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Romney and Obama: Both Wrong on Medicare

Neither side is telling you the truth about Medicare, says Michael Tanner.

Michael D. Tanner | August 24, 2012

Let's try to put the ongoing debate over the future of Medicare into a little bit of context. Last year, Americans paid $274 billion in Medicare taxes and premiums. At the same time, the program paid out $564 billion in benefits. That amounts to a shortfall of roughly $290 billion. Looking into the future, even the most optimistic estimate by the program's trustees puts Medicare's future unfunded liabilities at more than $38.6 trillion. More realistic projections suggest the shortfall could easily top $90 trillion.

Faced with this ocean of red ink, the Obama and Romney campaigns are busy claiming that the other guy wants to cut Medicare. They, on the other hand, would never think for a moment about cutting anyone's Medicare benefits. Hello. Can anyone out there do math?

Start with Mitt Romney, who claims that President Obama "stole" $716 billion from Medicare. Yes, Romney is correct that the new health care law would reduce Medicare spending by $716 billion the next 10 years. Primarily, the president would cut payments for Medicare Advantage insurance plans, a private insurance option currently used by roughly one in five seniors, and by reducing payments to providers—that is, doctors and hospitals. The health care law also includes several pilot projects, such as Accountable Care Organizations (ACOs) and medical homes, designed to reduce the long term growth in health care costs.

It is important to point out that the president's "cuts" are cuts only in the Washington sense of a reduction in the rate of increase. Republicans have long protested when their similar proposed slowdowns in growth were demagogued as cuts by Democrats. That would seem to make Romney and Ryan's complaint a little hypocritical.

And, given that Medicare is adding some $300 billion to the deficit every year, one might expect supposed fiscal conservatives like Romney and Ryan to be more sympathetic to reducing Medicare's growth. It is also true, as Obama has pointed out, that Romney's running mate, Paul Ryan, actually incorporated that $716 billion in savings into the budget that just passed the House of Representatives. Romney and Ryan now say they would repeal all of those changes.

That's not to say that President Obama has been honest about these cuts either. First, the president claims that he is not actually cutting benefits for beneficiaries. That is technically true in that most of the cuts are reductions in payments to providers. But it is ridiculous to assume that cutting payments to doctors and hospital will have no impact on seniors. In fact, Medicare's own actuaries estimate that the cuts could force as many as 15 percent of hospitals to close. Similarly, at a time when physicians are already complaining that Medicare reimburses at a rate less than actual costs, additional reimbursement cuts will force many doctors out of practice or at least cause many to stop accepting Medicare patients. Seniors may still have their full Medicare benefits. They just won't be able to find a doctor who will take them.

The president also claims that his cuts have "extended the life of the Medicare trust fund by eight years." Again, technically true. But extending the life of the Trust Fund is not the same thing as extending the life of Medicare.

Obama's implication that current seniors would lose their Medicare benefits under Romney's plan is particularly dishonest.

Any savings that the president does achieve would indeed be routed through the Medicare Trust Fund, where they would be used to purchase special-issue Treasury bonds. As an accounting measure, having more bonds means the Trust Fund will last longer. In the meantime, however, the government is counting on the revenue from the original purchase of the bonds to pay for the cost of the new health care legislation. Thus, it is using any savings from Medicare to pay for Obamacare, while pretending it is available to pay for future Medicare benefits. As Medicare's chief actuary points out, "In practice, the improved [Medicare] financing cannot be simultaneously used to finance other Federal outlays (such as the coverage expansions) and to extend the trust fund, despite the appearance of this result from the respective accounting conventions."

There is also reason to question whether the president's cuts will actually occur and whether they will save anywhere near as much money as claimed. The Congressional Budget Office recently pointed out that virtually none of the president's proposed Medicare reforms have saved money in practice. And, when it comes to reducing provider payments, Congress hasn't exactly been a profile in courage: Witness the annual spectacle of the "doc fix," postponing already scheduled cuts.

Meanwhile, Obama has also been attacking Romney for wanting to "end Medicare as we know it." That's about as meaningful as saying that the Carpathia ended the Titanic's voyage "as we knew it." The president's implication that current seniors would lose their Medicare benefits is particularly dishonest. Typical has been the claim by Obama campaign advisor David Axelrod that Romney would throw his 85-year-old, cancer-stricken father off Medicare.

But Romney and Ryan have been explicit that they wouldn't make changes to Medicare for anyone age 55 or older today. No one currently on Medicare would be thrown off the program, forced to pay more, or have his or her benefits cut.

Even those under age 55 would still have the option to stay in conventional Medicare if they wish. However, for those who want a different option, insurance companies would bid for the right to participate under Medicare. Plans would have to include certain minimum benefits and accept all applicants, regardless of age or current health. In the future, seniors could choose to receive a government payment equal to the second-lowest bid in his or her geographic area. If seniors choose a lower-cost plan, they could keep the difference. But if they choose to enroll in a more expensive plan, they'll have to pay the difference between what the government provides and the actual premium. This is what President Obama refers to as "turning Medicare into a voucher program."

After 2022, the Ryan budget would limit the growth of both the traditional Medicare model and the new premium support option to roughly the rate of overall economic growth, plus one percent. This happens to be pretty much the same rate of growth as projected in the future by the Obama administration.

Romney and Ryan assume that the combination of competition and consumer cost-sharing will help hold down the cost of the program. If they are wrong, it is likely that the government payment would not keep up with the rising cost of insurance premiums. This means that the insurance plans fully subsidized by the government would offer fewer benefits than Medicare currently provides. Seniors who wanted a plan that provided all the benefits offered by Medicare today would then have to contribute some of their own money over and above the government subsidy. This is the source of the president's claim that the Romney-Ryan plan would cost seniors an additional $6,600. (The $6,600 figure is a bit dubious, actually derived from an earlier version of the Ryan budget that included a tighter cap on future spending.)

But since we cannot pay the current level of benefits in the future, seniors will either have to pay more or get less no matter who wins this election. Romney and Ryan are simply being a little more explicit—and honest—about it. Or at least they were until they started to deny it.

Politicians pandering to seniors is nothing new. But this year's Medicare dishonesty is especially dangerous. With both campaigns peddling the idea that any cuts to Medicare, now or in the future, are automatically a bad thing, we run the risk of poisoning the well for any future reform of the system. And if that is the outcome of this election, America is in deep trouble, no matter who wins in November.

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