



McCain's Latest Health Care Strategy

Now his health plan requires deep benefit and eligibility cuts in Medicare and Medicaid

By Peter Harbage, Karen Davenport, and Ellen-Marie Whelan
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Sen. John McCain (R-AZ) disclosed this week that he would cut \$1.3 trillion from Medicare and Medicaid to pay for his health care plan. Bearing a strong resemblance to the cuts that were sought by former-Speaker of the House Newt Gingrich in 1995, Sen. McCain's new call for radical cuts to these two programs will undermine their vital role in our health care system, putting affordable health care out of reach for millions of seniors, people with disabilities, and low-income families, and driving up the cost of health insurance for everyone else.

The reason: These cuts will have a profound effect on the entire health care system. Assuming Sen. McCain's \$1.3 trillion cut is taken proportionately from Medicare and Medicaid, here are the consequences for these two programs and for private coverage.

- **Medicare:** The McCain plan will cut \$882 billion from the Medicare program, roughly 13 percent of Medicare's projected spending over a 10-year period. At this level, Medicare spending will increase at 4.5 percent annually and will not keep pace with inflation and enrollment growth—thereby requiring cuts in benefits, eligibility, or both. To put this into perspective, the cut in 2012 would be equal to the entire amount that Medicare spends on nursing home care, or hospital outpatient services, or low-income subsidies for the Medicare drug benefit.
- **Medicaid:** The McCain plan will cut \$419 billion in federal dollars over 10 years from the Medicaid program, which is roughly 13 percent of Medicaid's projected spending over this period. At this level, Medicaid spending will increase at 5.5 percent a year and will not keep pace with inflation and enrollment increases—thereby requiring cuts in benefits, eligibility, or both. Because federal Medicaid funds match state spending, this cut in federal funds would likely yield a parallel cut in state funding, for a total reduction in Medicaid spending of \$738 billion over 10 years—more than the cost of providing benefits for all Medicaid beneficiaries for two years. These cuts could also cascade into the State Children's Health Insurance Program, or SCHIP, the federal program that covers millions of children who otherwise would not have access to health insurance.
- **Private Insurance:** As government support for Medicare and Medicaid falls under Sen. McCain's latest version of his health care plan, the cost of private health insurance will rise. Americans with private insurance (either employer-provided or purchased in the individual insurance market) will pay more for their health insurance because health care providers will shift the costs of reduced support for Medicare and Medicaid to private payers.

McCain’s deep and unsustainable program cuts would threaten health care coverage for our nation’s most vulnerable citizens and raise the cost of insurance for everyone else. These blows would come as Americans of all incomes are facing the greatest economic crisis since the Great Depression.

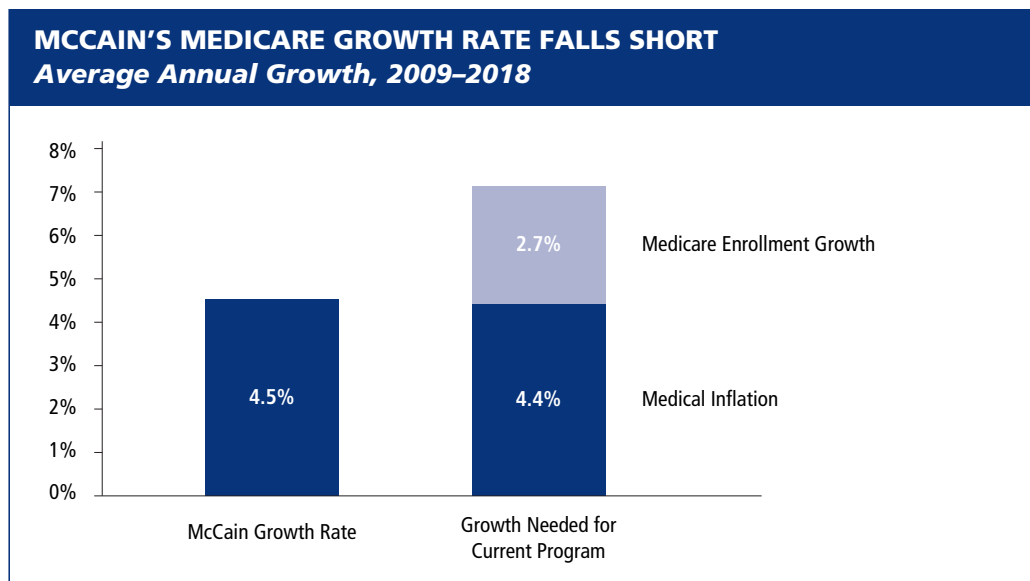
The New McCain Health Plan

Based on McCain campaign statements, the Center for American Progress Action Fund published “[John McCain’s Radical Prescription for Health Care](#),” in July 2008 explaining that Sen. McCain would impose a tax increase on American families of \$1,100 a year on the average family—and that absent the tax increase there would be a \$1.3 trillion budget shortfall.¹

Now, Sen. McCain has dramatically changed his health plan.² As explained by one his top economic advisers, Douglas Holtz-Eakin, McCain will keep the payroll exemption for health insurance and instead cut \$1.3 trillion from the Medicare and Medicaid programs to finance his health care plan. McCain has not released any details, but cuts of that magnitude will have dire consequences for people who rely on Medicare and Medicaid coverage. And given McCain’s previous opposition to SCHIP, the millions of children who receive coverage under this program are probably at risk as well.

McCain proposes deep Medicare cuts

Under his latest plan, McCain would have to cut Medicare by 13 percent over 10 years. As a percentage of total spending, the cuts needed for Medicare under the McCain plan are equivalent to those called for by Speaker Gingrich in 1995, when he said, “We don’t want to get rid of it in round one because we don’t think it’s politically smart,” adding, “but we believe that it’s going to wither on the vine because we think [seniors] are going to leave it voluntarily.”³ Like Speaker Gingrich, Sen. McCain has long supported drastic cuts to Medicare.⁴



Source: Center for American Progress Action Fund calculations.

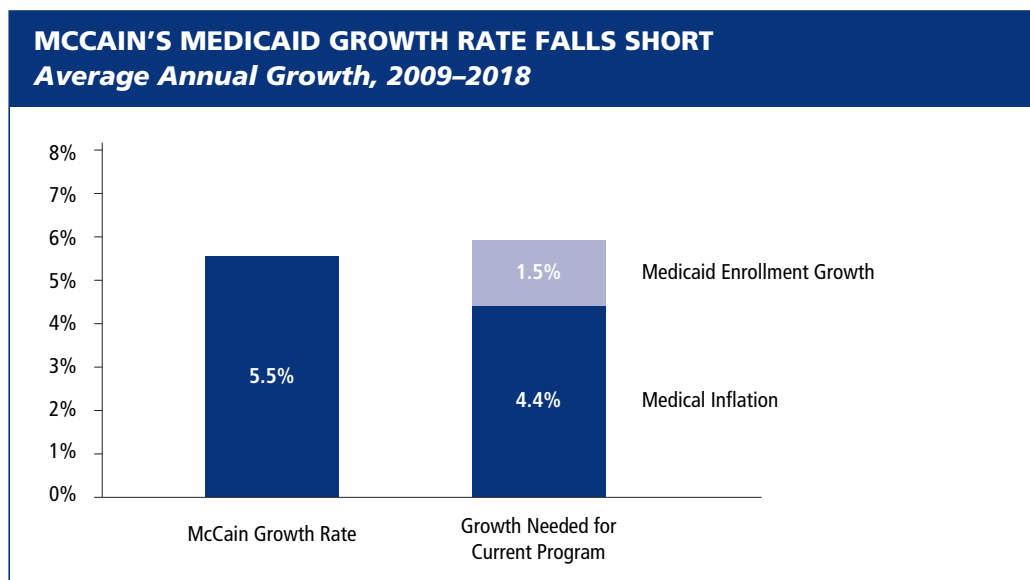
To achieve his Medicare spending target, McCain will have to limit growth to 4.5 percent annually. But to maintain the current operations of the existing Medicare program, an average annual growth rate of 7.1 percent is needed over the next 10 years to cover the 2.7 percent growth in enrollment and a projected rate of medical-price inflation of 4.4 percent. The difference in growth rates can be seen in the chart below. Unless McCain changes his plan yet again, it is clear his plan will reduce Medicare eligibility, reduce benefits, increase cost-sharing, or some version of all three.

To put this into perspective, the cut in 2012 would be equal to the entire amount that Medicare spends on nursing home care, or hospital outpatient services, or low-income subsidies for the Medicare drug benefit. It is nearly half of the total amount that Medicare collects in so-called Part B premiums, meaning these premiums would have to rise steeply if that were the policy used to achieve these deep cuts.

McCain proposes deep Medicaid cuts

Assuming proportional cuts divided between the two programs, McCain would also have to cut Medicaid spending by 13 percent over 10 years. As state legislators and governors across the country struggle to fund existing Medicaid programs—Medicaid is a state and federal program, unlike Medicare, which is fully federal funded—in the face of the nation’s growing economic crisis, cuts of this magnitude would place extraordinary pressure on state budgets.

Because federal Medicaid funds match state spending, states would likely scale back their own program funding. Assuming the current federal-state funding mix, the McCain plan could reduce total Medicaid spending by \$738 billion over 10 years—more than cost of providing benefits for all Medicaid beneficiaries for two years.⁵



Source: Center for American Progress Action Fund calculations.

To achieve his Medicaid spending target over the next 10 years, McCain will have to limit growth to 5.5 percent annually. But to keep pace with medical inflation and enrollment growth, annual spending of 6 percent is required over the next 10 years. The difference in growth rates can be seen in the chart below. Absent yet another change in the McCain plan, it is clear that Sen. McCain will reduce Medicaid eligibility, reduce benefits, increase cost-sharing, or some version of all three.

Those with private insurance will pay more under McCain

The various pieces of our health care payment system are linked. As public funding falls, private health care costs will go up by⁶:

- **Cost-shifting to the private market.** Low payments by Medicare and Medicaid means that health care providers will pursue higher payments from private health insurers. This represents a hidden tax on those with private insurance. Given the radical cuts in the McCain plan, those with private insurance will surely pay more for coverage as McCain cuts \$1.3 trillion dollars from Medicare and Medicaid.
- **Increasing uncompensated care costs.** As states are forced to cut back on their own Medicaid programs, more people will turn to the emergency room—the highest-cost setting for health care services. As those costs increase, there is a hidden tax on those with health insurance.

Sen. McCain's original health care plan was designed to unravel the current employer-based health care system and push individuals and families into the individual insurance market. Now he proposes deep and unsustainable cuts to Medicare and Medicaid, which provide critical health benefits and economic security to elderly, disabled, and low-income Americans, while pushing up costs for everyone else. What will he think of next?

Methodology

For this analysis, CAPAF apportioned Sen. McCain's \$1.3 trillion dollar 10-year spending cut between Medicare and Medicaid based on the total projected 10-year spending for both programs. Over 10 years, the Congressional Budget Office estimates that Medicare will spend \$6.793 trillion, and that the federal share of Medicaid spending will be \$3.226 trillion. Based on that, \$881.5 billion of the \$1.3 trillion was allocated was allocated to Medicare and \$418.5 billion to Medicaid. The McCain average annual growth rate for 2009 to 2018 (4.5 percent for Medicare and 5.5 percent for Medicaid) was calculated based on the growth needed to obtain McCain's reduced spending levels.

For the analysis, CAPAF used the most recent annual rate of medical inflation (medical component of the consumer price index) of 4.4 percent from the Bureau of Labor Statistics. Growth in Medicare and Medicaid eligibility was calculated from the Congressional Budget Office's March 2008 baseline estimates.

Endnotes

- 1 James Kvaal, Peter Harbage, Ben Furnas, "John McCain's Radical Prescription for Health Care," Center for American Progress Action Fund, July 2, 2008.
- 2 Laura Meckler, "McCain Plans Federal Health Cuts," *Wall Street Journal*, October 6, 2008, available at <http://online.wsj.com/article/SB122315505846605217.html>; Ben Smith, "Holtz-Eakin Defends McCain Plan," Politico, October 4, 2008, available at http://www.politico.com/blogs/bensmith/1008/HoltzEakin_defends_McCain_plan.html?showall.
- 3 Robert Dreyfuss and Peter Stone, "MediKill," *Mother Jones*, January/February 1996, available at <http://www.motherjones.com/news/feature/1996/01/medikill.html>.
- 4 Igor Volosky, "McCain Proposes Medicare and Medicaid Cuts to Pay for Health Plan," The Wonk Room, October 6, 2008, available at <http://wonkroom.thinkprogress.org/2008/10/06/medicare-cuts/>.
- 5 Based on state matching data from statehealthfacts.org, spending information is from 2006, the most recent year for which spending data is fully available.
- 6 Peter Harbage and Len M. Nichols, "A Premium Price: The Hidden Costs All Californians Pay in Our Fragmented Health Care System," New America Foundation, December 2006. Also see: Allen Dobson, Joan DaVanzo, and Namrata Sen, "The Cost-Shift Payment 'Hydraulic': Foundation, History, And Implications," *Health Affairs*, January/February 2006; 25(1): 22–33.