A Fraud Exposed — and Ignored
MEDICARE

By James C. Capretta, 8/10/10

"Law Will Extend Medicare Fund, Report Says," was the New York Times headline. "Medicare Funds to Last 12 Years Longer Than Earlier Forecast, Report Says," was the similar take of the Washington Post. Those two stories were upbeat summaries of what the latest report on Medicare's long-term financial outlook supposedly revealed.

But was that really the most newsworthy headline here?

How about the fact that the person who compiled all of the data for this report, and knows its contents better than anyone else, utterly repudiated its findings?

That's right. Richard Foster, the chief actuary of the Medicare program and the man responsible for overseeing the production of the data which forms the basis of this annual report's forecast, has advised the public — in his official "Statement of Actuarial Opinion" printed at the end of the trustees' report — not to believe any of the modestly rosy conclusions contained within it.

It's hard to overstate the importance of this development. Here is the president's point man for assessing the financial status of Medicare declaring that much of the claimed benefits for Medicare from the recently passed health-care law — benefits that the president himself again touted on Saturday — are not to be believed. You'd think it might be news if the top expert in government essentially said the president of the United States was basing his public assertions on one of the most important issues of the day on flawed and misleading data. But apparently not.

Foster and his staff began exposing the fraudulent nature of the Medicare claims months ago. In their April analysis of the final health-care legislation, they agreed with the Congressional Budget Office and every other commonsense person that the same dollar can't be spent twice. If the Medicare cuts in Obamacare are to be believed (a big "if"), they could be used to improve Medicare's financial outlook, or to pay for another entitlement program, but not both. But of course Obamacare's apologists continue to argue that both were financed by the Medicare cuts. The unfortunate consequence of this duplicity is that, eventually, taxpayers will be left holding the bag. At some point, they will be asked to pay higher taxes to finance Medicare spending as well as a new entitlement for health insurance, both of which were supposedly covered by the Medicare cuts.

But it's actually far worse than just that. As Foster notes, the Medicare cuts upon which the president's claims of additional Medicare solvency rest are so absurdly unrealistic that they can hardly be taken seriously at all. Despite all of the talk of painless "delivery-system reform" in Medicare, the big cuts come, as usual, from arbitrary and deep across-the-board payment-rate reductions for hospitals and other institutional providers of care.

Each year, these institutions get an inflation increase in their payment rates, to reflect a rise in their input costs. Under Obamacare, those inflation increases will now be cut by an amount averaging a little over a half of a percentage point every year, in perpetuity. The compounding effect of cuts of this size is truly massive, and entirely implausible. As Foster and his colleagues document in an accompanying analysis released on the same day as the annual report, these payment-rate reductions simply widen the gap between the cost of providing care and what the government will pay. Even before the cuts become operational, Medicare's rates stand at only about 80 percent of what private insurers must pay to secure access to care for patients. But under Obamacare, by 2020, Medicare's rates would have already fallen below 75 percent of private insurers' rates, and below what Medicaid pays as well. By the end of the projection period, Medicare's rates would cover only about one-third of the payments that private insurers would be making to secure access to services.

Obamacare's apologists would like Americans to believe they have set in motion a sophisticated and carefully considered plan to slow cost growth in Medicare — and the rest of the health system for that matter. But the truth is that all they have done is put into law a formulaic requirement for deeper price cuts in Medicare. That's it. Presto! Problem solved!

But of course, the problem is not solved. Arbitrary price controls always and everywhere drive out willing suppliers of services. Who will see Medicare patients at 33 cents on the dollar?

When more realistic assumptions are employed by the Medicare actuaries, the supposed improvement in Medicare solvency all but vanishes. In the annual report, the unfunded liability of the Medicare fund for hospital services is said to have fallen to "just" $2.4 trillion over 75 years. But if more realistic payment-rate assumptions are used, the unfunded liability rises to $7.0 trillion.

Even correcting for the implausibility of payment-rate cuts does not offer a realistic scenario. The other key Medicare provision in Obamacare is the return of Carter-era "bracket creep" in the tax system. Initially, the law's steep payroll-tax hike of 0.9 percent of wages will apply only to individual taxpayers with annual incomes exceeding $200,000 and couples with incomes exceeding $250,000. But those income thresholds will not increase with general inflation in the economy. Consequently, as the years pass, more and more Americans, including the middle class, will pay it — at least that's the theory. Overall, the Medicare tax hikes in the new law are expected to raise about $1.4 trillion over 75 years, in present-value terms. But that assumes America's middle class will placidly accept the return to the bad-old days of "bracket creep." A more realistic assumption would be that elected leaders will come under pressure in short order to prevent such a massive tax hike on the middle class and respond accordingly, much as they do today in trying to minimize the tax hikes associated with the alternative minimum tax.

Overall, Foster and his team make clear in their alternative projection scenario that Medicare spending remains on a completely unsustainable trajectory. In last year's annual report, Medicare spending was expected to reach 11.2 percent of GDP in 2080, up from just over 3 percent today. Now, using what the actuaries consider reasonable assumptions, Medicare spending would "only" rise to 10.7 percent of GDP. So much for the Obamacare solution.

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