Can Medicare Be Preserved While Reducing the Deficit?

Timely Analysis of Immediate Health Policy Issues

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In Summary

- With a package of reasonable Medicare policy options, policy-makers can produce substantial budgetary savings, while preserving—and in some cases, enhancing—the Medicare program for current and future beneficiaries.
- Such policies would include allowing 65- and 66-year olds to buy into Medicare, but requiring them to pay more than they do today; increasing premiums and deductibles for middle- and high-income individuals, while lowering them for those with incomes below 300 percent of the federal poverty level (FPL) and limiting out-of-pocket payments for everyone; and increasing the Medicare payroll tax by 0.5 percent.
- Together these, and other policies, could provide savings and new revenues of about $734 billion for 2013-2022. Allowing the permanent repeal of the sustainable growth rate (SGR) would still provide projected savings of about $600 billion.

Background

The debate over the role of the Medicare program in deficit and debt reduction has long been a polarizing one. Some discount accumulating evidence that the program can achieve significant spending reduction without sacrificing Medicare's essential protections. Others ignore that changes to Medicare's current benefit design and payment policies could be achieved without compromising beneficiary access and quality. The right set of policy changes could correct long-standing gaps in financial protections that Medicare beneficiaries face, promote greater efficiency within payment systems, and generate the additional revenues necessary to pay for the impending surge in the number of beneficiaries.

Starting with the Facts

Whatever the exact combination of policy changes, it's essential that people acknowledge a few key facts about Medicare, including:

1. ***Medicare's primary budget challenge is enrollment, not inefficiency.*** As baby boomers age, Medicare enrollment will grow from 49.5 million Americans in 2012 to a projected 64.3 million in 2021. Expenditures per beneficiary are expected to increase by about 3 percent annually, roughly 2 percentage points below the projected per capita growth rate for commercial health insurance.
2. ***There is no evidence that competition among private health plans, alongside or replacing Medicare would reduce costs.*** Currently, 27 percent of Medicare beneficiaries choose a private Medicare Advantage plan, but this market competition has not produced lower costs or lower program payments.
3. ***Medicare has led payment reform in the past and continues to do so.*** Since 1984, hospitals have been paid a fixed hospital discharge rate, providing an incentive for efficiency that has been adopted by many private insurers in the U.S. Payment reforms have also been extended to other Medicare services.

A Medicare Buy-in Option

One viable alternative to simply increasing the age of Medicare eligibility would allow individuals turning 65 to buy into Medicare by paying premiums for Parts A, B and D (including Medicare Advantage) until they turn 67. There would be no premiums for those with very low incomes and those with incomes between 138 and 400 percent of FPL would be eligible for income-related premium subsidies under the same schedule as in the Affordable Care Act. While it would not achieve the same level of savings as simply raising the eligibility age, this approach would mitigate many of the problems associated with raising the eligibility age and still save in the neighborhood of $90 billion.

Restructuring Beneficiary Obligations

Restructuring Medicare's current beneficiary obligations would mean increasing premiums and deductibles for middle- and high-income individuals, and lowering them for those with incomes below 300 percent of FPL. Medicare would also introduce an income-related cap on out-of-pocket spending; for those with significant health needs—a valuable protection that is currently unavailable. The program would also improve low-income subsidies for those with incomes below 300 percent of FPL. These benefit improvements would make Medicare beneficiaries less reliant on Medigap supplemental

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insurance, permitting adoption of policies to reduce the first-dollar Medigap coverage that contributes to higher Medicare spending.

Adjusting Plan and Provider Payments:

A number of other policy changes could together achieve significant savings and generate new revenue including: reforming Medicare Advantage payments, which cost more, but achieve no better quality than traditional Medicare ($30 billion); restoring drug rebates for dual eligibles and promoting greater use of generics ($154 billion); reducing teaching hospital payments and providing targeted incentives ($50 billion); eliminating excessive skilled nursing facility and home health payments ($35 billion); repricing currently overpriced services and promoting primary care in physician fee schedule ($15 billion); and reducing overpayments for clinical laboratory services ($10 billion).

Increasing the Payroll Tax by 0.5 Percent

Raising the payroll tax revenues by just 0.5 percent would yield considerable savings. The higher tax would mean that baby boomers would be contributing more to the cost of their own benefits. Because it would be an added tax on labor at a time of relatively high unemployment, we suggest implementation be delayed until 2017, which would produce about $200 billion in new revenues.

Conclusion

The proposals outlined represent savings or new revenues of about $734 billion for the Medicare program over 10 years. After allowing $138 billion for the SGR fix, $596 billion remains—although the actual savings would depend on how policies are implemented and the rate at which they are phased in.

There are dozens of other possible benefit and provider payment reform opportunities—including improving care management and coordination for dual eligibles, lowering the extra payments made to rural hospitals, reducing Medicare fraud, and reducing overly generous payment levels for various providers and suppliers of Medicare services. What the options reflected in this report illustrate is that a package of reasonable Medicare policy options can produce substantial budgetary savings, and still be consistent with preservation of Medicare's insurance protection—if the costs are shared among beneficiaries, providers and general taxpayers.

For more information, read the full report funded by the Robert Wood Johnson Foundation and prepared by researchers at the Urban Institute.