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OUT-OF-POCKET MEDICAL COSTS WOULD SKYROCKET FOR LOW-INCOME SENIORS AND PEOPLE WITH DISABILITIES UNDER THE RYAN BUDGET PLAN

by January Angeles

House Budget Committee Chairman Paul Ryan's (R-WI) budget proposal to convert Medicare into a system of vouchers and to block-grant Medicaid would substantially increase out-of-pocket costs for millions of low-income seniors and people with disabilities who are "dually eligible" for both programs.

Under current law, Medicaid pays the Medicare premiums — and in many cases, cost-sharing changes as well — for beneficiaries with low incomes, and also provides many poor Medicare beneficiaries with certain health and long-term care services and supports that Medicare does not cover or covers to a more limited extent. As part of its Medicare and Medicaid proposals, the Ryan budget plan would *eliminate* this supplemental Medicaid coverage, except for long-term care services and supports, and replace it with a medical savings account. Based on CBO estimates, this would result in a 65-year-old who lives at the poverty line (which would be $13,620 for an elderly individual in 2022) paying, on average, *$4,700 more* in 2022 than he or she would under the programs as they exist today. These higher out-of-pocket costs would consume about one-third of the individual's total annual income, leaving little remaining for basic necessities such as housing and food. Seniors living *below* the poverty line would pay an even greater share of their income. As a result, many dual eligibles, who have the most significant medical needs among both Medicare and Medicaid beneficiaries, would likely end up forgoing needed medical care.

How Medicare and Medicaid Work Together to Assist Low-Income Seniors and People with Disabilities

The roughly 9 million people enrolled in both Medicare and Medicaid — the dual eligibles — represent the most vulnerable beneficiaries in both programs. They often have multiple chronic conditions and extensive health and long-term care needs, and they incur the greatest health costs. Dual eligibles represent only 21 percent of the Medicare population but account for 36 percent of the program's total spending. Similarly, in Medicaid, they represent just 15 percent of enrollees but account for 39 percent of the program's costs.

Dual eligibles today rely significantly on Medicaid to help fill the gaps in Medicare coverage in the areas of benefits, premiums, and cost-sharing. For seniors and people with disabilities who are eligible for full Medicare and Medicaid benefits, the Medicaid program covers long-term services and

supports like nursing home care. It also covers acute care services that Medicare does not cover, such as transportation to the doctor and vision and dental care, or services that Medicare covers to a lesser extent than Medicaid such as home health care, durable medical equipment, mental health and therapy services. Without Medicaid, these beneficiaries would have to pay for these services out-of-pocket, which would be difficult or impossible for many of them to do, given their limited incomes; the likely result would be either considerable hardship, because these costs would leave these beneficiaries with too little income for other necessities, or failure to receive important health services.

Through the Medicare Savings Programs, Medicaid also helps certain low-income Medicare beneficiaries pay their Medicare premiums and/or cost-sharing, which can be quite costly. In 2011, Medicare Part B premiums cost $96.40 per month in 2011 — $1,157 per year — and many outpatient services under Medicare require co-payments of 20 percent. In 2011, the deductible for a hospitalization alone, which is $1,132 for a spell of illness, would consume about 10 percent of the total annual income for an elderly person at the poverty line.

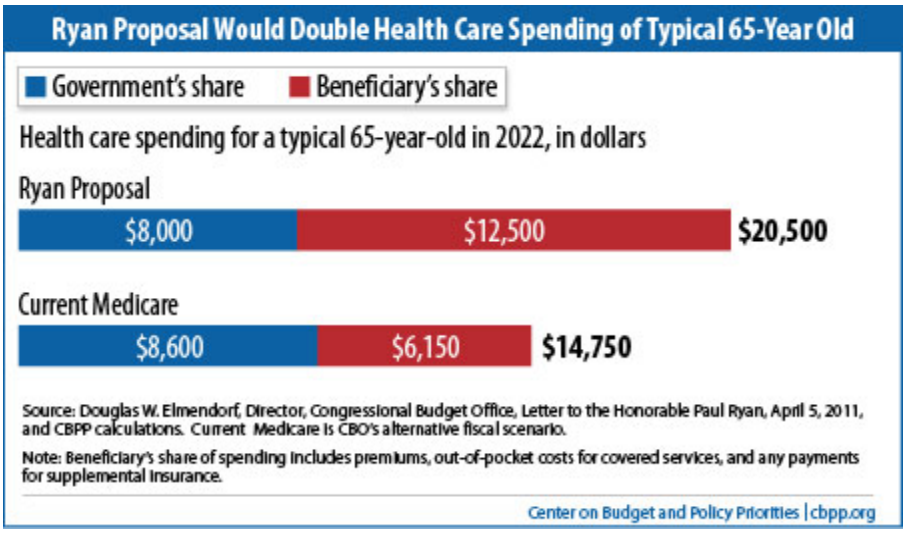
Medicaid pays the premiums, deductibles and co-insurance for Medicare beneficiaries with incomes below the poverty line. It covers the premiums (although not deductibles or co-payments) for beneficiaries with incomes between 100 percent and 135 percent of the poverty line.

Ryan Plan's Changes to Medicare and Medicaid Would Shift Costs to Beneficiaries

The Ryan proposals to fundamentally restructure Medicare and Medicaid would substantially increase the amounts that dual eligibles must pay for health care services, despite their very low incomes. Beginning in 2022, when Medicare is replaced with a voucher program for people turning 65 in that year or subsequent years (and when block-granting Medicaid would have already cut Medicare federal funding by 35 percent), the Ryan plan would eliminate the coverage for health services (except long-term care services and supports) that Medicaid currently provides to low-income seniors and people with disabilities on Medicare. It also would eliminate the assistance that Medicaid provides with Medicare's premiums and cost-sharing charges. Instead, the federal government would establish a "medical savings account" for each Medicare beneficiary with income up to the poverty line and deposit $7,800 in it, which these low-income beneficiaries would use toward their medical expenses.[1] The $7,800 federal contribution amount would be adjusted each year by the general inflation rate.

The elimination of supplemental Medicaid coverage for the dual eligibles, in combination with the larger fundamental changes to Medicare and Medicaid, would result in a rather massive shift in costs to the most vulnerable low-income beneficiaries. According to the Congressional Budget Office (CBO), the total health care costs attributable to Medicare beneficiaries would be substantially higher under the private insurance plans they would purchase with vouchers under the Ryan plan than under a continuation of traditional Medicare (due to the higher administrative costs and provider payment rates under private insurance). CBO estimates that in 2022, when the voucher system would go into effect, total health spending attributable to a 65-year-old Medicare beneficiary would rise from $14,750 under the Medicare program as it operates today to $20,500 — an increase of 32 percent. This beneficiary's out-of-pocket costs would more than double — from about $6,000 a year to over $12,000. (See graph).

[1] Beneficiaries with incomes between 100 and 150 percent of the poverty line would receive 75 percent of that amount.



As noted, in 2022, low-income Medicare beneficiaries would receive $7,800 in their savings accounts to help pay for their out-of-pocket costs. But this amount would fall short of what is needed to cover their expenses. The savings account amount would cover only 62 percent of the typical 65-year-old's out-of-pocket expenses in 2022; this beneficiary would still have to pay an additional $4,700 in health care expenses. (This is the difference between the beneficiary's share of costs — the $12,500 shown in the graph — and $7,800.) This would consume *34 percent* of the income of a Medicare beneficiary living at the poverty line (an estimated $13,620 for an individual in 2022). For a senior on the Supplemental Security Income program, the federal government's basic cash assistance program for very poor individuals who are elderly or have serious disabilities, it would constitute 45 percent or more of their income. Furthermore, since this figure only accounts for premiums and cost-sharing for benefits that Medicare covers now, and not for benefits that Medicaid covers but Medicare does not, the *effective* increase in dual eligibles' out-of-pocket health costs would be greater.

The amounts that individuals would have to pay out-of-pocket would grow even larger in later years because the value of the voucher and the savings account would be adjusted annually only for inflation and thus would fail to keep pace with the growth of health care costs. As a result, millions of the most vulnerable low-income Medicare beneficiaries would face more severe reductions in access to needed care over time.

Conclusion

The Ryan plan would reduce the federal government's contribution for beneficiaries' health care costs even as it would increase total costs, resulting in beneficiaries' out-of-pocket spending rising sharply. Low-income beneficiaries who are now dually eligible for Medicare and Medicaid would be hit particularly hard. Under the Ryan plan, these beneficiaries would lose access to many of the wraparound services that Medicaid now provides and face much higher costs that they would have substantial difficulty affording, given their very low incomes. Serious health reform should address how to reduce costs without causing serious harm to beneficiaries, especially those with limited incomes. Shifting costs to Medicare and Medicaid's most vulnerable beneficiaries while *increasing* rather than reducing costs, as the Ryan plan would do, is the opposite of reform.