



U.S. HOUSE OF REPRESENTATIVES

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GOP Budget Ends the Medicare Guarantee

Budget Ends Medicare As We Know It; Puts Traditional Medicare Into A Death Spiral

The Republican budget promises to convert Medicare to a voucher system. Republicans have included a Medicare voucher plan in their budget for the past several years, but the details vary from year to year. This year's budget was vague about the specifics. Available information indicates the budget's plan is similar to an illustrative option included in a September 2013 CBO report, except that the budget also assumes – like last year's budget – that total spending growth per Medicare beneficiary is capped at growth in GDP plus 0.5 percent.

- **Defined Medicare benefit is replaced with defined contribution.** Everyone becoming eligible for Medicare in 2024 or later would receive a fixed payment, or voucher, toward the purchase of either a private health plan or traditional Medicare. The payment would be set at the local average bid of participating health plans, with traditional Medicare treated as a plan bid.
- **Higher premiums charged for traditional Medicare.** CBO projects the annual Part B premium will be \$1,600 in 2020 under current law. If the Republican plan were in effect in 2020, the average Part B premium charged in that year across the country for the traditional Medicare option would be 50 percent higher, or \$2,400 – an average increase of \$800 to use traditional Medicare. A lot of beneficiaries would be deterred by this and would choose private plans instead, especially in areas of the country where the differential is even larger. Those who end up staying in traditional Medicare would pay 25 percent more, on average. Seniors in poor health tend to prefer traditional Medicare to private plans, meaning the sick and the frail would end up paying a surcharge to use the option they think best meets their needs.
- **Traditional Medicare will go into an insurance “death spiral.”** Private plans in Medicare already employ strategies to “cherry pick” the healthiest enrollees. Such tendencies would get worse under premium support. The sick and frail seniors remaining in what's left of Medicare under the GOP plan will face the risk of skyrocketing costs and less access to care. This will send the traditional program into an insurance death spiral as the pool of patients left in Medicare becomes sicker and more costly over time.
- **Reducing long-term Medicare spending through vouchers means shifting costs to seniors.** Republicans preach doom and gloom about Medicare's finances and claim that their plan is the only way to “save” Medicare. But they provide no evidence that simply converting Medicare into a voucher program would improve Medicare's long-term financing. The CBO report on this type of plan says the magnitude of future savings from slowing growth through the premium support mechanism itself is “highly uncertain,” particularly over the long term. That is why this budget, just like previous ones, can only get significant long-term savings by capping the growth of the voucher payment over time at a level less than the expected growth in health care costs – essentially breaking the guarantee that a senior's Medicare

benefit would keep pace with costs over time. If health costs grow at a faster rate than the cap, future beneficiaries would either have to pay thousands of dollars more out of their own pockets on premiums for a plan that provides the current Medicare benefit package, or else buy plans that may leave them significantly underinsured. There is no evidence that seniors would be able to keep their costs down without skimping on necessary medical care. In 2013, half of Medicare beneficiaries had incomes of less than \$23,500.

- **Private plans' record with seniors has been unimpressive.** There is no reason to believe that the Republican budget's plan for unfettered market competition will result in affordable, acceptable coverage for seniors. Prior to the creation of Medicare in 1965, almost half of all American senior citizens had no health insurance. While health costs were rising steadily, the market did not respond to the cost constraints faced by seniors by creating an affordable insurance product that provided them adequate protection. Insurers did not rush to cover seniors.

Since 1965, we have experimented with private competition within Medicare, through the Medicare Advantage program and its predecessors. But in many areas of the country, private plans simply would not compete unless Medicare paid them more. Private plans were paid 13 percent more than traditional Medicare in 2010, before the Affordable Care Act reformed these payments. The cost of overpayments to private plans – about \$1,000 per Medicare Advantage beneficiary – was passed on to taxpayers and the three-quarters of beneficiaries with traditional Medicare, who paid higher Part B premiums to subsidize private plans. Recent research indicates that a policy of increasing payments to plans mostly served to enrich advertising firms and insurance companies; very little of the extra money reached consumers in the form of better benefits.

Converting Medicare into a voucher system will have drastic negative effects on our seniors. We cannot solve our budget challenge simply by unloading costs and financial risks onto elderly and disabled individuals.