MEDICARE, A VITAL COMPONENT OF ECONOMIC SECURITY FOR U.S. SENIORS, **MUST BE PROTECTED**

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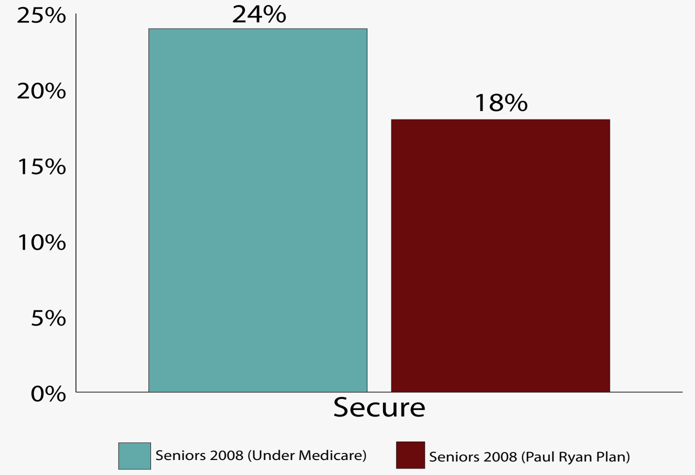
WITH Washington increasingly focused on battles around the deficit, the Medicare program has recently come under attack by policymakers who would like to slash and reshape the program. New analysis using the multi-factor Senior Financial Stability Index (SFSI) shows just how vital the Medicare program is to the long-term economic security of seniors.

Since April of 2011 a series of measures to radically alter the fundamental structure of Medicare have been proposed. These include Congressman Paul Ryan's proposal and several iterations, such as the

FIGURE 1. IMPACTS OF RYAN HEALTH CARE PLAN ON OVERALL SENIOR ECONOMIC SECURITY



Ryan- Wyden Plan. They all share the same central tenant: a dramatic shift away from the current fee-for-service structure of Medicare in favor of premium supports that would be used to pay for private market insurance. The Ryan-Wyden Plan, for example, would tie premium support payments to GDP growth plus one percent, national health care expenditures have far outpaced GDP growth in recent decades. The Centers for Medicare and Medicaid Services report that national health expenditures are expected to increase an average of 6.1 percent per year over a projected 10-year period (2009-2019). As a point of comparison, GDP grew by only half that amount (3 percent) in 2010. Any proposal that fails to control health care costs and instead shifts these growing costs to individuals and families will undermine the already precarious economic security of increasing numbers of seniors.

KEY FINDINGS

The Senior Financial Stability Index (SFSI) estimates essential needs over the life course and assesses available resources to meet those needs. Using the SFSI, IASP was able to project changes in senior security under alternative policy scenarios and found that transforming Medicare from a government insurance program to a premium subsidy, as proposed by Congressman Paul Ryan, would drastically undermine the economic security of seniors. Under the Ryan plan:

- Overall economic security among seniors would drop from 24% to just 18%, meaning that less than one-fifth of seniors would have adequate resources to meet their basic needs for the remainder of their expected life spans.
- Health security would fall to only 3%; thus, 97% of seniors would have to spend over 10% of their monthly incomes on out-of-pocket health costs.
- Rising health expenditures would squeeze household budgets, leaving 62% of seniors with no financial cushion at the end of the month after paying for essential needs.

THE SFSI WAS DEVELOPED AT THE INSTITUTE ON ASSETS AND SOCIAL POLICY IN 2008. THE FIRST PUBLISHED FINDINGS USING THE INDEX WERE PRESENTED IN THE 2009 REPORT, "LIVING LONGER ON LESS: THE NEW ECONOMIC (IN)SECURITY OF SENIORS," BY TATJANA MESCHEDE, THOMAS M. SHAPIRO, AND JENNIFER WHEARY.

Due to rising household expenses and declining retirement resources, many seniors today are finding it increasingly challenging to meet their day to day expenses. The Institute on Asset and Social Policy's July 2011 brief[1] revealed increasing economic insecurity in household assets, budgets and housing costs from 2004-2008; however, while high numbers of seniors remain at risk due to high health care costs (42 percent), a similar percentage remain secure in terms of the health expenses (41 percent) due to the benefits of Medicare. While health costs are a growing concern for all Americans, especially seniors, the fee for service structure of the Medicare program remains a fundamental bulwark against the rising tides of health care costs.

To understand the impact of shifting away from fee-for-service that is the common denominator of current Medicare proposals, a simple question needs to be posed: What is the impact on economic security of seniors? As a way to grasp this impact we analyzed the original Ryan proposal to weigh the impact of similar proposals, with the understanding that as specific proposals tweak elements, impact also will vary accordingly.

Changes to Medicare that would decrease coverage or increase out of pocket expenditures would result in substantially lower levels of economic security for U.S. seniors. This analysis is based on the original proposal to restructure Medicare set forth by Congressman Paul Ryan, Chairman of the House Budget Committee, last spring and represents a worse-case-scenario.

Essentially, the original Ryan Plan would provide $8,000 (CPI-adjusted) to Medicare beneficiaries to use to purchase health insurance; however, if insurance premiums rise more quickly than the consumer price index, which is expected to be the case, seniors would be left paying the difference; thus, dramatically shifting the risk of rising health care costs onto senior households. Additionally, the plan would gradually increase the age of eligibility for Medicare to 67, from the current 65, leaving many older adults with declining health waiting for access.

IMPACTS OF THE PAUL RYAN PLAN FOR MEDICARE

The impacts of the restructured Medicare program according to the Ryan proposal would be dramatic. The Congressional Budget Office (CBO) recently reported that health care costs for beneficiaries would grow significantly if Medicare were converted to a program of premium supports.[2] Not only would seniors face substantial increases in health care spending, the overall costs of care would be more expensive under such a plan because private insurers have higher administrative costs of care than does the Medicare program.[3] Using the widely-cited estimate for an average increase of approximately $6000 per year in health care spending for a typical older adult[4], we estimated the overall health insecurity levels that would be faced by seniors using the SFSI standard. Not surprisingly, the results demonstrate a dramatic restructuring of senior households' budgets and a substantial reduction of spending capacity for other essential needs.

Figure 1 shows the devastating financial impacts that would occur if Medicare were converted from its current form to a subsidy for the purchase of private health insurance. While just one in four seniors is secure overall by SFSI measure, under Congressman Ryan's plan, that proportion would drop to less than one in five.

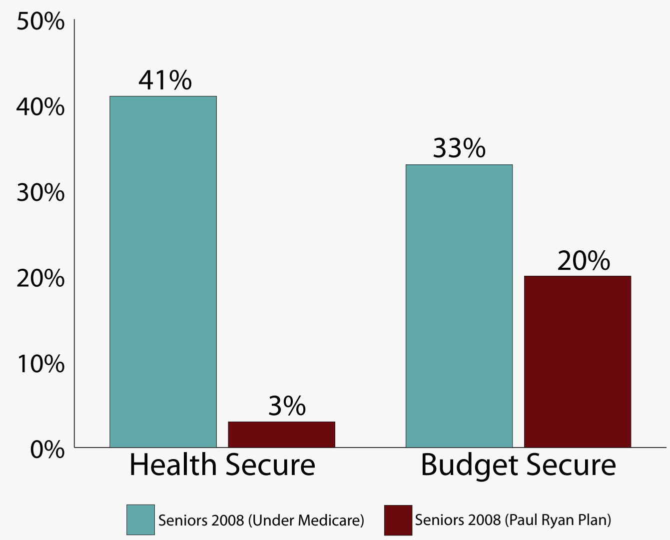
HEALTH AND BUDGET SECURITY AT RISK

The overall economic well-being of seniors is in jeopardy if major structural changes occur to Medicare, such as those proposed by Chairman Ryan, for two related reasons. First, seniors' health care costs would rise dramatically, putting health care costs at an unsustainable proportion of overall household income. While today 42 percent of senior households pay more than 15 percent of their income on health expenses, that number would increase to 93 percent, leaving all but the very wealthiest households with burdensome health care costs. Similarly, while 41 percent of seniors currently spend less than 10 percent of their income on health costs and are thereby deemed health secure in accordance with the SFSI, the percent of secure households would plummet under the Ryan plan to a meager 3 percent. The large rise in health care costs paid by seniors under the proposed plan would severely constrain households' budgets, forcing more and more households to make untenable choices between basic essentials as incomes fail to meet new expenses under the plan. Almost two-thirds of households would have severely constrained budgets were the Ryan plan enacted, leaving them with insufficient money to cover basic needs.

1 From Bad To Worse: Senior Economic Insecurity on the Rise, IASP, July 2011
2 See CBO, "Long-Term Analysis of a Budget Proposal by Chairman Ryan."
3 Ibid.
4 http://www.cbpp.org/cms/index.cfm?fa=view&id=3453, http://www.washingtonpost.com/blogs/fact-checker/post/obama-plays-the-tax-card/2011/04/13/AFf63QYD_blog.html

Figure 2 shows the dramatic drop in health and budget security among seniors under the Ryan plan.

FIGURE 2. IMPACTS OF RYAN HEALTH CARE PLAN ON SENIOR HEALTH AND BUDGET SECURITY



It is important to note that this analysis necessarily relies on the assumption that health care spending by older adults in the U.S. will rise as outlined above in order to maintain their current level of access to care. However, given the substantial financial burden that such spending would cause under current proposals that shift away from adequate fee-for-service, some older adults who could not afford the additional health care costs would begin to limit their health care usage and potentially face serious threats to their health due to inadequate care. Such realities are common among the uninsured working-age population in the U.S. leading to a lack of preventative care and high utilization of emergency rooms. While our estimates assume that seniors will maintain their current health care coverage, another consequence of the Ryan plan will be decreasing medical access and usage for older adults in the U.S. and likely higher utilization of extremely costly urgent care and emergency services.

NAVIGATING THE CORRECT PATH

Rather than dramatically restructuring the Medicare program by increasingly shifting the burden of rising health care costs onto senior households, many of whom are already struggling to make ends meet,[5] policymakers interested in addressing future federal budget shortfalls should direct their attention toward the primary challenge to the long-term sustainability of the Medicare program: rising medical costs. For years, medical inflation has outpaced inflation in the general economy and this has led to increasingly high payments for medical services for families, employers and the government. A number of policy proposals have been suggested to help control the costs of health care in the United States.

Let's not throw the baby out with the bath water. Instead, we should address the major driving force behind rising expenses in the Medicare, as well as the Medicaid, programs: the rising costs of medical care in the United States. Clearly, any proposal that would fundamentally alter the fee-for-service structure of Medicare would undermine the economic security of seniors in this country, unless health care costs are simultaneously brought under control. While the Ryan-Wyden Plan, by tying premium support payments to GDP rather than to the CPI, is less severe than the original Ryan Plan, any plan that subjects seniors (many on fixed incomes) to the risks of rising health costs and an increasingly volatile economy represents a significant shift in our collective values as a nation. The budget deficit should not be resolved on the backs of seniors; we must turn to better solutions.

5 From Bad To Worse: Senior Economic Insecurity on the Rise, IASP, July 2011

ABOUT IASP

The Institute on Assets and Social Policy (IASP), a research institute at the Heller School for Social Policy and Management at Brandeis University, is dedicated to the economic well-being and social mobility of individuals and families, particularly those traditionally left out of the economic mainstream. Working in close partnership with state and federal policy makers, constituencies, grassroots advocates, private philanthropies, and the media, IASP bridges the worlds of academic research, government policy-making, and the interests of organizations and constituencies. IASP works to strengthen the leadership of policy makers, practitioners, and others by linking the intellectual and program components of asset-building policies.

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