



# The Truth About Gov. Romney's Medicare and Medicaid 'Reforms'

## These Changes Would Shift Costs to Seniors, Health Care Providers, Businesses, and States

By Topher Spiro July 2012

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### Introduction

Republican presidential candidate and former Massachusetts Gov. Mitt Romney has followed the lead of the Republican majority in the U.S. House of Representatives, voicing his support for Medicare and Medicaid “reforms” that would fundamentally alter these programs—setting us on an uncharted path that would have adverse consequences for tens of millions of Americans.

Gov. Romney would provide vouchers to future Medicare beneficiaries to purchase either a private health insurance plan or the traditional Medicare plan, which he calls “premium support.” This approach would shift costs to seniors and make many seniors pay sharply higher premiums to stay in traditional Medicare.

Gov. Romney offers only a very general overview of his premium support plan, but he has supported the premium support plan put forth by House Budget Committee Chairman Paul Ryan (R-WI).<sup>1</sup> That plan would also limit growth in Medicare spending to growth in the economy plus 0.5 percentage points.<sup>2</sup>

It's likely that the cap would limit the amount of the vouchers provided to beneficiaries, though, since it's unclear how it would be enforced. Since the proposed growth rate is much slower than the projected growth in health care costs, the nonpartisan Congressional Budget Office estimates that new beneficiaries could pay more than \$1,200 more by 2030 and more than \$5,900 more by 2050.<sup>3</sup>

The House budget would also transform Medicaid, replacing guaranteed federal funding with block grants to states. This would shift costs to states, which are already under enormous strain. According to the Congressional Budget Office, states would be forced to reduce eligibility, benefits, or payments to health care providers. More than 19 million Americans would lose coverage in 10 years.

## The consequences of Gov. Romney's 'reforms'

- Many seniors would be forced to pay sharply higher premiums to stay in traditional Medicare and keep their current choice of doctors.
- New Medicare beneficiaries could pay more than \$1,200 more by 2030 and more than \$5,900 more by 2050.
- More and more seniors would gradually shift to private health insurance plans over time, increasing the privatization of Medicare.
- Hundreds of thousands of seniors would become uninsured.
- Premiums would increase for most Medicare beneficiaries.
- States would be forced to slash Medicaid eligibility, benefits, and payments to health care providers.
- More than 19 million Americans would lose coverage in 10 years.

What's more, private plans could "cherry pick" healthier seniors—driving up premiums for those who remain in traditional Medicare. And private plans would be able to undercut traditional Medicare in other ways, such as by offering free gym memberships or other perks. As a result more and more seniors would gradually shift to private plans over time. This gradual privatization of Medicare does not make sense because traditional Medicare costs less than comparable private coverage. But with fewer beneficiaries, Medicare would have less leverage to contain the growth in health care costs.

The Romney-endorsed House Republican budget would also shift costs to seniors by raising Medicare's age of eligibility to 67.<sup>4</sup> Some seniors who would no longer be eligible for Medicare would pick up employer coverage, but they would pay more in premiums and cost sharing. And since the budget would scale back or eliminate other coverage options, hundreds of thousands of seniors would become uninsured.

But Gov. Romney's "reforms" do not end here: He has also voiced support for block granting Medicaid. This approach would likely cut Medicaid by more than \$1.4 trillion over 10 years, as the House Republican budget—which also called for block granting Medicaid—would cut Medicaid by that amount.<sup>5</sup>

Let's delve into the details.

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### Gov. Romney's premium support plan threatens Medicare

Gov. Romney supports plans to convert Medicare spending into "premium support," providing vouchers to beneficiaries to purchase either a private health insurance plan or the traditional Medicare plan. Because Gov. Romney provides few details of how his premium support plan would function, however, we'll take a look at the premium

support plan put forward by House Republicans, which Gov. Romney has supported.

Under that proposal, plans would submit bids for how much they would charge to provide coverage. The voucher would be tied to the premium of the private plan with the second-lowest cost, or the premium for traditional Medicare—whichever is lower. If beneficiaries choose a plan that costs more than the voucher, they would have to pay the difference. This premium support plan would:

- Increase premiums for seniors
- Threaten traditional Medicare

Let's review both of these consequences in turn.

### Increases premiums for seniors

In some geographic areas traditional Medicare might make the lowest bid; in others, private plans might make lower bids. In areas where private plans make bids that are lower than the cost of traditional Medicare, the voucher would be tied to the premium of a private plan. As a result many beneficiaries would be forced to pay sharply higher premiums to stay in traditional Medicare. For this reason the nonpartisan Congressional Budget Office concluded that premium support would achieve much of its savings from “increases in the premiums paid by beneficiaries, not from increases in the efficiency of health care delivery.”<sup>6</sup>

The House Republican premium support plan would also limit growth in Medicare spending to growth in the economy plus 0.5 percentage points.<sup>7</sup> But it's unclear how this cap would be enforced. As a result, it's likely that the cap would be enforced by limiting the amount of vouchers provided to beneficiaries.

Since the proposed growth rate is much slower than the projected growth in health care costs, the voucher would leave beneficiaries to pay substantially more over time. The CBO estimates that new beneficiaries could pay more than \$1,200 more (in 2011 dollars) by 2030 and more than \$5,900 more by 2050 under the House Republican budget.<sup>8</sup>

What's more, the Affordable Care Act already established an Independent Payment Advisory Board that will control the growth in Medicare spending.<sup>9</sup> While the target growth rate for the independent panel is growth in the economy plus 1 percentage point,<sup>10</sup> the president has proposed reducing that growth rate to growth in the economy plus 0.5 percentage points—the same growth rate as the cap under the House premium support plan.

The premium support budget cap, therefore, would produce little or no savings compared to the president’s alternative approach. But the cap under the premium support plan would have serious consequences for Medicare beneficiaries. While the law prohibits the Independent Payment Advisory Board from increasing premiums or cost sharing, the budget cap would likely shift these costs to beneficiaries substantially.

### Threatens traditional Medicare

Many studies show that private plans attract healthier, less costly beneficiaries—a phenomenon known as “adverse selection.”<sup>11</sup> If less healthy, more costly beneficiaries are left behind in traditional Medicare, then premiums for traditional Medicare will rise. In turn, more beneficiaries would leave traditional Medicare, causing premiums to rise further, and so on—creating a so-called “death spiral.”

The House Republican premium support plan would adjust the voucher for health status—redistributing payments from plans with healthier enrollees to plans with less healthy enrollees. This “risk adjustment” mechanism would certainly help, but current risk-adjustment methods are still far from perfect.<sup>12</sup> Current methods tend to overpay plans with healthier enrollees and underpay plans with less healthy enrollees. As a result, premiums for traditional Medicare would likely rise and enrollment would likely decline over time.<sup>13</sup> This outcome is even more likely because the House Republican premium support plan would not require private plans to provide a standard set of benefits—allowing them to design benefits that attract healthier beneficiaries.

Premium support would also stack the deck against traditional Medicare in another way. Currently, traditional Medicare cannot provide an integrated benefit package that includes prescription drug coverage, modify benefit designs, or offer provider network options. And significantly, traditional Medicare must provide financing that private plans do not provide, such as financing for graduate medical education, rural hospitals, and hospitals that disproportionately serve low-income people. Traditional Medicare, therefore, would not be competing on a level playing field.

If private plans use these artificial advantages and risk selection to underprice traditional Medicare, then more and more beneficiaries would gradually shift to private plans over time. With fewer beneficiaries, traditional Medicare would lose its leverage with health care providers, driving up health care costs even more.

Increasing the privatization of Medicare does not make sense because traditional Medicare costs less than comparable private coverage. Private plans pay higher rates to health care providers and have significantly higher administrative costs.<sup>14</sup> To be as efficient as Medicare, private plans must offset these higher costs through aggressive management to reduce the use of services.

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## Gov. Romney's plan shreds the Medicaid safety net

Medicaid provides essential health care and long-term care to millions of low-income children, pregnant women, seniors, and people with disabilities—the most vulnerable people in our society. And under the Affordable Care Act, states may choose to expand Medicaid coverage even further to all people with incomes up to 133 percent of the poverty line—\$14,856 for individuals and \$30,657 for a family of four.<sup>15</sup>

Medicaid is also a safety net for middle-class families. Many beneficiaries were once in the middle class until the high costs of long-term care burned through their savings and assets. In fact, the costs of long-term care for seniors account for more than one-fifth of total Medicaid spending.<sup>16</sup>

Gov. Romney, however, would repeal the Affordable Care Act and dramatically reduce Medicaid coverage. In fact, he would go even further by fundamentally transforming the program.

Currently, Medicaid is a partnership between states and the federal government, which together finance the costs of the program. On average, the federal government covers about 60 percent of total costs, and states contribute the rest.<sup>17</sup> States are entitled to federal funding that matches their costs, no matter how many individuals become eligible for the program.

Gov. Romney would follow the lead of House Republicans and replace this guaranteed funding with block grants to states—lump sums of money set in advance, regardless of actual costs. Since federal funding would be capped, states would have to bear all of the costs of any contingencies—such as a recession, epidemic, or natural disaster.

Once again, because Gov. Romney has offered no specifics on his block-grant proposal, we will review the Romney-endorsed House Republican budget to consider the effect of this plan.

The block grants would grow each year with population growth and inflation. Since this growth rate is much slower than the projected growth in health care costs, federal spending on Medicaid would decline substantially. The CBO estimates that the block grants would reduce federal Medicaid spending by \$810 billion over 10 years—a total cut of more than 35 percent.<sup>18</sup>

Combining the block grants with the repeal of the Affordable Care Act, Gov. Romney's approach would reduce federal Medicaid spending by more than \$1.4 trillion over 10 years—a cut of more than 44 percent each year.<sup>19</sup>

But block granting Medicaid would produce these savings only by shifting costs

from the federal government to states, which are already under enormous strain. The states that would be hit hardest would be those with a higher rate of uninsured and lower enrollment in Medicaid. These states include Florida, Colorado, Nevada, North Carolina, and Virginia.<sup>20</sup>

While states might be able to achieve some cost efficiencies, CBO concludes that states would need to make substantial cutbacks that involve “reduced eligibility for Medicaid and [the Children’s Health Insurance Program] coverage for fewer services, lower payments to providers, or increased cost-sharing by beneficiaries—all of which would reduce access to care.”<sup>21</sup>

Here are the likely consequences:

- In 10 years the block grants alone would reduce Medicaid enrollment by more than 19 million people, or more than 25 percent.
- States would likely cut benefits that are not typically covered by private health insurance. Benefits that are critical for people with severe disabilities—such as case management and mental health care—would be at risk. Also at risk would be comprehensive preventive care, screening, and follow-up treatment for children, known as Early Periodic Screening, Diagnostic, and Treatment.
- Medicaid generally charges little or no premiums or cost sharing to ensure coverage is affordable for low-income people. But states would likely increase premiums and cost sharing substantially, limiting access to needed care for the most vulnerable people in our society.
- Since payment rates under Medicaid are already low and inadequate in many cases, health care providers may not be willing to accept even lower payment rates. Providers could turn away beneficiaries, jeopardizing their access to needed care.
- In 10 years the Romney-endorsed House Republican plan could reduce payments to hospitals by more than \$84 billion each year, or 38 percent.<sup>22</sup> Hospitals would receive much less revenue as a result of reductions in payments, benefits, or eligibility. At the same time, the loss of coverage and benefits would increase the cost of uncompensated care substantially, placing an enormous burden on hospitals.

The evidence is clear: Gov. Romney’s plan to turn Medicaid into a block-grant program would shred our nation’s safety net.

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## Conclusion

Instead of reducing health care costs, Gov. Romney's Medicare and Medicaid "reforms" shift costs to seniors, health care providers, businesses, and states. But real solutions would slow the growth in health care costs across the system—for seniors, families, businesses, states, and the federal government—rather than shift costs from one party to another.

In particular, Gov. Romney assumes that major structural changes to Medicare are needed. That premise is false. Over the next 10 years, Medicare's growth in costs per beneficiary is projected to average only 2.8 percent per year—compared to growth in our economy of 3.9 percent per capita and growth in total health care costs of 5.1 percent per capita.<sup>23</sup> In fact, the Affordable Care Act contributes significantly to this projected slowdown. Without the new law, Medicare would grow more than one percentage point faster.<sup>24</sup>

This means that real solutions—including many already underway through the Affordable Care Act—would focus more broadly on policies that contain national health spending, which would also contain spending on federal health care programs. But Gov. Romney would not address the problem—with dangerous consequences for tens of millions of Americans.

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## Endnotes

- 1 House Budget Committee, "Fiscal Year 2013 Budget Resolution," available at <http://budget.house.gov/uploadedfiles/pathtoprosperity2013.pdf>; See also <http://www.mittromney.com/issues/medicare>.
- 2 House Budget Committee, "Fiscal Year 2013 Budget Resolution"
- 3 Congressional Budget Office, "The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan," (2012), p. 8, available at [http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-20-Ryan\\_Specified\\_Paths\\_2.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-20-Ryan_Specified_Paths_2.pdf).
- 4 Ibid.
- 5 John Holahan and others, "House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing" (Washington: Kaiser Commission on Medicaid and the Uninsured, 2011), p. 5. Based on an analysis of the House Republican budget, which also called for block granting Medicaid, would cut Medicaid by more than \$1.4 trillion over 10 years.
- 6 Congressional Budget Office, "Budget Options Volume I: Health Care" (2008), p. 121.
- 7 House Budget Committee, "Fiscal Year 2013 Budget Resolution."
- 8 Congressional Budget Office, "The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan."
- 9 Social Security Act § 1899A, as added and amended by sections 3403 and 10320 of the Patient Protection and Affordable Care Act.
- 10 Ibid.
- 11 Katherine Desmond and Thomas Rice, "The Distributional Consequences of a Medicare Premium Support Proposal," *Journal of Health Politics, Policy and Law* 29 (6) (2004): 1196; Medicare Payment Advisory Commission, "Report to the Congress: Promoting Greater Efficiency in Medicare" (2007), p. 63.
- 12 Congressional Budget Office, "Designing a Premium Support System for Medicare" (2006), p. 27; Brian K. Frogner and others, "Incorporating New Research Into Medicare Risk Adjustment," *Medical Care* 49 (3) (2011): 295–300. According to some studies, risk adjustment accounts for less than half of the variation in predictable health care spending. See Congressional Budget Office, "Key Issues in Analyzing Major Health Insurance Proposals" (2008), p. 89.
- 13 In a simulation of one premium support proposal—which assumed that risk adjustment would remove 75 percent of variation in costs—participation in traditional Medicare declined by 24 percentage points over a 20-year period. See Thomas Rice and Katherine Desmond, "The Distributional Consequences of a Medicare Premium Support Proposal," *Journal of Health Politics, Policy and Law* 29 (6) (2004): 1202.
- 14 Topher Spiro, "The Inherent Flaws in Medicare Premium Support" (Washington: Center for American Progress, 2011), p. 3–4.
- 15 The numbers in the attached map include individuals and families with income equal to 138 percent of poverty. The Affordable Care Act includes a special deduction to income that effectively raises the eligibility level by five percentage points.
- 16 Kaiser Commission on Medicaid and the Uninsured, "Medicaid's Long-Term Care Users: Spending Patterns Across Institutional and Community-Based Settings" (2011).
- 17 Kaiser Commission on Medicaid and the Uninsured, "An Overview of Changes in the Federal Medical Assistance Percentages (FMAPs) for Medicaid" (July 2011), available at <http://www.kff.org/medicaid/upload/8210.pdf>.
- 18 Congressional Budget Office, "Long-Term Analysis of a Budget Proposal by Chairman Ryan," p. 26.
- 19 Ibid., p. 7.
- 20 Ibid., p. 6.
- 21 Congressional Budget Office, "The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan," p. 9.
- 22 Ibid., p. 8.
- 23 Centers for Medicare and Medicaid Services, Office of the Actuary, "National Health Expenditures 2010-2020," available at <https://www.cms.gov/NationalHealthExpendData/downloads/proj2010.pdf>.
- 24 See, for example: Andrea M. Sisko and others, "National Health Spending Projections: The Estimated Impact of Reform Through 2019," *Health Affairs* 29 (10) (2010): 1933–1941; "The Medicare provisions in the Affordable Care Act ... are anticipated to result, on net, in much slower Medicare spending growth over the projection period."