

The Republican Budget Proposal: Ending Medicare As We Know It—Again

The Republican budget proposal, adopted by the House of Representatives by a near-party line vote on March 29, 2012, undermines health care for millions of seniors and people with disabilities who rely on Medicare and Medicaid. Despite Republicans' promises to protect current Medicare beneficiaries, the proposal makes substantial cuts in benefits for people with Medicare today. It ends the Medicare program as we know it and replaces it with an inadequate voucher program. And it will also increase the number of uninsured Americans by eliminating Medicare coverage for 65- and 66-year-olds while simultaneously eliminating other sources of coverage by repealing the Affordable Care Act. The Republican budget proposal for Medicare does the following:

- **Makes deep cuts to Medicare that will affect current beneficiaries, including the following:**
 - Re-opens the Medicare prescription drug doughnut hole, which would increase costs by up to \$6,000 per beneficiary per year by 2020
 - Reinstates cost-sharing for preventive services
- **Replaces traditional Medicare with a voucher-based premium support system for beneficiaries born after 1957, which will:**
 - Cut Medicare's payment on behalf of these beneficiaries by 23 percent within seven years of taking effect; that is equivalent to a one-year cut of \$130 billion in today's program, or more than \$2,800 for an average beneficiary
 - Cut deeper into Medicare in future years, making a 34 percent cut in 17 years (equivalent to more than a \$4,000 cut for an average beneficiary today) and a 42 percent cut in 27 years (the equivalent of more than a \$5,000 cut for an average beneficiary today)
- **Overall, the plan will have the following effects on everyone who depends on Medicare:**
 - Undermines the traditional Medicare program by encouraging younger, healthier people to join private plans, leaving traditional Medicare with older, sicker, and more costly patients
 - Increases health care costs by relying on private insurance plans that use premium dollars to pay for marketing, advertising, commissions, administration, executive salaries, and profits instead of health care

- Leaves low-income beneficiaries without adequate protections against high out-of-pocket costs due to a shrinking Medicaid program
- Leaves many 65- and 66-year-olds without other options for coverage

This special report examines the Republican plan for Medicare and the impact it will have on beneficiaries. It also notes the accompanying impact of the deep cuts in Medicaid, but it does not explore them in detail. For a detailed analysis of the Republican budget proposal's far-reaching changes to Medicaid and how they would affect seniors and people with disabilities, see [Republicans Again Propose Slashing Funding for Medicaid, Medicare, and Other Health Programs](#).

Cutting Benefits for Today's Beneficiaries

Republicans claim that their budget proposal protects today's Medicare beneficiaries and those nearing eligibility from any reductions in benefits. This is not true. In fact, the proposal calls for \$205 billion in cuts over the next 10 years. The accompanying report, *Republicans Again Propose Slashing Funding for Medicaid, Medicare, and Other Health Programs*, illustrates the potential fiscal impact of these cuts at the state level (see Table 4 of that report). The most significant potential harm to current beneficiaries comes from repealing the Affordable Care Act, which would expose millions of current Medicare beneficiaries to higher prescription drug costs and expenses for preventive care.

Higher Prescription Drug Costs

Under the Affordable Care Act, the coverage gap in the Part D prescription drug program, often referred to as the "doughnut hole," is gradually closing. In 2011, nearly 3.8 million seniors and people with disabilities who had substantial prescription drug costs received a 50 percent discount on name-brand drugs while in the doughnut hole, as well as other discounts on generic drugs. These discounts averaged \$610 per person in 2011 and totaled nearly \$2.3 billion in savings for all seniors and people with disabilities in the doughnut hole last year.

The Republican budget proposal would repeal the Affordable Care Act, including the closure of the doughnut hole. This will more than double prescription drug costs for nearly 3.8 million seniors and people with disabilities who fall into the doughnut hole each year. Table 1 shows the impact of this cut in each state, including the number of beneficiaries in each state who had spending in the doughnut hole last year, the average savings per person that beneficiaries would lose, and the total drug savings lost in each state under the Republican proposal.

In addition to all of these costs, drug costs will increase further in future years under the Republican proposal. Re-opening the doughnut hole is projected to raise each beneficiary's drug costs by up to \$6,000 per year by 2020.¹

Table 1.

2011 Medicare Prescription Drug Savings Lost under Republican Proposal

State	Beneficiaries in Coverage Gap, 2011	Average Savings Per Beneficiary	Total Savings Lost In 2011
Alabama	52,900	\$600	\$31,622,000
Alaska	2,400	\$710	\$1,684,000
Arizona	68,900	\$560	\$38,823,000
Arkansas	35,900	\$590	\$21,052,000
California	335,000	\$540	\$181,323,000
Colorado	41,400	\$580	\$24,002,000
Connecticut	39,700	\$660	\$26,072,000
Delaware	12,900	\$760	\$9,821,000
DC	2,600	\$620	\$1,648,000
Florida	250,500	\$600	\$149,568,000
Georgia	107,300	\$580	\$62,025,000
Hawaii	22,000	\$330	\$7,202,000
Idaho	15,600	\$580	\$9,080,000
Illinois	150,700	\$670	\$101,334,000
Indiana	93,800	\$650	\$61,164,000
Iowa	44,400	\$620	\$27,563,000
Kansas	40,900	\$610	\$24,909,000
Kentucky	78,700	\$540	\$42,725,000
Louisiana	55,800	\$580	\$32,161,000
Maine	12,600	\$530	\$6,685,000
Maryland	54,500	\$590	\$32,320,000
Massachusetts	65,500	\$590	\$38,798,000
Michigan	87,500	\$580	\$51,034,000
Minnesota	61,400	\$590	\$36,438,000
Mississippi	35,300	\$610	\$21,399,000
Missouri	82,500	\$600	\$49,451,000
Montana	11,000	\$620	\$6,844,000
Nebraska	25,400	\$630	\$16,125,000
Nevada	23,300	\$550	\$12,946,000
New Hampshire	13,800	\$620	\$8,646,000
New Jersey	131,500	\$760	\$100,172,000
New Mexico	19,500	\$500	\$9,684,000
New York	247,800	\$700	\$173,971,000
North Carolina	112,600	\$600	\$68,093,000
North Dakota	10,500	\$600	\$6,305,000
Ohio	197,600	\$520	\$102,675,000
Oklahoma	56,500	\$530	\$30,101,000
Oregon	46,900	\$540	\$25,091,000
Pennsylvania	243,400	\$670	\$162,459,000
Rhode Island	15,500	\$560	\$8,603,000
South Carolina	55,400	\$620	\$34,289,000
South Dakota	11,500	\$620	\$7,132,000
Tennessee	87,400	\$590	\$51,786,000
Texas	219,900	\$640	\$141,422,000
Utah	21,900	\$590	\$13,005,000
Vermont	7,100	\$720	\$5,062,000
Virginia	85,600	\$610	\$51,967,000
Washington	63,100	\$600	\$37,786,000
West Virginia	37,500	\$680	\$25,670,000
Wisconsin	62,600	\$640	\$40,071,000
Wyoming	5,900	\$640	\$3,759,000
Total*	3,758,000	\$610	\$2,292,148,000

*Total includes savings for beneficiaries in Puerto Rico and territories not shown. Figures are rounded.

Source: Centers for Medicare and Medicaid Services, *Part D Gap Discounts to February 29, 2012 for Benefit Year 2011*, available online at <https://www.cms.gov/Plan-Payment/>.

Preventive Care

The Affordable Care Act also makes preventive care significantly more affordable for people with Medicare by eliminating co-insurance and deductibles for most Medicare-covered preventive services. In 2011, 34.8 million seniors and people with disabilities received free preventive care through Medicare.² By repealing the Affordable Care Act, the Republican proposal will increase out-of-pocket costs for seniors and people with disabilities by re-imposing cost-sharing for many Medicare-covered services.

Voucherized Medicare: Less Help and More Expensive Care

■ The Proposal

The Republican proposal would end Medicare as it exists today and transform it into a voucher program. Under the proposal, called “premium support,” starting in 2023, seniors and people with disabilities enrolling in Medicare would be allotted a set amount of money to purchase insurance, using their vouchers to pay for premiums for either private health insurance plans or traditional Medicare. The growth of these vouchers is capped and would likely not keep up with health care costs, leaving beneficiaries to make up the difference.

Unlike last year’s Republican proposal, under this year’s proposal, beneficiaries would be able to use their vouchers to pay the premiums for traditional Medicare coverage. However, as explained below, coverage from traditional Medicare will likely become increasingly expensive as younger, healthier people leave the program.

The Republicans’ voucher plan will send beneficiaries’ out-of-pocket health care costs soaring. This will happen for two separate but related reasons. The first is that the formula that determines the value of the voucher is intentionally designed to shrink over time relative to what Medicare would have covered under existing policy. As health care costs rise, the Medicare voucher will cover less. Second, it costs more for private insurance companies to deliver the same care as traditional Medicare because they must pay for costs such as marketing, advertising, commissions, administration, executive salaries, and profits. Over time, therefore, health care costs will become more expensive for Medicare beneficiaries than they would have been under existing policy. In short, *beneficiaries will get less help to buy more expensive care.*

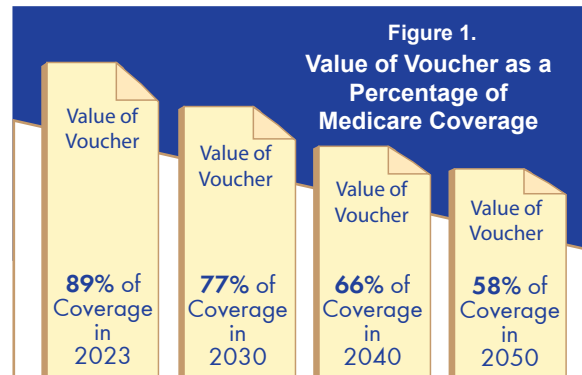
■ The Shrinking Voucher

Under the Republican proposal, when people born after 1957 reach Medicare age (in 2023 or later), they will receive a fixed amount of money to purchase health insurance through private plans or traditional Medicare. According to the nonpartisan Congressional Budget Office, in 2023, this initial voucher would cover only 89 percent of what the traditional Medicare program would cover under current policy. The

difference, roughly \$700 per year for a 65-year-old in 2023, will have to be paid by beneficiaries through additional out-of-pocket costs, or, if the individuals cannot pay the extra costs, they will have to forgo care.

The value of the voucher would decline each year relative to the value of current Medicare coverage.³ According to the Congressional Budget Office, by 2030, the voucher would be worth only 77 percent of current Medicare coverage (a cut of 23 percent), and the value would decline to 58 percent by 2050 (see Figure 1).

Because such a meager voucher would likely be inadequate to purchase a comprehensive plan, beneficiaries who wanted high-quality insurance would have to pay additional premiums out of their own pockets. Those who could not afford the premiums would be forced to buy inadequate insurance. If they needed services that were not covered, they would either have to pay out of pocket or forgo care.



Source: Families USA calculations based on CBO, *Long-Term Budgetary Impact of Paths Specified by Chariman Ryan*, March 2012. Current Medicare coverage based on alternative fiscal scenario.

■ Illustration: How Big Would the Medicare Cut Be?

Another way to demonstrate the severe impact of the Republican voucher proposal is to imagine what Medicare coverage would be worth if the proposal were in operation today. Under the Congressional Budget Office analysis, by 2030, the average value of a voucher for a new beneficiary would be 23 percent lower than expenditures under current Medicare policy, and it would shrink further in future years.

In 2011, actual Medicare expenditures averaged \$12,195 per beneficiary.⁴ A 23 percent cut in expenditures would mean an *average cut of \$2,805 per person* for each person who is currently covered by Medicare. The total Medicare budget in 2011 was about \$560 billion.⁵ A 23 percent overall cut would have amounted to a one-year cut of about *\$130 billion in 2011 alone*. As the value of the voucher continued to shrink relative to current Medicare policy, the size of the cut would increase each year, reaching well over \$1 trillion over 10 years.

This \$130 billion annual cut is only an illustration, not a projection. It assumes that all Medicare beneficiaries were receiving a voucher. Because the voucher is phased in over time under the Republican proposal, the cuts to Medicare would accrue more gradually. Eventually, however, the cuts would be even deeper than those presented in the illustration as the value of the voucher continued to decline. By 2040, the voucher

would have declined by 34 percent relative to current Medicare policy, and declined by 42 percent by 2050. In terms of today’s program, a 33 percent reduction would be a cut of more than \$4,000 per person. A 42 percent reduction would be a cut of more than \$5,000 per person (see Table 2).

This illustration is intended to show the magnitude and radical nature of the Republicans’ Medicare proposal. Despite Republicans’ claims that their proposal somehow “preserves” Medicare, the proposal actually includes a massive cut in the program that would shift health care costs to seniors and people with disabilities.

Table 2

How Big a Cut Does the Republican Proposal Make?

Year	2023	2030	2040	2050
Percentage Cut In Medicare	11%	23%	34%	42%
Cut Per Person in 2011 Dollars	\$1,341	\$2,805	\$4,146	\$5,122

Note: As explained in the text, “cut per person” is based on the average per-person Medicare expenditures for all beneficiaries.

■ **Rising Health Care Costs Would Further Erode the Voucher’s Purchasing Power**

The Congressional Budget Office’s analysis illustrates only part of the danger in the Republican proposal. It assesses how much less the Medicare voucher will be worth relative to current Medicare coverage. But it does not predict how much health care will actually cost in the future under the Republican proposal. If the costs of health care services (doctor visits, hospitalizations, diagnostic tests, etc.) rise faster than they otherwise would have, those are additional expenses that beneficiaries must pay. So, at the same time that the value of beneficiaries’ vouchers value is shrinking, the health care services they need will be growing more expensive.

In fact, the Republican proposal is likely to raise the cost of health services. Private insurers have been part of Medicare for decades, but they have never (on average) cost less than the traditional Medicare program. Private insurance companies typically have much higher administrative costs than Medicare does. Medicare’s administrative costs are around 2 percent, while private plans that serve Medicare beneficiaries average about 11 percent in administrative costs and profits.⁶ In addition, private insurers incur many costs that Medicare does not, such as costs for marketing and high executive salaries. Finally, because private insurers are not as large as Medicare, they must pay higher rates to doctors and other providers to get them to take their insurance.

Last year, the Republican budget proposal called for a Medicare benefit delivered entirely by private plans. That proposal was projected to increase the costs of care by \$5,570 per year for an average 65-year-old due to the administrative inefficiencies of private plans.⁷ This year’s proposal does allow traditional Medicare to continue to operate, which could help hold down an increase in health care costs somewhat. But as explained below, under the Republican proposal, traditional Medicare is likely to weaken over time and become less able to control costs.

■ Undermining Traditional Medicare

Even though the traditional Medicare program would still exist, under the Republican voucher plan, it would become weaker and more expensive over time. As has been the case with private plans in the Medicare Advantage program, younger and healthier beneficiaries would be more likely to leave traditional Medicare to join private plans because they would be attracted by the benefits that private plans offer to attract healthier enrollees, like gym memberships, and because they are generally better off financially and more willing to pay to use out-of-network doctors. Older and sicker beneficiaries would be more likely to remain with traditional Medicare because of its nearly unlimited choice of health care providers and good coverage for complex conditions.

Although the Republican proposal states that the value of the voucher will be adjusted for “risk,” the process of risk adjustment is far from perfect. Over time, as traditional Medicare serves a disproportionately older and sicker population, premiums in traditional Medicare will rise to cover the costs of caring for these older and sicker beneficiaries. Then, as traditional Medicare premiums rise and more people leave the program, it will be less able to negotiate lower prices on services, which in turn will result in higher health care costs.

Raising the Medicare Eligibility Age Would Increase the Number of Uninsured

The Republican proposal also gradually increases the eligibility age for Medicare from 65 to 67 by 2033. At the same time, it would repeal the provisions of the Affordable Care Act that expand the availability of health insurance for those who do not qualify for Medicare and that protect people with pre-existing conditions. As a result, anyone who loses access to health insurance from an employer before reaching the age of 67 (for example, through losing a job or retiring) would have few, if any, options for obtaining affordable insurance. By their mid 60s, most people typically have one or more pre-existing conditions, which make health insurance in the individual private market unaffordable—or even unavailable at any price. The budget proposal offers no help to this group, many of whom would likely end up uninsured.

Inadequate Protection for Low-Income Beneficiaries

About one-fifth of current Medicare beneficiaries also have coverage through their state’s Medicaid program. These beneficiaries typically have very low incomes and/or have medical expenses that consume most of their income. For these people, Medicaid provides supplemental coverage that pays for Medicare’s premiums and cost-sharing. Medicaid also covers vital additional benefits, such as long-term care.

The Republican budget proposal would cut the existing Medicaid program by \$810 billion over 10 years.⁸ According to the proposal, if costs rose faster than the value of the voucher, Medicaid would cover additional out-of-pocket costs for eligible beneficiaries.⁹ However, it is hard to imagine how states would be able to cover these costs given the massive cuts to Medicaid funding.

The proposal also calls for some additional subsidies for low-income beneficiaries to cover their out-of-pocket costs. However, the proposal provides no details on these subsidies. In last year's budget proposal, the size and growth of these subsidies were entirely inadequate to cover out-of-pocket costs.¹⁰ If structured the same way this year, the result would be increased health care costs for those who are least able to pay them.

A Contrast in Visions

Republicans argue that their radical proposal is necessary because Medicare faces a fiscal crisis in the coming years. Their solution is to cut Medicare and push health care costs onto seniors and people with disabilities. This is not a solution; it is just a cost shift.

There is no doubt that Medicare faces fiscal challenges in the future. But these challenges are not because its benefits are too generous or because it is inefficient.

In fact, Medicare's benefits are rather modest compared to many job-based

plans. And, as noted above, Medicare is highly efficient, spending only about 2 percent on administrative costs, compared to 11 percent for private insurance.

This is not a solution; it is just a cost shift.

Rather, Medicare faces rising costs because health care costs are rising overall, both for private insurers and for public programs like Medicare. Moreover, Medicare is, by design, serving an increasing number of seniors as baby boomers get older and join the program. This is not a flaw in Medicare's design; it is exactly what the program was intended to do.

The solution for Medicare is not to shift more costs to seniors and people with disabilities who are already spending an average of 15 percent of their household incomes on health care.¹¹ Forcing people to pay more out of pocket may initially reduce the amount of health care they use, but this does not make people healthier. Instead, it results in higher costs down the road as chronic conditions that could have been treated affordably if managed early are left to worsen until they require costly interventions like hospitalizations.

Reducing health care costs can be achieved only by changing how the health care system operates. Many innovations that are included in the Affordable Care Act lay the groundwork for improving care while reducing costs. For patients, this means making prescription drugs more affordable and making preventive care free so that people can catch and treat conditions before they worsen. For the health care system, better coordination among health care providers, providing incentives for keeping patients healthy, and increasing prevention all hold the promise of reducing costs through better quality. Unfortunately, the Republican proposal would end these initiatives before they have a chance to bring costs down.

The Republican budget proposal sets forth a vision for health care for seniors and people with disabilities that is radically different from the path created under the Affordable Care Act. It assumes that passing costs on to seniors and people with disabilities will solve Medicare’s problems. This may help reduce government expenditures, but it will not improve people’s health. Table 3 provides a summary of the key differences between the Republican proposal and the Affordable Care Act for people with Medicare.

Table 3.

Key Differences between Current Policy and the Republican Medicare Proposal

	Affordable Care Act and Current Medicare Law	Republican Plan
Current Beneficiaries		
Current Benefits Preserved?	Yes	No
Prescription Drugs	Closes doughnut hole	Re-opens doughnut hole
Preventive Benefits	No cost-sharing	Re-imposes cost-sharing
Future Beneficiaries		
Protection from Higher Costs	No vouchers, traditional Medicare preserved	Shrinking vouchers means higher out-of-pocket costs
Traditional Medicare Option Available	Yes	Shrinks and weakens traditional Medicare
Coverage for 65- and 66-Year-Olds	Covered through Medicare	Eliminates Medicare coverage and new options from Affordable Care Act
Reforming the Health Care System	Promotes coordination of care to improve quality	Puts health insurance companies in control

Conclusion:

A Massive Transfer of Costs and Risk to Seniors and People with Disabilities

This is not the first time Republicans have tried to dismantle Medicare. In 1995, then-Speaker of the House Newt Gingrich explained that his agenda was to see the traditional Medicare system “wither on the vine” by providing beneficiaries with incentives to move to private plans. He conceded that ending traditional Medicare all at once was not “politically smart,” but that was still his ultimate goal.¹²

The current Republican proposal picks up where the Gingrich proposal left off. It does not explain how seniors and people with disabilities are expected to pay for the care they need as the value of their voucher declines relative to health care costs. Wealthier people could presumably pay for additional care using their own resources. For the roughly half of people with Medicare who have limited incomes, however, the implication is that they would have to spend less on other necessities like food and shelter—or go without health care.

At the same time, the proposal avoids asking wealthier Americans to pay their fair share. It is instead an example of upside-down priorities, increasing the costs for, and endangering the health of, America’s senior citizens and many people with disabilities in order to finance massive tax cuts for Americans who can afford to pay more. If enacted, this proposal would fundamentally violate the promise that Medicare has made to current and future generations of seniors and people with disabilities, which is to ensure access to comprehensive care at a time in their lives when they are most vulnerable.

Endnotes

- ¹ Kaiser Family Foundation, *Explaining Health Reform: Key Changes to the Medicare Part D Drug Benefit Coverage Gap* (Washington: Kaiser Family Foundation, March 2010).
- ² U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Beneficiaries Utilizing Free Preventive Services by State, Year-to-Date 2011, through Week 47 of 2011*, last modified on December 6, 2011, available online at http://www.cms.gov/NewMedia/02_preventive.asp, accessed on March 29, 2012.
- ³ Under the Republican plan, the value of the voucher would increase each year by no more than the growth in the value of Gross Domestic Product (GDP) plus 0.5 percent—a rate that is considerably slower than the growth in health care costs over the past several decades.
- ⁴ Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2011 Annual Report* (Washington: Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, May 2011), Table V.B1, p. 212.
- ⁵ Congressional Budget Office, *March 2012 Medicare Baseline*, available online at http://cbo.gov/sites/default/files/cbofiles/attachments/43060_Medicare.pdf.
- ⁶ Congressional Budget Office, *Designing a Premium Support System for Medicare* (Washington: Congressional Budget Office, December 2006), p. 12.
- ⁷ Families USA, *Health Hazard: How the House Republican Budget Proposal Would Dramatically Change Medicare* (Washington: Families USA, May 2011), available online at <http://familiesusa2.org/assets/pdfs/Republican-Budget-Changes-Medicare.pdf>.
- ⁸ For additional details, see Families USA, *Republicans Again Propose Slashing Funding for Medicaid, Medicare, and Other Health Programs* (Washington: Families USA, April 2012), available online at <http://familiesusa2.org/assets/pdfs/budget-battle/Republican-Budget-Slashes-Health-Programs.pdf>.
- ⁹ House Budget Committee, *The Path to Prosperity: A Blueprint for American Renewal* (Washington: House Budget Committee, March 2012), pp. 53-54.
- ¹⁰ Families USA, *Health Hazard: How the House Republican Budget Proposal Would Dramatically Change Medicare*, op. cit.
- ¹¹ Kaiser Family Foundation, *Health Care on a Budget: The Financial Burden of Health Spending by Medicare Households* (Washington: Kaiser Family Foundation, March 2012).
- ¹² “Politics: Gingrich on Medicare,” *The New York Times*, July 20, 1996.



**SPECIAL
REPORT**

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