

Medicare reform

A healthy difference

Paul Ryan's plans for Medicare offers the clearest contrast between the candidates

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MEDICARE, the health programme for those aged 65 and over, is a political tinder box. It is popular, its advocates are powerful and its costs are unaffordable. In 2011 the government spent \$549 billion paying for 49m beneficiaries' check-ups, surgeries and drugs. As the number of elderly and the costs of services rise, spending will, too. The question, for



politicians, is how to make Medicare sustainable and still win elections. Reforming the scheme was always a hot topic in the presidential campaign. With Paul Ryan as Mitt Romney's running mate, it may well become the single most controversial issue.

Mr Romney specialises in bland pronouncements, but he has been more specific about Medicare. Mr Ryan, the chairman of the House Budget Committee, is its boldest reformer. Together, their vision differs dramatically from that of Barack Obama—and is the best articulation yet of their different philosophies of governing. Messrs Romney and Ryan say that market competition will save the programme. Mr Obama insists they would leave millions in the lurch.

Mr Ryan wants to replace the scheme's open entitlement with a system of vouchers. He first proposed supplanting Medicare entirely. Wide outrage spurred him and Ron Wyden, a Democratic senator, to suggest in December that the elderly instead put their voucher towards either a private plan or traditional Medicare, which would survive.

From 2022, firms would present plans at least as generous as Medicare; the voucher would be set at the price of the second-cheapest private plan or of traditional Medicare, whichever is lower. Firms would compete on a new exchange, vying to give the best services at the lowest price. If a plan cost less than the voucher, a beneficiary could pocket the extra cash. If a chosen plan cost more, beneficiaries would pay the difference. And if competition among plans didn't contain costs, a cap would. Under the plan, Medicare spending may not rise by

more than the growth of nominal GDP plus one percent.

Democrats gleefully declare that Messrs Romney and Ryan would “end Medicare as we know it”. To meet the cap, the Ryan-Wyden plan says that “Congress would be required to intervene”, for example, by cutting hospital payments. But Congress cannot be compelled to act, as it proves yearly. Instead, critics say, the proposal would merely cap vouchers, shifting costs to patients. (Mr Ryan’s budget for 2013 suggests as much.) Others contend that private plans, which often limit the choice of doctors, would attract healthier patients. Traditional Medicare would have a sicker population, so would have to raise its fees, which would in turn drive more healthy people to private plans.

Mr Obama offers a different approach. His health law includes an array of experiments—for example, rewarding hospitals that keep patients well. But Mr Obama uses two main tools to cut costs. First, his law slashes payments to hospitals and doctors. Second, it creates the controversial, Independent Payment Advisory Board (IPAB) to keep Medicare growth below that of nominal GDP plus one percent (the same as in the Ryan-Wyden plan). IPAB’s cuts would automatically become law unless Congress agreed to similar cuts by other means. Notably, IPAB may not raise beneficiaries’ fees or reduce benefits.

In these diametrically-opposed visions, the Republicans trust firms to curb costs and improve services. Mr Obama makes top-down cuts, while testing new ways to deliver and pay for care. The comparison is inevitably muddier than this. Democrats, citing a defunct analysis, say Mr Ryan would force 65-year-olds to pay an extra \$6,000 a year. Republicans say that Mr Obama is taking \$716 billion from Medicare and that they will restore it. Most confusing, Messrs Romney and Ryan detest exchanges for those younger than 65, as set out in Mr Obama’s law, while Mr Obama scowls at exchanges for those over 65, as in Mr Ryan’s proposal. Beneath this rhetoric, however, lies a political anomaly: a substantive debate.

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