

TheUpshot

A Republican Plan for Medicare Is Experiencing a Revival

By AARON E. CARROLL
and AUSTIN FRAKT

A number of Republican health care policy proposals that seemed out of favor in the Obama era are now being given new life. One of these involves Medicare, the government health insurance program primarily for older Americans, and is known as premium support.

Right now, the federal government subsidizes Medicare premiums — those of the traditional program, as well as private plan alternatives that participate in Medicare Advantage. The subsidies are established so that they grow at the rate of overall per enrollee Medicare spending. No matter what Medicare costs, older Americans can be sure that the government will cover a certain percentage of it. That's the main thing that panics fiscal conservatives, because that costs the government more each year.

Premium support could quiet that fear. Subsidies would be calculated so they don't grow as quickly, thus protecting the federal government (that is, taxpayers) from runaway spending. There are lots of variants, but really two principal ideas.

The first is to set the subsidy to a level established by the market, as opposed to one established by the government, as it is now.

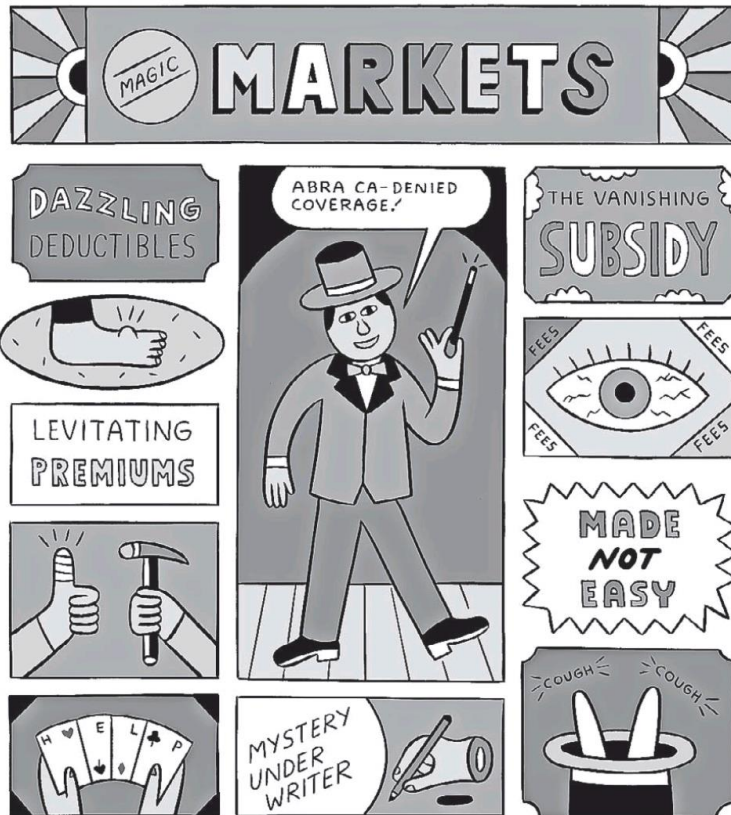
One way to do that is to tie the subsidy to the average premium of all Medicare plans, including that of traditional Medicare. This is how the Medicare drug program, Part D, already works. For Part D, Medicare collects bids from all plans that reflect their costs of providing the required, minimum level of drug coverage. Then it sets the subsidy at 74.5 percent of the average bid.

Beneficiaries pay the difference, which will be higher for more costly plans that may offer more generous benefits, and lower for cheaper plans. The system includes additional subsidies for low-income beneficiaries.

The thinking is that the market drives the subsidy. Because insurance companies want to attract more enrollees, they are motivated to drive their bids downward, driving subsidies downward as well and saving taxpayers money.

If this sounds somewhat similar to how the subsidies for the Affordable Care Act marketplace plans work, it's because it is similar. Obamacare ties the premium subsidy to the second-lowest premium instead of the average. If an enrollee wants a plan with more benefits but at a higher premium, he or she will pay the difference, not the government.

Aaron E. Carroll is a professor of pediatrics at Indiana University School of Medicine. Austin Frakt is a health economist with several governmental and academic affiliations.



ANDY REMENTER

But though the approach is similar to Part D — which was passed by a Republican Congress and signed into law by a Republican president — and the A.C.A. marketplaces — established with Democratic support — it does not have bipartisan endorsement.

That's just one more example of how congressional actions and attitudes on health care reform are inconsistent. Republicans think subsidies based on bids is an excellent way to reform Medicare, but they don't laud the Affordable Care Act for adopting the same approach. When it comes to the A.C.A., of course, Democrats supported this mechanism, but they've opposed it when it comes to Medicare reform.

Obamacare's creation of the insurance exchanges and subsidies to expand coverage was a move leftward, supported by Democrats and opposed by Republicans. Anything that relies more heavily on private Medicare options would be a move rightward, and it would probably be opposed by Democrats and supported by Republicans. Such is Washington.

It's worth noting that progressives are also concerned that this plan might erode traditional Medicare. It could do that because, for a variety of reasons,

private plans are likely to bid lower than traditional Medicare. If people have to pay more for traditional Medicare, relative to private plans, they're likely to leave it, weakening that arm of the program.

The second main idea included in some premium support plans is to further protect the government from rapidly growing expenditures by explicitly capping the growth in subsidies. This could be layered on top of the bidding approach. It would work like this: Plans bid, and the government picks the average or second lowest. Then the government makes sure it doesn't pay a predetermined amount more than last year — a growth cap.

This kind of cap on subsidy growth is an even more contentious issue. As anyone who follows health care spending knows, it has grown significantly faster than inflation for the past several decades. Putting a more restrictive cap on growth will make budget projections look better. The problem is that such action assumes that there are ways we haven't previously figured out to reduce Medicare spending without reducing benefits, reducing reimbursement or increasing cost-sharing.

Progressives fear that, given our inability to control health

care spending in other ways, this would most likely wind up transferring more and more of the cost of health care onto older Americans themselves. Many would be unable to afford care. The same problems we're seeing with underinsurance and cost-related access barriers in the private insurance market could become more prevalent.

The entire point of premium support is to rely on the market to innovate and come up with more efficient ways of providing health care and health insurance for it. As such, one cannot say in advance how it would keep costs below a growth cap.

Some people deride this as "market magic," and it's easy to see where they're coming from. It's not crazy, however, to think that care could be better managed to produce good outcomes more efficiently, at least to some extent. This, in fact, is the theory underlying some of the Affordable Care Act's reforms, like accountable care organizations.

But the bottom line is this: With premium support, no one can be certain how things will work out. As we consider any premium support approach, we will need to acknowledge that one of the easiest ways to cut premiums is to shift more health care costs to older Americans.