

A Follow-Up on the Analysis of the Romney-Ryan Medicare Plan

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Last month, I co-authored a [report](#) on the implications of the Romney-Ryan Medicare plan for current and future seniors. The report addressed two issues:

1. How would the Romney-Ryan plan affect current seniors?

The Romney-Ryan plan would increase costs for current seniors. First, by repealing the Affordable Care Act, the Romney-Ryan plan would increase costs for prescription drugs, Part B services, and Parts B and D premiums for seniors today or those who will reach Medicare eligibility age in the next decade. Figure 1 shows that this amounts to about \$11,000 in real (2012 dollars) terms for a person currently age 65. In addition, by cutting the growth of Medicaid spending, the Romney-Ryan plan would affect Medicare-Medicaid dual eligibles in the community and those in nursing homes.

2. How would the Romney-Ryan voucher proposal affect future seniors?

For seniors who will become eligible for Medicare after 2022, the increased costs would be even greater. The voucher that the House Republicans passed under Congressman Ryan's leadership gives seniors less than what Medicare is forecast to cost in future years and would increase less rapidly than Medicare costs are expected to increase. As figure 2 shows, for seniors turning 65 in 2023, Medicare costs during retirement would increase by almost \$60,000 (also in 2012 dollars). The cost would increase to nearly \$125,000 for those who qualify for Medicare in 2030, over \$215,000 for those who are eligible in 2040, and over \$330,000 for those eligible in 2050.

For reasons that were stated in the study, these estimates are conservative – that is, they are as favorable as possible to the Romney-Ryan plan.

The study produced a predictable amount of criticism. I will leave the mudslinging alone. But there is a question that many analysts have asked, which is valuable to address. How do these conclusions relate to the Congressional Budget Office's estimate that Ryan's first premium support proposal would raise costs to future seniors by about \$6,400 per year?

In 2011, CBO [released](#) an analysis of Ryan's first premium support plan, which replaced traditional Medicare with vouchers that seniors would use to help pay for private insurance. The CBO found that it would cost private plans 39% more than traditional Medicare to deliver the same services. There were two reasons for this: first, private plans have higher administrative costs (including profits), and second they have less bargaining power and

therefore would need to pay higher rates to providers. That 39% works out to an extra \$6,400 a year for a typical 65 year old in 2030.

Under the new premium support plan, which our paper analyzed, all new retirees receive a voucher that they can use to buy coverage from a private plan or from traditional Medicare. Because traditional Medicare is still an option, the erosion of bargaining power under the new Romney-Ryan plan is less immediate. Still, it is there. Anything that moves a significant share of people out of traditional Medicare will mean that Medicare has to pay more to ensure access. Conservatively, we estimated that the total extra costs to care for seniors in the future would be half what CBO estimated – 19.5% rather than 39% – and that effect would take 10 years to phase in. Adding these amounts over expected lifetimes yields the numbers we reported in our previous analysis.

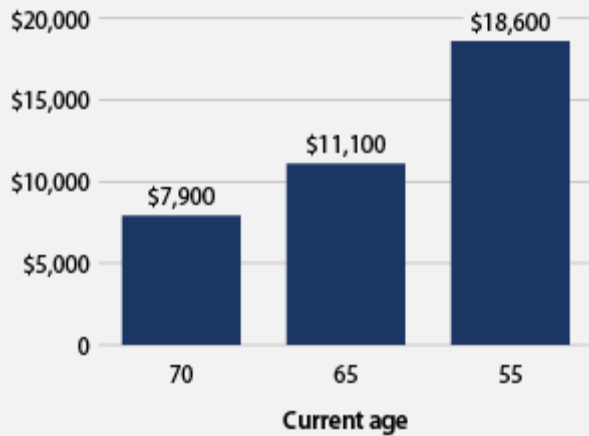
To show what this implies on an annual basis, we divide the increase in real costs by years of life remaining as of the age of Medicare eligibility. Figure 3 shows the results. The additional costs are \$3,200 annually for a person reaching eligibility age in 2023, \$6,800 annually for a person reaching eligibility age in 2030, \$12,000 annually for a person reaching eligibility age in 2040, and \$17,800 annually for a person reaching eligibility age in 2050.

Overall, these results confirm the view that even under the revised voucher proposal, the additional cost to enroll in Medicare for the vast bulk of people will be \$6,000 annually or more.

FIGURE 1

The costly consequences of repealing the Affordable Care Act

Increase in health spending during retirement for enrollees in traditional Medicare in 2012 dollars

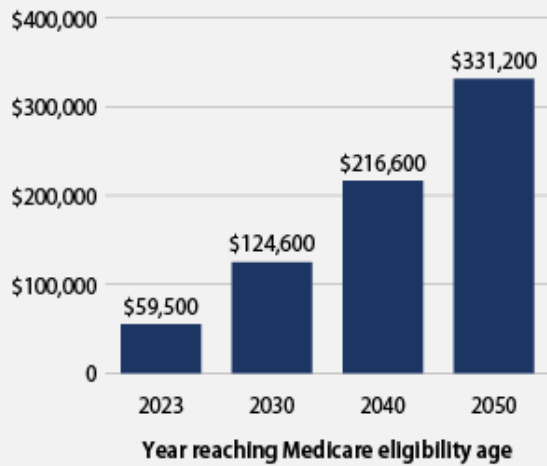


Source: Authors' calculations based on Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, Medicare Beneficiary Savings and the Affordable Care Act (2012); Social Security Administration, "Actuarial Life Tables," available at <http://www.ssa.gov/oact/STATS/table4c6.html>.

FIGURE 2

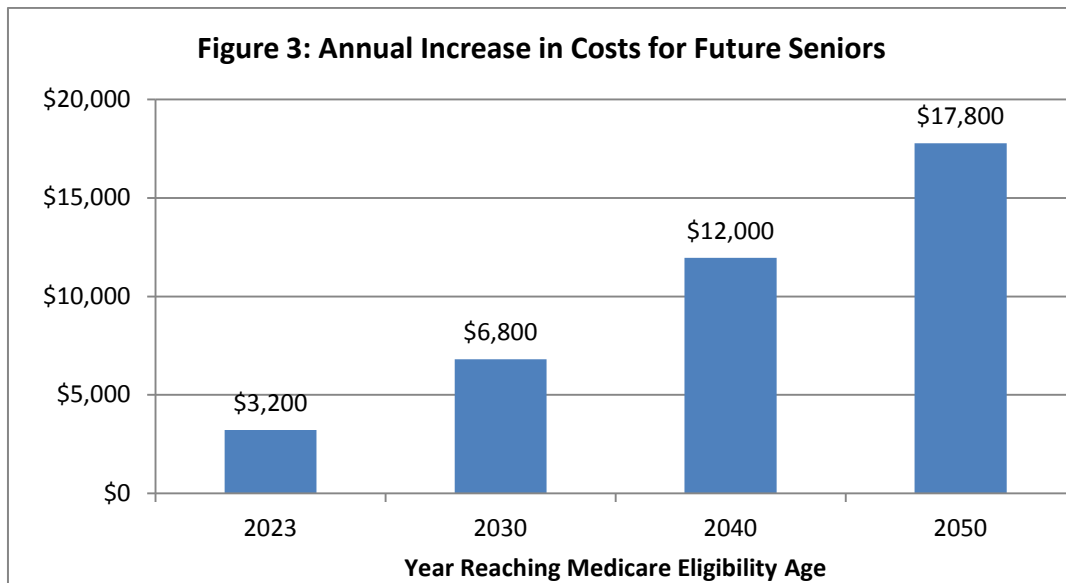
The costly consequences of the Romney-Ryan voucher system for future seniors

Increase in health care costs during retirement for beneficiaries under the Romney-Ryan plan in 2012 dollars



Source: Authors' calculations based on Congressional Budget Office, "The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan" (2012); Congressional Budget Office, "The 2012 Long Term Budget Outlook" (2012).

Figure 3: Annual Increase in Costs for Future Seniors



Source: Authors' calculations based on Congressional Budget Office, "The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan" (2012); Congressional Budget Office, "The 2012 Long Term Budget Outlook" (2012).