POLICYBRIEF
HOUSE REPUBLICAN CONFERENCE | Mike Pence, Chairman

Question and Answer: Medicare and the Republican Budget

September 10, 2009—**UPDATED**

> **"The real problem with our long-term deficit actually has to do with our entitlement obligations...The big problem is Medicare, which is unsustainable."**
>
> —President Obama, Interview with *Washington Post* editorial board, January 15, 2009

On April 2, 2009, the House of Representatives considered the Republican budget alternative, which failed by a vote of 137-293. The Republican Conference has compiled background on the Medicare reforms offered as part of the Republican budget alternative. According to one press account, the plan would "end Medicare." **This claim is flatly untrue**.

Does the Republican budget alternative end Medicare?

No. For current Medicare beneficiaries—and those within ten years of Medicare eligibility—**nothing in the current program will change**, except that very high-income beneficiaries will have their government subsidies for prescription drug coverage reduced, as the President's own budget proposed. When those who are currently aged 54 years and younger turn 65 and become eligible for Medicare, they will receive a premium subsidy from the government to purchase a Medicare-approved health plan of their choice—**similar to how Members of Congress receive their health benefits**. The amount of the premium subsidy will total 100 percent of current Medicare spending—rising annually according to inflation. Those with high health care costs, including older and sicker individuals, will receive higher subsidies. Low income seniors will also receive extra financial help. Additionally, for the first time in the program's history, seniors will be protected from bankruptcy if they get sick as a result of a new cap on out-of-pocket expenses.

Does the Republican budget alternative cut Medicare?

No. Medicare spending will **grow substantially every year** under the Republican budget. The Republican budget would simply slow the rate of growth of a program that is currently growing itself into extinction.

Without action, is Medicare going bankrupt?

Yes. The Hospital Insurance (HI) Trust Fund, which funds Medicare Part A, is currently paying out more in benefits than it is collecting through the payroll tax. As a result, the HI Trust Fund is expected to go bankrupt in 2017, just eight years from now. This year's Medicare trustees report found that the program faces overall shortfalls of $37.8 trillion—nearly three times current GDP levels. Government projections also indicate that by 2040, our country's major entitlement programs—Social Security, Medicare, and Medicaid—will consume *the entirety* of today's budget as they struggle to meet the cost of retiring Baby Boomers and the continued growth in cost of providing health care.

Is there a broad consensus that Medicare needs to be reformed?

Yes. The Federal Reserve, the Congressional Budget Office, the General Accountability Office, the Brookings Institution, and the Concord Coalition have all said Medicare must be reformed to slow its growth—a recognition that Medicare is the primary contributor to the federal budget's long-term problems. Even President Obama has acknowledged the entitlement problem and admitted that Medicare is at its heart, as noted above.

Is government health spending increasing faster than private health spending?

Yes. Recent projections from government actuaries at the Centers for Medicare and Medicaid Services (CMS) found that between 2007 and 2018, spending on both Medicare (7.3 percent) and Medicaid (8.4 percent) will significantly outpace private sector health spending growth of 5.3 percent. Thus some Members may believe that slowing the growth of health care costs alone will not address Medicare's pending shortfalls; structural reforms are necessary as well. The current Medicare program is also subject to high rates of fraud and waste. The Government Accountability Office has put Medicare on its "high risk" list due to this problem.

Has competition helped bring down Medicare spending, while increasing quality of care and choice of plans?

Yes. As a result of the intense competition among plans offering Medicare prescription drug benefits, independent actuaries at CMS recently found that the Part D drug benefit is projected to cost less than $395 billion—nearly 40 percent lower than the $634 billion figure cited at the time the Medicare prescription drug plan became law in 2003.

Does President Obama's budget improve Medicare's solvency?

No—in fact, it **undermines Medicare's solvency** by proposing new spending while failing to slow the growth of health costs. While the President's budget includes some proposals to slow the growth of Medicare, all the purported efficiencies found within Medicare would be re-directed to pay for new entitlement spending. At a time when Medicare faces unfunded shortfalls totaling nearly $38 trillion, some Members may question why the solvency of a program for seniors is given short shrift in the Obama budget, in order to finance a new government-run health plan that will cause as many as 114 million Americans to lose their current coverage.

Do the health care bills approved by Democrats in Congress restore Medicare's solvency?

No. While the Congressional Budget Office has testified that all the Democrat proposals before Congress would raise health costs—further jeopardizing Medicare's solvency—the Republican budget alternative would make Medicare sustainable over the long term. House Democrats' government takeover of health care (H.R. 3200) would divert $500 billion from Medicare—on top of more than $800 billion in tax increases—in order to finance new entitlements for younger Americans without addressing Medicare's solvency. Many may agree with CBO that creating a program costing $1.6 trillion will not slow the growth of health care costs, and question whether creating a new government-run health plan, causing as many as 114 million Americans to lose their current health coverage, is the first step towards government rationing of benefits in order to contain cost growth.

STAFF CONTACT

For more information or questions, please contact Chris Jacobs at 6-2302.