NEED TO KNOW

AMERICANS FOR PROSPERITY FOUNDATION

MEDICARE AND IPAB

WHAT IS MEDICARE AND HOW DOES IT HELP SENIORS?

Created in 1965, Medicare provides health insurance to the elderly (ages 65 and up) and disabled individuals. In 2015, Medicare provided insurance coverage to 53.5 million seniors and 8.9 million disabled citizens with total benefits costing $522 billion, up from $222 billion in 2000 (1). With the continued rapid inflation in health care costs, Medicare's own estimates project costs of $932 billion by 2020 This spending is unsustainable and will soon overwhelm the federal budget and deconmy as a whole.

Medicare's health coverage comes in one of two forms.

Fee for service – Medicare Parts A, B, and D:
For most beneficiaries, Medicare functions as a government-finanaced and government-administered "fee-for-service" program, similar to a "single-payer" health care system. When a covered senior gets treated by a doctor, the government reimburses the doctor directly for the services (instead of private health insurance or out-of-pocket payments). The government is therefore responsible for setting prices and coverage levels, a controversial process.

Traditional "fee-for-service" Medicare has three parts. Part A provides inpatient hospital benefits, covering items such as rooms, tests, and doctor's fees. This is the largest part of Medicare (costing $261.2 billion in 2014) and for most retirees does not require a monthly premium. Parts B and D offer optional additional coverage purchased with monthly premiums (with subsidies for low-income seniors). Part B covers medical out-patient services such as laboratory tests, x-rays, and doctor visits. Part D, created in 2006, covers prescription drugs under customizable plans. All three parts also contain deductibles and copayments that beneficiaries must pay out-of-pocket – "fee for service" Medicare is by no means free to seniors.

Medicare Advantage Plans – Medicare Part C:
About one quarter of Medicare beneficiaries choose to receive services through "Medicare Advantage" plans, also known as Medicare Part C, created in 1997. Here seniors choose their own health coverage among competing, private insurance plans. Doctors are paid for services by the private plan, and, much like employer-provided health insurance, the seniors and government split the cost for the monthly premiums. Experience has shown that private plans more efficiently manage medical providers and costs than government administrators.

HOW IS MEDICARE FINANCED?

Medicare benefits are paid for with FICA payroll taxes (a 2.9 percent rate split between employees and employers); premiums for Parts B, C, and D; and taxpayer money appropriated by Congress. Any surpluses are stored in two separate trust funds. The Hospital Insurance Fund (HI), is composed of surplus FICA taxes interest paid on investments in Treasury Securities. The Supplemental Medical Insurance Fund (SMI), is mostly funded by Congress with a small portion funded by Part B and D premiums.

QUICK FACTS

- Medicare spending is projected to rise to $932 billion by 2020, up from $597 billion last year and $222 billion in 2000.
- One of Medicare's two trust funds will run out of money by the year 2024.

NOTABLE & QUOTABLE

"The [Independent Payment Advisory Board] will give unelected, unaccountable government appointees the power to make decisions about payment policy in Medicare that will ultimately determine whether millions of seniors have access to the care they need. This challenges the very principles of representative democracy and consent of the governed."

-**Grace-Marie Turner**, President of the Galen Institute

However, the trust funds are going broke. Medicare's Trustees estimate the HI trust fund will be depleted by 2024, even with the scheduled 0.9 percent increase in the payroll tax on high income earners in 2013. The SMI is "adequately financed," but only because it has access to Congress' purse. This ignores the big impact Medicare funding has on the federal budget as a whole. Long-term financing solutions are desperately needed to solve the Medicare financing issue.

In a 2010 survey of Medicare beneficiaries, just 12 percent had problems finding a primary care physician. This will likely change when IPAB intervenes to cut Medicare's cost.

WHAT IS IPAB?

The Independent Payment Advisory Board (IPAB), a component of the President's new health care law passed in 2010, is a panel of 15 members appointed by the President and given the task of controlling the rapid growth in Medicare spending. Unlike many panels created and authorized by Congress, IPAB's recommendations, unless specifically

rejected by Congress, will carry the force of law – an unprecedented transfer of power from elected officials to unaccountable bureaucrats.

The law states that IPAB cannot pass recommendations "to ration health care, raise revenues or Medicare beneficiary premiums... or... increase Medicare beneficiary cost-sharing, or otherwise restrict benefits or eligibility criteria" (2). Given these restrictions, IPAB is widely expected to focus on cutting provider reimbursement rates, or the amount doctors get paid for their services. When doctors are compensated less for serving Medicare patients, large numbers will opt not to treat these patients at all. Right now Medicare patients actually fare slightly better in finding a doctor than patients insured by private health plans. In a 2010 survey of Medicare beneficiaries, just 12% had problems finding a primary care physician, compared to 19% of those on private health plans (3). This will likely be reversed when IPAB intervenes to cut costs.

CONCLUSION

Capital is the lifeblood of modern economies. A dynamic free-market economy requires efficient and flexible capital markets to support it. High capital gains taxes make markets both less efficient and less flexible, creating troubling incentives that discourage innovators and entrepreneurs. Politicians should reconsider the effects of taxing capital gains and eliminate the barriers it creates to economic growth.

Endnotes:

1. 1. Board of Trustees, 2011 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (May 13, 2011) (online at https://www.cms.gov/ReportsTrustFunds/downloads/tr2011.pdf).
2. Pub. L. No. 111-148, 124 Stat. 119 (2010) as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111–152, 124. Stat. 1029 (2010).
3. Cristina Boccuti, et al., Assessing Payment Adequacy: Physician, Other Health Professionals and Ambulatory Surgical Center Services (December 2, 2010) (online at http://www.medpac.gov/transcripts/Physician%20public%20Dec%202010%20pres.pdf).

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