

Medicare Costs too Much and They Better Not Cut it

By Dean Baker

There is an old story about two men in a retirement home. The first declares, "the food in this place is poison." His friend agrees and adds, "and the portions are so small." This exchange perfectly captures the Republican approach to Medicare.

The Republicans, led by House Budget Committee Chairman Paul Ryan, have argued that Medicare threatens to bankrupt the country. They have pointed to [cost projections](#) showing the program more than doubling relative to the size of the economy over the next three decades. The Republicans say that the country cannot afford this expense and scream about huge debt burdens for our children.

The Republicans' concern might lead people to believe that they would support measures to contain Medicare costs. But if you thought that was the case, you would be wrong.

The latest Republican crusade on Medicare is to eliminate the Independent Payment Advisory Board (IPAB), which was put in place as part of the health care reform bill passed two years ago. IPAB is empowered to impose a cap on Medicare spending if it grows too fast relative to the size of economy. The way it would reduce cost growth is by reducing or eliminating payments for medicines and procedures that have not been shown to be effective.

The idea that Medicare would not pay for some medicines or procedures has Republicans in Congress screaming about "death panels" and "rationing." It is fascinating how Republicans use these terms. These politicians, who like to portray themselves as lovers of free markets, are now claiming that it is rationing if the government will not pay for something.

We have to keep our eye on the ball. No one is telling people that they can't spend their own money on any medical care they like. The issue is simply what care Medicare will pay for. Under current law the IPAB may impose constraints that stop the government from paying for care that has not been shown to be effective. Only in some bizzaro world can this be called rationing.

What's striking is the Republican alternative. While they scream bloody murder over any effort to constrain costs in Medicare, their own plan is to simply end Medicare as we know it. The plan approved by the Republican House last year would end Medicare as a publicly run system. It would instead give beneficiaries a voucher that they could use to buy insurance in the private market.

Under the Republican plan there is absolutely no guarantee that beneficiaries would be able to purchase plans that cover the services that IPAB might exclude from Medicare coverage. As anyone who has dealt with insurance knows, insurers have procedures they cover and those they don't. In Republican terminology, each plan has its own "death panel" that decides what procedures are covered.

Furthermore, the Congressional Budget Office (CBO), based on extensive experience with private sector

insurers who already operate in the Medicare system through Medicare Advantage, [projects](#) that private insurers will hugely increase the cost of getting Medicare-equivalent policies. This is both due to the fact that private insurers have much higher administrative expenses than the public Medicare system and also that they are less effective in containing costs.

Working off CBO projections, my colleague David Rosnick [calculated](#) that the Ryan plan would increase the cost of buying Medicare equivalent policies by \$34 trillion (in 2011 dollars) over the program's 75-year planning horizon. In short, if people are worried that IPAB is going to make some procedures unaffordable for some people, then they should want to run as far as possible from Representative Ryan and his fellow Republicans. Their plan will leave beneficiaries far less able to afford care than anything that the IPAB might do.

When people look at these long-term projections of exploding health care costs there are two important factors they should keep in mind. First, costs in the United States are ridiculously out of line with the rest of the world. We spend more than twice as much per person on health care as the average in other wealthy countries even though we have little to show for it in the way of outcomes.

If our health care costs were comparable to costs in Germany, Canada or anywhere else we would be looking at huge long-term budget [surpluses](#), not deficits. This also suggests [one simple way](#) of controlling costs: Let Medicare beneficiaries buy into the health care systems of other countries, splitting the enormous savings with the government. If the Republicans really supported free markets, they would be all for that one.

The other point worth noting is that health care cost growth actually has slowed hugely in the last two years. We can't know whether this slowdown will continue, but if it does, IPAB will not have to do anything to meet its cost targets.

We desperately need an overhaul of our health care system, which is a cesspool of inefficiency and corruption. However in keeping with their desire for larger portions of poison, the Republicans want to dismantle Medicare, which is by far the most efficient part of the national health care system. Instead they want to hand over even more of our money to a badly broken private health care system.

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