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# Commentary: Think Obama's Medicare Savings Aren't Significant? Take a Closer Look.

By Robert Greenstein

Commentators, pundits, and some policymakers routinely say that while the President's new budget takes useful steps to reduce the cost of health care programs, the steps are small and rather timid. This judgment seems rooted in the belief that the budget's changes affecting Medicare beneficiaries, which save a modest $64 billion over the first ten years (the budget's Medicare changes as a whole would save $371 billion), are very limited in their impact.

This belief is mistaken.[1]

Some of the budget's Medicare changes — including *all* of its changes affecting beneficiaries — phase in slowly and secure the bulk of their savings *after* the first ten years, when we will need them most because budget deficits are projected to then start widening again. That has obscured the significance of these changes. Consider three basic points:

- The budget would save $400 billion in health care entitlements in the first ten years but *over $1 trillion* in the second ten years, according to the Office of Management and Budget (OMB).[2]

- The budget would save *more* from Medicare in both the first decade and the second decade than the House-passed Ryan budget — yet virtually no one criticizes the Ryan budget for not doing enough regarding Medicare.

- OMB estimates that, even without the Independent Payment Advisory Board, which can generate further proposals to constrain Medicare costs, those costs under Obama's budget would grow only slightly more on a per beneficiary basis over the next ten years than the growth rate in gross domestic product (GDP) per capita plus 0.5 percentage points — a target considered virtually unattainable just a few years ago.

Are the slow phase-ins of the budget's changes affecting Medicare beneficiaries a problem? Quite the contrary, they are likely to be *essential* to ensuring that the changes are both politically acceptable and sustainable.

The budget's premium increases for affluent beneficiaries, for example, would affect only the highest-income 8 percent of beneficiaries in 2017 — those with incomes over $85,000 for single

individuals and $170,000 for couples. These income thresholds would be frozen for a number of years, however, rather than rising with inflation each year. By 2035, a quarter of beneficiaries would pay the higher premiums (at which point, the thresholds would begin to rise with inflation again).[3]

In addition, the budget's targeted changes in Medicare deductibles, co-payments for certain services, and the cost of Medigap policies would apply only to *new* beneficiaries who enroll in or after 2017, so the savings would initially be very small. But, over time, they would mount.

There is a model for this approach: the 1983 Social Security law. It contained a major benefit cut — a rise in the "full retirement age" from 65 to 67 — that did not *begin* to phase in until 2000 and will not phase in fully until 2022. Today, some 30 years after the law's enactment, the provision is only half phased in.

The result? A reform that otherwise would have been highly controversial has been widely accepted and is phasing in without protest. Similarly, gradually phasing in the Administration's proposals affecting Medicare beneficiaries is likely to make them more acceptable.

This approach contrasts sharply with the mid-1980s reforms in the military pension system and with the 1988 catastrophic health care law. Both measures lacked long phase-in periods, sparked serious protests from beneficiaries over provisions that would affect them, and were repealed before they took effect.

Many pundits seem unconsciously biased towards Medicare changes that hit beneficiaries (half of whom have incomes below $25,000), which they consider somehow more "serious" in a budgetary sense than Medicare cost-saving changes affecting providers and health insurers or the prices that Medicare pays for prescription drugs.

The Ryan budget would get much of its long-run savings from replacing Medicare's guarantee of coverage with a premium support voucher for new beneficiaries, and would limit the annual growth of Medicare costs to GDP per capita plus 0.5 percent for those new beneficiaries, starting in 2024.[4] The Obama budget, by contrast, would get savings from a *mix* of changes affecting providers, drug companies, and beneficiaries and would slow cost growth to GDP per capita plus 0.5 percent for *all* beneficiaries starting in 2020, thereby producing a lower overall growth rate than the Ryan budget.

Yet, most of the commentariat seems to believe that, whatever one thinks of Ryan's specific proposals, his budget is serious about tackling Medicare cost growth while Obama's budget is not. That belief is very much mistaken.

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[1] For an analysis of major elements of the President's budget, see Sharon Parrott, Joel Friedman, Richard Kogan, and Paul N. Van de Water, "President Obama's Deficit-Reduction Package and Other Proposals in the 2014 Budget," Center on Budget and Policy Priorities, April 11, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3952.

[2] See the House Budget Committee testimony from Jeffrey Zients, acting director of the Office of Management and Budget, April 11, 2013, at 52:56 of http://www.c-spanvideo.org/program/312046-1.

[3] "Income-Relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals: What are the Implications for Beneficiaries?" Kaiser Family Foundation issue brief, February 2012, http://www.kff.org/medicare/upload/8276.pdf.

[4] Paul N. Van de Water, "Medicare in Ryan's 2014 Budget," Center on Budget and Policy Priorities, March 15, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3922.