Center for American Progress

Medicare Matters

There's No Easy Medicare-Only Fix for Health Costs

Judy Feder and Marilyn Moon

Health care is staying front and center even as the Obama administration and Congress turn their attention from the economic recovery package to the federal budget. Medicare and Medicaid account for about one-fifth of the federal budget. And growth in both programs was outpacing growth in federal revenues and in the overall economy even before the economy plummeted. This should be no surprise. Rising health care costs are imposing the same burdens on the federal government—really, taxpayers—that American families and businesses are facing.

There is widespread consensus among policymakers that our economic stability and the future of our health care system depend on greater fiscal responsibility and slower health care cost growth. But if the federal government misinterprets "fiscal responsibility" as simply cutting Medicare spending, the result will not be lower costs—it will be inadequate protection for Medicare's older and disabled beneficiaries or cost shifting to these vulnerable groups.

Taking sound action will require addressing what is driving Medicare costs. It's true that Medicare's population is growing—and that it will take a big jump when the baby boom generation begins to turn 65 in 2011—but the bulk of Medicare cost growth comes from increases in costs per beneficiary, rather than from the growing number of beneficiaries. In other words, it's the cost of care—not the numbers of people receiving it—that is creating Medicare's spending problem.

What's more, when it comes to the cost of care, it is not that Medicare is especially wasteful or profligate—although its practices could certainly become more efficient. Medicare's spending per person has actually grown more slowly since 1997 than private health insurance for the working-age population. Medicare and private health insurers buy health care in the same marketplace. We can only effectively address the budget problem posed by Medicare by slowing cost growth in the entire market—for everybody.

Despite a wealth of evidence to the contrary, claims are sometimes made that Medicare is too generous, that its protections should be cut back, and that its beneficiaries should bear

most of its costs. Lest policymakers fall into that trap, let's remember what Medicare does and why its protections are so important.

Medicare covers hospital and physician visits, prescription drugs, and other professional care for Americans who are eligible for Social Security: those who are 65 or older and people who receive disability benefits after a two-year waiting period. Yet Medicare's coverage leaves significant "holes" in its protections.

Medicare, like employer-sponsored health insurance, requires beneficiaries to pay a share of their medical bills. That cost sharing is far higher for hospital and prescription drug coverage under Medicare than it is under private insurance plans for workers. Further, unlike employer-sponsored coverage, which typically sets a limit on how much beneficiaries spend each year through cost sharing, Medicare lacks any catastrophic protection. Medicare also provides limited protection for those who need care in nursing homes or personal care at home—that is, for long-term care.

Medicare beneficiaries face substantial health care expenses: on Medicare premiums for physician and other professional services, on premiums for private insurance to fill in Medicare's gaps, on cost sharing for Medicare-covered services, and for services such as long-term care that Medicare does not cover.

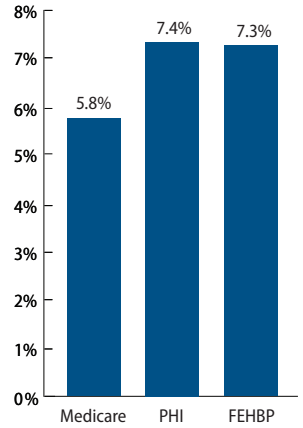
Given Medicare beneficiaries' usually low incomes and high health care needs, these expenditures pose considerable burdens. Almost half of all Medicare beneficiaries have incomes below twice the federal poverty level, and more than a third have three or more chronic conditions.

Out-of-pocket spending on health care absorbs a substantial share of Medicare beneficiaries' incomes. The Kaiser Family Foundation analyzed the most up-to-date data and found that, "[individual] Medicare beneficiaries' median out-of-pocket spending as a share of income increased from 11.9 percent in 1997 to 16.1 percent in 2005, including a statistically significant increase from 15.6 percent in 2004. In 2005, the 25 percent of beneficiaries with the largest burden spent nearly one-third or more (30.7 percent) of their income on health care."

The researchers concluded that Medicare's current structure and continually rising health care costs mean that, "all but the highest-income beneficiaries" face problems with affording health care. And although drug coverage was added in 2006, its high cost sharing does little to reduce out-of-pocket spending for Medicare beneficiaries.

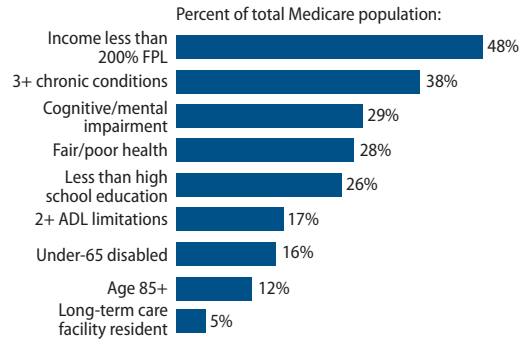
Yet there are always proposals to cut, rather than expand, Medicare's protections. To address just a few:

Annual per enrollee growth in Medicare spending and private health insurance and FEHBP plan premiums for common benefits, 1985-2002



Source: Katharine Levit et. al., "Health Spending Rebound Continues in 2002," *Health Affairs*, Jan-Feb 2004

Characteristics of the Medicare population, 2006



Source: http://facts.kff.org/chart.aspx?ch=377

- **Privatizing Medicare**, as some have called it, would move Medicare from a benefit offered by public insurance to a contribution toward private insurance. Given evidence that the private sector is no more efficient at providing care than traditional Medicare—and indeed even less so—such a shift would only generate substantial Medicare savings if its "contributions" toward private insurance failed to grow with the costs of care. The result would be increased burdens on beneficiaries—not lower health care costs. This would merely be a different way to shift costs back to vulnerable populations.

- **Raising the age of eligibility for Medicare** would provide little benefit to Medicare's financing and cause significant harm to its beneficiaries. Medicare beneficiaries age 65 to 67 are the least likely to be sick and therefore the least expensive. Such a change would also likely increase the number of people who lack insurance, particularly in an environment where employers are cutting back on retiree benefits.

- **Cutting Medicare's benefits** would increase out-of-pocket spending that already poses substantial burdens on Medicare households. According to a new study by the Kaiser Family Foundation, health care spending in 2006 absorbed three times as much household spending for Medicare households than for working-age households—14.1 percent and 4.3 percent, respectively.

- **Charging more to higher-income Medicare beneficiaries.** Given the practices of the nongroup insurance market, excluding even the highest-income older people from Medicare eligibility would expose them to the risk of being uninsured. Although some at the top are able to pay higher premiums, the Medicare program already charges greater premiums for those making $80,000 a year or more. Generating more significant savings for Medicare would mean raising premiums for moderate-income elderly whose burdens are already substantial.

The Congressional Budget Office found that if the $80,000 income threshold was lowered to $64,000, Medicare would save only $1.4 billion in 2009—or less than 0.3 percent of total Medicare spending. The Kaiser Family Foundation study cited above found that only about 15 percent of beneficiaries had per capita incomes above $41,000 per year. There are too few seniors and persons with disabilities who make enough in income to find large savings through this mechanism.

Policymakers are rightly concerned with fiscal responsibility and are also rightly concerned about rising Medicare costs. But good leadership requires that they avoid any semblance of an easy, Medicare-only fix. The right way to control Medicare costs is to have Medicare lead the way in system-wide health reform that makes the provision of health care more efficient and effective for everyone.

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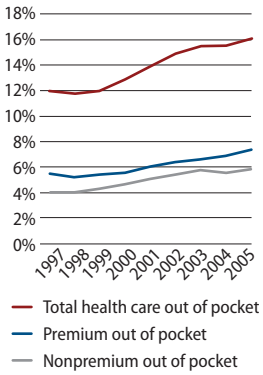
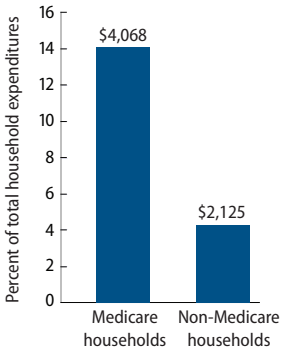
Median out-of-pocket health care spending as a percentage of income among Medicare beneficiaries, 1997-2005



Source: http://facts.kff.org/chart.aspx?ch=381

Health care costs as a share of total household expenditures by Medicare and non-Medicare households, 2006



Source: http://kff.org/medicare/upload/7859.pdf