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NEW DEFICIT-REDUCTION PLAN WOULD JEOPARDIZE HEALTH REFORM

Reducing Health Insurance Subsidies and Increasing Age of Eligibility for Medicare Raise Serious Concerns

by Paul N. Van de Water

Bill Galston of the Brookings Institution and Maya MacGuineas of the New America Foundation recently offered a plan to reduce federal deficits and push down debt held by the public to 60 percent of gross domestic product by 2020.[1] The plan has several commendable features. It explicitly recognizes that it would be unrealistic to hold federal revenues and outlays to the averages of recent decades.[2] It also sets forth reasonably specific tax increases and spending cuts rather than relying largely on mechanical formulas that avoid making the hard choices.

However, several elements of the Galston-MacGuineas plan raise serious concerns — particularly its proposals to (a) reduce health insurance subsidies to moderate-income people participating in the new health insurance exchanges and (b) increase the age of eligibility for Medicare from 65 to 67 and beyond.

Both proposals are unwise. In combination, they would run a high risk of causing health reform to fail by driving premiums in the exchanges up to levels that many more people would find unaffordable. Here's why their proposals are ill-advised.

The new health reform legislation (the Affordable Care Act) provides tax credits to help low-and moderate-income families afford coverage through the new exchanges. As explained in a previous paper, these credits are not generous and already require people with modest incomes to pay substantial amounts for coverage and care.[3] Shrinking the subsidies would put the law's insurance market reforms and cost-control measures at serious risk — because the law's requirement that

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[1] Bill Galston and Maya MacGuineas, *The Future is Now: A Balanced Plan to Stabilize Public Debt and Promote Economic Growth*, Committee for a Responsible Federal Budget, September 30, 2010. http://crfb.org/sites/default/files/Galston-MacGuineas_Plan.pdf.

[2] See Paul N. Van de Water, *Federal Spending Target of 21 Percent of GDP Not Appropriate Benchmark for Deficit-Reduction Efforts,* Center on Budget and Policy Priorities, July 28, 2010. http://www.cbpp.org/files/7-28-10bud.pdf.

[3] Paul N. Van de Water, *Reducing Health Insurance Tax Credits Would Jeopardize Market Reforms and Cost Controls,* Center on Budget and Policy Priorities, July 26, 2010. http://www.cbpp.org/files/7-27-10health2.pdf.

insurers offer coverage to everyone at a standard price, irrespective of their health status, can work only if everyone is required to have health insurance. (Otherwise, healthy people would wait until they got sick to buy insurance, and premiums would soar.) And such an individual mandate can work only if coverage is affordable to families with low and moderate incomes.

If the subsidies were reduced, as Galston and MacGuineas propose, more people would choose to go without insurance — generally those who are in better health and thus have less immediate need for health care. Their exit from the insurance pool would drive up premiums for those remaining in the pool since this group would be sicker, on average, and thus more costly to cover. In turn, the increase in premiums would encourage still more of the healthier people to drop coverage.

If this process proceeded very far, the individual mandate and market reforms would be difficult or impossible to maintain. The survival of the entire legislation — including its substantial cost-reduction measures in Medicare and elsewhere — could be jeopardized.

Raising the age of eligibility for Medicare so that 65- and 66-year-olds would have to obtain insurance through the health insurance exchanges would exacerbate this risk. Under the Affordable Care Act, insurers in the exchanges will be able to charge the oldest enrollees only three times as much as the youngest ones. But the average cost of covering the oldest enrollees is well over three times the average cost of covering the youngest. As a result, younger enrollees will hold down the cost of coverage for older enrollees by paying somewhat higher premiums than they otherwise would.

Adding 65- and 66-year-olds to the exchanges thus would raise premiums significantly for everyone else. This would cause more of the unsubsidized participants in the exchange to drop coverage. And once again, those most likely to drop coverage would be those who are in good health and feel they have less need for coverage. It also would increase the cost of subsidies to the federal taxpayer, a cost that Galston and MacGuineas may not have fully taken into account.

Moreover, many of those who lost Medicare but weren't eligible for subsidies would end up uninsured, because they would not be able to afford coverage in the exchange, which could easily cost $11,000 or $12,000 a year for an elderly couple.