpayments" allow members to get about $825 in extra benefits each year, including lower out-of-pocket payments and better coverage for drugs, preventive care, and chronic disease care.

According to a report published in April by the administration's own Medicare Office of the Actuary, about 7.4 million people who would have been enrolled in Medicare Advantage plans in 2017 will lose their coverage completely. Those who are able to retain their coverage will lose significant benefits. These cuts are financing lavish subsidies for health insurance for young people at about the same income level as the seniors who are being penalized.

To those economic libertarians who view this as an entitlement wash, don't be misled. Many of the seniors losing their health plans will enroll in taxpayer-funded Medicaid, in addition to Medicare. The rest will be on the steps of Capitol Hill in the near future asking to have their benefits reinstated.

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