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Obama's Medicare Reform Plan: Do Nothing

> "Medicare, in particular, will run out of money, and we will not be able to sustain that program, no matter how much taxes go up. I mean, it's not an option for us to just sit by and do nothing."
>
> – *President Obama, June 2011*

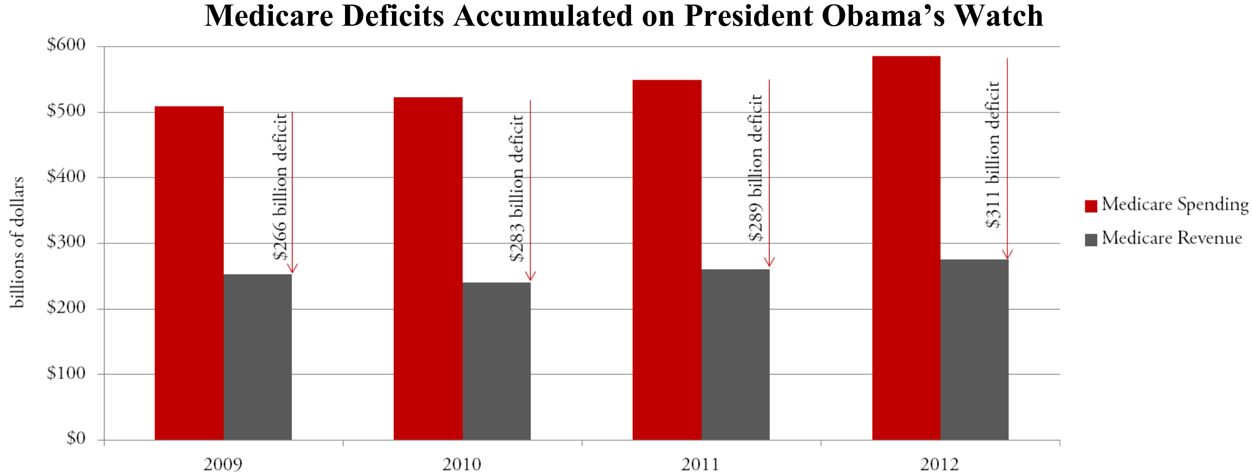
President Obama knows that the Medicare program is on a swift path to bankruptcy. He admits it. Instead of proposing bipartisan solutions that reform and strengthen Medicare, the President chooses to do nothing.

Even President Obama's own fiscal commission co-chairs registered disappointment in his September deficit reduction outline. Erskine Bowles and Alan Simpson said the President should "support real savings in entitlements that deal with long-term costs."

President Obama Ignores Multiple Medicare Funding Warnings

For the seventh year in a row, the Medicare trustees issued an "excess general revenue Medicare funding" warning. This means the Medicare program will rely on money from the Treasury's general revenues to cover more than 45 percent of its expenses this year.

Medicare Deficits Accumulated on President Obama's Watch



Source: American Action Forum

By law, when Medicare gets into that situation the President must submit, within 15 days of his next budget, a detailed legislative proposal to stem the crisis. Although the trustees have issued a Medicare funding warning every year since he took office, President Obama has never complied with the law. He has never submitted a plan to prevent the funding shortfall, save Medicare from bankruptcy, and preserve it for future generations.

By the end of 2012, the Medicare trustees estimate President Obama will have overseen a Medicare cash shortfall of approximately $1.2 trillion.

Medicare's Long-Term Fiscal Outlook: Runaway Deficits

According to the Medicare trustees report, the Hospital Insurance (HI) Trust Fund has run annual cash flow deficits every year since 2008. In 2012, total income flowing into the HI trust fund is $28.9 billion less than estimated payments.

The HI unfunded obligation over the next 75 years is projected to be $5.3 trillion. At this pace the HI Trust Fund will be bankrupt in 2024. The Medicare trustees predict, under their worst-case economic scenario, that the trust fund could be insolvent as early as 2017.

When added to the rapidly growing expenditures for the Supplementary Medical Insurance (SMI) trust fund – which pays for physician care, outpatient services, and prescription drugs – the trustees predict Medicare's 75-year total unfunded liability equals $27 trillion.

Trustees Report Uses Unrealistic Assumptions

As troubling as these figures are, they are actually unrealistically optimistic. The chief actuary at the Centers for Medicare and Medicaid Services (CMS), Richard Foster, issued a stark warning: "The financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range (as a result of the unsustainable reductions in physician payment rates) or the long range (because of the strong likelihood that the statutory reductions in price updates for most categories of Medicare provider services will not be viable)."

The trustees' report assumes, for example, that Medicare's physician payments will be cut 30.9 percent starting January 1, 2013. The report also assumes that President Obama's health care law provider productivity cuts also will occur as planned. Productivity cuts reduce annual Medicare payments to most healthcare providers.

These assumptions disregard past experience. Congress has overridden all scheduled Medicare physician payment reductions since 2003. Moreover, it is highly unlikely that Congress will allow the health care law's provider "productivity" payment cuts to stand. The trustees explain that the law's provider cuts would cause negative operating margins for 15 percent of hospitals, skilled nursing facilities, and home health agencies. That percentage increases to 25 percent in 2030 and 40 percent by 2050. The report notes, "providers could not sustain continuing negative margins and, absent legislative changes, would have to withdraw from serving Medicare beneficiaries … lawmakers would probably override the productivity adjustments, much as they have done to prevent reductions in physician payment rates."

Unfunded Obligations: It's Worse Than You Think

The CMS chief actuary's alternative scenario applied more reasonable economic assumptions that predict even higher costs. Using this scenario to measure future spending, the HI unfunded obligations total $9.7 trillion over the 75-year window.

This projection assumes physicians will not face a 30.9 percent payment cut, but instead receive a one percent annual increase. It also assumes President Obama's provider cuts will be phased down starting in 2020. Using these more realistic assumptions, Medicare's 75-year total unfunded liability (Parts A and B combined) increases from $27 trillion to $37 trillion.

President's Health Care Law Ends Medicare As We Know It

Rather than confronting the looming entitlement crisis, President Obama's health care law raided more than $700 billion dollars from the Medicare program – not to save Medicare, but to start a brand new program. The President claims these Medicare cuts make the program more solvent. At the same time, the President also claims these Medicare cuts will pay for the cost of the new health insurance entitlement.

The President double-counted the health care law's Medicare cuts. He wanted to create the illusion that he extended Medicare's solvency, even though the money really is being spent on new government programs. The health care law's Medicare cuts cannot serve both functions without adding to the deficit. As the Medicare actuary pointed out, "In practice, the improved [HI] financing cannot be simultaneously used to finance other Federal outlays (such as coverage expansions under the [health care law]) and to extend the trust fund, despite the appearance of this result from the respective accounting conventions."

The Congressional Budget Office (CBO) reiterated this conclusion saying: "the majority of the HI trust fund savings under [the health care law] would be used to pay for other spending and therefore would not enhance the ability of the government to pay for future Medicare benefits. To describe the full amount of [Medicare] trust fund savings as both improving the government's ability to pay future Medicare benefits and financing new spending outside of Medicare would essentially double-count a large share of those savings and thus overstate the improvement in the government's fiscal position."

President Obama Punts – Asks Unelected Bureaucrats to Cut Medicare

One of the more dangerous secrets hidden in the President's health care law is the Independent Payment Advisory Board (IPAB). IPAB's sole purpose is to cut Medicare spending based on arbitrary budget targets. These are cuts above and beyond the $716 billion stolen from a bankrupt Medicare program.

The IPAB empowers 15 politically appointed Washington bureaucrats to make these Medicare cuts, without full transparency and accountability to America's seniors and their elected officials. IPAB will set the price for Medicare services. If American patients suffer due to IPAB's Medicare cuts, they cannot challenge it in court -- judicial review of the board's decisions is prohibited by the health care law.

In creating IPAB, the President demonstrated that he did not possess the courage to make tough Medicare reform decisions. Instead, he took the easy road. President Obama created the IPAB and punted the difficult decisions to them until after the election. By doing so, the President and Democrats in Congress abdicated their responsibility to explain to the American people specific payment changes necessary to keep Medicare solvent and protect the program for future generations. When the decision was politically tough, President Obama refused to lead. He threw his hands in the air and said, *let someone else deal with it*. That is not leadership, and it is not health care reform.

Medicare's Fiscal Imbalance: America Can't Tax Its Way Out

Faced with Medicare's gloomy fiscal outlook, Democrats argue Congress should raise taxes to pay for current benefits. The 2012 Medicare trustees report explains that making immediate changes to bring Medicare into solvency "require[s] an immediate 47 percent increase in the standard tax rate" or an "immediate 26 percent reduction in [Medicare] expenditures."

Clearly, the idea that policymakers can solve Medicare's financial problems simply by raising taxes is untenable. It is not possible to raise taxes high enough to ensure Medicare's long-term solvency. Congress would have to raise taxes on all Americans in the top two tax brackets (over 217,450 for married / over $178,650 for individuals) 67 percent just to keep Medicare solvent.

The Fight for Medicare's Future

In June, CBO warned that the nation's debt will be twice the size of the U.S. economy by 2037. Spending on major health care programs will double, to 10 percent of GDP by 2037. According to CBO, Medicare spending is projected to soar from 3.7 percent of GDP in 2012 to 6.7 percent in 2037. Over the same time, CBO projects all other federal spending combined will decline from 11.6 percent of GDP to 9.6 percent, meaning Medicare will crowd out many other programs.

America's debt problem is, in fact, a Medicare problem. Without a plan to preserve, protect, and strengthen Medicare, the country faces a fiscal train wreck. Because the program is on a path to bankruptcy, the greatest threat is inaction. Every American has a stake in Medicare's future. Every American deserves candor about the challenges the program faces.

Over the past four years, President Obama not only stood firmly in the way of meaningful Medicare reform, his health care law actually made the problem worse. Rather than demonizing bipartisan ideas to preserve and strengthen Medicare, perhaps it is time for President Obama to have the courage to join the discussion.