

Adjust Medicare's Age of Eligibility To Help Save the Program

*A Policy From the Lieberman-Coburn Bipartisan
Proposal to Save Medicare and Reduce the Debt*

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"Now, I realize there are some in my party who don't think we should make any changes at all to Medicare and Medicaid, and I understand their concerns. But here's the truth: Millions of Americans rely on Medicare in their retirement. And millions more will do so in the future.....But with an aging population and rising health care costs, we are spending too fast to sustain the program. And if we don't gradually reform the system while protecting current beneficiaries, it won't be there when future retirees need it. We have to reform Medicare to strengthen it." - President Obama¹

Nearly two years ago, in June 2011, we presented a bipartisan proposal to save Medicare and reduce the debt. Today, two years closer to the program's looming insolvency, Congress has yet to take meaningful action to save the program. Now, more than ever, Medicare reform is urgently needed for the millions of Americans who depend on the program.

Congress cannot achieve fiscal stability without dealing with mandatory spending programs like Medicare. In fact, Congress cannot save Medicare as we know it. We can only save Medicare if we change it. This policy paper revisits one of the specific changes included in our bipartisan proposal – increasing the age of eligibility for Medicare – and outlines ten reasons Congress should adopt this policy.

First, Medicare is the principal driver of federal deficits and debt. The Medicare program rapid growth is the biggest driver of structural federal debt and deficits. As former Clinton adviser, Alice Rivlin, explained, "the principal driver of future federal deficits is the rapidly mounting cost of Medicare."² Without significant changes to this trend, Rivlin warned "the cost of Medicare will continue to rise faster than the economy can possibly grow. Even if revenues are raised and other spending is restrained...the exploding cost of Medicare is unsustainable. Simply put, there can be no lasting solution to the U.S. debt crisis without structural changes in the Medicare program to slow its cost growth."³

President Obama alluded to Medicare's pressure on federal deficits in 2010 when he said: "I want to talk about ... Medicare, because that's the big driver of our deficits right now."⁴ As *New York Times* columnist David Brooks noted, "Medicare spending is set to nearly double over the next decade. This

¹ Address by the President to a Joint Session of Congress, September 8, 2011. <http://www.whitehouse.gov/the-press-office/2011/09/08/address-president-joint-session-congress>

² Domenici-Rivlin "Protect Medicare Act," Bipartisan Policy Center. <http://bipartisanpolicy.org/sites/default/files/Domenici-Rivlin%20Protect%20Medicare%20Act%20.pdf>

³ Domenici-Rivlin "Protect Medicare Act," Bipartisan Policy Center. <http://bipartisanpolicy.org/sites/default/files/Domenici-Rivlin%20Protect%20Medicare%20Act%20.pdf>

⁴ CNN transcript of the Presidential Debate, October 3, 2012, Denver, Colorado. <http://www.cnn.com/2012/10/03/politics/debate-transcript/index.html>

is the crucial element driving all federal spending over the next few decades and pushing federal debt to about 250 percent of G.D.P. in 30 years.”⁵

Second, Medicare is rapidly approaching insolvency, and the status quo is mathematically unsustainable. The Medicare program has unfunded liabilities of nearly \$37 trillion dollars over the next 75 years. Despite this unsustainable projection of future spending, the Actuary of the Medicare program has warned the Hospital Insurance (Part A) Trust Fund could be insolvent as soon as 2017. Legal analysis reveals there is no way for the program to pay its bills once the Hospital Insurance Trust Fund is insolvent.⁶ As the *New York Times* pointed out, “there are no conceivable tax increases that can keep up with [Medicare’s] spending rise.....As a result, health care spending, which people really appreciate, is squeezing out all other spending, which they value far less. Spending on domestic programs — for education, science, infrastructure and poverty relief — has already faced the squeeze and will take a huge hit in the years ahead.”⁷

Third, continued across-the-board cuts to provider reimbursements are unsustainable and will harm access to care. According to the Office of the Actuary of the Medicare program, the across-the-board reimbursement cuts in current law could force providers to “withdraw from providing services to Medicare beneficiaries.” The Office of the Actuary explains:

“by 2019 the update reductions 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.”⁸

The declining reimbursement levels explain why the Actuary said “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.”⁹ In the same Actuary’s report, former OMB Director for President Obama, Peter Orszag, acknowledges that if payments to providers continue to be “reduced, for example, providers would shift the costs to other patients and also accept fewer Medicare and Medicaid patients.”¹⁰

Fourth, since the creation of the Medicare program, life expectancy has increased dramatically. Since the creation of the Medicare program in 1965, life expectancy –and consequently, the average length of time that people are covered by Medicare – has risen significantly. According to the Centers for Disease Control, when Medicare was passed in 1965, the average lifespan for Americans was 70.2. In 2006, the average lifespan for Americans was 77.7 – an increase of more than 10 percent in longevity since the program was created in 1965. This increase in the length of time an enrollee may be covered by Medicare has significantly raised the costs of the overall program. Increasing the eligibility age could strengthen Medicare while bringing the eligibility of the program more in line with its original intent.

⁵ David Brooks, “Why Hagel Was Picked,” *New York Times*, January 7, 2013. <http://www.nytimes.com/2013/01/08/opinion/brooks-why-hagel-was-picked.html? r=0>

⁶ White paper by U.S. Senators and doctors Tom Coburn (R-OK), John Barrasso (R-WY) and House Representatives Phil Gingrey (R-GA) and Phil Roe (R-TN), “What Happens to Payments to Health Care Providers Participating in Medicare When the Medicare HI Trust Fund Reaches Exhaustion?” <http://goo.gl/Ech9C>

⁷ David Brooks, “Why Hagel Was Picked,” *New York Times*, January 7, 2013. <http://www.nytimes.com/2013/01/08/opinion/brooks-why-hagel-was-picked.html? r=0>

⁸ John Shatto and M. Kent Clemens, Office of the Actuary, Centers for Medicare and Medicaid Services, “Projected Medicare Expenditures under Illustrative Scenarios with Alternative Payment Updates to Medicare Providers,” May 18, 2012. <http://goo.gl/aX9b2>

⁹ John Shatto and M. Kent Clemens, Office of the Actuary, Centers for Medicare and Medicaid Services, “Projected Medicare Expenditures under Illustrative Scenarios with Alternative Payment Updates to Medicare Providers,” May 18, 2012. <http://goo.gl/aX9b2>

¹⁰ John Shatto and M. Kent Clemens, Office of the Actuary, Centers for Medicare and Medicaid Services, “Projected Medicare Expenditures under Illustrative Scenarios with Alternative Payment Updates to Medicare Providers,” May 18, 2012. <http://goo.gl/aX9b2>

Fifth, today more adults above age 65 are participating in the workforce than ever before. Older Americans are working later in life than ever before, and many have access to employer-provided health insurance. Government data shows the percentage of people over age 65 in the workplace is at its highest rate since Medicare was created, with nearly 2 million older workers entering the workforce since President Obama took office. In fact, census data shows roughly a third of seniors aged 65-69 are in the labor force; most of those workers are aged 65-57. There are currently almost 7.7 million workers over age 65.¹¹ Many of these Americans are able-bodied seniors in relatively good health and enjoy employer-provided health coverage.

Sixth, increasing the number of older-age workers will help grow the economy and reduce the deficit. According to analysis by the Congressional Budget Office, if more seniors work longer, the economic and fiscal benefits could be significant. In considering policy options, CBO noted:

“a higher age threshold for Medicare eligibility would reinforce incentives created by increases in Social Security’s [normal retirement age] that encourage people to delay retiring. Disability among elderly people has declined over time, and jobs are generally less physically demanding, suggesting that a larger fraction of the population might be capable of working beyond age 65. Many who would do so might have access to employment-based insurance.”¹²

Since increasing the number of Americans in the workplace increases tax revenues and productivity, CBO also found that increased numbers of older-age workers will result in economic output that will “be slightly greater and budget deficits slightly smaller than would otherwise be the case.”¹³

Seventh, adjusting the age of eligibility for Medicare would mirror eligibility for Social Security. The “Normal Retirement Age” for Social Security is already 67. As the Congressional Budget Office notes, adjustments to Medicare’s eligibility age would be “similar to increases currently scheduled for the normal retirement age (NRA) in Social Security, which is the age at which workers become eligible for full retirement benefits.” CBO explains the eligibility age for Medicare could “remain below Social Security’s NRA until 2019, when both would be age 66; from that point on, the two would be identical.”¹⁴ Congress has already seen fit to set the normal age of eligibility for Social Security to age 67, so modifying Medicare’s age of eligibility would further streamline eligibility for the two programs.

Eight, for seniors who will wait a few months longer for Medicare, changes to insurance will make commercial health plans cheaper for seniors, relative to younger adults. Some have opposed increasing the age of eligibility for Medicare because they say will increase premiums on individuals under age 65. However, due to provisions of the federal health reform law, health insurance costs are already increasing for many segments of the population. Moreover, federal changes to health coverage mean that seniors waiting a few months longer for Medicare will not be able to be denied commercial health coverage. Furthermore, in 2014, insurance plans have to comply with the Affordable Care Act that requires “community rating,” which tightly restricts the variation in premiums that can be offered to consumers. The net effect of this provision is that health coverage for older individuals will be less expensive, relative to health coverage for younger individuals who will see significant premium increases.

¹¹ Ann Belsler, “Number of seniors working is at highest rate since 1965,” *The Pittsburg Post-Gazette*, May 21, 2012. <http://thetimes-tribune.com/news/business/number-of-seniors-working-is-at-highest-rate-since-1965-1.1317630>

¹² Congressional Budget Office, “Budget Options, Volume I: Health Care,” December 2008. <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/99xx/doc9925/12-18-healthoptions.pdf>

¹³ Congressional Budget Office, “How Will Older People’s Participation in the Labor Force Be Affected by the Coming Increase in the Full Retirement Age for Social Security?,” January 9, 2013. <http://www.cbo.gov/publication/43834>

¹⁴ Congressional Budget Office, “Budget Options, Volume I: Health Care,” December 2008. <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/99xx/doc9925/12-18-healthoptions.pdf>

Ninth, adjusting the age of eligibility for Medicare is actually a relatively incremental approach.

Most proposals being discussed would increase the age of eligibility for Medicare by two months every year until the eligibility age reaches 67 in 2025. This means a 64-year-old would only have to wait an additional two months until they participated in Medicare. A 63-year-old would wait an additional four months, a 62-year-old would wait an additional six months, and so on. Some have opposed increasing the age of eligibility for Medicare because they say this policy would remove individuals from Medicare who are younger and healthier relative to the overall mix of the Medicare population. But delaying a 65-year-old's entry into the program by a few months is a marginal impact on the overall program composition. Moreover, traditional Medicare is as a fee-for-service system, and does not have a risk pool like a traditional commercial insurance company. With 10,000 Baby Boomers aging into Medicare each day, merely delaying their entry into the program by two months each year has a marginal impact on the overall beneficiary composition, while offering significant budgetary benefits.¹⁵

Tenth and finally, modifying the age of eligibility is a proposal that has enjoyed bipartisan support.

After we included increasing Medicare's eligibility age in our bipartisan proposal in 2011, the White House reportedly floated the policy later that summer, as part of President Obama's negotiations with House Speaker John Boehner. A former Democratic Vice Presidential candidate, then-Senator Joe Lieberman endorsed the proposal as part of a bipartisan plan to save Medicare.¹⁶ The *Washington Post* editorial board warmly noted the benefit of this policy, saying "it's eminently possible to rein in entitlements without imposing hardship on the neediest...gradually raising the Medicare eligibility age from 65 to 67 would save roughly \$150 billion over 10 years, according to the Congressional Budget Office, while aligning the program with modern life expectancy. With health-care reform now entrenched, those younger than 67 need not fear going uninsured."¹⁷ The bipartisan, non-profit Committee for a Responsible Federal Budget has also argued this policy is a fair and prudent way to reduce Medicare spending.¹⁸

¹⁵ Further analysis is needed examining the precise impacts of increasing the age of eligibility for Medicare, especially when this policy is combined with other common-sense proposals modernizing the benefit like creating a maximum out-of-pocket threshold and rationalizing cost-sharing. For example, a serious methodological limitation of the Kaiser Family Foundation's report, "Raising The Age Of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform," is that the report does *not* assume a phased in approach, but rather "assumes full implementation in 2014" of the eligibility age modification. We are not proposing such an approach, nor are aware of any others doing so. Moreover, it is not clear that specific report accounts for CMS projections of insolvency or of providers withdrawing from the program. A final limitation to note is that, due to limitations with the model, the report does not reflect variations in out-of-pocket spending within subgroups.

¹⁶ Press release, proposal, video of press conference, and other supporting materials online at www.coburn.senate.gov, <http://goo.gl/EQHNN>.

¹⁷ Editorial Board, *The Washington Post*, November 14, 2012, <http://goo.gl/CS8lO>.

¹⁸ Committee for a Responsible Federal Budget, "A Healthy Debate on the Medicare Age," September 18, 2012, <http://crfb.org/blogs/healthy-debate-medicare-age>