



The Other Medicare Report

Written August 17, 2010 by John Goodman

The release of this year's [Medicare Trustees report](#) was unprecedented. As noted in previous posts [here](#) and at my blog [here](#) and [here](#), Medicare's chief actuary not only refused to sign off on it, he disowned it — encouraging readers to ignore it and focus instead on an [alternative report](#), prepared by the office of the Medicare actuaries.

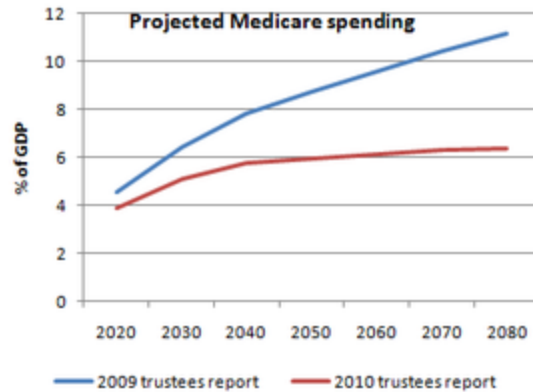


So what's the difference in the two reports? It all relates to the health reform bill that passed last spring. The formal trustees report shows health reform dramatically reducing future Medicare spending. In fact, it is so dramatic that even the White House seems reluctant to talk about it — perhaps because it's prima facie unbelievable.

Consider this: In 2009, the trustees reported that (looking indefinitely into the future) Medicare had an [unfunded liability](#) of \$89 trillion. This year, the trustees report that number has fallen by more than half to \$36.6 trillion. If the numbers are to be believed, health reform has already saved us \$53 trillion — a sum more than three times greater than our entire gross domestic product!

To put this in perspective, note that during the debate over ObamaCare, Republican opponents complained about \$500 billion in new taxes over the next 10 years. Yet if the trustees report is accurate, the health reform act is going to save the taxpayers more than 100 times that amount in present value terms!

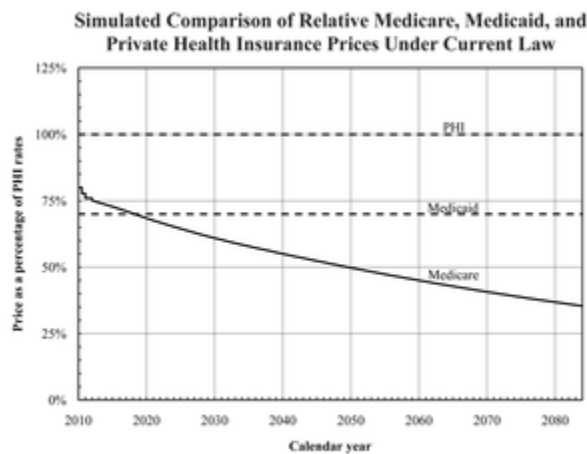
While the White House has been reluctant to tout this accomplishment (preferring instead to trumpet something relatively trivial: 12 years added to the life of Medicare's (Part A) trust fund), New York Times columnist [Paul Krugman](#) has shown no such restraint. After reprinting the graphic below from the trustees report, he announced that “health reform was the biggest move toward fiscal responsibility in a long, long time.”



The trouble is, neither Krugman nor the administration nor even the most avid supporter of the Affordable Care Act has ever given a plausible explanation that could even remotely account for spending cuts of this size. That’s why you need the alternative report.

It is there that we learn that the trustees formal spending projections assume that Medicare doctors fees will be cut by 30% over the next three years. Then going forward, the cuts become even more severe. As the following chart shows:

- By 2019, Medicare fees on the average will be less than what Medicaid pays and will fall increasingly below Medicaid rates in the succeeding years.
- By 2050, Medicare rates will be half of what the private sector is paying; by 2080 they will be only one-third.



What is being envisioned here is Medicare traveling a completely different path from the rest of the health care system. As the rates fall further behind what everyone else pays, the elderly and the disabled would have increasing difficulty seeing a doctor or finding a hospital willing to admit them. And this will be especially true with 32 million newly insured paying much higher fees — about half in private plans and half in Medicaid. According to the Medicare actuaries:

- About one in seven facilities — hospitals, skilled nursing facilities, home health agencies, and hospices — will become unprofitable and risk bankruptcy by 2019.
- By 2030, one in four will become unprofitable.
- By 2050 it will be 40%.

Now if you are having one of these “aha moments,” that’s understandable. There is no cost control method anywhere in the world that beats not giving people care in the first place.

The problem for the administration is that the Trustees report is too good. It’s embarrassingly good. It’s so good that no one in his right mind would ever believe it, unless you believe the country will accept that an elderly and disabled population are facing increasingly severe rationing and getting a quality of care well below what the rest of the nation has access to.

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