

A Doctors' Note on Medicare

Medicare Fact Sheets From Physicians In Congress

June 2012



U.S. Senator Tom Coburn, M.D.
U.S. Senator John Boozman, O.D.
U.S. Representative Phil Gingrey, M.D.
U.S. Representative Scott DesJarlais, M.D.
U.S. Representative Diane Black
U.S. Representative John Fleming, M.D.
U.S. Representative Dan Benishek, M.D.
U.S. Representative Andy Harris, M.D.

U.S. Senator John Barrasso, M.D.
U.S. Senator, Rand Paul, M.D.
U.S. Representative Phil Roe, M.D.
U.S. Representative Paul Gosar, D.D.S.
U.S. Representative Renee Ellmers
U.S. Representative Charles Boustany, M.D.
U.S. Representative Larry Bucshon, M.D.



Dear Fellow American –

There has been a lot of talk in Washington, DC in recent months about the future of the Medicare program.

Everyone agrees that Medicare is a critically important program providing needed health coverage for millions of Americans.

However, not everyone understands that the current Medicare program is on an unsustainable course.

Because the program is on a path toward bankruptcy in the near future, the status quo in Medicare is a threat to seniors' care.

Therefore, the greatest threat to seniors' Medicare benefits is not reform or change, but inaction.

In fact, Congress must change Medicare to save the program.

We believe Congress has a moral obligation to adopt common-sense changes to strengthen Medicare and protect seniors.

Medicare faces a number of different kinds of problems.

That's why we are sharing with you our "doctors' note" with a number of facts about the program.

Every American has a stake in the future of Medicare.

And every American deserves candor about the challenges the program faces.

We hope that this presentation will help further the conversation about the need to adopt bipartisan solutions.

Republican Health Care Providers in Congress

10 Facts That Impact The Medicare Program



1. **Longevity Has Increased Dramatically, But Medicare's Age Of Eligibility Has Not.** In 1965 the average life expectancy was 70.2 years. However, because of improvements in medical innovation and public health, today life expectancy is nearing 80 years.¹
2. **Medicare Loses An Estimated \$60-\$100 Billion Each Year To Waste, Fraud And Abuse.**² While the current Medicare program loses billions of taxpayer dollars each year, unfortunately, even if it were possible to totally prevent or eliminate all fraud and abuse, the program would still face insolvency.
3. **Seniors Receive, On Average, Three Times The Amount Of Benefits They Paid Into The System.** Consider the example of an average-wage, two-earner couple together earning \$87,000 a year. Upon retiring in 2011, they would have paid \$119,000 in Medicare payroll taxes during their careers. But they can expect to receive medical services – from prescriptions to hospital care – worth \$357,000, or about three times what they paid into the program during their career.³
4. **Seniors Pay Only A Quarter Of The Cost Of A Doctor Visit, Even Though LBJ Envisioned They Would Pay Half.** When the program began in 1966, seniors' Medicare premiums were intended to finance 50% of Part B costs per aged enrollee with the remainder funded by the federal government. President Lyndon Johnson highlighted this 50/50 cost share when he signed Medicare into law saying, "And under a separate plan, when you are 65 you may be covered for medical and surgical fees whether you are in or out of the hospital. You will pay \$3 per month after you are 65 and your Government will contribute an equal amount."⁴
5. **Currently, Each Day About 10,000 Baby Boomers Age Into Medicare.**⁵ The rapid growth in eligible beneficiaries places an unprecedented strain on the program's already-shaky financing.

¹ Kochanek, Kenneth D. et al, "Deaths: Preliminary Data for 2009," National Vital Statistics Reports, Volume 59, Number 4, March 16, 2011, http://www.cdc.gov/nchs/data/nvsr/nvsr59/nvsr59_04.pdf

² Newt Gingrich & Barry Rand, "Stop Paying Crooks: Get Tough on Health-care Fraud," *Orlando Sentinel*, September 29, 2010, <http://bit.ly/cDZAJi>

³ Urban Institute, "Social Security and Medicare Taxes and Benefits Over a Lifetime," June 2011, <http://bit.ly/gCe9RI>

⁴ *Public Papers of the Presidents of the United States: Lyndon B. Johnson, 1965*. Volume II, entry 394, pp. 811-815, Washington, D. C.: Government Printing Office, 1966, <http://www.lbjlib.utexas.edu/johnson/archives.hom/speeches.hom/650730.asp>

⁵ Pew Research Center, "Baby Boomers Approach Age 65 – Glumly," December 20, 2010, <http://pewresearch.org/databank/dailynumber/?NumberID=1150>

10 Facts That Impact The Medicare Program (cont'd)

6. **The Number Of Workers Paying Into The System Has Declined Over Time And Will Continue To Decline.** Baby boomers started to retire in 2008. This year the oldest of their generation turned 65 and began enrolling in Medicare. In 1965 there were 4.6 workers per beneficiary. Today there are 2.9 workers per beneficiary.⁶
7. **Medicare Is Running a Cash Deficit – and Has Been For Some Time.** The Hospital Insurance Trust Fund has been running a deficit since 2008 and is projected to continue to do so forever. According to a former director of the Congressional Budget Office, in 2011, the Medicare program ran a \$288.3 billion cash shortfall. In fact, since the creation of the program in 1965, Medicare has run cash deficits each year, except 1966 and 1974.⁷
8. **Under the current fee-for-service Medicare program, seniors do not have the peace of mind that they are protected against significant out-of-pocket medical expenses.** As the President's Fiscal Commission explained, "Medicare beneficiaries must navigate a hodge-podge of premiums, deductibles, and copays that offer neither spending predictability nor protection from catastrophic financial risk."⁸
9. **The Medicare Program Spends a LOT.** Under current law and assuming a 10-year 'Doc Fix', net Medicare spending totals \$2.8 trillion over the next five years, and \$6.6 trillion over the next 10 years. This is 25 percent of all mandatory spending, and approximately 15 percent of all federal spending.⁹
10. **About 25 Percent of Medicare Program Expenditures Occur Within the Last Year of Life.**¹⁰

⁶ Senger, Alyene, "Medicare at Risk: Visualizing the Need for Reform," May 22, 2012, <http://bit.ly/MjyoOr>

⁷ Holtz-Eakin, Douglas and Nussle, Jim, "Medicare's Dirty Little Secret," April 25, 2012, <http://bit.ly/IR8Jue>

⁸ The National Commission on Fiscal Responsibility and Reform, "The Moment of Truth," December 2010, <http://bit.ly/hUbNEP>

⁹ The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, "Annual Report of the Boards of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds," April 23, 2012, <http://go.cms.gov/jrYH6H>

¹⁰ Hogan, Christopher et al, "Medicare Beneficiaries' Costs Of Care In The Last Year Of Life," Health Affairs, Volume 20, Number 4, July 2001, Page 188-195, <http://content.healthaffairs.org/content/20/4/188.full>

10 Facts Seniors Need To Know About Medicare's Future



- 1. Currently, More Than 1 In 10 Physicians Are Not Accepting New Medicare Patients.** Physician surveys show that while a small minority, some physicians do not accept Medicare patients. For 2008, the National Ambulatory Medical Care Survey shows 10 percent did not accept new Medicare patients and 17 percent of primary care physicians did not accept new Medicare patients. In another 2008 physician survey, about 12 percent reported accepting some new Medicare patients and 14 percent indicated that they did not accept any new Medicare patients.¹¹
- 2. When The Hospital Insurance Trust Fund Is Insolvent, No One Knows How Providers Will Get Paid.** As the Congressional Research Service explains: "There are no provisions in the Social Security Act that govern what would happen if [insolvency] were to occur. For example, there is no authority in law for the program to use general revenue to fund Part A services in the event of such a shortfall."¹²
- 3. To Control Medicare Spending, Instead Of Trusting Seniors, The President Empowered 15 Unelected Bureaucrats.** The President's health care law empowered a board of unelected bureaucrats to "reduce the per capita rate of growth in Medicare spending." These 15 Medicare bureaucrats will serve on the Independent Payment Advisory Board (IPAB) and will be politically-appointed. They will be charged with developing proposals that cut Medicare – and because the panel is prohibited from suggesting common-sense changes, the panel will only be able to cut reimbursements to physicians and other health care providers, resulting in delay and denial of care. Unfortunately, judicial review of IPAB decisions is prohibited by law, so seniors and physicians cannot seek relief in court even if they are negatively impacted by the Board's decisions.¹³
- 4. Doctors Overwhelmingly Believe the Independent Payment Advisory Board Will Hurt Seniors' Access to Care.** In a recent survey, 80 percent of doctors said the Independent Payment Advisory Board in the President's health care law will cut reimbursement rates to doctors, which will harm seniors' access to care.¹⁴
- 5. Without Congressional Action, Medicare Reimbursement Rates Will Drop About 30 Percent At the End of the Year – Which Would Harm Seniors' Access to Care.** The Medicare program reimburses physicians by using a payment mechanism known as the Sustainable Growth Rate (SGR). Congress established the SGR in 1997 as a funding formula designed to adhere to overall spending targets. The SGR works by effectively decreasing reimbursement levels one year if Medicare reimbursements to physicians another year were higher than a set target. Though cost-containment is the right goal, the SGR mechanism failed to achieve its goal. In fact, since 2004, Congress has had to work to prevent the SGR from huge reductions in payments to physicians that could harm seniors' access to care. Now, unless Congress intervenes, Medicare's physician reimbursements will plummet by about 30 percent on January 1, 2013 because of the SGR.

¹¹ Medicare Payment Advisory Commission, "Health Care Spending and the Medicare Program," June 2011, <http://1.usa.gov/L3O2dm>

¹² "Drs Coburn, Barrasso, Gingrey and Roe Release Report on Coming Insolvency of Medicare," April 16, 2012, <http://bit.ly/HOAKLB>

¹³ Senators Tom Coburn, M.D. and John Barrasso, M.D., "Medicare & You," 2012, <http://bit.ly/K2HUSV>

¹⁴ "New Survey: 75% of Physicians Largely Oppose the Affordable Care Act, the President's Healthcare Law," March 29, 2012, <http://bit.ly/L3Rchn>

10 Facts Seniors Need To Know About Medicare's Future (cont'd)

6. **The President's Health Care Law Took \$530 Billion from Medicare To Spend Other Programs Not for Seniors.** The health care law cut more than half a trillion dollars from the Medicare program to fund new government programs. These cuts to Medicare were double-counted, giving the illusion of extending Medicare's solvency – even though the dollars are really being spent on new government bureaucracies. CBO reiterated this conclusion when the Director of the office explained that the cuts to Medicare cannot “pay for future Medicare spending [and therefore increase its solvency] and, at the same time, pay for current spending on other parts of the legislation...”¹⁵
7. **As Soon as 2017, Medicare Could Run Out of Money to Pay All the Program's Hospital Bills.**¹⁶
8. **Many Seniors on Medicare Advantage Will Lose Their Plan.** More than one in four seniors are currently on Medicare Advantage. However, according to the Actuary of the Medicare program, by 2017 when Medicare Advantage cuts in the President's health law are fully implemented, roughly half of seniors who like the Medicare Advantage plan they have will lose it. According to the Actuary, Medicare Advantage's estimated enrollment and benefits will be cut in half. This will undoubtedly be unwelcome news for the more than one in four seniors who currently enjoy a Medicare Advantage plan.
9. **If Congress Reformed Supplemental Medicare Coverage, Four Out of Five Seniors Could Save Money.** The Kaiser Family Foundation released a report evaluating various proposed Medigap reforms. As the report noted, “in 2008, about one in six Medicare beneficiaries, over 7 million, had an individually purchased Medicare supplemental insurance policy, known as Medigap (and no other source of supplemental coverage).” Four out of 5 seniors would save money from Medigap reform: “The majority of Medigap enrollees are projected to see a reduction in net out-of-pocket costs (including premiums), but about one in five Medigap enrollees would pay more.”¹⁷
10. **The Actuary Of The Medicare Program Projects That 15% Of Hospitals Will Close In The Coming Decade.** The Actuary of the Medicare program has warned that provider cuts could put 15 percent of hospitals out of business within a decade.¹⁸ He noted, if the projected cuts occur, “Medicare beneficiaries would almost certainly face increasingly severe problems with access to care.”¹⁹ The Actuary also warned that “by 2019 the [cuts to provider reimbursements] would result in negative total facility margins for about 15 percent of hospitals, skilled nursing facilities, and home health agencies. This estimated percentage would continue to increase, reaching roughly 25 percent in 2030 and 40 percent by 2050. In practice, providers could not sustain continuing negative margins and...would have to withdraw from providing services to Medicare beneficiaries, merge with other provider groups, or shift substantial portions of Medicare costs to [other] payers.”²⁰

¹⁵ Senators Tom Coburn, M.D. and John Barrasso, M.D., “Medicare & You,” 2012, <http://bit.ly/K2HUSV>

¹⁶ The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, “Annual Report of the Boards of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds” April 23, 2012, <http://go.cms.gov/jrYH6H>, “Using high-cost assumption.”

¹⁷ “New Report Shows 4 out of 5 Seniors Could Save Money From Medigap Reform,” August 16, 2011, <http://bit.ly/KjeFBL>

¹⁸ Foster, Richard S., Memo for Centers for Medicare and Medicaid Services, April 22, 2010, Page 10, <http://go.cms.gov/L3y84i>

¹⁹ Shatto, John D. and Clemens, M. Kent, Memo for Centers for Medicare and Medicaid Services, August 5, 2010, Page 5, <http://go.cms.gov/N4hZAV>

²⁰ Shatto, John D. and Clemens, M. Kent, Memo for Centers for Medicare and Medicaid Service, May 18, 2012, Pages 8-9, <http://go.cms.gov/KuroN5>

10 Facts Policymakers Should Consider In Reforming Medicare



- 1. The Actuary Of The Medicare Program Says That Congressional Action Will Be Required to Ensure Seniors Have Continued Access to Care.** In May 2012, the Medicare Actuary said that “it is reasonable to expect that Congress would find it necessary to legislatively override or otherwise modify the reductions in the future to ensure that Medicare beneficiaries continue to have access to health care services.”²¹
- 2. Solving Medicare’s Long-Range Financial Imbalance By Raising Taxes Is Untenable.** The 2012 Medicare Actuaries report explains that making immediate changes to bring Medicare into solvency would “require an immediate 47-percent increase in the standard tax rate” or an “immediate 26-percent reduction in [Medicare program] expenditures.”²²
- 3. The Medicare Trustees’ Alternative Scenario, Shows Unfunded Liabilities Over A 75-Year Period Of \$36.9 Trillion.** That breaks down as follows: Part A: \$8.3 trillion, Part B: \$21 trillion, and Part D: \$7.5 trillion.²³
- 4. Taxpayers Subsidize Millionaires on Medicare.** According to the independent Chief Actuary of the Social Security Administration, there are about 60,000 seniors enrolled in Medicare Part B who have annual incomes of more than \$1,000,000 or more.²⁴
- 5. During His Entire Presidency, President Obama Has Not Offered a Plan to Save Medicare.** For the sixth consecutive year (2007 through 2012), the Medicare Trustees were required by the Social Security Act to issue a Medicare funding warning in their annual report. While a funding warning has been issued or in place every year the President has been in office, the administration continues to defy its obligation under the law to submit a legislative proposal to Congress in response to warnings issued by the Trustees. The President points to the new health care law as his response to the Medicare trigger, but the Trustees have issued funding warnings in all three reports since the health care law was enacted (2010 through 2012). In the summary of the report the Trustees clearly explain: “The warning directs the President to submit proposed legislation within 15 days of the next budget submission to respond to the warning and requires Congress to consider the proposal on an expedited basis. To date, elected officials have not enacted legislation responding to these funding warnings which have been included in the five previous reports.”

²¹ Shatto, John D. and Clemens, M. Kent, Memo for Centers for Medicare and Medicaid Services, May 18, 2012, Page 1, <http://go.cms.gov/KuroNS>

²² The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, “Annual Report of the Boards of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds,” April 23, 2012, <http://go.cms.gov/JrYH6H>, page 32

²³ Codespote, Suzanne, Memo for Centers for Medicare and Medicaid Services, April 23, 2012

²⁴ Coburn, Tom, M.D., “Subsidies of the Rich and Famous,” November 2011, Page 8, <http://bit.ly/AsilyH>

10 Facts Policymakers Should Consider In Reforming Medicare (cont'd)

6. **Medicare Is Running Out of Money.** The Hospital Insurance Trust Fund has been running a deficit since 2008 and is projected to continue to do so forever. According to a former director of the Congressional Budget Office, in 2011, the Medicare program ran a \$288.3 billion cash shortfall. In fact, since the creation of the program in 1965, Medicare has run cash deficits each year, except 1966 and 1974.²⁵
7. **The President's National Commission On Fiscal Responsibility And Reform Said "Federal Health Care Spending Represents Our Single Largest Fiscal Challenge Over The Long-Run."**²⁶ Under current law, Medicare spending is expected to jump from \$522.8 billion in 2010 to \$932 billion in 2020.²⁷
8. **Medicare's Drug Benefit (Part D) Is Popular And Has Cost Less Than Expected.** As former Secretary of Health and Human Services Mike Leavitt noted in 2011, "The drug benefit, now in its sixth year, has outperformed all expectations. Seniors like it. Ninety percent of Medicare participants are in secure drug coverage and express strong satisfaction with the program in independent surveys. Scores of insurers participate in the program. In 2011, every senior in the country has access to a minimum of 28 drug plan options. Competition is working to hold down costs. Current projections by the Medicare actuaries show the 10-year costs of the drug legislation coming in 41 percent below estimates made when the bill passed."²⁸
9. **Over The Next 20 Years, The Share Of Medicare Beneficiaries Living At Or Above 600 Percent Of Poverty Is Projected To Increase By Half.** According to Kaiser Family Foundation analysis, between 2010 and 2030, the share of all Medicare beneficiaries living on incomes at or above 600 percent of poverty is projected to rise from 19 percent to 30 percent.²⁹
10. **It Is Not Possible To Raise Taxes High Enough To Ensure Medicare's Long-Term Financial Solvency.** Faced with Medicare's financing challenges, some say Congress should just raise taxes to pay for current benefits. But just raising taxes does not fix the problem. For example, respected economists Kate Baicker and Jonathan Skinner found tax rates would have to jump 28 percent for the wealthiest Americans, just to keep Medicare solvent for another decade. And in this scenario, even the poorest Americans would see an increase in their taxes. These huge tax hikes would be disastrous for American families in our economy. Raising taxes to paper over the problems with runaway Medicare spending would be short-sighted and selfish because it would leave seniors' children and grandchildren with less economic opportunity.³⁰

²⁵ Holtz-Eakin, Douglas and Nussle, Jim, "Medicare's Dirty Little Secret," April 25, 2012, <http://bit.ly/IR8Jue>

²⁶ The National Commission on Fiscal Responsibility and Reform, "The Moment of Truth," December 2010, Page 36, <http://bit.ly/hUbnEP>

²⁷ Moffit, Robert, "The First Stage of Medicare Reform: Fixing the Current Program," The Heritage Foundation, October 17, 2011, Footnote 4, <http://bit.ly/K3ji09>

²⁸ Leavitt, Michael, "A Prescription to Fix Medicare," *The Washington Post*, May 19, 2011, <http://wapo.st/l65TSN>

²⁹ The Kaiser Family Foundation: Medicare Policy, "Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries?" June 2011, <http://bit.ly/L42hiP>

³⁰ Senators Tom Coburn, M.D. and John Barrasso, M.D., "Medicare & You," 2012, <http://bit.ly/K2HUSV>