

CBO Confirms: GOP Budget Dismantles Medicare, Dramatically Increases Costs for Seniors

WASHINGTON, DC – Results from a new Congressional Budget Office (CBO) [analysis](#) released yesterday confirm that the House Republican budget would dismantle the Medicare program and wreak havoc on the health and retirement security of America’s seniors and future retirees. The Republican budget destroys Medicare for everyone under age 55, ending Medicare’s historic entitlement to benefits and converting the program into a defined contribution that would offer individuals an under-funded voucher to purchase coverage in a new undefined marketplace where there is no guarantee that insurance companies will even participate.

The end result is a dramatic increase in the financial burden of health costs, with future retirees paying up to nearly three times as much for their health care than they would if current law continued.

According to the non-partisan CBO: **“A typical beneficiary would spend more for health care under the proposal than under CBO’s long-term scenarios for several reasons. First, private plans would cost more than traditional Medicare because of the net effect of differences in payment rates for providers, administrative costs, and utilization of health care services...Second, the government’s contribution would grow more slowly than health care costs, leaving more for beneficiaries to pay.”** (p.23)

The Republican budget would...

Destroy Medicare for Future Retirees and Replace it with an Under-Funded Voucher:

“People who become eligible for Medicare in 2022 and subsequent years would receive a payment that was larger than \$8,000 by an amount that reflected the increase in the consumer price index for all urban consumers (CPI-U) and the age of the enrollee.” (p. 8)

CPI-U fails to take into account full inflation for medical costs and is well below average per capita growth in Medicare spending. It is unrealistic to expect the growth in health costs to slow that dramatically or for the need for medical care to change that much, which can only mean major cost shifts to beneficiaries. After all, this is a deficit-driven exercise, not an effort to reform the program or protect beneficiaries. The whole point of converting the program to a defined contribution and setting an arbitrarily low growth rate is to save money. It has to be deliberately under-funded or it won’t generate savings.

Increase Medicare Beneficiary Costs By Nearly Three-Fold:

“Under the proposal, most beneficiaries who receive premium support payments would pay more for their health care than if they participated in traditional Medicare under either of CBO’s long-term scenarios. CBO estimated that, in 2030, a typical 65-year-old would pay 68 percent of the benchmark under the proposal, compared with 25 percent under the extended-baseline scenario and 30 percent under the alternative fiscal scenario.” (p. 21)

This is not “reform,” but simply a massive middle-class cost-shift to individuals and their families. Thus, under the Republican budget proposal, beneficiaries would be forced to pay more than twice and up to nearly three times the amount than they would pay if current law were extended under two different scenarios (e.g., main difference in health world between “extended baseline” and “alternative fiscal scenario” is whether a Medicare Physician Payment Fix (doc fix) is assumed or not and what the doc fix is).

Move Medicare Beneficiaries Into Private Plans that Are Less Efficient and More Costly than Medicare:

“A private health insurance plan covering the standardized benefit would, CBO estimates, be more expensive currently than traditional Medicare. Both administrative costs (including profits) and payment rates to providers are higher for private plans than for Medicare...for a typical 65 year old in 2011, CBO estimate that average spending in traditional Medicare would be [11 percent lower] than the spending that would occur if the same package was purchased from a private insurer” (p. 21)

Historically, private plans have increased, not decreased, Medicare spending.

Drive Medicare Beneficiaries Out of Medicare by Increasing Beneficiary Costs and Discouraging Participation:

“Costs to individuals (beyond those covered by the premium support payment) would be higher under the proposal than under traditional Medicare, and some individuals would therefore choose not to purchase insurance.” (p. 12)

While CBO has not quantified how many people will opt out, CBO clearly states that the total effect of the Republican budget will be to force some people out of the program. Depending on who leaves, this could raise the number of uninsured, raise costs for those who remain behind (e.g., if a disproportionate share are healthy and wealthy), etc.

Shift Costs to Medicare Beneficiaries and Lead to Rationing of Care By Making it Unaffordable:

“Under the proposal, the gradually increasing number of Medicare beneficiaries participating in the new premium support program would bear a much larger share of their health care costs than they would under the traditional program...That greater burden would require them to reduce their use of health care services, spend less on other goods and services, or save more in advance of retirement than they would under current law. At the same time, the proposal analyzed by CBO would leave in place provisions restraining payments to many providers under the traditional Medicare program.” (p. 19)

While the Affordable Care Act included aggressive payment reforms that increased efficiency and quality while protecting and even improving Medicare benefits, many Republicans campaigned aggressively against these policies during the 2010 election. Ironically, the Republican budget now leaves in place all of the Medicare savings from

*the Affordable Care Act, eliminates a key improvement (filling the donut hole, which is addressed in another quote below), **and** goes much, much further by ending Medicare's entitlement and turning it into a defined contribution plan. With the voucher, CBO says people will need to seek less care, spend less on food/shelter/heating and other services, or save more to pay for the new extra costs.*

Increase the Rate of Growth in Medicare Beneficiary Costs:

“Moreover, CBO projects that total health care spending for a typical beneficiary covered by the standardized benefit under the proposal would grow faster than such spending for the same beneficiary in traditional Medicare under either of CBO's long-term scenarios.” (p. 21)

*Again, relying on private plans to deliver benefits **increases** the cost of care. So underfunding the voucher and forcing people to more purchase more expensive coverage in the private market results in a double-whammy for an older, sicker population.*

Remove Medicaid Protections for Vulnerable Seniors Who are Dually Eligible for Medicare and Medicaid:

“Beginning in 2022, the federal government would establish a medical savings account (MSA) for certain beneficiaries with low income. (An MSA is an account that holds deposits that can be used for medical expenses.) Eligibility for MSA payments would be determined annually by the federal government on the basis of income relative to the federal poverty thresholds. The amount of the contribution in 2022 would be \$7,800, and the annual amounts in subsequent years would grow with the CPI-U.” (p. 9)

A low-income senior can completely exhaust these funds with one episode of illness. For instance, a senior suffering a stroke who enters the hospital in January and then requires a skilled nursing stay of less than two months would face cost-sharing exceeding this amount. Under this scenario, their assistance would run out before the end of February. They would be on their own to cover any additional health costs incurred for the rest of the year.

Provide No Funding for a Medicare Physician Payment Fix:

“On the basis of the specifications provided by Chairman Ryan's staff, CBO's analysis included no change in the sustainable growth rate (SGR) mechanism for payments to physicians under Medicare.” (p. 7)

Republicans assert they want to fix the physician payment formula, but have never offered a solution and repeatedly voted against Democratic reform proposals in the last Congress. Once again, they have ignored the problem. Doing so not only raises questions about access in the future, but it jury-rigs the overall deficit and budget numbers by leaving hundreds of billions of dollars out of the equation.

Increase the Medicare Eligibility Age:

“Starting in 2022, the age of eligibility for Medicare would increase by two months per year until it reached 67 in 2033.” (p. 7)

While CBO states they have not estimated these effects yet, this policy will lead to an increase in the uninsured for people caught in the gap and/or an increase in employer costs as older people need to stay on employer coverage for additional years, as well as other potential adverse financial and health effects.

Eliminate Health Reform’s New Medicare Drug Coverage while Embracing Health Reform’s Medicare Savings:

“The proposal would repeal the provisions...that expanded subsidies for the “coverage gap” in Part D....Most of the other changes that PPACA and the Reconciliation Act made to the Medicare program would be retained.” (p. 10)

Republicans, including Chairman Ryan, created the Part D prescription drug program in 2003. This program, which was estimated to cost more than \$400 billion at the time and is responsible for approximately \$7 trillion of the so-called “unfunded mandate” talked about by Republicans, was not paid for. One gimmick employed at that time was to eliminate coverage as needs rose, creating the so-called “donut hole.” The Affordable Care Act filled this hole to guarantee senior citizens comprehensive drug coverage. The Republican budget repeals this critical benefit.