Medicare Reform

Why a Voucher-Style Program Will Decimate Medicare
By Jeff Adams August 12, 2013

This article is designed to be a non-partisan, objective assessment of the impact of the proposed voucher-style program for controlling Medicare costs. In this current politicized world of health care, it is difficult to deliver facts and ideas to try to educate the public. Any facts or opinions that do not match one party or the other's agenda results in the originator being labeled as partisan. Health care is 17%, or over one-sixth, of the United States' economy so there will be frayed nerves at any suggestion of changing this sector. Additionally, almost every citizen would be affected by changes in health care since if an individual is sick or injured they may have no choice but to go to the doctor or hospital. If it is feared that changes in health care may affect the citizens' access to or quality of care then there will be some agitation in the population.

The Issue

A main issue in the health care debate is big government versus small government. Republicans are proponents of smaller, more efficient governments that allow citizens to keep more money and make the decisions that affect their lives. Democrats believe in a more centralized approach with programs designed to help citizens left in difficult situations due to unfortunate situation in their lives.

Health care is an important battleground with issues that require bipartisan cooperation to avoid major budget issues in the Federal, state, and local governments. Medicare and Medicaid represent approximately 24% of the Federal budget. It was not too long ago when only 12% of the Federal budget went for Medicare and Medicaid. The implication of this doubling of health care costs as part of the Federal budget is that the Federal budget has 12% less to spend on programs other than health care. This means that many popular programs needed to be cut or reduced due to these excess health care costs. Compounding this issue is the additional interest on government debt that needs to be paid as part of the Federal budget due to unfunded prior Medicare and Medicaid costs.

Compounding the health care problem is that health care costs for the private sector have increased substantially over recent decades. Every year many employers are forced to drop coverage for its employees, with the number of employees purchasing coverage through their employers decreasing each year for this same time period.

Modifying Medicare and Medicaid cannot be done without considering the impact on private insurance. Often, short-sighted attempts to control government health care costs only serve to push these cost "savings" on to the private sector, resulting in higher employer premiums or higher individual premium rates. An example would be reducing Medicare payment schedules to hospitals. This would theoretically reduce Medicare payments to hospitals. The easiest method for hospitals to make up for this lost revenue is to negotiate with insurance companies for increased payments for the non-Medicare and non-Medicaid business. The Federal government has much more leverage in setting payment schedules than do employers and insurance companies.

The Voucher-Type Program

One proposal to control Medicare costs is to give Medicare enrollees a certain amount of money and let them choose a private policy. By doing this the Federal government will be able to better control Medicare costs since it can control precisely the costs for the Medicare enrollees, regardless of actual health care cost incurred by the individual. For example, the government may determine that it will pay Medicare enrollees $800 per month and these enrollees would then use that $800 to help pay for insurance premiums from health insurers. If the health insurer charges $1,200 a month for premium then the enrollee would have to pay $400 per month for coverage. In the following year the Federal government may determine it will increase its payment to the enrollee by 3% to $824 while the insurance premium may increase by 7% to $1,284. This would result in the retiree having to pay $460, a 15% increase over the previous year.

This type of program is commonly called the "voucher program". Proponents of this proposal do not agree with the term but it is roughly an accurate description.

Proponents point to the control over spending and say that insurers will need to control premium increases or lose enrollment. The situation with escalating employer premiums points to the fact that insurers will not reduce premiums to keep membership if it means smaller profits, no profits, or losses. In an ideal world the insurer would like to increase enrollment as long as they do not lose money as a corporation. If it is a choice between losing enrollment or losing money then the insurer would, like any business, generally choose to lose enrollment.

A Reasonable Scenario

A very reasonable scenario would be the Federal government starting off this program giving the retiree a voucher that would, on average, allow a Medicare enrollee to purchase coverage at the same cost of obtaining coverage today, namely the Part B Premium of $104.90 per month or, roughly, $1,200 per year. This would imply that the "value" of the voucher would be, roughly, $800 per month or $10,000 per year since average health care costs for Medicare enrollees are in excess of $900 per month, or $11,000 per year.

The following table summarizes these numbers as a possible scenario for 2013:

Total Health Care Cost Per Medicare Enrollee Per Year	$11,000
Medicare "Voucher" Per Year	$ 9,800
Medicare Enrollee Premium Payment Per Year (= 2013 Part B Premium)	$ 1,200

Under the voucher proposal there is little incentive for health insurers to control costs or increases in future premium rates. The insurers' main objective would be to have a surplus or to at least not lose money. In this scenario it is reasonable to estimate that Medicare enrollee premiums would increase by 7% each year. The 7% would include increases in health care cost due to unit cost (CPI), utilization (increase in the number of services and new procedures), and changes in the mix of services (trend towards more costly services).

As discussed, the voucher proposal allows for firmer control on Federal costs. With the current budget issues it is reasonable to assume that the value of the voucher will increase at an average rate of 3% or less. The target will probably be general CPI and eventually mirror Social Security benefit increases. Note that there continues to be downward pressure on Social Security benefit increases with the newest idea being that of the "Chain CPI".

Long-Term Results

The starting health care cost of $11.000 per year with a 7% increase each year thereafter along with a starting "voucher" amount of $9,800 with a 3% increase per year would lead to very high Medicare enrollee cost of purchasing coverage in the future.

Given this conservative scenario, the Medicare enrollee would have to pay $5,000 a year for coverage by the year 2034.and $10,000 in 2044. There will be an adverse selection spiral caused by this scenario as healthy Seniors will choose to drop Medicare coverage leaving only the sicker enrollees purchasing coverage, increasing premiums causing not so healthy people to drop coverage, increasing costs, etc. Assuming a conservative 20% adjustment for a sicker Medicare population by 2034 the Medicare enrollee would then have to pay $14,000 by 2034 and $28,000 by 2044.

Summary

Under these conservative scenarios, there will be mass exodus from Medicare over the next 20 to 30 years, adding to the 50 million uninsured in this country and decimating enrollment in Medicare causing it to no longer be a viable program. It will, however, go a long way in controlling the Federal budget so it boils down to your preference.

There are other choices other than the voucher-style program. Many ideas about reducing the 30% to 35% of health care costs that are due to fraud and abuse have been made. Significant health care cost reductions may be obtained if the goal of reducing overweight and obesity rates in the United States is achieved. As has often been written on this site, there is no Silver Bullet solution, just a lot of hard work and many changes adding up to substantial savings.