The Ryan Medicare Plan: Winners and Losers

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Contents

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Introduction

Representative Paul Ryan put forward an ambitious plan for overhauling the Medicare program as part of his 2012 budget plan.[1] This plan calls for replacing the current Medicare program with a premium support program – essentially a voucher program. This new program would first go into effect for people born after 1955.

Under Mr. Ryan's plan, Medicare would pay a fixed amount – $8,000 a year in 2022 dollars for a beneficiary age 65 – towards the purchase of an insurance policy. The beneficiary would then have the option of buying a plan from a range of options that met minimal standards. The premium support payment would be age-adjusted but otherwise only rise in step with overall inflation. This means that increases in health care costs in excess of the rate of inflation would be absorbed by the beneficiary.

The Congressional Budget Office (CBO) analyzed the Ryan plan and compared it to its baseline projections for Medicare costs.[2] This paper draws out some of the implications of the CBO analysis. Specifically the paper shows:

1) The implied dollar value of the premium support, beneficiary payment for insurance, and additional payments to providers under the Ryan plan compared with the current Medicare system for 2022, 2030, and 2050;

2) The cost to a 65-year-old beneficiary buying a plan equivalent to a standard Medicare package in 2022, 2030, and 2050 as a share of the income of a 65-year old at the 40th percentile, the 50th percentile and the 75th percentile of the income distribution;

3) The implied dollar value of the premium support, beneficiary payment, and additional payments to providers under the Ryan plan compared with the current Medicare system in 2050, and share of income needed to purchase a plan equivalent to a standard Medicare package for the median beneficiaries at ages 65, 75, and 85;

4) The cumulative additional payments to providers over the 75-year Medicare projection period that would result from the implementation of the Ryan plan.

These calculations are all derived as closely as possible from the assumptions and methodology used by CBO.

The Reshuffling of Costs Under the Ryan Plan

CBO's analysis of the Ryan plan projects that it will lead to higher costs for beneficiaries for two reasons. First, the plan is quite explicitly intended to reduce the government's payments for

1 Ryan, P. 2011, *The Path to Prosperity: Restoring America's Prosperity, House Budget Committee Fiscal Year 2012 Budget Resolution*, Washington, DC: House Budget Committee, available at http://budget.house.gov/fy2012budget/.

2 Congressional Budget Office, 2011. Letter to Paul Ryan, Chairman of the House Budget Committee, April 5, 2011, Washington, DC: Congressional Budget Office.

Medicare. It gives beneficiaries an $8,000 a year payment in 2022 dollars that does not rise through time. This means that all growth in health care costs after 2022, either due to pure inflation in health care costs above the overall rate of inflation or more services, will be borne completely by the beneficiary.

The other reason that the costs of maintaining a standard package are projected to rise through time is that CBO assumes that Representative Ryan's system will be less effective than the current Medicare system in holding down costs. This translates into an initial increase in costs of approximately eleven percent associated with the additional costs from having health care provided by private insurers rather than the public Medicare program.

In addition, CBO assumes that Representative Ryan's system will be less effective in holding down the rate of growth of health care costs. It projects that under his system health care costs will rise more rapidly than under the current system.[3] This leads to a larger gap through time between the cost of a standard Medicare equivalent package under the Ryan system and the cost under the existing Medicare program.

Table 1 shows CBO's projected composition of costs for a Medicare beneficiary who turns 65 in 2022, 2030, and 2050. The numbers for 2022 and 2030 are calculated directly from the information shown in **Figure 1** below.[4] The numbers shown for 2050 are derived from CBO's health care cost growth projections.[5]

TABLE 1
The Distribution of Payments Under the Ryan Plan

	Gov payment ($)	Beneficiary payment ($)	% of median income	Additional payments to providers ($)
2022	6,097	9,540	35	4,380
2030	6,097	12,960	44	5,530
2050	6,097	24,540	68	9,630

The first column shows the government payment for premium support, which is $6,097 in each year. (All numbers are in 2011 dollars rather than 2022 dollars. In today's dollars the government payment would be $6,097 rather than $8,000.) The second column shows the projected cost to a beneficiary of buying a Medicare equivalent plan in each year. In 2022 this is projected to be $9,540. In 2030 CBO projects the cost will rise to $12,960, and in 2050 it will be $24,540.

The third column shows these costs as a share of the median person's income in each year. In 2022, the projected cost of purchasing a Medicare equivalent plan is equal to 35 percent of the median 65-

3 This discussion uses CBO's "alternative fiscal scenario" which is derived from assumptions that are more pessimistic than the baseline analysis. In this scenario, CBO assumes that annual age-adjusted health care costs increase initially by 1.7 percentage points more than the growth of per capita GDP. This phases down to 1.0 percentage point more by 2084.

4 The value of the premium support is known to be $8,000 in 2022 dollars, this allows for the other numbers to be obtained directly. We used a 2.5 percent inflation rate to convert the numbers into 2011 dollars.

5 Congressional Budget Office, 2011. "The Long-Term Budget Outlook." Washington, DC: Congressional Budget Office, available at http://www.cbo.gov/ftpdocs/115xx/doc11579/06-30-LTBO.pdf.

year-old's income.[6] By 2050 the cost is projected to rise to 68 percent of the median 65-year-old's income.

The last column shows the additional payments made to providers as a result of beneficiaries buying a Medicare equivalent plan instead of getting the plan provided through the Medicare system. This additional cost is projected to be $4,380 per beneficiary in 2022, $5,530 in 2030, and $9,630 in 2050.

Table 2 shows the projected cost of buying a Medicare equivalent plan as a percent of projected income for a 65-year-old at the 40th percentile, the 50th percentile, and the 75th percentile of the income distribution in the years 2022, 2030, and 2050. Even in 2022, the first year in which the premium support system will be in effect, the projected cost of a plan offering the standard Medicare package will require 45 percent of the income of a person at the 40th percentile of the income distribution. The cost would be equal to 34 percent of the income of a person with the median income. The cost of the Medicare equivalent plan would be equal to 18 percent of the income of a 65-year-old at the 75th percentile of the income distribution.

TABLE 2
Beneficiary Payment as Percent of the Income of Seniors at Age 65

	40th percentile	50th percentile	75th percentile
2022	45	35	18
2030	56	44	23
2050	87	68	36

Since CBO projects that health care costs will rise rapidly while the value of the premium support payment rises only with the overall rate of inflation and thus is held fixed in real terms, the amount that beneficiaries will have to pay will rise rapidly through time. By 2030, the payment required for a 65-year-old to buy a Medicare equivalent policy would be equal to 56 percent of the income of a person at the 40th percentile and 23 percent of the income of a person at the 75th percentile.

By 2050 a Medicare equivalent policy will be unaffordable for most 65-year-olds. The cost of such a policy will be equal to 87 percent of the income of 65-year-old at the 40th percentile of the income distribution.. Even a person at the 75th percentile of the income distribution would have to pay 36 percent of their income to buy a Medicare equivalent policy.

In addition to increasing through time, health care costs also increase as people age. The cost of health care for a person at age 75 is 65 percent higher on average than it is for a person at age 65. By the time they reach age 85, the cost is 110 percent more on average than it is for a person at age 65. The Ryan plan raises the premium support in proportion to the cost of care as people age. This means that the plan will pay the same percent of a Medicare package, however the absolute amount that a beneficiary will have to pay will increase as they age. Since income falls with age, this means that a Medicare equivalent package will become more unaffordable to people as they get older.

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[6] Income projections are based on an analysis of the CEPR extract of the March, CPS, 2010. The analysis assumed that real incomes at all points along the income distribution rise at the rate of 1.0 percent annually.

Table 3 shows the projected composition of costs under the Ryan plan for Medicare beneficiaries in 2050 at ages 65, 75, and 85. The first column shows the premium support paid by the government at each age. This rises from $6,097 for a beneficiary at age 65 to $12,787 for a beneficiary at age 85. The second column shows the amount that the beneficiary would have to pay to get a Medicare equivalent policy. A beneficiary who is age 65 in 2050 would have to pay $24,540 to buy a Medicare equivalent policy. A person who is age 85 would have to pay $51,460.

TABLE 3
Breakdown of Payments by Age for 2050

	Gov payment ($)	Beneficiary payment ($)	% of median income	Additional payments to providers ($)
Age 65	6,097	24,540	68	9,630
Age 75	10,090	40,610	143	15,940
Age 85	12,787	51,460	200	20,200

The third column shows this sum as a share of the projected median income for each age group in 2050. The projected payment to buy a Medicare equivalent policy would be 68 percent of the income of the median 65-year-old in 2050. It would be equal to 200 percent of the income of the median 85-year-old. These calculations show that under the Ryan plan the cost of health care will become a greater burden to beneficiaries as they age. While the cost will make a Medicare equivalent plan unaffordable to most seniors, even at age 65, many of those who may be able to buy such a plan at age 65 will find that they can no longer afford a comparable plan at age 75 or age 85. Under the Ryan plan only a very small share of older beneficiaries will be able to afford a Medicare equivalent plan.

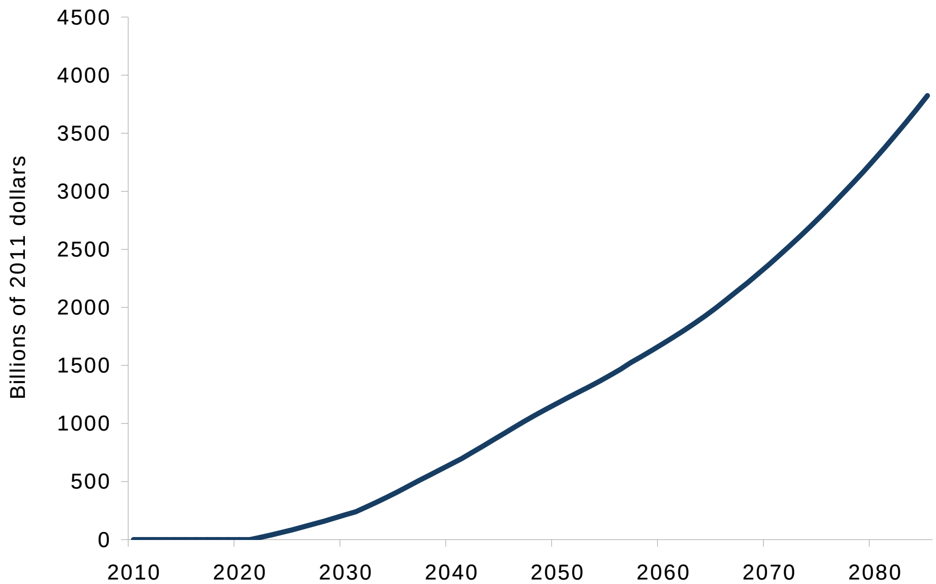
The last column in the table shows the additional money that would be paid to private providers, relative to the existing system, by a beneficiary at each age who buys a Medicare equivalent plan. In 2050, the extra cost to a person at age 65 would be $9,630 per year. For a beneficiary at age 85 the extra cost would be $20,020.

While the additional cost of health care under Representative Ryan's system adds to the burden of beneficiaries, it can also be a windfall for the health care industry. Figure 1 **below** shows the projected excess payments under the Ryan plan relative to the CBO alternative fiscal scenario. This figure assumes that all beneficiaries buy a Medicare equivalent plan, so it is certainly a substantial overstatement of the additional revenue that would be accruing to the health care industry.

Nonetheless, it still provides a useful measure of the implied waste in Representative Ryan's system. The Figure shows that by 2030, the excess cost in the scenario where everyone buys Medicare equivalent policies is $213 billion. By 2050 the excess cost is projected to rise to $1.2 trillion. It is projected to exceed $3.2 trillion a year by 2080.

The discounted value of excess costs over Medicare's 75-year planning period is projected to be \$20.3 trillion. [7] This is nearly four times the size of the projected Social Security shortfall over the same period.

FIGURE 1
Additional Payments to Providers under the Ryan Plan



Source: CBO

Conclusion

This paper shows the implication of the CBO analysis of House Budget Committee Chairman Paul Ryan's plan for overhauling the Medicare system. According to the CBO analysis, rising health care costs will quickly make a Medicare equivalent plan unaffordable to most beneficiaries. Also, since costs rise as beneficiaries age, a Medicare equivalent plan will become less affordable to the same beneficiary as she gets older. Finally, this plan implies a huge transfer of income from beneficiaries to health care providers and insurers, since the cost of delivering the same quality care will be substantially higher under Representative Ryan's plan than under the existing Medicare system.

7 This corrects a previous version that read \$20.3 million and clarifies the assumptions this figure is based upon. This total is based on the assumption that all seniors buy a Medicare equivalent plan, although we know this will not be the case since most will not be able to afford one.