

# **MEDICARE TRUSTEES TO AMERICA: A BLEAK FUTURE WITHOUT REAL REFORM**

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Well after the enactment of the Affordable Care Act (“Obamacare”), on September 8, 2011 President Obama told Congress: “Millions of Americans rely on Medicare in their retirement. And millions more will do so in the future. But with an aging population and rising health care costs, we are spending too fast to sustain the program. And if we don’t gradually reform the system while protecting current seniors, it won’t be there when future retirees need it.” The just released 2012 Medicare Trustees report reinforces the need for serious reform. But seniors and taxpayers alike should keep three things in mind:

- 1. The short term outlook of the Hospital Insurance Trust Fund says nothing about the long-term financial challenge posed by the Medicare program.** HI Trust fund insolvency, focused only on hospital payments, is only one marker of Medicare’s fiscal health. The Trustees 2012 report says that the HI program, financed almost entirely by payroll taxes, will remain solvent until 2024, the same target date for insolvency as stated in last year’s report. Since 2008, HI expenditures have exceeded income. If the HI fund is exhausted, it cannot pay for seniors’ hospital benefits. Some higher costs for Part A have been offset by the 2% reduction in Medicare expenditures are a result of the Budget Control Act of 2011. However, the likelihood of these cuts starting in 2013 as scheduled is problematic given the history of overriding prior cuts like the Sustainable Growth Rate (SGR) which theoretically would cut the payment to Medicare doctors by 30 percent in 2013. However, Congress has always overridden the scheduled SGR reduction in the past.

But the HI Trust Fund is not the central fiscal challenge facing Medicare: it is the dramatic growth in Medicare spending, and the accumulation of total obligations incursion of a fact that it is generating massive debt. In 2011, the Medicare Actuary projected that long-term (75 year) debt at approximately \$37 trillion. The 2012 report states that in order to bring Part A into actuarial balance would require an immediate 47% increase in the payroll tax or a 26% cut in Part A benefits. The status quo is a path that is unsustainable and guarantees a Medicare crisis in the not so distant future.

- 1. The President’s Medicare agenda will not solve Medicare’s central problems.** While the Affordable Care Act will impose record –breaking payment reductions on providers, yielding \$575 billion in savings in the initial ten years of the law, this blunt strategy guarantees either access problems for seniors or failure to control costs.

Recall that the Medicare Actuary initially projected that the scheduled hundreds of billions of dollars in provider payment cuts would drive 15 percent of Medicare providers into the red, and reimbursement rates will start to dip below Medicaid levels by 2019 Later the

Actuary confirmed that Obamacare's cuts would mean that by 2030, Medicare providers would be operating at a loss, and by 2050, 40 percent. Under his newly created Independent Payment Advisory Board (IPAB), the President would ratchet down Medicare payment to medical professionals even more. Benefit guarantees on paper do not equal access to real care. Provider payment cut strategies will reduce access to care if there is a scarcity of providers able to absorb the shock of continually lower payments. If seniors want to know what this strategy looks like in practice, they should check out Medicaid: enrollees on Medicaid have a hard time finding providers to care for them and suffer as a result. The Medicare trustees believe that Medicare providers will be forced to reach "the achievement of unprecedented improvements in health care provider productivity" or Medicare reimbursements will fall far below private sector and even Medicaid.

Under the ACA, seniors face a no-win situation. If the Administration's crude strategy of payment cuts is successful, reduced access to care for seniors is virtually guaranteed. If the provider cuts are reversed, the Medicare financial condition simply worsens. In their analysis of the impact of the Affordable Care Act, both the CBO and the Medicare Actuary have formally stated that the President's payment reduction strategy is either politically difficult to sustain or unrealistic. Already, the Administration has resorted to using \$8 billion in demonstration funds to undo the scheduled payment cuts to Medicare Advantage in 2012 and 2013.

For the third year in a row, the actuaries of Medicare believe that the provider cuts in Obamacare are unsustainable. The true state of Medicare finances are more accurately reported in the alternative trustees' report. The true cost of Medicare is over 50% higher than current law at the end of the 75 year window because the productivity and SGR cuts to doctors are not sustainable either in policy or political reality.

1. **Expanding real competition is the only sound solution to Medicare's deepening problems.** Given the magnitude of the Medicare challenge, there are only three broad options available to policy-makers. First, raise general or payroll taxes to cover the rapidly rising costs of the Medicare program. This would mean levels of taxation for all Americans unlike they have ever seen, reducing disposable income for younger families, small businesses, and capital investment. The second option is to double down on failed provider payment cuts, with the certain knowledge that ever deeper provider payment cuts will make it increasingly difficult for doctors, hospitals and other medical professionals to continue to offer the level or quality of care that seniors are getting today. It also means that the practice environment for physicians will worsen, aggravating the already dangerous physician shortage that baby boomers are facing. Thirdly, the Congress can build upon the defined contribution (premium support) programs that already exist in Medicare Part D, and the Federal Employees Health Benefits Program (FEHBP).

Injecting intense competition into the financing and delivery of care, based on the experience of both programs, means that Medicare will have a better future: expanding access to plans, providers and benefits while controlling costs. In the Heritage fiscal reform proposal, *Saving The American Dream* (<http://www.savingthedream.org/about-the-plan/plan-details/SavAmerDream.pdf>), the Medicare premium support program not only would enhance the solvency of the Medicare program, but would achieve a balanced budget in ten years and maintain that balance indefinitely. In contrast, the President's proposed budget would *never* get to balance, while the Medicare program deteriorates.