Leadership Council of Aging Organizations

ISSUE BRIEF

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PREMIUM SUPPORT: A FLAWED APPROACH TO MEDICARE REFORM

Background:

Numerous proposals have been put forth to control the growth in Medicare spending by changing it from a defined benefit package to a defined contribution program. Under such a plan, the federal government would provide a fixed contribution – a premium support payment or voucher – to be used to purchase insurance for Medicare beneficiaries.

Many premium support proposals, which vary as to whether or not traditional Medicare would remain an option alongside private plans, have been introduced. These include proposals authored by several current and past Members of Congress.[i] In addition, among the proposals presented by Erskine Bowles and Alan Simpson, the Co-Chairs of The National Commission on Fiscal Responsibility and Reform, is a cap on federal health spending. This could lead to drastic structural changes to Medicare, including replacing traditional Medicare with a premium support system.

Currently, the most notable premium support plan is the one that passed in March 2012 by the House of Representatives. Under the House Budget Resolution for FY2013, H. Con. Res. 112, introduced by House Budget Committee Chairman Paul Ryan (R-WI), people becoming eligible for Medicare beginning in 2023 would receive a voucher to purchase private health insurance or traditional Medicare through a Medicare exchange rather than enrolling in the current Medicare program. The 2012 Ryan plan fails to provide the details needed to determine how much costs would rise for Medicare beneficiaries. However, an estimate by the Congressional Budget Office (CBO) of a similar 2011 Ryan plan shows that costs to beneficiaries would increase by nearly $6,400 beyond what would otherwise be paid out-of-pocket in the first year alone.[ii]

Our Position:

The Leadership Council of Aging Organizations (LCAO) is opposed to Medicare premium support proposals that privatize Medicare and achieve savings for the federal government by reducing care and shifting costs onto Medicare beneficiaries. The Medicare voucher plan introduced by Chairman Ryan would leave seniors at the mercy of private insurance companies, make it harder for older adults to choose their own health care providers, and increase health care costs for both current and future retirees. Further, the Ryan plan does nothing to address overall health care inflation and could cause an increase in health spending.

LCAO recognizes the need to bring down the nation's deficit and reduce health care spending. With respect to Medicare, we support savings mechanisms that address system wide health care inflation and build on the cost savings and efficiencies of the Affordable Care Act. Premium support proposals, like the Ryan plan, fail to meet these standards.

Our Rationale:

Medicare is not in crisis; yet, premium support would end Medicare as we know it. Of the four parts to the Medicare program (Parts A, B, C, and D), only the Part A Hospital Insurance Trust Fund – which accounts for about one-third of Medicare spending – faces a future shortfall. Spending for Parts B, C, and D is guaranteed to remain in balance for all future years. Medicare Part A can pay fully on its claims until 2024 when its funding will cover 87% of benefits. Improvements passed in the Affordable Care Act (ACA) that improve efficiencies, reign in waste and fraud, and reduce overpayments, extended Part A Trust Fund solvency an additional eight years – from 2016 to 2024.

Projections of a Medicare Part A shortfall have varied widely over the last 40 years, for example, with the Trustees in 1970 projecting a shortfall in two years, and in 1997 projecting a shortfall in just 4 years. However, the fact is, the trust fund has never run out of money because Congress has always taken action to ensure that Medicare continues to meet its obligations. [iii] Claims that Medicare is going bankrupt are simply not true, and radical restructuring under a premium support scheme is not needed to ensure long-term solvency.

Private plans are not as successful as Medicare in controlling costs. Per capita Medicare costs have risen, on average, 1% less than private insurance each year since 1970.[iv] And recent estimates show that Medicare spending is expected to grow at rates of 3.1% per enrollee per year over the next ten years compared to 5% for private insurance plans.[v] Medicare's size and scale provide greater bargaining power with health care providers than any private insurance plan.

Reliance on private insurers will not hold costs down - Medicare Part D is not a model. While the Part D program has had lower-than-expected costs, its private plan structure has little to do this; instead, lower costs have been due to lower than expected enrollment and a general decline in the costs of drugs.[vi]

Premium support proposals do not "save" costs – they merely "shift" costs. Replacing Medicare's guaranteed benefits with a voucher program would significantly raise costs for people with Medicare due to the proposed cap on Medicare spending that is lower than the growth rate of costs in the health care sector overall. Over time, the value of the voucher would decrease, leaving Medicare beneficiaries the choice of paying higher out-of-pocket costs or being vastly underinsured, with access to fewer health care providers.[vii]

Most people with Medicare cannot afford to pay more. In 2010, half of Medicare beneficiaries – about 25 million seniors and people with disabilities – lived on incomes below $22,000, just under 200% of the federal poverty level;[viii] and Medicare households already spend on average 15 percent of their income on health care costs, three times as much as the non-Medicare population.[ix]

Vouchers may not have enough value, making it harder for beneficiaries to choose their own doctor. Under the Ryan premium support program, the amount of the voucher would be what the second-least expensive private plan or traditional Medicare agreed to accept to provide care to Medicare beneficiaries. Some beneficiaries could find that their health providers may be in a plan they could not afford, or that traditional Medicare is more expensive than the second-least-expensive plan in their area.

Premium support could result in a "death spiral" for traditional Medicare. The Ryan proposal would allow private insurance companies to tailor their plans to attract the youngest and healthiest seniors, as long as benefits are actuarially equivalent to the benefit package in traditional Medicare. This would leave traditional Medicare with older, sicker beneficiaries whose higher health costs would lead to higher premiums that people would be unable or unwilling to pay; thus, creating a Medicare death spiral.

Medicare's ability to negotiate fair and efficient provider rates would erode[x], and the movement of more beneficiaries into private plans would likely substantially reduce the pool of physicians willing to see those who remained in traditional Medicare.[xi] This, along with higher premiums for traditional Medicare, would adversely impact people age 55 and older today, including people currently enrolled in traditional Medicare, despite the assertion that nothing will change for them but only for people becoming eligible for Medicare beginning in 2023.

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[i] "Comparison of Premium Support Proposals" – Kaiser Family Foundation (July 2012)
[ii] http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/121xx/doc12128/04-05-ryan_letter.pdf
[iii] The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. "The 2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds" (April 2012)
[iv] National Health Expenditures Web Tables: Table 13 (2009) – Centers for Medicare and Medicaid Services (CMS)
[v] Holohan, J. and S. McMorrow (August 2012) "Medicare and Medicaid Spend Trends and the Deficit Debate" – *New England Journal of Medicine*
[vi] "Lower-Than-Expected Medicare Drug Costs Mostly Reflected Lower Enrollment and Slowing of Overall Drug Spending, Not Reliance on Private Plans" – Center on Budget and Policy Priorities (May 2012); Hoadley, J. (May 2012) "Medicare Part D Spending Trends: Understanding Key Drivers and the Role of Competition" – Kaiser Family Foundation
[vii] Van de Water, P. (March 2012) "Medicare in the Ryan Budget" – Center for Budget and Policy Priorities
[viii] "Medicare at a Glance" – Kaiser Family Foundation (November 2011)
[ix] "Health Care on a Budget: The Financial Burden of Health Care Spending by Medicare Households" – Kaiser Family Foundation (March 2012)
[x] Van de Water, P. (March 2012) "Medicare in the Ryan Budget" – Center for Budget and Policy Priorities
[xi] Orszag, P. (September 18, 2012) "Ryan's Proposal Would Shrink Medicare's Doctor Pool" – *Bloomberg News*