SSN SCHOLARS STRATEGY NETWORK

BASIC FACTS

THE RYAN BUDGET AND MEDICARE – HEADED THE WRONG WAY

by Larry Polivka, Florida State University

As today's older Americans look forward to retirement, they worry about whether Medicare will meet their needs – indeed, whether it will even be there. Both worries are justified. Medicare has been a godsend to senior citizens, but its protections are eroding and need to be improved. Unfortunately, many politicians in Washington want to place artificial limits on Medicare or even dismantle it altogether. It is worth clarifying who wants to do what, and what the stakes are.

The Accomplishments and Limits of Today's Medicare

Medicare was established in 1965 to help retirees pay doctors' fees and to cover part of the cost of hospital stays. Before then, older Americans often could not afford basic medical care or were forced into penury by attempts to pay for it. Since 1965, Medicare has helped improve longevity and quality of life for senior citizens; and it has also helped relieved extreme poverty. Moreover, Medicare has controlled rising health care costs more effectively than private insurance plans.

Medicare is not a complete solution. Originally, it did not cover prescription drugs, but such coverage is now offered – and is slated to improve as the new health reform law closes the "donut hole" in prescription coverage. On the other hand, Medicare fails to cover some important services – such as long-term care outside of the hospital – and beneficiaries have been paying for more of their care. The typical (middle of the pack) income of Medicare beneficiaries is only $22,800 a year, and the percentage of income spent on Medicare premiums, copayments, and deductibles has increased from 10% in the 1980s to over 15% on average today. For some low-income elders, 30% of their income goes to pay out-of-pocket expenses, which can put routine medical care beyond their reach. In sum, Medicare is largely a success yet needs improvement as more Americans – fortunately – live into old age. So why do some want to go backwards?

Budget Hawks Looking for Artificial Limits

Some self-styled "budget hawks" from both major parties want to slap automatic limits on Medicare spending. For example, the 2011 "Gang of Six" in the Senate used looming future federal budget deficits as an excuse to propose that, starting in 2020, Medicare spending should be limited by law to increasing no more than the percent of growth in the Gross Domestic Product plus 1%. This approach ignores (and does nothing to limit) rising costs in the U.S. health system as a whole. For the past forty years, rising health care costs have exceeded economic growth by an average of 2.25%. If we just slap an artificial cap on Medicare, more and more economically vulnerable seniors will be hit with unmanageable out-of-pocket costs.

Ryan Republicans Threaten to Dismantle Medicare

An even more serious threat to Medicare – and the health and economic wellbeing of older Americans – comes from a radical budget championed by GOP Congressman Paul Ryan, Chair of the House Budget Committee, voted for in 2010 and 2011 by the vast majority of House Republicans, and touted by Republican loyalists across the country. As part of an overall plan to offset big new tax cuts for the wealthy with draconian cuts in future spending on health care, education, and safety net programs, Ryan proposes to abolish the traditional Medicare guarantees to senior citizens starting ten years from now. Americans would have to wait until age 67 to apply to the revamped program, and they would either be enrolled in a less generously funded public program or given vouchers of steadily dwindling value to try to buy health insurance coverage on the private market.

The Ryan vouchers would be designed to cover part of the premiums for the purchase of a private insurance plan – and the increase in their value would be limited to no more than the increase in overall prices in the economy (as measured by the Consumer Price Index) plus one percent. Again, as with the budget hawk approach, this would keep Medicare benefits from meeting the rising cost of health care. This limitation on the value of the voucher is the main reason the Congressional Budget Office projects huge increases in out of pocket costs for beneficiaries under the Ryan plan, should it take effect in 2021. Starting the next year, voucher holders would have to pay an additional $6,000 to get the same level of coverage now guaranteed by Medicare, and by 2032 the cost of purchasing insurance in the private market would consume most of the average senior's Social Security check on top of the Ryan voucher!

Let's Not Head in the Wrong Direction

Faced with such dire projections for their plan, Ryan and his supporters claim that putting Medicare resources into the private health insurance market will reduce costs. This ignores the fact that today's Medicare program is already much better at cost control than private plans. When comparable benefits are considered, Medicare's cumulative cost increase from 1970 to the present is 19% below private insurance. A major reason is Medicare's lower administrative overhead; only 5% of Medicare funds go to bureaucracy, compared to 15-25% in private insurance and even more in many managed care plans. Why should we dismantle what works?

Ryan supporters sometimes point to the supposed cost-effectiveness of competition among private insurance companies offering the Medicare prescription drug benefit. Prescription drug costs have grown at a slower rate than originally expected. But the best available studies suggest that the two main reasons are lower than expected enrollment in the program and the overall decline in cost increases for prescription drugs throughout the U.S. health care system.

In the final analysis, the Ryan plan would not only shift huge new out-of-pocket costs onto future retirees and their families; it would mean higher health care costs for the nation as a whole. A far better approach to limiting cost increases would be to maintain the current Medicare program and wait to measure the effect of cost-control provisions included in the new Affordable Care Act.– provisions that are showing some early signs of success at limiting rising costs overall.

Medicare supporters and health reform advocates should push for continuing improvement in the current program. Benefits could be made more adequate and younger adults aged 50 to 64 years old could be allowed to buy into the system – which would be cost-effective, because middle-aged people cost less than older people. In any event, Medicare supporters must remain vigilant in opposition to any effort – such as the ill-conceived Ryan voucher plan – to turn Medicare over to the private insurers. That would put our country on a slippery slope back to the pre-Medicare period when half of all older Americans could not afford decent health care at all.