The Path to Prosperity

The House Republicans' Plan To Save Medicare

THE HOUSE REPUBLICANS' PLAN TO SAVE MEDICARE

I. MEDICARE FACTS AMERICANS NEED TO KNOW

II. MEDICARE 101

III. ADDITIONAL FAQS ON THE HOUSE GOP PLAN TO SAVE MEDICARE

IV. MEDICARE FLOOR SPEECH – REP. PAUL RYAN OF WISCONSIN

V. MEDICARE OP-ED – SENATOR MARCO RUBIO OF FLORIDA

VI. MEDICARE EDITORIAL – WALL STREET JOURNAL

VII. ADDITIONAL MEDICARE RESOURCES

PREPARED BY HOUSE BUDGET COMMITTEE STAFF

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Medicare: Facts that Americans Need to Know

What is the Republican plan for Medicare?

The Republican plan *saves* Medicare by ensuring no changes for those in or near retirement, and it *strengthens* Medicare with true choice and competition for future generations.

What is the Democrats' plan for Medicare?

Their plan is the new health-care law. It *raids* Medicare to pay for this unpopular law and *rations* Medicare by empowering unelected bureaucrats to decide which treatments won't be covered.

Does the Democrats' plan *save* Medicare?

NO – the Democrats' plan cuts Medicare for seniors today and leaves Medicare bankrupt for future generations. Non-partisan experts say Medicare's trust fund will be exhausted in nine short years. The Democrats' plan commits us to painful benefit cuts, huge tax increases, and a bankrupt future.

Is it true that Republicans want to end Medicare?

NO – the Republicans have the only plan that *saves* and *strengthens* Medicare:

- It protects those in or near retirement by repealing the new health-care law and ending the plan to raid and ration Medicare.
- It provides future seniors with true choice and competition: guaranteed coverage options, subsidized by Medicare, with less help for the wealthy and more for the poor and the sick.

What about Medicare "as we know it"?

The Democrats' health-care law ended Medicare as we know it, raiding it by over half-a-trillion dollars and empowering unelected bureaucrats to make decisions that will deny care to millions of seniors.

What will the Democrats' plan mean for seniors?

Raiding money from Medicare will hasten the program's collapse. Slashing reimbursements will force doctors to stop seeing Medicare patients. Bureaucratic rationing will lead to seniors being denied treatments and forced onto waiting lists for care they need and deserve.

Does the Republican plan shift costs to seniors?

NO – while the Democrats' plan raids and rations, shifting costs to seniors and taxpayers, the Republican plan actually controls costs:

- It uses true choice and competition to lower costs without sacrificing quality.
- It provides less help to wealthy seniors and more help to those who need it – seniors with lower incomes and greater health risks.
- It guarantees coverage and protects all seniors from being denied the care they deserve.

Medicare 101

1. Medicare is a federal program that pays for health care for seniors and the disabled.

- About 40 million seniors enter at age 65 get their health care through Medicare.
- About 8 million disabled are also enrolled.
- That means 1 in 8 Americans receive Medicare benefits.

2. For most it's a government-financed, government-administered, fee-for-service benefit.

- Three-fourths of Medicare beneficiaries are in "traditional fee-for-service Medicare."
- Government sets prices in FFS Medicare through laws and administrative mechanisms.
- A senior goes to a doctor or hospital, gets treated. The government reimburses that provider.
- In FFS Medicare, the government directly reimburses and regulates providers.

3. Most seniors don't face the true costs of the limited deductibles or copayments.

- Many have employer-provided "wraparound" coverage;
- or they purchase supplemental "Medigap" insurance;
- or the poor have Medicaid cover their cost-sharing.

4. There are three main sources of financing Medicare.

- Payroll taxes: 2.9% of all wages. ½ paid by employee, ½ by employer.
- Premiums from Medicare beneficiaries.
- Borrowing from the rest of government.

5. Medicare is growing at an unsustainable rate.

- About $516 billion was spent providing Medicare benefits in 2010.
- Medicare is projected to grow over 7% per year for the next decade.
- Per beneficiary net government spending ≈ $10,900/year
- 70/10 rule: 10% of the seniors account for 70% of the costs. The healthiest 50% of seniors account for only 4% of the costs.
- CBO estimates the Medicare Trust Funds will be exhausted in 2020.
- Medicare's Trustees estimate the Medicare Trust Funds will be exhausted in 2024.

Source: Hennessey, Keith. "Medicare as we know it." http://keithhennessey.com/2011/04/20/medicare-as-we-know-it/
(Note: numbers updated to reflect current data)

Additional FAQs on the House Republicans' Plan to Save Medicare

Responding to confusion between "Vouchers" and "Premium Support"

- Under our plan, individuals would not receive a voucher, and would not go shopping for a plan in the private insurance market, as many commentators have falsely suggested.
- Under our plan, a future retiree would receive a list of Medicare-approved guaranteed coverage options offered on a regulated Medicare exchange, and would select a plan that best meets his/her needs.
- The **premiums** that pay for that plan would be **supported** by Medicare.
- The premium-support payment goes directly to the plan, with wealthier seniors not receiving as much assistance as lower-income seniors or those with greater health risks.

Responding to charges of privatization and an end to the Medicare guarantee

- Our plan preserves the Medicare guarantee – and protects seniors from being denied care by government bureaucrats or insurance company bureaucrats.
- On the question of privatization, Medicare already relies on private providers:
  - Today, seniors have the freedom to choose from a list of private Medicare Advantage plans to help cover their medical expenses. **The plans compete** for the patient's business – on a regulated Medicare exchange; **the patient chooses** from a list of Medicare-approved options; **Medicare helps pay**.
  - Today, seniors have the freedom to choose from a list of private Medicare Part D prescription drug plans: **the plans compete** for the patient's business – on a regulated Medicare exchange; **the patient chooses** from a list of Medicare-approved options; **Medicare helps pay**.
  - The House-passed budget offers future Medicare beneficiaries the ability to choose from a list of Medicare-approved guaranteed coverage options, with greater Medicare subsidies provided to those with lower incomes and greater health risks. **The plans compete** for the patient's business – on a regulated Medicare exchange; **the patient chooses** from a list of Medicare-approved options; **Medicare helps pay**.

Responding to charges that seniors would pay an additional $6,400 for their Medicare

- That analysis fails to include the extra $7,800 our plan provides to lower-income seniors, ensuring that no senior is denied access to quality, affordable health coverage.
- That analysis compares Medicare to a fiscal fantasy – one which assumes that the current system with its tens of trillions of dollars in unpaid promises can continue without reform.
- That analysis rejects the basic laws of economics: price controls and government rationing do not address actual health inflation, and instead result in waiting lists and denied care. True choice and competition – providers competing against each other for patients' business – is the only way to reduce costs and improve quality.

MEDICARE FLOOR SPEECH

STOP THE RAID; REPEAL THE RATIONING BOARD; SAVE MEDICARE

REP. PAUL RYAN OF WISCONSIN – REMARKS ON HOUSE FLOOR – JUNE 1, 2011
http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=244178

Let's for a moment talk about Medicare. Medicare as we know is already gone. Our friends on the other side of the aisle – when they passed the Affordable Care Act – stopped the Medicare status quo.

The President's new health care law already ended Medicare as know it. It does two things: It *raids* Medicare; and it *rations* Medicare.

Obamacare Raids Medicare: It takes over $500 billion from Medicare to spend on the President's new health care law, not to extend Medicare's solvency. Just as people have complained for years that we are raiding the Social Security Trust Fund, the President's health care law does that to Medicare now.

Obamacare Rations Medicare: Starting next year, the President will appoint 15 unelected, unaccountable bureaucrats to price control and to ration Medicare for current seniors.

Status Quo Bankrupts Medicare: What's worse is the President and Senate still have yet to put out a plan to save Medicare to prevent it from going bankrupt.

1. **We stop the raid of Medicare** in our budget and make sure that $500 billion stays with Medicare to advance its solvency.
2. **We repeal the Medicare rationing board** so we don't put bureaucrats in charge of determining what kind of health care benefits seniors do or do not get.
3. **We save Medicare**. If you are on Medicare or if your ten years away from retiring – 55 and above - government already made a promise to you. We want government to keep that promise. Under our budget we keep that promise.

We stop the raid. We repeal the rationing board. And for those of us 54 and below who have a bankrupt system that we right now cannot count on, we reform Medicare so it works like the system Members of Congress and federal employees have. It is a system that looks like Medicare Advantage or the Medicare Prescription Drug Benefit Program today: seniors get a choice of plans offered to them by Medicare – guaranteed coverage options – from which they can choose and Medicare subsidizes that plan. It doesn't subsidize people as much if they are wealthy and subsidizes them a lot more if they are low income or sick.

This saves Medicare. This puts Medicare on a path to solvency. And more importantly, by saving it for future generations, we can keep our promises to current seniors. **We stop the raid**. **We repeal the rationing board. And we save the program**. That is what our budget proposes to do.

MEDICARE OP-ED

LOOKING FOR MEDICARE SOLUTIONS, NOT POLITICS AS USUAL

SENATOR MARCO RUBIO OF FLORIDA

OP-ED IN THE *MIAMI HERALD* – MAY 26, 2011

http://www.miamiherald.com/2011/05/25/2235398/looking-for-medicare-solutions.html

For me, Medicare is not a political talking point. My parents immigrated to the United States in the late 1950s. They worked hard for over 40 years to provide their children the chance to do all the things they themselves could not. But they never made much money.

As a result, they retired with precious little in savings. Medicare was and is the only way they could access healthcare.

When my father got sick, Medicare paid for his numerous hospital stays. And as he reached the end of life, Medicare allowed him to die with dignity by paying for his hospice care.

Like most 80-year-olds, my mother has several age-related ailments. Without the access to quality healthcare that Medicare pays for, I cannot imagine what life would be like for her.

America needs Medicare. We need it to continue without any benefit reductions for those like my mother currently in the system. And we need it to survive for my generation and my children's generation.

But Medicare is going bankrupt. Anyone who says it is not is simply lying. And anyone who is in favor of doing nothing to deal with this fact is in favor of bankrupting it. Medicare will go broke in as little as nine years. No one likes this news, but it is the undeniable truth. And the sooner we begin to deal with it, the better off we are all going to be.

My goals are simple. First, I will not support any plan that changes Medicare for people like my mother who are currently on the plan. We cannot ask seniors to go out and get a job to pay for their healthcare.

Second, any solution must solve the problem. We need to save Medicare, not simply delay its bankruptcy.

And third, any solution cannot hurt economic growth. At a time of high unemployment, Americans cannot afford to pay more taxes.

I will support any serious plan that accomplishes these three things. It does not matter to me if it comes from a Democrat or a Republican. Saving Medicare is more important than partisan politics.

Rep. Paul Ryan has offered a plan that would make no changes whatsoever for anyone age 55 and older. I support it because, right now, it is the only plan out there that helps save Medicare. Democrats oppose it. Fine. But, if they have a better way to save Medicare, what are they waiting for to show us? What is their plan to save Medicare?

Either show us how Medicare survives without any changes or show us what changes you propose we make. Anyone who supports doing nothing is a supporter of bankrupting Medicare.

Where is the House Democrat plan to save Medicare?

Where is the Senate Democrat plan to save Medicare?

Where is President Obama's plan to save Medicare?

They have no plan to save it, and they do not plan to offer one. They have decided that winning their next election is more important than saving Medicare for my mother and retirees like her.

I have been in the Senate just long enough to be disgusted by the reality that Washington has too many people who think their personal political careers are more important than our country's future.

Maybe the Democrats' strategy to use Medicare as a political weapon will work. Maybe not offering their own plan to save Medicare will help them win seats in Congress and re-elect President Barack Obama. Maybe it is great for the Democratic Party. But it is terrible for people like my mother, and it is terrible for America.

Medicare is going bankrupt. If something does not happen soon, in just a few years whoever is in charge in Washington will have to go to people like my mother and tell them we can no longer afford to continue providing her with the same Medicare she is used to.

We have always had intense partisan politics in America. But throughout our history, on issues of generational importance, our leaders have agreed to put aside politics for the sake of our country. Shouldn't saving Medicare be that kind of issue?

I am ready to work with anyone in Washington who is serious about saving Medicare. I am open to any serious solutions they have.

We are running out of time to save Medicare for our parents and secure it for our children. If we fail, history will never forgive us.

MEDICARE EDITORIAL

MEDICARE FOR A NEW CENTURY

PAUL RYAN'S PLAN WOULD MODERNIZE A PROGRAM STUCK IN 1965.

WALL STREET JOURNAL EDITORIAL – APRIL 7, 2011

http://online.wsj.com/article/SB10001424052748703712504576244790420274226.html

Liberals seem delighted that Paul Ryan and the GOP have decided to charge the fixed bayonets of Medicare reform, denouncing the new House budget as a crime against seniors, humanity, and so on. Republicans are taking a huge political risk, but they are now setting the reform agenda, and their honesty may even oblige a national debate about the future of an entitlement state that can't survive in its current form.

Mr. Ryan's core insight is that Medicare needs to be modernized if it is to survive. The federal insurance program for the elderly has barely changed since 1965, several health-care revolutions and trillions of misspent tax dollars ago. The GOP plan—known as premium support—would rationalize Medicare's burden on taxpayers, while introducing market competition to control costs.

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As Democrats build their re-election bids around Mediscare demagoguery, they're pretending that the choice is between "privatization" and a free lunch. Mr. Ryan has done a service in exposing this illusion. Nothing will sooner finish off "Medicare as we know it" than to continue its present march into insolvency. His is the first credible plan endorsed by either party for preserving the safety net.

Today traditional Medicare is the largest buyer of health care in America. It is also the worst buyer. The government sets prices for thousands of services, then pays nearly any doctor or hospital that a patient visits. The same arbitrary fee schedule applies to the best hospital and the worst hospital, regardless of the quality or value of the care delivered, and the bills are sent to taxpayers.

This deliberate suppression of the price mechanism has helped to turbocharge U.S. health costs. Providers who find ways to deliver better medicine at a lower cost aren't rewarded, as they would be in any other industry. Medicare spending is growing at a 7.2% annual clip, far faster than the economy. Spending is due to double over the next decade, feeding on more and more of the federal fisc and national wealth.

The 45 million Medicare beneficiaries enjoy the security of "free" health care and its no-questions-asked payments. Still, the entitlement is stuck in a Great Society time warp. It offers no protection against catastrophic expenses, the most basic function of insurance. Coverage doesn't keep up with medical progress; prescription drugs weren't added until 2003. Seniors are docked a $1,000 deductible for a single hospital stay, though nine of 10 buy medigap coverage to backfill these and other holes. Where else do people buy insurance for their insurance?

Under the Ryan premium support model, seniors would instead choose from a menu of guaranteed private insurance options of the kind younger, private-sector workers have come to expect. These plans would be subsidized by a "defined contribution," roughly equal to what the government now spends per person. This subsidy, about $15,000, would grow over time with consumer prices, but seniors who wanted more expensive plans would pay the difference out of pocket.

Premium support would create a market reward for the services that consumers value. Because seniors would be chipping in at the margin, only above the fixed-dollar subsidy, most would favor lower premiums. Insurers would compete to supply them, and providers in turn would have a reason to innovate in health-care delivery and improve what has been their negative productivity rate.

Premium support would not cure all of America's health ailments, and missing in action in the House budget is a comparable reform for the rest of the market. But Medicare is so big that if it doesn't change, nothing else can. Simply unwinding Medicare's price controls would be an historic achievement.

That said, Granny will not be turned loose unsupervised into the market wilds. The subsidies will flow through Medicare, only to regulated insurers and government-approved plans. It does not go as far as Mr. Ryan's previous "roadmap," which offered direct cash vouchers for individuals who preferred to buy insurance themselves. The subsidies are means-tested, so the poor would receive more support, as will sicker and chronically ill patients. They wouldn't kick in until 2022, more than enough time for people to adapt and exempting everyone older than 55 if they wished.

Mr. Ryan moderated his ambitions not merely because the fiscal crisis is so urgent, but because reforms of this order are so unusual. Seniors and other voters may be unnerved, especially when AARP and politicians beat the Mediscare drums. As they inspect the details, however, seniors may be surprised to learn that premium support is not an untested idea. It is even routine in parts of Medicare itself.

Traditional Medicare would look a lot like Medicare Advantage, which gives almost one of four seniors today private alternatives. Premium support forms the architecture of the Medicare drug benefit too, and as a result it has cost 30% less than almost anyone predicted.

The same concept governs the Federal Employee Health Benefits Program, which insures everyone from postal workers to Members of Congress. The same is true for several large university systems and Calpers, the benefits program for public workers in California. None are known as incubators for the pitiless ideology that Democrats impute to Mr. Ryan.

Despite this experience, one common criticism is that the subsidies wouldn't keep pace with the rising health costs that Medicare now promotes. But medicine has always proven adept at reorganizing itself when the incentives change, and costs would fall over time if more patients were demanding their money's worth.

Health care's lack of accountability to consumers helps explain why Medicare's unfunded liabilities over the next 75 years are about $31 trillion. That number is beyond human comprehension and among the reasons that creating one more new entitlement in ObamaCare was so reckless. Keeping Medicare's generational promise—that children assent to be taxed to pay for their grandparents' health care so that their grandkids can one day pay for theirs—would mean under current trends that every income tax rate, in every bracket, would need to more than double.

The brutal arithmetic is that total federal health spending is about 10% of GDP today and on pace to hit 15% in 20 years. The liberal response is more central planning and eventually the political rationing of care, even as taxes continue to climb. The alternative that Mr. Ryan has offered, including an ObamaCare repeal and a conversion of Medicaid into block grants to states, would bring that share down to 6% as premium support began to limit Medicare's open-ended spending.

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The reality that Mr. Ryan has recognized is that Medicare can't be fixed with nips and tucks. Premium support is easily as important an advance as the shift from defined-benefit pensions to 401(k)s, and the transition could be as smooth. Major changes to the social compact must be grounded in some rough public consensus, and Republicans now have an obligation to persuade the country that their reform is the only one with a chance of saving Medicare for future generations.

Additional Resources on Medicare

- FY2012 Budget Resolution – The Path to Prosperity: http://budget.house.gov/fy2012budget/
- Setting the Record Straight: http://budget.house.gov/SettingtheRecordStraight/
- The Facts on Medicare and How to Save It (web video): http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=242914
- Paul Ryan's Medicare Fix – by James Capretta, *National Review* – April 20, 2011 – http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=237843
- The Defined Contribution Route to Health Care Choice and Competition – by Thomas Miller and James Capretta, American Enterprise Institute – December 7, 2010 – http://www.aei.org/paper/100164
- Consumer Choice and Competition Can Save Medicare – by Paul Ryan, *Bloomberg View* – May 25, 2011 – http://www.bloomberg.com/news/2011-05-26/how-consumer-choice-can-save-health-care.html
- On Medicare, It's Ryan Plan Versus Bureaucrats – by Ramesh Ponnuru, *Bloomberg View* – May 31, 2011 – http://www.bloomberg.com/news/2011-05-31/on-medicare-it-s-ryan-plan-versus-bureaucrats-ramesh-ponnuru.html
- The Other Medicare Cutters – *Wall Street Journal* editorial – April 20, 2011 – http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=237834
- GOP plan to change Medicare is rooted in bipartisan history – by Amy Goldstein, *Washington Post* – April 26, 2011 – http://www.washingtonpost.com/national/gop-plan-to-change-medicare-is-rooted-in-bipartisan-history/2011/04/26/AF8f2FRF_story.html
- The Radical Gradualism of Paul Ryan – by Yuval Levin, *The Weekly Standard* – April 11, 2011 – http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=235261