Weekly Checkup

Is It Time for Premium Support?

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The president – shame on him – has said that Congress should not touch Social Security and Medicare. Uh, the federal government over the next 10 years will spend $80 trillion. Of that, $10 trillion is interest costs, $20 trillionis discretionary spending, and $50 trillion is mandatory spending (aka the entitlements). Of that $50 trillion, $18 trillion is Social Security and $14 trillion is Medicare. **So, the off-limits duo is 60 percent of the real budget problem.** Oh, and by the way, **both Medicare Part A and Social Security will exhaust their trust funds over the next decade.** So, as The Doors once sang, "Come on, touch me baby."

But what should Congress do? Among the leading candidates for Medicare reform is moving to a premium support model. Premium support would provide a fixed amount of taxpayer resources per beneficiary and, thus, could be used to reduce the taxpayer contribution needed for Medicare. The real promise, however, is that the competitive forces embedded in a premium support design would slow the pace of health care cost growth (per beneficiary) in a way that lowers *both* the taxpayer contribution and beneficiary out-of-pocket spending.

An important aspect of premium support is that it would put Medicare on a budget. Instead of directly paying all of the costs of care in, for example, Parts A and B, under premium support insurers would bid for the right to provide a defined bundle of services to seniors, and the federal government and beneficiary would provide the insurer a fixed contribution that would vary by the health needs of the beneficiary – more support for those with greater medical needs. Regardless, taxpayer subsidies would be capped and beneficiary premiums would be fixed. Medicare would face a budget constraint, and all the stakeholders – providers, device and drug makers, insurers, and beneficiaries – would shift to a system with strong incentives to control spending.

The second key aspect is that these amounts are determined by competition among private-

sector insurers at risk for losses. As a result, those insurers would have strong incentives to offer bids low enough to attract beneficiaries and also keep costs sufficiently low to make a profit. On the flip side, insurers that are unable to manage their bids and costs successfully will fail in the marketplace. **Unlike the current Medicare system, a premium support approach would embed into the provision of seniors' health care the beneficial dynamism that has characterized the most successful sectors of the U.S. economy.**

In a recent chapter of "Modernizing Medicare," edited by Robert Moffit and Marie Fishpaw, I estimate that moving to premium support would lower program costs, with savings totaling over $1.8 trillion in taxpayer costs over 10 years and $333 billion in savings to beneficiaries. Even more important, however, is that the introduction of consumer choice allows beneficiaries to reveal their values on the crucial issue of medical care and coverage. **A values-driven Medicare system will be a better social safety net, regardless of its cost.**

That looks pretty appealing. There are only two real obstacles. The first is reversing the dictum of the president and achieving a consensus among voters that it is desirable to improve the quality of the Medicare program – hopefully that isn't hard – and reform it to put it on a sustainable financial footing.

The second is settling on a premium support model as the preferred reform. **The last time premium support gained even modest legislative attention, opponents demonized it as "voucherizing Medicare," even though the "voucher" was a personalized, risk-adjusted support for seniors.** In the interim, however, Medicare Advantage has become the preferred choice of new Medicare beneficiaries and it has the same retail features as a full-blown premium support model: A subsidized premium is used to buy a bundle of the full range of care. This may buy it a fair hearing in the court of public opinion.

It is past time to fix Medicare for its beneficiaries and the taxpayers. It may be time to turn to premium support.