Have you ever used Google Maps to check a route between your house and a destination, only to find that the program suggests a route other than the one you would have taken? Both routes would get you to your destination, but you’re convinced that yours is superior – either because it is shorter, or more scenic, or takes into account construction projects that would cause delays. In the current presidential race, both sides are suggesting that they can get us to the same Medicare spending destination, but both argue that their respective route has fewer pitfalls, and that they should be behind the wheel.

Actually, given the rhetoric one hears, it is not clear that both sides even agree that they have the same spending goals. But, if we go back a few months and compare the President’s budget and the Budget Committee’s spending as specified by the committee’s chairman, Republican Vice-presidential nominee, Paul Ryan, it is clear that the two projections were about the same. The accompanying figure illustrates this point.

The reality is that attaining the shared fiscal goal requires that seniors receive less government-provided health care than they would if Medicare remains on its old spending path. And each side reluctant to say that their path leads that way. However, both sides would agree that the old path is “unsustainable” and that spending growth must fall.

What is lacking in the rhetoric, then, is the admission that regardless of the road taken, seniors will either have to pay for an increasing portion of their health care or face dramatic reductions in access to care and quality.

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Medicare spending as presented in the 2013 Budget is consistent with the 2011 Medicare Trustees Report and will be realized if all of the Affordable Care Act’s (ACA) provisions are implemented in the long run. Chief among those new provisions is the productivity adjustment requiring payments to inpatient and outpatient hospitals, skilled nursing facilities, home health care providers and hospice to be adjusted downward by the growth in economy wide productivity. The 2013 budget forecast also includes the assumption that the sustainable growth rate (SGR) mechanism governing Medicare payments to providers under Part B is maintained indefinitely. In each of the Trustees Reports, since the passage of the ACA, the Trustees have noted that the current law forecasts are unlikely to be realized and, that while these forecasts represent a favorable fiscal outcome, the ACA’s price ceilings will produce what price ceilings always produce – reduced availability and lower quality. But we may never see this occur, because the experience with the SGR shows that those spending limits have consistently been overridden legislatively, making it highly plausible that the ACA’s new productivity adjustment will similarly be overridden in the future.

The spending stipulated by the House Budget Committee follows the forecasts based on the ACA until 2023. After 2023, individuals who are already in Medicare would continue to receive benefits under the old program which would presumably have the same spending restrictions as the ACA. Thus, for the next 10 to 20 years the Budget Committee’s specified spending relies heavily on the ACA’s spending restrictions and the continuation of the SGR to achieve its targets. The new retirees in 2023 would receive age-adjusted premium support payments that would then grow with per capita GDP plus 0.5 percent. The Committee also suggests raising the eligibility age to 67 by 2034. Additionally, the premium support payments would be adjusted for health status, age, location and would be means-tested in some way. It appears that the Republican nominee, Mitt Romney, has not totally bought into the Budget Committee’s plan; however, as he said he would restore Medicare spending to the pre-ACA forecasts.

Is there a way to achieve the spending targets specified by the House Budget Committee and the President’s budget without reducing access and quality for all retirees (as would the ACA’s provisions) and without leaving low-income retirees with exorbitant health care spending in future years? Keeping low-income retirees whole and achieving the spending targets means that higher-income retirees will see the portion of their health care spending that is taxpayer-financed dwindle. How much means-testing are we talking about?

A stylized exercise illustrates the degree to which retirees with different incomes are affected by the level of means-testing that achieves the spending reduction specified in the President’s Budget and by the Budget Committee. Suppose the policy objectives include keeping low-income retirees “whole” in terms of the amount Medicare spends on their behalf and that the means testing is phased in over time. Assume that 30 percent of retirees are designated as low-income. This group receives full benefits, defined as the per capita spending that was projected prior to the passage of the ACA. We will use the alternative forecasts in the 2012 Trustees Report to represent the pre-ACA spending path. This alternative assumes that the SGR mechanism is overridden and that the productivity adjustments are not realized.

Also assume that the reform is phased in over the long-horizon of the Medicare Trustees forecast so that by 2085 the highest income retirees in the top 5 percent of the distribution receive 10 percent of the full, per capita, projected spending based on the pre-ACA forecasts. Suppose the phase-in period begins in 2022. Everyone above the 30th percentile in the income distribution will have their share of the pre-ACA projected per capita spending scaled back progressively.

The table below shows the percentage of the full benefits received by the retirees in the lowest 30 percentile, and the retirees at
the 50th, the 75th and at the 95th percentile in future years under the specified means-testing, alongside the percentage of full benefits all retirees would receive with the new ACA provisions coupled with the continuation of the SGR mechanism. By 2050, the current law would result in benefits that are 80 percent of the full benefits across the board. In contrast the specified means-testing would keep the bottom 30 percent whole, but would require that the highest income retirees receive only 59 percent of full benefits while those at the 75th percentile receive premium support payments equal to 71 percent of full benefits.

This is only an example, but it illustrates how means-testing could produce the same spending path as the ACA and the extension of the SGR mechanism. The price controls in the ACA and the SGR pretend that providers will continue to take progressively less than private insurance pays and will continue to accept new Medicare patients and provide them the same quality of care. Since this is extremely unlikely to happen, policy makers must admit to the fact that to lower the taxpayer share of the Medicare bill requires that retirees must contribute more. Identifying how the increase in beneficiary spending will be distributed in future years allows workers to plan for their retirement now.

The figure compares the spending resulting from the specified means-testing arrangement to the spending based on the Alternative 2012 Trustees forecast and the 2012 Trustees current law forecast. The current law forecasted path is now slightly higher than the 2011 Report's spending path that was consistent with the President's Budget, but it will serve as the target spending path. As the figure illustrates, the specified means-testing arrangement produces aggregate spending that is similar to current law spending. Instead of reducing spending (relative to the alternative forecasted spending) across the board as the ACA does, means-testing would require greater spending reductions for the higher income retirees to achieve the same spending targets.