TESTIMONY OF KELLY ROSS
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Unless health care costs are brought under control, they are projected to bankrupt individuals, families, businesses, state governments, and the federal government by the latter half of the 21st century. The fact that Medicare has proven to be more cost effective than private health insurance plans over the past four decades suggests that the best way to contain future cost growth is to improve and expand Medicare by building on the payment and delivery reforms of the Affordable Care Act (ACA). By contrast, proposals to replace guaranteed Medicare benefits with a flat payment of premium support—also known as a voucher—would increase overall health care costs, shift costs to seniors and increase their out-of-pocket spending, create a two-tier health care system, cripple Medicare's ability to contain cost growth, make Medicare's risk pool more expensive to cover, and ultimately leave Medicare to "wither on the vine." The claim that premium support proposals would reduce overall health care costs is based on ideology rather than experience or facts.

Medicare has lower costs than private health insurance plans for three reasons. First, Medicare has lower administrative costs—about 2 percent of total spending compared to 11 percent for Medicare Advantage plans.[i] Second, Medicare has enormous buying power that allows it to resist unreasonable increases in provider payments, whereas private insurance companies often lack the inclination or ability to resist rate increases in concentrated provider markets. Third, Medicare has the bargaining power necessary to prevail upon private providers to implement payment and delivery reforms that promise to bring costs under control.

For these reasons, Medicare has also experienced lower health care cost *growth* over time than private insurance plans. Between 1970 and 2009, Medicare spending per enrollee grew one percentage point less each year than comparable private health care premiums—or one third less over four decades.[ii] In addition, between 2010 and 2019, Medicare spending per capita is projected to grow nearly two percentage points slower than private health insurance.[iii]

This is why proposals to replace guaranteed Medicare benefits with premium support vouchers would increase overall costs in the U.S. health care system. The Congressional Budget Office (CBO) has found that the 2011 Ryan premium support proposal would increase overall health care costs for the average 65-year-old beneficiary by 40 percent—from $14,750 to $20,500—in its first year of implementation.[iv] Over 75 years, the 2011 Ryan plan would increase the cost of providing Medicare equivalent policies by at least $20 trillion.[v]

To the extent that premium support proposals would reduce some portion of the federal government's health care costs, they would do so by shifting a much higher amount of costs to seniors. Because the value of a voucher would almost certainly fail to keep up with health care cost growth, beneficiaries would have to pay more out of pocket each year—either to buy more generous private plans or to stay in traditional Medicare—or they would have to settle for less expensive plans that provide fewer benefits or require more cost sharing. According to CBO, Rep. Ryan's 2011 premium support proposal would increase out-of-pocket health care spending per beneficiary by $6,000 in its first year of implementation—from $6,150 to $12,500.[vi] Moreover, the amount of the vouchers could be easily dialed down to shift even more costs to seniors.

Premium support proposals threaten to create a two-tier health care system. In the upper tier, the wealthiest seniors would supplement their vouchers with their own resources to access the most advanced medical care. In the lower tier, seniors with more modest resources would only be able to access care covered by their increasingly inadequate voucher.

Maintaining traditional Medicare as an alternative to private insurance plans would not remedy these defects. We know from experience that private insurance companies do not compete with traditional Medicare based on efficiency, but rather by "cherry picking" the healthiest and least expensive beneficiaries. This has been the experience of Medicare Advantage, whose private plans have a history of trying to attract healthy seniors and discouraging less healthy enrollees and whose costs per beneficiary were nevertheless 9 percent higher than traditional Medicare in 2010. This was also the experience of the Medicare + Choice program in the 1990s.

Because of this tendency of private plans to cherry pick the healthiest and least expensive beneficiaries, premium support proposals would lead to the gradual demise of Medicare as we know it. The pool of beneficiaries enrolled in traditional Medicare would be sicker and more expensive to cover. Higher costs for a dwindling pool of beneficiaries would lead to higher premiums, shrinking the risk pool further and driving up premiums further. This is known as a "death spiral," or as House Speaker Newt Gingrich called it in the 1990s, "withering on the vine." Although "risk adjustment" is designed to address this problem, we know from experience that risk adjustment is flawed and that ultimately private plans are overcompensated for recruiting healthy beneficiaries. The important thing to understand is that Medicare would be disadvantaged not because it is less cost-effective than private insurance plans, but because it pools risk without regard to health status and does not cherry pick the healthiest and least expensive beneficiaries.

In the end, premium support proposals would not only fail to contain overall costs in the U.S. health care system, but they would cripple Medicare's superior ability to contain costs. With a dwindling number of beneficiaries, Medicare's administrative costs would increase as a percentage of spending. Medicare would lose the bargaining power needed to resist unreasonable provider payment increases. And Medicare would lose the clout needed to drive payment and delivery reforms by private providers.

In short, premium support proposals would be a giant step in the wrong direction. The real problem is not Medicare spending growth per se, but overall cost growth in our health care system that drives up costs for Medicare. Premium support proposals would only make this problem worse by increasing overall costs in the U.S. health care system. Instead of crippling the ability of Medicare to contain health care cost growth, we should improve and expand Medicare and take advantage of its market power to extend payment and delivery reforms throughout the entire U.S. health care system.

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[i] Kaiser Family Foundation, *Medicare Spending and Financing* (2011), p. 5.

[ii] Paul 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), p. 1.

[iii] Kaiser Family Foundation, "Medicare at a Glance" (November 2011).

[iv] Congressional Budget Office, "Long Term Analysis of a Budget Proposal by Chairman Ryan" (April 5, 2011); Robert Greenstein, "CBO Report: Ryan Plan Specified Spending Path That Would Nearly End Most of Government Other Than Social Security, Health Care, and Defense by 2050," Center for Budget and Policy Priorities (April 7, 2011), p. 3.

[v] Center for Economic and Policy Research, "Representative Ryan's $30 Trillion Medicare Waste Tax" (April 2011), p. 1, fn. 3.

[vi] Congressional Budget Office, "Long Term Analysis of a Budget Proposal by Chairman Ryan" (April 5, 2011); Robert Greenstein, "CBO Report: Ryan Plan Specified Spending Path That Would Nearly End Most of Government Other Than Social Security, Health Care, and Defense by 2050," Center for Budget and Policy Priorities (April 7, 2011), p. 3.