

The Philadelphia Inquirer

Look at all ideas on fixing Medicare

Both candidates' plans have steps worth taking.



By Mark Zandi, Sunday, August 26, 2012

Mitt Romney's choice of Rep. Paul Ryan as his running mate put Medicare front and center in the presidential debate. Ryan's Medicare plan, largely endorsed by Romney, differs markedly from the program's treatment under the Affordable Care Act, also known as Obamacare.

Despite what the candidates say, neither plan solves Medicare's problems. Yet since no clear solution has emerged, both contain ideas worth trying.

Since its inception in 1965, Medicare has provided older Americans with medical care without any overall limit on cost. Given the rapid growth of health-care costs and the large number of baby boomers moving toward retirement, the cost of Medicare is rising rapidly. If current trends continue, Medicare costs (along with those of Social Security and Medicaid) will swamp the federal budget. There is no way to address our long-term fiscal problems without reining in the cost of Medicare and health care in general.

Ryan's proposal is to change Medicare from a defined-benefit plan to a defined-contribution plan for anyone currently under 55. This would be a big change, in that government would no longer guarantee payment for older Americans' care. It would instead give beneficiaries a fixed amount to pay for coverage, which private insurers and Medicare would compete to provide. The insurance subsidy would increase each year, but it would not necessarily cover rising care costs.

Ryan hopes competition would significantly slow the growth of costs, giving future Medicare beneficiaries essentially the same level of care. I wouldn't count on it. A decadelong experiment with competition in Medicare, known as Medicare Advantage, has actually raised costs.

It turns out that Medicare's size helps keep its administrative costs low and allows it to negotiate better deals with hospitals, doctors, and other providers. Under Ryan's plan, the cost of care would thus be likely to outpace the government insurance subsidy.

Eventually, beneficiaries who rely on the government for their care would receive less of it.

It's premature to make such a big change to Medicare. It's true that if nothing changes, the program will eventually bust the federal budget. But we should try other ways to slow the growth of costs before we reduce benefits. And if Medicare benefits are ultimately reduced, it should be for higher-income beneficiaries who can afford it, not financially stretched middle-income households.

As for President Obama, his law keeps Medicare as a defined-benefit plan that guarantees payment for care. However, recognizing that the status quo will eventually break the budget, it creates a 15-member board of health-care practitioners, known as the Independent Payment Advisory Board, to adjust Medicare payments to providers if costs rise too quickly. The board is forbidden from rationing benefits or changing eligibility.

The president hopes the board's decisions will force care providers to become more efficient and keep costs down. I wouldn't count on that, either. Even if the board's members can agree on reductions, their limited mandate will make it difficult to find the savings needed to keep Medicare financially viable.

The campaigns' Medicare mudslinging has unnecessarily complicated this already mind-numbing issue. The back and forth over cuts to Medicare under the Affordable Care Act has been particularly vicious. The law does cut future Medicare payments, especially to private insurers in the Medicare Advantage program, using the savings to help cover the uninsured. But contrary to some claims, Obamacare does not cut services to Medicare beneficiaries. Moreover, Ryan proposes the same Medicare cuts, although he would direct the savings to deficit reduction.

Despite the political vitriol, there is common ground. Significantly, Obamacare embraces competition among private insurers by helping state governments establish insurance exchanges where households can shop for health plans. These exchanges aren't for Medicare beneficiaries, but there is no reason they couldn't be. We should combine Ryan's vision of Medicare competition with Obama's continuation of the government guarantee.

Since competition alone won't contain costs, Obama's Independent Payment Advisory Board is also worth keeping. It won't last long if it oversteps its mandate and rations health care, as some fear, but it could do good by pressuring providers to step up their game.

None of this would bend the health-care cost curve enough to solve the problem. Greater transparency in care prices, experiments with organizing physicians to deliver more effective care, and taxation of high-priced insurance plans are all worth exploring, too.

The rising cost of health care is a vexing problem with no clear solution. The candidates are debating Medicare as if they know how to put it on solid financial ground. They don't. So we should try everything.

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http://articles.philly.com/2012-08-26/news/33403564_1_medicare-costs-medicare-plan-medicare-payments