THE ROMNEY-RYAN POSITION ON MEDICARE AND THEIR 500 AND 700 BILLION DOLLAR CLAIM RE OBAMACARE

AN EXCERPT FROM THE BOOK:

THE OBAMA vs. ROMNEY DEBATE ON ECONOMIC GROWTH
A Citizen's Guide to the Issues

August 17, 2012

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To Be Published in September 2012
by
iUniverse
as a softcover, hardcover and e-book

The book is written for the average citizen, and it has three purposes:
First, promoting a familiarity with the fundamental issues affecting the growth of
the U.S. economy;
Second, exploring the policies of the 2012 presidential candidates, President
Obama and Governor Romney, on these economic growth issues; and
Third, helping the reader appreciate how economic growth can impact personal
investment decisions.

To facilitate an understanding of the complex issues affecting U.S. economic growth, the book is
written in question and answer format.

The following excerpt from Chapter 17, which deals with Social Security and Medicare,
addresses the Romney-Ryan position on Medicare and the claim by Governor Romney that
Obamacare “cuts Medicare by approximately $500 billion,” which later morphed into $700
billion. Chapter 17 builds on my recent article in the University of Louisville Law Review:
Samuel C. Thompson, Jr., A Buffett Rule for Social Security and Medicare: Phasing Out Benefits

A. How are Social Security and Medicare treated by Ryan and Romney, and are they telling a “half-truth” on the Impact of
Obamacare on Medicare?

Introduction. The Ryan Proposal sets out proposed changes to Medicare that would
partially privatize Medicare: Governor Romney has endorsed the Ryan Proposal. As indicated,
the discussion here focuses principally on the Ryan Proposal of 2011, which is not significantly different from the Ryan Proposal of 2012.

Under the Ryan Proposal, for younger workers, when they reach eligibility, Medicare will provide a Medicare payment and a list of guaranteed coverage options from which recipients can choose a plan that best suits their needs. These future Medicare beneficiaries will be able to choose a plan the same way members of Congress do. Medicare will provide additional assistance for lower-income beneficiaries and those with greater health risks.

This proposal is referred to here as the Ryan Medicare Voucher Proposal, although the Ryan Proposal describes it as a “premium-support” program. The Ryan Proposal explains that wealthier retirees would receive less premium-support than low income retirees. The Ryan Proposal would apply to people who are now 55 or under.

It does not seem clear from the Ryan Proposal how much of a reduction in Medicare benefits would result from adoption of the Ryan Medicare Voucher Proposal. However, in addressing this reduction in benefits issue in his Budget speech, President Obama asserts:

[The Ryan Medicare Voucher Proposal] says that 10 years from now, if you’re a 65-year-old who’s eligible for Medicare, you should have to pay nearly $6,400 more than you would today. It says instead of guaranteed health care, you will get a voucher. And if that voucher isn’t worth enough to buy the insurance that’s available in the open marketplace, well, tough luck — you’re on your own. Put simply, it ends Medicare as we know it.

Also, in an analysis of the Ryan Proposal, the Congressional Budget Office, estimates that in 2022, under that Proposal, “a typical 65-year-old would pay 61 percent of the [the costs] of benchmark [medical services].” On the other hand, under the current Medicare rules, the CBO estimates that “the typical 65-year-old would pay 27 percent of the benchmark . . . .”

Although the Ryan Proposal sets out several general principles regarding the need for Congress and the President to reform Social Security, the Proposal has no change to Social Security payments over the forecast period.

The CBO makes it clear that the Ryan Medicare Voucher Proposal is an attempt to shift a significant portion of the cost of Medicare to the retired. The Ryan Proposal would thus erode the “safety net” function of Medicare but not of Social Security.

The $500 Billion Issue. In responding to attacks by President Obama on the Ryan Medicare proposal, Governor Romney and others have argued that Obamacare will take $500 billion from Medicare. The following “Fact Check” analysis by ABC News found this claim to be false:

[After the Supreme Court decision on Obamacare in June 2012,] Romney told reporters: “Obamacare cuts Medicare by approximately $500 billion . . . .” So, where does the Romney campaign come up with those numbers? . . . So does it “cut” Medicare by $500 billion?

Medicare spending will continue to grow, according to the Centers for Medicare and Medicaid Services (CMS), but [Obamacare] will slow that growth. According to a report from the Kaiser Family Health Foundation over the next 10 years, the federal government will devote about $500 billion less to Medicare than it would have without [Obamacare].

CMS and the Kaiser Family Foundation tell ABC News that there will be no benefit cuts to Medicare. They say instead of Medicare’s being cut, there will be much more spending at the end of a 10-year window, but it does slow the rate of that growth.
This is all unless Congress makes drastic changes to Medicare, for example passing House Budget Chairman Rep. Paul Ryan’s Medicare Plan.

CMS says—and Kaiser agrees—that spending will be reduced by getting rid of fraud and ending overpayments to private insurance companies. It sends a message to those insurance companies: Operate more efficiently.


**Digging Further into the $500 Billion.** I decided to dig further into the facts regarding the $500 billion claim. Governor Romney’s assertion is apparently based on an April 22, 2010 memorandum written by Richard S. Foster, Chief Actuary, Center for Medicare and Medicaid Services, entitled *Estimated Financial Effects of the “Patient Protection and Affordable Care Act,” as Amended [i.e., Obamacare].* Mr. Foster explained that the memorandum “summarizes the Office of the Actuary’s estimates of the financial and coverage effects through fiscal year 2019 of selected provisions of [Obamacare].” *Id.* at 1. Obamacare is examined in greater detail in the next chapter. Mr. Foster further explained:

Included are the estimated net Federal expenditures in support of expanded health insurance coverage, the associated numbers of people by insured status, the changes in Medicare and Medicaid expenditures and revenues, and the overall impact on total national health expenditures. *Id.*

The section of the report addressing the impact of Obamacare on Medicare starts out with the following summary of the changes enacted and their financial effects:

Net Medicare savings are estimated to total $575 billion for fiscal years 2010-2019. Substantial savings are attributable to provisions that would, among other changes, reduce Part A [hospital insurance] and Part B [outpatient medical services] payment levels and adjust future “market basket” payment updates for productivity improvements ($233 billion); eliminate the Medicare Improvement Fund ($27 billion); reduce disproportionate share hospital (DSH) payments ($50 billion); reduce Medicare Advantage [Part A and B services offered by private insurance companies] payment benchmarks and permanently extend the authority to adjust for coding intensity ($145 billion); freeze the income thresholds for the Part B income-related premium for 9 years ($8 billion); implement an Independent Payment Advisory Board together with strict Medicare expenditure growth rate targets ($24 billion); and increase the HI payroll tax rate by 0.9 percentage point for individuals with incomes above $200,000 and families above $250,000 ($65 billion). Other provisions would generate relatively smaller amounts of savings, through such means as reporting physician quality measures, reducing payments in cases involving hospital-acquired infections, reducing readmissions, refining imaging payments, increasing Part D [prescription drug benefit] premiums for higher-income beneficiaries, and implementing evidence-based coverage of preventive services.

These savings are slightly offset by the costs of closing the Part D [prescription drug benefit donut hole] coverage gap ($12 billion); reducing the growth in the Part D out-of-pocket cost threshold ($1 billion); extending a number of special payment provisions scheduled to expire, such as the postponement of therapy caps ($5 billion); and by the costs for improving preventive health services and access to primary care ($6 billion). *Id.* at 9.
In addressing the decrease in costs associated with Part C, Medicare Advantage, the memorandum states:

Under the prior law, Medicare Advantage payment benchmarks were generally in the range of 100 to 140 percent of fee-for-service costs. Section 1102 of reconciliation amendments sets the 2011 MA benchmarks equal to the benchmarks for 2010 and specifies that, ultimately, the benchmarks will equal a percentage (95, 100, 107.5, or 115 percent) of the fee-for-service rate in each county. During a transition period, the benchmarks will be based on a blend of the prior ratebook approach and the ultimate percentages. The phase-in schedule for the new benchmarks will occur over 2 to 6 years, with the longer transitions for counties with the larger benchmark decreases under the new method. Id. at 11.

The memorandum goes on to state that as a result of “estimated savings for Part A of Medicare, the assets of the Hospital Insurance trust fund would be exhausted in 2029 compared to 2017 under the prior law—an extension of 12 years.” Id. at 9. The memorandum also explains that the “combination of lower Part A costs and higher tax revenues results in a lower Federal deficit . . . .” Id.

The bottom line here is that as a general rule, except for people participating in Medicare Advantage plans, which were costing up to 140 percent of government run Medicare, there were no cuts in Medicare benefits and all of the reductions, including the cuts to Medicare Advantage, are to the rate of growth of Medicare payments. As explained in an article in the Columbia Journalism Review:

[Obamacare] does not cut a dime from the basic Medicare benefits seniors receive. All seniors will still get hospital benefits, coverage for physician services, lab tests, hospital outpatient care, prescription drugs [with the donut hole filled], and so on, and will continue to receive them . . . .

(See Trudy Liebeman, Medicare and the $500 billion boogeyman, Will a half-truth still work for the GOP? Columbia Journalism Review (Aug 14, 2012), at www.cjr.org.)

The Columbia article further says:

Republicans and their allies are dusting off an old $500 billion deception about Medicare, trying once more to scare seniors into voting their way. The logic on this one turns truth on its head, but some in the media have caught on to this election tactic and have begun trying to supply missing context.

The Columbia Journalism article also makes the following point regarding the cost reductions, including the change to Medicare Advantage plans:

Most of the $500 billion in cuts aim at reducing payments to health care providers—hospitals, nursing homes, home health agencies, though not doctors. And about one quarter of the cuts target Medicare Advantage Plans to reduce the amount of government overpayments insurers have gotten. The government was paying more to these plans to provide benefits than it was paying to provide the same benefits under the traditional Medicare program. Medicare Advantage plans are a popular alternative to traditional Medigap policies because those overpayments have allowed insurers to offer cheap premiums and extra benefits like dental and vision care. But policy experts found these payments were unwarranted, wasted money, and jeopardized the finances of the Medicare trust fund that pays for hospital care. Id.

**How Did the $500 Billion Get to $700 Billion?** Immediately after his selection of Congressman Ryan as the Republican vice presidential candidate, Governor Romney and other
Republicans began to claim that President Obama is taking $700 billion from Medicare, not $500 billion. The $700 billion figure apparently comes from the analysis in a July 24, 2012 letter from the CBO to House Speaker Boehner regarding the revenue effects of the potential enactment of the Republican proposal to repeal Obamacare. Table 2 of the CBO letter projects that if the Republican repeal bill were enacted, there would be an increase of $741 billion in spending on Medicare over the 2013 to 2022 forecast period. The CBO indicated that repeal had other collateral effects and did not just amount to the revenue savings in Obamacare. The CBO also concludes that the repeal of Obamacare would result in a “net increase in federal budget deficits of $109 billion over the 2013-2022 period.” Id. at 2. As discussed in Chapter 17, the CBO projects that Obamacare will “reduce federal deficits by $210 billion over the 2012–2021 period.” (See CBO, 2011 Analysis of Obamacare, infra Bibliography, at 2.) It bears repeating: Over the ten year forecast period, Obamacare reduces the deficit by $210 billion, while the Republican repeal bill increases the deficit by $109 billion, a $319 billion swing.

The increased spending on Medicare under the Republican’s repeal bill would significantly shorten the period in which Medicare remains solvent. Thus, while as discussed above, Obamacare increases the financial soundness of Medicare for 12 years, the Republican repeal bill would reverse the extension.

The bottom line here is that Obamacare has reduced the rate of growth of spending on Medicare without eliminating or reducing benefits, except for reducing the rate of growth of the benefits for Medicare beneficiaries participating in high cost Medicare Advantage private plans. While Obamacare significantly increases the period during which Medicare remains financially sound, the Republican repeal bill would essentially reverse that increase. Further, as noted above, beginning in ten years, the Ryan Proposal would put new Medicare recipients on a voucher plan, where the voucher payment would be less than the costs of medical benefits. Thus, as compared to the current Medicare system, the Ryan Proposal would decrease, and in some cases significantly decrease, Medicare benefits. As discussed subsequently, I propose to phase out both Medicare and Social Security benefits of high income taxpayers.

The Election-Out Issue. There seems to be some dispute as to whether the Ryan Proposal would permit eligible participants either to (1) elect to keep their current Medicare benefits, or (2) elect into the voucher system. It is clear that the 2011 and 2012 Ryan Proposals have no election-out feature. As indicated from the following statement in the 2012 Ryan Proposal, Medicare recipients could elect into the Ryan voucher system:

While there would be no disruptions in the current Medicare fee-for-service program for those currently enrolled or becoming eligible in the next ten years, all seniors would have the choice to opt into the new Medicare program once it begins in 2022. No senior would be forced to stay in the old program. This budget gives seniors the freedom to choose a plan that works best for them and guarantees health security throughout their retirement years. Id.

Thus, under this 2012 Ryan Proposal, which has been enacted by the House of Representatives, there is a right for current traditional Medicare recipients to elect into the voucher system, but there is no right for those people who after ten years become eligible for a voucher to elect out of the voucher system and into traditional Medicare.

On the other hand, in a December 2011 article in the Wall Street Journal, Congressman Ryan and Senator Wyden of Oregon proposed a system that would give a Medicare beneficiary the complete choice to elect into a voucher system or to elect out of that system and retain traditional Medicare. In laying out this proposal, they explain:
Our plan would strengthen traditional Medicare by permanently maintaining it as a guaranteed and viable option for all of our nation’s retirees. At the same time, our plan would expand choice for seniors by allowing the private sector to compete with Medicare in an effort to offer seniors better-quality and more affordable health-care choices.

Under our plan, Americans currently over the age of 55 would see no changes to the Medicare system. For future retirees, starting in 2022, our plan would introduce a “premium support” system that would empower Medicare beneficiaries to choose either a traditional Medicare plan or a Medicare-approved private plan.

(See Ron Wyden and Paul Ryan, A Bipartisan Way Forward on Medicare Allowing private plans to compete with traditional Medicare will help lower costs and spur innovation, Wall Street Journal (December 15, 2011), at www.wsj.com.)

The basic theory of the Wyden-Ryan plan is that by stimulating competition in the Medicare market, prices will come down. If in fact this does not happen, their plan calls for the imposition of a complex “cap on the rate of growth.” Id. Professor Tyson, who headed President Clinton’s Council of Economic Advisers, calls the assumptions in the Wyden-Ryan plan “unrealistic.” (See Laura D’andrea Tyson, Wyden-Ryan’s Unrealistic Assumptions, New York Times (Dec. 30, 2011), at www.nyt.com).

To summarize this election-out issue, the Wyden-Ryan plan was proposed before the adoption of the current 2012 Ryan Proposal, which has been enacted by the House of Representatives. Thus, notwithstanding the Wyden-Ryan December 2011 proposal, in 2012, Congressman Ryan has proposed and the House of Representatives has adopted the no “election-out” Ryan Proposal.

One final point: Treatment of Medicare Savings in the Ryan Proposal: Turning a Half-Truth into a Lie. Not only does the 2012 Ryan Proposal that was passed by the House not have an election-out, it would keep many of the same Medicare “savings” discussed above that are already in Obamacare. This is clear from the following statement in the 2012 Ryan Proposal:

This budget ends the raid on the Medicare trust fund that began with passage of [Obamacare] last year. It ensures that any potential savings in current law go to shore up Medicare, not to pay for new entitlements. In addition to repealing the health care law’s new rationing board and its unfunded long-term care entitlement, this budget stabilizes plan choices for current seniors [i.e., extends Medicare’s financial viability]. (emphasis added) Id. at 45.

Thus, the House Republicans have enacted a bill that would implement essentially the same Medicare savings that are in Obamacare. As indicated in the previous discussion, the savings lost from their repeal of the “rationing board” only amounts to $24 billion of the $500 savings. My understanding of this aspect of the Ryan Proposal is consistent with an analysis by Peter Landers in an August 15, 2012, Wall Street Journal article entitled: Medicare Highlights Divide on GOP Ticket. On this point, he says:

For Mr. Ryan, who helps shape GOP budget policy from his post as chairman of the House Budget Committee, the law’s Medicare savings were attractive. While the Wisconsin congressman wants to repeal most of the health law, his proposal this year [which was passed by the House] called for keeping potential savings under the law and using them to "shore up Medicare." Id.
Thus, unless I am missing something here, Governor Romney, Congressman Ryan, and many of the “talking-head” Republicans are not just engaging in a “half-truth” they are being untruthful with the American public.