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Comparing the Republican Medicare Voucher Plan and the Medicare Prescription Drug Benefit

Claim: The Republican plan to convert Medicare into vouchers or premium support for the purchase of private insurance is like Medicare's prescription drug benefit (Part D).

> "The premium-support model would operate similar to the way the Medicare prescription-drug benefit program works today."[1]

Facts: The Republican voucher plan is different than Medicare Part D because it lacks the guarantees and protections that exist in Part D. However, it does reflect many inefficient and costly aspects of Part D.

How the Republican Voucher Plan Is Different from Part D: It Lacks Key Guarantees and Protections

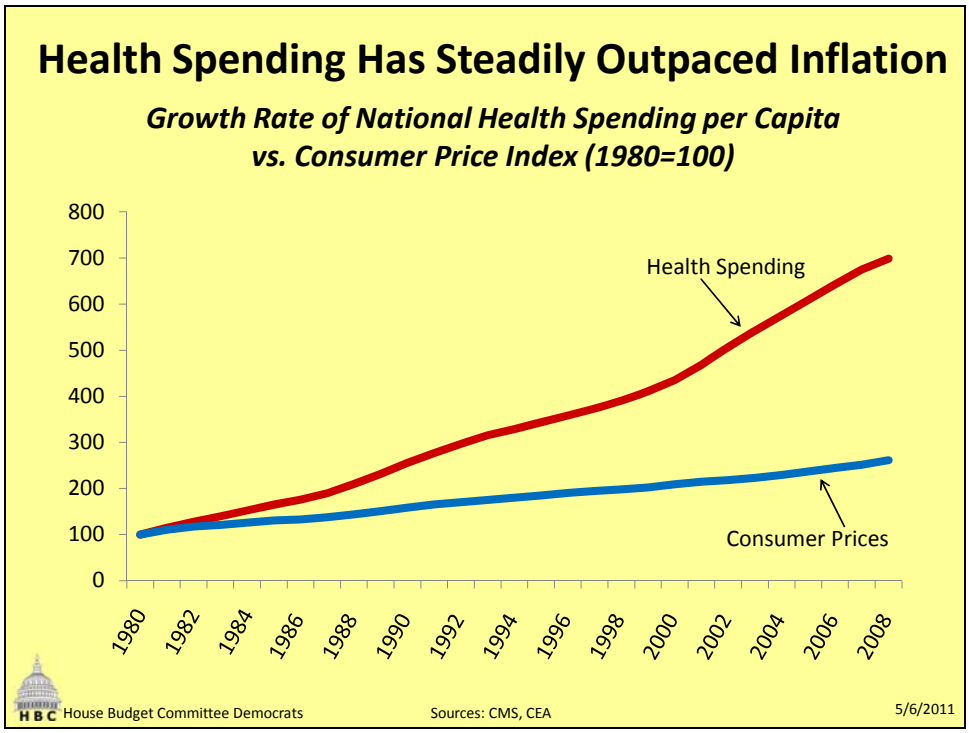
- Medicare Part D provides a guaranteed defined benefit, the voucher plan does not. The law for Part D lays out a standard drug benefit package. Private plans can offer alternative benefit designs, but the average value of an alternative must be essentially equivalent to the standard benefit.[2] The Republican voucher plan, by contrast, does not guarantee a specific set of benefits. Instead, it is a *defined contribution plan,* meaning the government will contribute a pre-determined amount toward health coverage for individuals, regardless of how much that coverage might actually cost. There is no baseline minimum set of benefits defined in the Republican plan, and no guarantee that the government payment will be sufficient to cover a specific set of benefits similar to that currently provided by Medicare.

- Medicare Part D covers a steady share of total premiums, the voucher plan does not. Under Part D, the government by law pays 75 percent of total premiums, a share that will stay stable over time. The voucher proposal would cover a declining share of

[1] *The Path to Prosperity*, April 5, 2011, p. 46. http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf

[2] For 2011, the standard Part D benefit includes a $310 deductible; coverage for 75 percent of allowable drug expenses up to a benefit limit of $2,840; and 5 percent coinsurance for drug spending above the catastrophic threshold of $4,550.

health care costs over time. Under the Republican plan, the government contribution toward health insurance premiums would grow only at the rate of inflation, even though health care costs have grown faster than inflation for decades – a trend that will almost certainly continue. This would likely mean that many seniors – whose incomes tend to be modest – would find meaningful insurance coverage becoming increasingly unaffordable as time goes on. The Congressional Budget Office's analysis of the Republican plan noted that because costs to individuals would be so high, "some individuals would therefore choose not to purchase insurance."[3] This would generate all of the problems that have made the U.S. individual insurance market such a failure– such as insurance companies trying to cherry-pick healthy customers and avoid sick ones. And many of the seniors who do buy insurance may find they can only afford inadequate coverage that leaves them exposed to substantial out-of-pocket costs.



- Medicare Part D premiums do not vary by age; the voucher plan premiums do. Under Part D, a 65-year-old and an 85-year-old who choose the same prescription drug plan will pay the same premium. The Republican voucher plan, in contrast, would allow private insurance companies to charger higher premiums to enrollees as they age. The government contribution for each individual would also be adjusted for age, but the available materials on the Republican plan provide no assurances that the private plans and the government would approach this issue in a consistent way.

[3] Congressional Budget Office, letter to the Honorable Paul Ryan, April 5, 2011.

How the Republican Voucher Plan Is Like Part D: It Mirrors Inefficiencies that Raise Costs for Taxpayers and Beneficiaries

- Private plans have much higher administrative costs than traditional Medicare. A 2007 staff investigation by the House Committee on Oversight and Government Reform found that administrative expenses accounted for nearly 10 percent of the total cost of Part D in 2007 – more than five times higher than the rate of administrative costs in the traditional Medicare program (1.7 percent).[4] A similar pattern holds for health insurance overall – private plans have higher administrative costs than Medicare.[5]

- Private plans are less effective at obtaining price discounts. Part D private plans pay significantly more than other government purchasers for drugs. The average drug discounts obtained by Part D plans reduce costs by less than 10 percent. The Medicaid program, by contrast, obtains discounts that are over three times larger.[6] If the Part D plans were able to obtain discounts or rebates as large as those obtained by Medicaid, Medicare beneficiaries and taxpayers would save billions of dollars a year. The Republican plan to replace all of Medicare with private health insurance would mean higher prices for other types of care. The combination of Medicare's lower administrative costs and lower payment rates to providers mean that for a typical 65-year-old in Medicare today, total health care spending is 11 percent less than it would be if the same package of benefits were purchased from a private insurer.[7] That gap grows over time. By 2022 – the first year the Republican voucher plan would take effect – total health spending for a typical 65-year-old will cost at least 28 percent less under Medicare than under a comparable private plan.[8]

- Private plans lack leverage to drive system-wide reform. Exclusive reliance on private plans for the Medicare drug benefit meant forfeiting opportunities to use Medicare's market power to leverage better prices. On a broader scale, replacing all of Medicare with private plans would mean losing Medicare's ability to drive reform and promote efficiency improvements throughout the U.S. health care system. For example, Medicare led the way in reforming payment policy for inpatient hospital care in the 1980s, by shifting from cost-based reimbursement to a prospective payment system that rewards the efficient provision of care. Private payers soon followed Medicare's lead. Medicare, under Congressional direction, continues to be at the forefront of developing innovative payment policies to provide incentives for high-value, high quality care. The Affordable Care Act of 2010 continues this proud tradition – for example, by giving doctors and hospitals incentives to work together to coordinate

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[4] *Private Medicare Drug Plans: High Expenses and Low Rebates Increase the Costs of Medicare Drug Coverage,* Committee on Oversight and Government Reform, U.S. House of Representatives, October 2007.

[5] Congressional Budget Office, 2011.

[6] Committee on Oversight and Government Reform, 2007

[7] Congressional Budget Office, 2011.

[8] *Ibid*.

care; and by giving hospitals incentives to give patients the right care the first time, so that patients don't develop preventable problems and have to return to the hospital. These reforms are good for the federal budget and good for people's health. All of this would be lost under the Republican voucher plan.

- Beneficiaries face barriers to switching plans, diluting the effectiveness of competition. While competition works well for simple things like buying soap, there is ample evidence that reality often does not match the predictions of market theory, especially with something as complex as health care. According to the non-partisan Medicare Payment Advisory Commission (MedPAC), each year only about 6 percent of Part D enrollees voluntarily switch plans. Enrollees often fail to switch plans even when it would be to their advantage to do so, "because they want to avoid the difficulties involved in comparing dozens of plan benefits that differ on many dimensions, such as cost-sharing requirements, formularies, utilization management, and quality of services," according to MedPAC. "These barriers to switching thwart the program's intended goal of competition. That is, if beneficiaries are unwilling to switch, even when faced with a significant premium increase, sponsors have less of an incentive to compete on premiums and control drug spending."[9] If barriers to effective competition exist in the market for prescription drug plans, which covers just one component of health care, they almost certainly would be compounded under the Republican voucher plan.

[9] *Report to the Congress: Medicare Payment Policy*, Medicare Payment Advisory Commission, March 2011, p. 319.