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Why RyanCare Will Fail

Paul Ryan's budget embraces a fatal premise of the Nanny State

Shikha Dalmia | April 19, 2011

President Obama last week criticized the Medicare vouchers that are part of RyanCare, the health care reform plan in the budget proposal by Rep. Paul Ryan, R-Wis., because they would allegedly balance the budget on the backs of seniors. But his fellow liberals have been criticizing vouchers for the opposite reason: They will cost too much and won't control Medicare spending. They are right.

However, the reason is not GOP economics, but liberal politics that Rep. Ryan has bowed to.

The basic idea behind Ryan's reform is simple: Medicare, the government-funded health care program for seniors, is a slowly tightening noose around this country's fiscal neck. Health care costs have been growing at twice the rate of the economy. But seniors have little incentive to curb their medical consumption because they don't pay for it—taxpayers do. Indeed, according to the president's Council of Economic Advisers, 30 percent of Medicare spending produces no medical benefits.

Ryan wants to squeeze out such waste by turning Medicare from a defined-benefit plan to a defined-contribution plan. This means that instead of paying for a limitless array of medical services for every senior, as is the case now, the government will give seniors a fixed annual sum to use toward their health coverage. If they want coverage more generous than the government's contribution will buy, they will have to use their own funds. This is how most private companies handle pension and health care benefits for retirees, and it works out well for everyone. The companies get to cap their liabilities, and retirees get to control their pension funds.

But not all private-sector ideas can be successfully applied to government programs.

For starters, private defined-contribution plans are near-inviolable contractual agreements between a company and its workers. Companies can't renege on their obligations—and retirees can't demand bigger packages. But government programs are always vulnerable to lobbying by groups seeking more.

RyanCare's supporters, such as Cato Institute's Michael Cannon, argue that vouchers will diminish the lobbying game. Right now, a pincer movement of patients and providers combats every cut that affects either group, he argues, but under RyanCare, providers will have less incentive to lobby for bigger vouchers, because they won't necessarily get the additional money. That's true. However, insurance companies selling coverage to seniors will have a bigger incentive to lobby harder, since the money will go to them.

Still, a properly constructed voucher would control costs by prodding patients to consume fewer medical services and shop around for those that they do. And Rep. Ryan's original plan in his Roadmap for America's Future would have done something like that. Under it, every senior would be handed a minimum of about $11,000 in inflation-adjusted dollars and would have great flexibility in deciding which insurance plan to buy. (Sick and poor seniors would get a bigger voucher than healthy and rich ones.) Because the voucher amount would be lower than the cost of most Cadillac plans, seniors would shop around for lower-priced, high-deductible plans with built-in disincentives against overusing routine care for minor illnesses.

But Ryan's current plan does not offer vouchers in a traditional sense, it offers—to use its own words—"premium support." This means that seniors won't actually get any money in their hands. Rather, the government would apply its share, means-tested according to the income and health status of patients, to an insurance plan that seniors pick from a "tightly regulated federal exchange." It is politically inconceivable that this exchange would allow plans that are not larded with every benefit under the sun. Witness all the state patient bills of rights requiring that plans cover everything from "hair prostheses" to in-vitro fertilization (although it is hoped that most seniors won't be needing the latter).

This will mean two things, both of which will undermine cost containment: One, the greater the gap between what seniors can afford and what is available on the exchange, the more intensely they will lobby for additional funds. Indeed, RyanCare will replace the "patient-provider pincer" with the "patient-insurer pincer." Two, if seniors' shopping options are restricted to bureaucratically sanctioned plans with a standard set of benefits, insurance companies won't have room to fully compete on prices, eviscerating the market mechanism that is key to cost-containment in vouchers.

But why did Rep. Ryan back away from his original voucher scheme? The reason is politics, or, more specifically, liberal politics. If he simply handed seniors a voucher to do what they please, some would, no doubt, make poor choices and find themselves without adequate coverage when they need it. This would contradict the entire liberal Nanny State project, whose whole goal is to save people from themselves.

However, unless liberals abandon this missionary mentality and let people face the consequences of their choices—especially after society has taken extraordinary steps to give them the means to insure themselves—there will be no end to what society will be on the hook for. At some point, individuals have to be allowed to take responsibility for their own medical destiny.

This is the fundamental cost-containment dilemma. But instead of confronting it, Rep. Ryan has decided to play on the Nanny State's turf. That's why, regardless of the outcome of this battle, in the long run, RyanCare will lose.

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