

# Deficit Reduction and Medicare:

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## President Obama's Plan

On September 19, the Obama administration released its recommendations to the Joint Select Committee on Deficit Reduction, also known as the supercommittee, to cut the deficit by more than \$3 trillion through a mix of revenue increases and spending cuts.

The administration's plan includes increased revenues to achieve a more balanced approach that helps prevent deeper cuts to programs that support Medicare and Medicaid beneficiaries, their families, and caregivers. Overall, the administration's plan reduces the deficit by \$1.5 trillion through increased revenues generated in part by eliminating tax breaks for the wealthiest Americans and corporations. In addition, in his remarks announcing the plan, President Obama made a firm commitment to veto any proposal including changes to Medicare benefits that does not include significant increases in revenues.

The plan also includes \$320 billion in savings from federal health programs, the majority of which comes from Medicare and Medicaid. Certain health savings outlined by the plan address the right target: growing costs in the health care sector overall, which in turn drives Medicare and Medicaid spending growth. But other proposals save the government money by shifting costs to beneficiaries and states, both of which are in a poor position to pay more.

### Changes to Medicare and Medicaid

The plan includes \$248 billion in savings from the Medicare program and \$66 billion in savings from Medicaid. The majority of these savings are achieved through rebalancing Medicare provider payments and the price Medicare pays to pharmaceutical companies for drugs. However, some savings are achieved by requiring beneficiaries to pay more out of pocket or reducing access to benefits.

- **Drug Savings** – Approximately \$135 billion in savings are achieved by allowing Medicare to get better prices for drugs under the Medicare prescription drug benefit. Many experts believe that Medicare is currently overpaying for drugs, and, importantly, this proposal would not shift extra out-of-pocket costs to beneficiaries. Under this proposal, drug manufacturers pay a rebate to the government for drugs provided to people with Medicare who are enrolled in either the low-income subsidy (LIS) program or Medicaid. Medicaid programs currently

receive similar rebates for drugs used by Medicaid beneficiaries. In fact, before the Medicare prescription drug benefit began in 2006, drug companies paid these rebates to Medicaid for the low-income people with Medicare who now receive drug coverage under Medicare. This proposal simply requires them to pay similar rebates again.

- **Rebalancing Medicare Provider Payments** – The proposal makes changes to provider payments to reduce waste and unnecessary care. For example, the plan promotes better and more efficient care for patients who have recently stayed in a hospital by targeting providers who provide care to individuals after they are released from the hospital.
- **Changes to the Medicare Benefit** – The following provisions account for a comparatively smaller portion of savings from the Medicare program but may have an impact on the Medicare population. These provisions would take effect in 2017 and would apply only to new beneficiaries. Regardless of when they begin, these elements of the plan would save the government money by requiring people with Medicare to pay more for coverage or by limiting access to care.
  - **Increase the Part B Deductible** – Applies a \$25 increase to the Part B deductible in 2017, 2019 and 2021, totaling \$75 for new beneficiaries.
  - **Increase Home Health Cost-Sharing** – Creates a home health copayment of \$100 per home health episode that is not preceded by a hospital or other inpatient post-acute care stay.
  - **Create a Premium Surcharge for Medigap Supplemental Insurance Plans** – Creates a Part B premium surcharge equivalent to about 15 percent of the average of all Medigap premiums nationwide or up to 30 percent of the Part B premium for people with Medicare in Medigap plans that provide the most generous coverage. The plans that would trigger the surcharge are the most popular plans, and the surcharge would have the deepest impact on states, including Iowa, Kansas and Nebraska, where Medigap enrollment tends to be higher. This and similar proposals are supposed to prevent patients from receiving unnecessary care, but wrongly assume that consumers without medical backgrounds are able to second-guess their doctors and distinguish between necessary and unnecessary care.
  - **Increase Medicare Part B and Part D Premiums for Certain Beneficiaries** – While people with Medicare whose income is \$85,000 or above per year already pay higher premiums, this proposal will potentially require people with relatively lower incomes to pay higher premiums. It works like this: The plan freezes the income threshold until 25 percent of people with Medicare pay higher premiums, and it also increases the extra

premiums this population is required to pay. As the value of a dollar changes from year to year, many middle class beneficiaries could also be required to pay more.

- It is also important to remember that the term “high-income” has a vastly different definition when applied to those with Medicare as opposed to the general population. In the context of tax reform, high income is generally \$250,000 or more, while the threshold for “high income” Medicare beneficiaries who are required to pay higher premiums is more than two-thirds lower. The best and fairest way to make sure that richer people pay more for Medicare is to increase income taxes on the rich, which the president has proposed. But a small expansion or increase in this tax proposal could avert the need for proposals that could hurt middle-class older Americans on fixed incomes and undermine the basic principles of the Medicare program.

Many policymakers believe these provisions do not go far enough and propose even more dramatic cost-shifts, such as those included in the budget passed by the House of Representatives that would convert Medicare into a voucher system. These same policymakers could also insist that these elements in the administration’s plan be toughened to require beneficiaries to pay even more. To learn more about proposals that would increase costs for people with Medicare, read [“Painting a Grim Picture: Deficit-Reduction Proposals that Hurt People with Medicare.”](#)

- **Medicaid Financing Changes** – Though often not well understood, Medicaid provides key support for people with Medicare. In fact, while Medicare does not cover long-term care, Medicaid is one of the nation’s largest providers of such services. Medicaid also helps millions of people pay Medicare cost-sharing that would otherwise make health care unaffordable to them. Medicaid is already facing serious financial challenges, and any cuts to the program could result in decreased access to care for the population the program serves, including older Americans and people with disabilities who have Medicare. Certain elements of the plan, such as the proposed blended, or matching, rate for federal payment contributions to Medicaid and the reduction of the Medicaid provider tax threshold, would save the federal government money by shifting costs to states, which are in precarious budget situations. As a result, states would be forced to cut Medicaid by restricting eligibility, reducing coverage and reducing Medicaid provider payments, all while research demonstrates that people with Medicaid already have difficulty finding doctors.