



Adding Up the Numbers

Understanding Medicare Savings in the Affordable Care Act

By Mark Merlis October 2010

Introduction and summary

The comprehensive health care overhaul passed by Congress as the Affordable Care Act and then amended by the Reconciliation Act of 2010 includes changes in the Medicare program that are expected to reduce the federal deficit by \$525 billion between now and 2019. Of this amount, about \$424 billion comes from changes in coverage and payment rules. This includes limits on annual rate increases for hospitals and other providers that furnish health care to our nation's 46 million elderly and disabled Medicare beneficiaries. The Affordable Care Act, or ACA, also includes cuts in payments to Medicare Advantage plans, private organizations that serve beneficiaries as an alternative to the original Medicare program.

The remaining \$100 billion comes from new revenue sources for the Medicare trust funds.¹ These include changes in the Medicare payroll taxes paid by high-income earners and new fees for drug manufacturers and importers.

Skeptics of ACA say that cuts in provider payments are too sharp and could over the long term lead to reduced access or quality of care for Medicare patients. In their view, Congress may eventually face pressure to rescind the cuts, causing much of the budgetary savings to evaporate. In contrast, those more optimistic about the new law contend there is enormous room for health care providers to improve the efficiency of medical care and that the Affordable Care Act will promote systemwide structural reforms that will generate even greater savings for Medicare and other payers than the official projections indicate.

The Doing What Works project at the Center for American Progress promotes government policies that deliver cost savings and more efficient use of taxpayer dollars, both of which the Affordable Care Act promises to deliver. That mission requires an honest appraisal of the reliability of data used to justify policies. This paper attempts such an appraisal, and is one in a series of reports that will track the implementation of monumental health care reform as it rolls out around the country.

This paper examines the total amount of Medicare savings from the Affordable Care Act by considering different ways of looking at the numbers and comparing ACA spending reductions to those in other major Medicare legislation, such as the Balanced Budget Act of 1997 and two Omnibus Budget Reconciliation Acts in the early 1990s. It then looks at the debate over whether the spending cuts are real and sustainable over time.

As this paper will demonstrate, there is good reason to believe that the new health care law significantly improves the medium-term fiscal position of Medicare, and points the way toward more significant changes in our health care system over the long term—changes that will improve the efficiency and quality of care in the 21st century.

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