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Alter course or else

If unchanged, Medicare soon will sink country in ocean of red ink

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WASHINGTON -- One side believes that America's seniors should get federal dollars to help them buy insurance from the private market. The other wants the federal government to limit annual spending on Medicare.

But no matter which side prevails in an intensely ideological and partisan debate in Washington, one thing is certain: Medicare as we know it is in for big changes.

Driving the sharply competing revisions outlined by President Barack Obama and House Budget Committee Chairman Paul Ryan, R-Wis., is the realization that balancing the federal budget is nearly impossible without changing Medicare or the way it is financed.

The cost of the Great Society program, which covers more than half the health costs of the nation's seniors, has skyrocketed from $111 billion in 1990 to $509 billion in 2009. With the number of Americans eligible for the program expected to soar from 47 million today to 62 million in 2019, annual Medicare spending is projected to hit $895 billion by the end of the decade.

Even though changes in the new health-care law Obama signed last year have helped Medicare's long-term balance sheet, the Medicare Board of Trustees warned in its annual report to Congress last year that by 2029, the Part A trust fund - which pays for hospital and hospice care for the elderly - will be broke.

"Everybody admits doing nothing is not an option," said Michael Tanner, an analyst at the libertarian Cato Institute in Washington. "The president, most Democrats in Congress and all the Republicans admit we're going to have to do something."

Both Obama's and Ryan's plans, Tanner said, "are going to cut future Medicare spending. This is a fact of life. They do it in different ways."

Judy Feder, a professor of public policy at Georgetown University and a two-time Democratic congressional candidate, said that because of the changes in the health-care law Obama signed, "Medicare cost per beneficiary will grow at a slower rate than health-care costs. (But) what is growing is enrollment."

Changing Medicare puts lawmakers on a direct collision with ordinary Americans. According to an ABC News/Washington Post poll last week, 65 percent of us oppose cutting Medicare to reduce the national debt.

But the day of reckoning for Congress may fast be approaching. With the nation's publicly held debt approaching $10 trillion and the government expected to borrow another $7 trillion between 2012 and 2021, Standard and Poor's lowered the U.S. credit outlook from stable to negative because of fears Obama and Congress will not agree on a plan to reduce the deficit.

Obama has talked of limiting Medicare's growth by giving greater power to an independent advisory board established in last year's health-care law. Every year, the board would establish a target of how much money Medicare could spend.

By contrast, Ryan has pushed for more of a free-market solution by eventually ending Medicare's fee-for-service system and providing seniors with federal dollars to buy insurance from private companies.

In both political parties, reaction has been visceral. Sen. Sherrod Brown, D-Ohio, has circulated a letter among his Senate colleagues in opposition to Ryan's plan. Brown flatly said that Ryan's approach is "not going to happen. It's not going to work," adding that it would leave seniors "prey to insurance companies trying to sell them plans."

But Obama's plan has run smack into opposition not only from Republicans, but physicians organizations, such as the American Medical Association. Currently, 12 percent of physicians refuse to see Medicare patients, a number sure to rise if the advisory board cuts payments to physicians.

"We have strong concerns about the potential for automatic, across-the-board Medicare spending cuts because they are not consistent with meeting the medical needs of patients, which is our primary focus," Ardis D. Hoven, chairman of the AMA, said in a statement.

Ryan's approach, which was passed this month by the House, would keep those 55 and older in the current Medicare program. In 2022, however, new enrollees would be given a "premium support" - another word for a voucher - to buy insurance.

Although the voucher would average about $8,000, wealthier people would receive less, a way to means-test Medicare. The premium would rise annually with the rate of inflation.

"The concept that Ryan has introduced is perfectly legitimate," said Robert Bixby, executive director of the Concord Coalition, a Washington organization that pushes for balanced federal budgets.

"It shouldn't be a partisan thing," Bixby said. "The concept of premium support has been supported by Democrats and Republicans at various times. The question always is what is the right level of support and how fast do you let it grow? Personally, I think Ryan's plan is unrealistic because it assumes the premium only grows with inflation."

Over the next few decades, Ryan's plan would generate huge savings for the federal government, with the deficit gradually disappearing. But the nonpartisan Congressional Budget Office concluded that premiums and out-of-pocket expenses for the typical beneficiary "would be greater under the (Ryan) proposal than under traditional Medicare."

"The primary objection with Ryan is that it's not cost-containment, it is cost-shifting," said January Angeles, a senior policy analyst at the Center on Budget and Policy Priorities, a left-leaning nonprofit in Washington.

In addition, Ryan would repeal Obama's health-care law, which Brown and Feder argue includes major cost-saving changes in the way Medicare is delivered. Many Democratic analysts argue that until the federal government gets its arms around the rising costs of health care for all Americans, it will be difficult to generate major savings in Medicare and Medicaid, a state-federal program that covers health costs for low-income people.

In particular, they contend that health costs continue to rise because of the increase of such diseases as diabetes, caused in large part by preventable conditions such as obesity. They say that until hospitals and physicians become more efficient in preventing and treating the chronically ill, U.S. health-care costs will soar.

"(Ryan's) proposal doesn't speak to either one of these issues - how do you prevent disease and how do you manage chronic health conditions?" said Ken Thorpe, a professor of health policy management at Emory University in Atlanta and a former health official in the Clinton administration.

To many critics of Ryan's plan, the advantage of Obama's approach is that, combined with last year's health-care law, it would promote greater efficiency in delivering health care. Under last year's law, the new, 15-member advisory board can limit annual Medicare spending increases to the gross domestic product per capita plus 1 percent.

But in his speech this month at George Washington University on curbing the deficit, Obama suggested even tighter spending targets. The president pledged to "slow the growth of Medicare costs by strengthening" the advisory board, which would "recommend the best ways to reduce unnecessary spending while protecting access to the services they need."

To conservatives, such an approach is simply another way of saying the government would eventually ration health care.

"Obama in essence is saying that we're not going to make you pay more, but you'll get less," said Tanner of Cato. "They pretend that somehow they can make this cut and nobody will notice because it'll be more efficient."

But beyond any doubt, Medicare must change if the government hopes to balance its budget. As Mitchell of AEI said, "We've just shot way past any type of modest adjustments. We are on a pretty substantial trajectory of public debt which is not going to reverse itself without changes in policy."

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