

# The Rationale Behind Medicare Rationing

Peter Suderman | June 7, 2011

Is rationing in Medicare inevitable? Blogging at *The Washington Post* last week, Suzy Khimm suggested that it may be:

Government cost-cutting provisions like the new Independent Medicare Advisory Board have raised concerns that bureaucrats will end up "rationing" care. But the reality is that someone is going to have to say "no" to excess spending at some point, as I've explained previously. " Rationing is going to go on within the Medicare system. It's a fact of life. ... The question's going to be, is that decision going to be made by government and imposed top down under the current system?" the Cato Institute's Michael Tanner told Politico last month.

Rationing is a loaded word, but the larger point is correct. As long as there are publicly financed health programs like Medicare, those programs will be forced to operate with limited resources—perhaps generously limited, but limited somehow. And that means it will be necessary for policymakers to come up with some system by which to affirm priorities and determine how exactly to expend those resources: A panel of health care bureaucrats? Comparative effectiveness research? Means testing? Vouchers? Medicare has many flaws, but the biggest single problem is that it pretends to offer an unlimited commitment, which means there is little to restrain its growth. It's a system that has essentially declared that all priorities are equal, which is another way of saying that there are no priorities at all. In the medium to long run, that theoretically unlimited commitment will run up against actual resource barriers. Khimm goes on:

As Tanner points out, Paul Ryan's Medicare plan intends to empower individuals to make such decisions, giving them a subsidy to purchase insurance on their own rather than having the federal government cover all their expenses. But as the recession may show, if individuals have less to work with up front, they could end up "self-rationing" and forgoing important treatment due to financial hardship or poorly informed decisions.

"You want to be changing habits in a good way. A lot of care was not terribly necessary, but you really want to make sure that people are still getting appropriate care," Kate Sullivan Hare, a long-time health policy observer, tells me in an interview. "Is it 'self-rationing' or rational care?"

The worry, in other words, is that left to their own devices and with limited financial resources, individuals won't make good health care decisions. It's an easy charge to make, and it makes intuitive sense to a lot of people. After all, medicine is incredibly, and increasingly, complex. Most people do need expert advice in order to inform their decision making. And that's why I suspect there's

probably a role for privately coordinated networks of local providers to help guide individuals through the health system. But that's hardly unusual. Professional, expert advice is useful in most complex consumer markets.

It's also worth noting that our current setup, which is heavily dependent on third-party payers and fee-for-service providers, offers little or no incentive for patients or their providers to make trade-offs when it comes to care. Nor is there much culture or infrastructure devoted to providing patients with better information.

But I also think it's easy to underestimate how individuals will respond to the responsibility of making more of their own health care decisions. As I've written previously, a number of studies (though not all) have shown that individuals enrolled in consumer-driven care plans that pair high-deductible insurance with health spending accounts not only show substantial savings than those enrolled in traditional insurance, they also tend to utilize more in the way of preventive services. In the context of our current health care debates, rationing may be best understood as the process by which we make choices and set priorities. And it turns out that when you give individuals more freedom to choose and set priorities for themselves, they frequently choose pretty well.