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Medicare Trustees to America: A Bleak Future Without Real Reform

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The contrast between competing visions for Medicare's future has been underscored by the 2012 Medicare trustees report. Conservatives and liberals agree that Medicare is on an unsustainable course; the debate is about changing course and securing a better future. Faced with rapidly rising Medicare costs, President Obama wants to slash payment rates to doctors, hospitals, and medical professionals while increasing bureaucratic control over care delivery. In sharp contrast, The Heritage Foundation and many others want to allow markets to work through choice and competition. This would be done through a defined-contribution approach to Medicare financing, commonly called "premium support," in which patient decision making and the professional independence of physicians are core features. The policy choice is stark.

The 2012 Medicare Trustees Report. The 2012 trustees report[1] says that Medicare Part A—the Hospital Insurance, or HI program, financed almost entirely by payroll taxes—will go insolvent starting in 2024, the same date stated in last year's report. However, the chief actuary of Medicare noted that the insolvency date would have moved forward by a year, if not for Medicare cuts put in place in 2011 that totaled almost $100 billion over the next 10 years.[2] Since 2008, Part A spending has exceeded the revenues collected from the payroll tax. The trustees also say that these cash deficits will continue well into the future. If the Part A trust fund is indeed exhausted, it cannot pay for seniors' hospital benefits. To make Part A solvent over 75 years, the payroll tax would need to immediately increase to 5.33 percent from 2.9 percent—an 84 percent increase.[3]

But the Medicare trust fund is not the central fiscal challenge facing Medicare. It is the dramatic growth in Medicare spending and the accumulation of total obligations to pay promised benefits in the future. In short, Medicare is generating massive debt. In 2012, the current law projection—the conventional approach of the Medicare trustees—puts the long-term (75-year) debt at approximately $26.9 trillion. In contrast, the Medicare actuary, basing his estimates on a more realistic assessment of the future, projected the unfunded liability at approximately $36.9 trillion in his alternative report.

So, the current law projections are a poor measure of Medicare's fiscal health. The actuaries of the alternative report recognize that some aspects of current law are probably *not* going to occur. For example, the Sustainable Growth Rate (SGR) theoretically would cut payments to Medicare doctors by 30 percent in 2013. However, Congress has overridden the implementation of SGR every year for the past decade. Thus, the Medicare actuary's alternative report assumes that Medicare cuts in SGR and Obamacare are not fully implemented and projects that Medicare spending will surpass 10 percent of GDP over the same time period, which means that Medicare spending will account for more than half of all federal tax revenue.[4] The status quo is a path that is unsustainable and guarantees a Medicare crisis in the not-so-distant future.

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Obama's Plan for Medicare. In the fall of 2011, President Obama said:

> 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.[5]

The President is correct: Medicare's future is in danger. To meet this problem, his signature health law slashes reimbursement rates to Medicare providers. There are doubtless some savings that providers could achieve through the law's various delivery reforms, beyond the payment cuts. But the levels of Medicare cuts in Obamacare are so deep that few people, including the Medicare actuary, think they are sustainable.

The Affordable Care Act (ACA) will impose record-breaking payment reductions on Medicare providers, yielding $575 billion in savings in the initial 10 years of the law. This blunt strategy, if it is successful, guarantees access problems for seniors. Indeed, the Medicare actuary projects 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 would start to dip below Medicaid levels by 2019. The actuary estimates that Obamacare's cuts would mean that by 2030, 25 percent of Medicare providers would be operating at a loss, and 40 percent would be in the red in 2050. Under his newly created Independent Payment Advisory Board (IPAB), the President would ratchet down Medicare payments to medical professionals even more.

On the one hand, provider payment cuts will compound problems for seniors if there is a scarcity of providers able to absorb the shock of continually lower Medicare payments. If seniors want to know what this strategy looks like in practice, they need look no further than Medicaid, where Medicaid enrollees have a hard time finding providers to care for them and suffer as a result.

On the other hand, the Medicare actuary believes that these cuts are likely unsustainable politically as a cost-control policy. And in the 2012 trustees report, the trustees themselves note: "For such efforts to be successful in the long range, however, providers would have to generate and sustain unprecedented levels of productivity gains—a very challenging and uncertain prospect." The Medicare actuaries agree and write that "at this time there is insufficient evidence to support an assumption that improvements in efficiency can occur of the magnitude needed to align with the statutory Medicare price updates."[6]

Under the ACA, seniors face a no-win situation. If the Administration's strategy of continual provider payment cuts is successful, reduced access to care for seniors is virtually guaranteed. However, if the provider cuts are reversed, Medicare's financial condition simply worsens.

In their original analysis of the impact of the Affordable Care Act, both the Congressional Budget Office 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 $8.3 billion in Medicare demonstration funds, otherwise used in tests of payment and delivery models, to undo the scheduled payment cuts to Medicare Advantage in 2012, 2013, and 2014.

Expanding Competition. Doubling down on failed provider payment cuts—with the certain knowledge that ever-deeper 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—is not a viable solution for Medicare's deepening problems. Competition is the only sound solution. Congress should build on the defined-contribution (premium support) programs that already exist in Medicare Part D

1. "2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and the Federal Supplemental Medical Insurance Trust Funds," April 23, 2012, http://cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2012.pdf (accessed April 25, 2012).
2. Richard Foster, Chief Actuary of Medicare, comments at the American Enterprise Institute, April 24, 2012.
3. "2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and the Federal Supplemental Medical Insurance Trust Funds."
4. Historically, the United States collects slightly more than 18 percent of GDP in taxes.
5. Address by President Barack Obama to a Joint Session of Congress, September 8, 2011, http://www.americanjobsact.com/remarks.html (accessed April 25, 2012).
6. "2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and the Federal Supplemental Medical Insurance Trust Funds."

and the Federal Employees Health Benefits Program (FEHBP). The 2012 report notes that Part D costs have grown less than expected. In part, this is because there is a greater utilization of cheaper generic drugs. Seniors are more cost-sensitive in Part D than in other programs, because providers must compete to provide Part D benefits to beneficiaries.

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: expanded senior access to plans, providers, and benefits and real cost control, not just cost-shifting. In the Heritage fiscal reform proposal, *Saving the American Dream,* the Medicare premium support program not only would enhance the solvency of the Medicare program, but also would achieve a balanced budget in 10 years and maintain that balance indefinitely.[7] In contrast, the President's proposed budget would *never* reach balance, while the Medicare program would deteriorate. He paints a bleak future, and his policies guarantee it.

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7. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, http://savingthedream.org/about-the-plan/plan-details/.