A More Fiscally Responsible Way Forward for the Medicare Program

Douglas Holtz-Eakin & Michael Ramlet | September 30, 2010

Introduction

The Patient Protection and Affordable Care Act (PPACA) fails to secure Medicare’s future and instead diverts $332 billion dollars in program savings into new unsustainable entitlement programs. By not improving the Medicare program’s solvency, the White House and Congress threaten to burden America’s seniors with rising premiums and reduced patient access. Healthcare reform should have paved a more fiscally responsible path forward for the Medicare program by fixing the sustainable growth rate (SGR) formula for physician reimbursement and ensuring long-term Medicare affordability.

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To pay for the new healthcare reform law, the Obama Administration and Congress have enacted annual Medicare payment reductions to inpatient acute hospitals, inpatient rehabilitation facilities, and long-term care hospitals. The payment reductions start October 1, 2010 and are reflected in the inflation updates for Medicare payments. Beginning in rate year 2011, inpatient acute hospitals and inpatient rehabilitation facilities will receive a 0.25 percent reduction, and long-term care hospitals will undergo a 0.5 percent reduction.

As shown in Table 1, the reimbursement reduction to Medicare Part A providers is expected to produce $196 billion in cost savings over the next ten years compared to prior law. Coupled with the $136 billion that the Congressional Budget Office (CBO) projects may be saved from setting Medicare Advantage rates at fee-for-service (FFS) payment levels, a real opportunity arose for the White House and Congressional advocates to improve the long-term fiscal health of the Medicare program.

Talking Points

- The new healthcare reform law fails to improve the Medicare Program’s long-term financial outlook.
- Seniors can expect to see reduced access to Medicare providers and Medicare Advantage plan options due to cuts totaling more than $332 million over the next ten years.
- Rather than using potential cost savings to finance existing Medicare programs, the Obama Administration and Congress created three new entitlement programs that are likely to expand federal deficits.
- It would have been possible to ensure seniors access to physician care had the healthcare reform law covered the total cost of the overspending in the Sustainable Growth Rate Formula for physician reimbursement.
- Steps could also have been taken to shield seniors from the rising cost of care from the healthcare reform law by reducing monthly beneficiary premiums by 33 percent.

The views and opinions expressed here are not necessarily reflective of the views of the American Action Forum.
Unfortunately rather than applying the potential cost savings of the new healthcare reform law toward securing Medicare’s future, the Administration and Congress diverted the $332 billion dollars toward new entitlement programs. The decision to not improve Medicare solvency threatens to reduce patient access for seniors and will lead to a substantial increase in annual premiums for Medicare beneficiaries over the next ten years.

After years of Congress overriding the Medicare sustainable growth rate (SGR) formula for physician payments, beneficiaries now face a growing problem that physicians no longer accept new Medicare patients. If the SGR were to go into effect today, physicians would receive a 21.3 percent reimbursement cut. Both parties acknowledge the formula is currently unsustainable, but the healthcare reform law did nothing to reset or restructure the fee schedule.

As shown in Table 2, it would have been possible to more than cover the cost ($174.7 billion) of eliminating the cumulative overspending in the SGR formula and restarting it in 2010. Or, more aggressively, one could have replaced the proposed cuts with annual updates equal to 0 percent up to 2 percent. This would have served to genuinely strengthen the existing Medicare program and ensured physician access to the millions of baby boomers approaching retirement.
Alternatively in the wake of the nation’s severe recession, Congress could have taken steps toward shielding seniors from the rising cost of care delivery as a result of the new healthcare reform law. As shown in Table 3, if the healthcare law had applied the cost savings to beneficiaries, monthly Medicare premiums could have been reduced 33.2% compared to the current ten year Medicare projections.

Table 3: Medicare Savings Applied to Monthly Medicare Enrollee Premiums ($)

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<td>$603</td>
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<td>Modified Prices</td>
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<td>14.3</td>
<td>21.1</td>
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<td>35.2</td>
<td>39.7</td>
<td>44.8</td>
<td>48.2</td>
<td>52.1</td>
<td>33.2</td>
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Conclusion

The Patient Protection and Affordable Care Act (PPACA) fails to secure Medicare’s future and instead diverts $332 billion dollars in program savings into new unsustainable entitlement programs. By not improving the Medicare program’s solvency, the White House and Congress threaten to burden America’s seniors with rising premiums and reduced patient access. Healthcare reform should have paved a more fiscally responsible path forward for the Medicare program by fixing the sustainable growth rate (SGR) formula for physician reimbursement and ensuring long-term Medicare affordability.
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Operation Healthcare Choice is the Forum’s public policy center focused on promoting high-value healthcare and higher quality health insurance that expands consumer choice. Operation Healthcare Choice experts conduct research, offer commentary, and develop policies aimed at eliminating healthcare’s burden on the economy.

References

3 Premium estimates from the 2010 Annual Report of The Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, Centers for Medicare and Medicaid Services, 8 August 2010.