Medicare & You

2012

This is a doctors' opinion on the Medicare program with important information about the following:

- **Your Medicare program was cut $530 billion by President Obama's controversial health law, and used for brand new programs for someone else**
- **Your Medicare Advantage choices reduced**
- **New unelected Medicare czars who will cut payments to health care providers**
- **Medicare's shaky financial future**

Dear Senior,

Each year the Medicare program has an "open enrollment" period during which you and millions of other seniors learn about costs, coverage, and choices in the Medicare program. During this open enrollment time, you are supposed to be able to choose a health plan that meets your needs.

However, you and other seniors will soon be facing fewer choices in Medicare, in large part due to the way Congress has mismanaged the program. As physicians, we are writing to offer you our perspective about some of the big challenges the Medicare program faces. We hope that being honest about the problems will increase your interest in proven solutions to save the program.

Today, more and more seniors are enrolling into the program, but the program faces deep challenges. Physicians are dropping out of the Medicare program. Costs are increasing. Choices are too few.

The truth is that the Medicare program is in worse financial shape than most people know. The nonpartisan Congressional Budget Office estimates that the program is just nine years away (2020) from not being able to pay out current benefits. Even more sobering, the program's independent actuary recently said that in a worst-case scenario, Medicare's primary funding stream would be exhausted in 2016. These somber assessments mean that men and women elected to the Senate next year could face a bankrupt Medicare program during their first term.

There are basically three main reasons Medicare is in such bad shape. First, Medicare faces financial insolvency in part because of changes in life expectancy and demographics. When Medicare was created in 1965, the average life expectancy was just above 70 years old. However, because of improvements in medical innovation and public health, today life expectancy is above 80 years old.

Second, Medicare is unsustainable because Congress expanded the program and financing has not kept up. Over the years, politicians and lobbyists have grown the Medicare program far beyond its original design, expanding the program to cover populations and benefits never envisioned. For example, consider an average-wage, two-income couple together earning $89,000 a year. Upon retiring in 2011, they would have paid $114,000 in Medicare payroll taxes during their careers. But they can expect to receive medical services – from prescriptions to hospital care – worth $355,000, or about three times what they paid into the program during their career. The estimates illustrate the huge disconnect between widely-held perceptions and the numbers behind Medicare's shaky financing.

Third, Medicare is much worse because of the unpopular health care law that some members of Congress and the President supported. While the problems with Medicare certainly pre-date the current Congress and President, unfortunately, the controversial health care law they supported made the situation dramatically worse. The law cut about $530 billion from Medicare to spend the money on new programs. The law also put in place a panel of Medicare czars that will cut payments to doctors and threaten seniors' access to care. The new law increases taxes, increases health care costs, increases government control over health care, and exacerbates many of the problems in health care. Many dynamics in American health care and the Medicare program were dramatically worsened by the law. You can read more about these and other problems in this handout.

While Medicare is an important program that you and millions of others rely on, it is unquestionably on an unsustainable path. Faced with these realities, some seniors 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.

We have to act soon to save Medicare, while there is still time. What we need is a reform of Medicare that builds on what already works in the program. As physicians with over five decades of combined experience practicing medicine, we are committed to real reforms that save Medicare and put the program on a sustainable path. We believe that real Medicare begins with replacing many of the Medicare changes in the new law with proven solutions that will lower costs, increase your control as a patient, reduce bureaucracy and government interference, and preserve the promise of Medicare for the next generation.

Sincerely,

Tom Coburn, M.D.
U.S. Senator

John Barrasso, M.D.
U.S. Senator

[1]Senators Tom Coburn, M.D. and John Barrasso, M.D., *"Bad Medicine: A check-up on the new federal health law,"* July 2010. http://coburn.senate.gov/public//index.cfm?a=Files.Serve&File_id=722faf8b-a5be-40fd-a52b-9a98826c1592

[2]Economic Report of the President, chapter 4, page 96, 2007. http://fraser.stlouisfed.org/publications/erp/page/14147/download/47638/14147_ERP.pdf

[3]Steuerle, Eugene, and Rennae, Stephanie. "Social Security and Medicare Taxes and Benefits Over a Lifetime," June 2011. The numbers contained in the example are in 2010 dollars, adjusted for inflation so can be compared to current day. http://www.urban.org/UploadedPDF/social-security-medicare-benefits-over-lifetime.pdf

[4]Baicker, Katherine, and Skinner, Jonathan. "Health Care Spending Growth and the Future of U.S. Tax Rates," National Bureau of Economic Research Working Paper No. 16772, February 2011. http://www.nber.org/aginghealth/2011no1/w16772.html

What's Important For Your Medicare in 2012

President Obama's Health Law Cut $529 Billion From Your Medicare To Spend On New Programs, Worsening Medicare's Shaky Financial Outlook

The controversial health care law cut more than half a trillion dollars from the Medicare program to create brand new government programs for someone else. The Medicare program already faces severe financing challenges and the program is not a piggyback for wasteful spending on new programs.

Unfortunately, some Congressional Democrats have been trumpeting that these cuts appear to increase Medicare's solvency. However, in a letter in 2009 the nonpartisan Congressional Budget Office (CBO) said that the appearance of Medicare savings from the cuts was only because the Medicare trust fund is "essentially an accounting mechanism."

In reality, the 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…"

The Chief Actuary of the Medicare program agreed, saying significant Medicare cuts in the health care law, "cannot be simultaneously used to finance other Federal outlays (such as coverage expansions) and to extend the trust fund."

Now, according to the 2011 Medicare Trustees' Report, Medicare's hospital insurance trust fund could be insolvent as early as 2016. This means we may have as little as five years to act to save Medicare.

Action to save Medicare is needed. The greatest threat to seniors is not reform, it is inaction. Medicare has become an enormous driver of our unsustainable federal debt and deficits. The total cost of Medicare is expected to reach $1 trillion in just over a decade. Congress and the President need to advance sustainable reform to save Medicare for the millions of seniors who rely on the program.

Your Physician Faces A 27 % Reimbursement Cut in January 2012 Because the Controversial Health Law Failed to Fix Medicare Reimbursements

The Medicare program reimburses 973,000 physicians who provide care for about 40 million seniors 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 more than 27 percent on January 1, 2012 because of the SGR. Fixing a Medicare's broken payment system should have been a cornerstone of health reform. One of the most important things in health care is to keep our promises to seniors and ensure they have access to care.

Yet the architects of President Obama's health care law ignored fixing this basic problem with Medicare payments. In fact, the authors of the legislation pretended that dramatic Medicare reimbursement cuts would take place, so they could lower the price tag of their bill and claim it would reduce the deficit. So, rather than fixing an issue everyone in Congress agreed was a problem, President Obama and Congressional Democrats left the fix out of the final health bill.

Ignoring the SGR had nothing to do with policy; it had everything to do with politics and budgetary shenanigans. But merely leaving the SGR out of health reform to lower the bill's price tag does not really move the costs off the books. As the Washington Post noted, "The cost to federal taxpayers remains – no matter how much budgetary smoke and mirrors are used to make it seem to disappear, or to postpone the check-writing."

If You Like The Medicare Advantage Plan You Have, You Might Lose It

Remember President Obama's pledge that Americans who like the health coverage they had could keep it? That was a good promise, but it will not be true for many Americans. According to the Actuary of the Medicare program, by 2017 when Medicare Advantage cuts are 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.

"Ponzi Scheme" Time Bomb in President Obama's Health Law Defused.....For Now

Section 8002 of the health care law created the Community Living Assistance Services and Supports program (CLASS). CLASS is a federal long-term care insurance program that would be administered by the Secretary of Health and Human Services (HHS). While the purpose sounds good, the CLASS program was misguided policy because the financial structure of the program is so shaky it could be solvent over the long-term without requiring a taxpayer-funded bailout and jeopardizing care for people on the program.

Because HHS could not operate CLASS without likely demanding a bailout from taxpayers, a provision in the law required that CLASS could not be implemented. After reviewing the legal requirements, HHS recently halted implementation of the program, with HHS Secretary Sebelius saying she did "not see a viable path forward for CLASS implementation at this time."

Unfortunately, CLASS was used as a budget trick to raise the amount of money the health care overhaul will have to spend. As the Washington Post said bluntly, the CLASS provision was simply a budget "gimmick" that was "designed to pretend that health reform is fully paid for."

So, for now, taxpayers have been saved from another needless bailout for wasteful Washington mismanagement. However, the only way to fully and finally protect taxpayers is to repeal this wrong-headed program to ensure that taxpayers are never put in jeopardy.

Unelected, Politically-Connected Medicare Czars Will Cut Payments to Health Care Providers and Could Harm Seniors' Access to Medical Care

Many seniors are just learning about a troubling provision in the controversial health care overhaul Congress passed. The new law created a 15-member Independent Payment Advisory Board (IPAB) – a panel of unelected czars whose job it will be to "reduce the per capita rate of growth in Medicare spending."

These 15 Medicare czars will be politically-appointed and charged with developing proposals that cut Medicare. Because the panel is prohibited from suggesting common-sense changes to Medicare like adjusting beneficiary premiums, cost-sharing, or benefit design, the panel will effectively just cut reimbursements to physicians and other health care providers. With Medicare reimbursements plummeting, some providers will not be able to see Medicare patients which may limit patient access to medical care.

Putting 15 czars in charge of Medicare is not the way to run a program. There are virtually no checks on the panel, since its members are unelected, and its recommendations cannot be challenged in court.

Troublingly, according to the nonpartisan Congressional Research Service (CRS), there are no legal restrictions on the White House's ability to bypass Congress and install politically-connected czars as members of this highly controversial panel. "We do not see why," CRS said, "should the normal conditions for a recess appointment occur, the President could not recess appoint a majority of the 15-member Board with individuals of his choosing as long as those appointments complied with the other limitations established in that section." This means the White House could effectively nominate political allies, bypass the Senate's constitutional role to confirm Presidential appointees, and dictate policies through unelected Medicare czars.

Controversial New Law Empowers New Medicare Bureaucracy

The authors of the controversial health care law shirked their duty to craft sustainable delivery-system reform and instead punted the task to an empowered bureaucracy by creating a new office called the "Innovation Center." The Center—funded with $10 billion taxpayer dollars – is charged with "test[ing] innovative payment and service delivery models to reduce [Medicare] expenditures."[1] But giving career technocrats a $10 billion dollar slush fund and assigning them to "test" ideas is a poor substitute for implementing wholesale proven solutions that increase access, reduce costs, and improve outcomes.

Unfortunately, not only does the law give Medicare technocrats new funds, it also gives them unprecedented new powers. Under the law, the Center has unlimited hiring authority—meaning they can hire dozens or even hundreds of new bureaucrats to grow the size of government.

Under the law, the Center's work from administrative or judicial review–so seniors who object have no right of recourse in court or through a normal process. Physicians and hospitals are out of luck too, since health care providers are also explicitly prohibited by the law from contesting the Secretary of Health and Human Services' (HHS) use of new payment models.

Even worse, the Secretary of HHS – an unelected political appointee – is the sole figure who the law says can determine if seniors' quality of care is negatively impacted by the new payment models. This is another of the more than 1,600 new powers the Secretary is given under the law.

All of this heads in the wrong direction and favors the bureaucracy and unelected technocrats over seniors and their physicians. Instead of letting bureaucrats gamble with $10 billion taxpayer dollars, the authors of the law should have rolled up their sleeves and adopted proven, common-sense measures like coordinated care to help reduce costs and improve outcomes for seniors who depend on the program.

[5] Congressional Budget Office, "Effects of the Patient Protection and Affordable Care Act on the Federal Budget and the Balance in the Hospital Insurance Trust Fund," December 23, 2009. http://www.cbo.gov/ftpdocs/108xx/doc10868/12-23-Trust_Fund_Accounting.pdf

[6] Congressional Budget Office, "Effects of the Patient Protection and Affordable Care Act on the Federal Budget and the Balance in the Hospital Insurance Trust Fund," December 23, 2009. http://www.cbo.gov/ftpdocs/108xx/doc10868/12-23-Trust_Fund_Accounting.pdf

[7] Shatto, John and Clemens, Kent. "Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers," Office of the Actuary, Centers for Medicare and Medicaid Services, August 5, 2010. http://www.cms.gov/ActuarialStudies/Downloads/2010TRAlternativeScenario.pdf

[8] Editorial, "Health Reform Shell Game," The Washington Post, October 10, 2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/10/09/AR2009100904189.html.

[9] Baker, Sam. "Obama's HHS ends controversial program in health reform law," October 14, 2011. http://thehill.com/blogs/healthwatch/health-reform-implementation/187697-hhs-to-suspend-class-program

[10] The Washington Post, "How Not To Fix Health Care," Editorial, July 10, 2009. http://www.washingtonpost.com/wp-dyn/content/article/2009/07/09/AR2009070902607_pf.html

[11] Smith, Christopher, and Hogue, Henry. " Independent Payment Advisory Board Membership: The President's Recess Appointment and Removal Authorities," March 18, 2011, Congressional Research Service. http://tinyurl.com/4yda22f

[1] Section 3021 of the Patient Protection and Affordable Care Act.