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# RYAN-WYDEN PREMIUM SUPPORT PROPOSAL NOT WHAT IT MAY SEEM

## Likely Would Shift Substantial Costs to Beneficiaries, Threaten Traditional Medicare, and Produce Few Savings

By Paul Van de Water

The proposal for Medicare premium support by House Budget Committee Chairman Paul Ryan (R-WI) and Senator Ron Wyden (D-OR) differs in key respects from how many media reports are describing it.[1] Despite claims to the contrary, it likely would shift substantial costs to beneficiaries rather than protect them from such cost increases, could lead to the demise of traditional Medicare over time rather than preserve it, and likely would produce few savings.

### Shifts Costs to Beneficiaries

Its sponsors say the proposal would avoid shifting health costs to beneficiaries, but that's not so. It would replace Medicare's guarantee of health coverage with a flat payment that beneficiaries would use to help them purchase either private health insurance or traditional Medicare. It also would limit the growth in spending per beneficiary to the growth of gross domestic product (GDP) plus one percentage point (presumably on a per capita basis). But health care costs have risen faster than that for several decades and, as Chairman Ryan acknowledged at a December 15 briefing, if that faster rate continues, *the amount of the government's premium support payment to beneficiaries would be cut back* — with more of the costs of coverage shifted to beneficiaries — unless Congress intervened and made offsetting cuts elsewhere within Medicare. (See box.)

Specifically, Ryan-Wyden would give Congress a period of time in which it could cut provider payment rates or make other changes to limit the rate of growth of Medicare spending before the premium support payments were automatically cut. But Congress would not be — indeed, *could* not be — "required to intervene." And, Congress could well fall short of mustering the requisite majorities to enact alternative cuts — including 60 votes in the Senate — in the face of likely opposition by providers and other health-industry interest groups.

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[1] Ron Wyden and Paul Ryan, *Guaranteed Choices to Strengthen Medicare and Health Security for All,* http://budget.house.gov/UploadedFiles/WydenRyan.pdf.

## Why the Ryan-Wyden Medicare Plan Would Likely Shift Costs to Beneficiaries

Traditional Medicare guarantees that beneficiaries have access to a specified package of health care benefits and services, and it pays doctors and hospitals when they provide those services.

Under premium support, in contrast, Medicare would pay insurance plans — one of which would be traditional Medicare — a fixed dollar amount per beneficiary (adjusted for the beneficiary's health status). Beneficiaries would pay the difference between the amount of that "premium support payment" and the cost of the plan that they selected.

Put another way, while traditional Medicare is a defined-*benefit* system, the Ryan-Wyden premium support plan is a defined-*contribution* system. As Chairman Ryan said of the Ryan-Wyden plan, "We are stopping the open-ended, defined-benefit system."*

The Ryan-Wyden proposal would limit the growth of Medicare spending per beneficiary to the growth of gross domestic product (GDP) per capita plus one percentage point. Health care costs have grown faster than that for several decades, however, and the plan doesn't clearly spell out what would happen to implement this limit if Medicare spending were projected to exceed it.

But one thing *is* clear: limiting the growth in Medicare spending to GDP plus one percentage point is, in essence, limiting the growth in the premium support payment to GDP plus one percentage point. After all, in a premium support system, the premium support payments constitute virtually all of Medicare's spending. Except for modest administrative costs, that's all there is, so limiting the growth of Medicare spending necessarily means limiting the growth of premium support payments to plans. Indeed, Chairman Ryan acknowledged at a December 15 briefing that the spending target would be met through automatic reductions in premium support payments, unless Congress decided to take other action.

Would the premium support payments under the Ryan-Wyden plan be sufficient to pay for the current package of guaranteed Medicare benefits without increasing premiums or cost-sharing for beneficiaries? That's the question at issue.

Two sentences in the proposal bear on this matter:

- "To offset an increase in the cost of Medicare beyond the growth limit, Congress would be required to intervene and could implement policies that change provider reimbursements, program overhead, and means-tested premiums." This apparently refers to steps that Congress *might* take to hold down the growth of insurance plans' costs and thereby assure that the premium support payment would be adequate to cover Medicare's current benefit package. But Ryan-Wyden couldn't "require" Congress to intervene, and the proposal doesn't spell out what would happen if it didn't intervene.
- "Any increase over [the GDP plus one percentage point] cap will be reflected in reduced support for the sectors most responsible for cost growth, including providers, drug companies, and means-tested premiums." This sentence could refer to some sort of automatic mechanism that would act as a fallback if Congress failed to keep plans' costs within the spending limit. But no other premium support plan has anything similar, and it's difficult to see how such an automatic mechanism might be made to work, especially since — under a premium support system — Medicare no longer would be making payments directly to providers or drug companies.

Senator Wyden and Chairman Ryan could readily resolve the ambiguity in this area by providing legislative language for their proposal. Unfortunately, they have said they do not intend to do so. In the absence of further specifics — and without some automatic mechanism that reduces the cost of the benefit package to fit within the premium support payment — we can only conclude that the Ryan-Wyden plan, like other premium support proposals, is likely to shift substantial costs to Medicare beneficiaries.

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*James Pethokoukis, "My Q&A with Paul Ryan on his new Medicare reform plan," *The Enterprise Blog,* December 15, 2011, http://blog.american.com/2011/12/my-qa-with-paul-ryan-on-his-new-medicare-reform-plan/.

Many media accounts portrayed this part of the plan incorrectly (due to a confusing sentence in the proposal document that the sponsors issued yesterday), reporting that beneficiary premium support payments would be shielded — rather than cut — if health care costs rise faster than the target.[2]

## Threatens Traditional Medicare

Ryan and Wyden also claim that their proposal guarantees that traditional Medicare "will always be offered as a viable and robust choice." Unfortunately, that's not the case either. Under a premium support system, traditional Medicare very likely would attract a less healthy pool of enrollees, while private plans would attract healthier enrollees (as occurs today with Medicare and Medicare Advantage). Although the proposal calls for "risk adjusting" payments to health plans — that is, adjusting them to reflect the average health status of their enrollees — the risk adjustment process is highly imperfect and captures only part of the differences in costs across plans that result from differences in the health of enrollees.

Inadequate risk adjustment would mean that traditional Medicare was only *partially* compensated for its higher-cost enrollees, which would force Medicare to raise beneficiary premiums to make up the difference. The higher premiums would lead more of Medicare's healthier enrollees to abandon it for private plans, very possibly setting off a spiral of rising premium costs and falling enrollment. Over time, traditional Medicare could well cease to be financially viable and could unravel — *not* because it was less efficient than the private plans but because it was competing on an unlevel playing field in which private plans captured the healthier beneficiaries and, thus, incurred lower costs. The fact that Ryan-Wyden would allow private plans to tailor their benefit packages to attract healthier beneficiaries and deter sicker ones only makes this outcome more likely.

## May Put Low-Income Beneficiaries at Risk

The sponsors also claim that Ryan-Wyden would fully protect low-income beneficiaries. That's not clear, however; the proposal lacks crucial details about the extent to which it would protect low-income people from premiums and cost-sharing charges. It says it would create "fully-funded" savings accounts for this purpose, but it does not specify who would be eligible, how much would be deposited in the accounts, or how these amounts would be indexed from year to year. In Chairman Ryan's previous premium support proposal, the amounts deposited in these accounts would have been substantially *less* than what many low-income beneficiaries need to cover their out-of-pocket costs and would have become increasingly inadequate over time.[3]

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[2] The proposal states: "To offset an increase in the cost of Medicare beyond the growth limit, Congress would be required to intervene and could implement policies that change provider reimbursements, program overhead, and means-tested premiums." Many media accounts interpreted this to mean that if costs would rise faster than the rate of growth in GDP plus one percentage point, premium support payments would rise in tandem, and that to hold costs to GDP+1, Congress would be required to take other action. But future Congresses can't be required to act, and as Rep. Ryan made clear at the December 15 briefing, premium support payments would be cut automatically unless Congress intervenes. "Required to intervene" means Congress would be required to act if it wanted to prevent the cuts in premium support payments from taking effect.

[3] January Angeles, *Out-of-Pocket Medical Costs Would Skyrocket for Low-Income Seniors and People with Disabilities Under the Ryan Budget Plan*, Center on Budget and Policy Priorities, April 15, 2011, http://www.cbpp.org/files/4-15-11health.pdf.

## Generates Few Budgetary Savings

Finally, Ryan-Wyden would generate few budgetary savings. Health reform (i.e., the Affordable Care Act) takes steps to slow the growth of health care costs through delivery system reforms, such as accountable care organizations, bundled payments, and comparative effectiveness research. As a backstop, it created an Independent Payment Advisory Board (IPAB) that is required to produce proposals to hold Medicare cost growth per beneficiary to the rate of growth of GDP per capita plus one percentage point, and those proposals will take effect *automatically* unless the President and Congress enact legislation to overturn them. This is *the same growth rate that Ryan-Wyden promises*, so Ryan-Wyden likely would produce few additional savings. Rather, it would produce the savings in a different manner.

There are two key differences. First, Ryan-Wyden would deny Medicare much of its ability to serve as a leader in controlling costs by depriving it of the considerable market power it secures from its large enrollment. Ryan-Wyden would rely instead on multiple private insurance plans, which have proven much less effective in the past in driving cost control on their own, and which have often looked to Medicare to institute cost containment measures first and then followed suit. Second, under current law, if the cost-growth target is missed, the IPAB is charged with developing proposals to produce the requisite savings while *shielding* beneficiaries. Under Ryan-Wyden, beneficiaries would instead bear the brunt of all the added costs unless Congress chose to intervene.

For a more detailed analysis of premium support, see our earlier paper.[4]

[4] Paul N. Van de Water, *Converting Medicare to Premium Support Would Likely Lead to Two-Tier Health Care System,* Center on Budget and Policy Priorities, September 26, 2011, http://www.cbpp.org/files/9-26-11health.pdf.