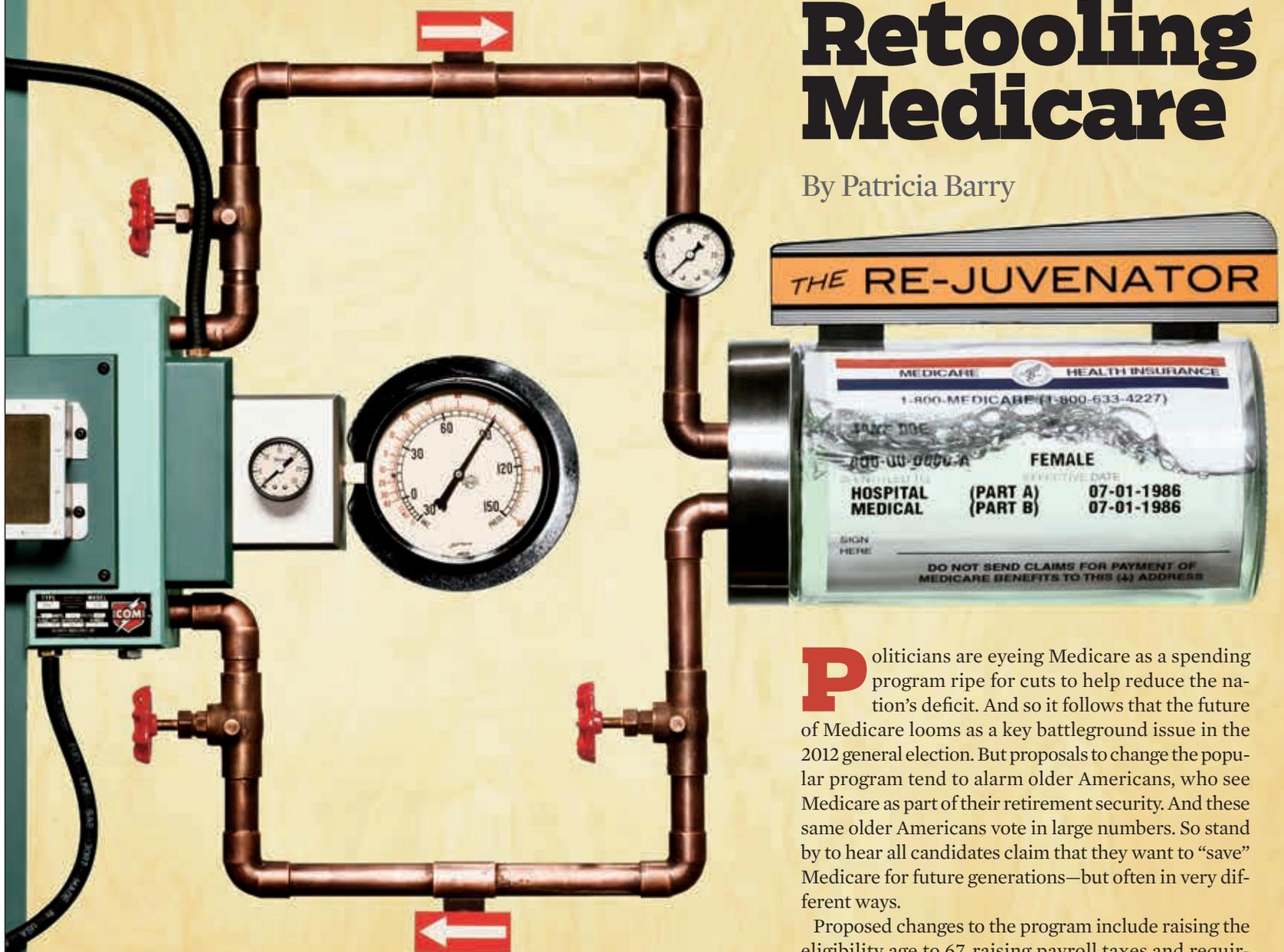


Your Health ■

- **Medicare** faces challenges.
- Retirement **for future generations** is at stake.
- Here are **7 options** on the table.

Retooling Medicare

By Patricia Barry



Politicians are eyeing Medicare as a spending program ripe for cuts to help reduce the nation's deficit. And so it follows that the future of Medicare looms as a key battleground issue in the 2012 general election. But proposals to change the popular program tend to alarm older Americans, who see Medicare as part of their retirement security. And these same older Americans vote in large numbers. So stand by to hear all candidates claim that they want to “save” Medicare for future generations—but often in very different ways.

Proposed changes to the program include raising the eligibility age to 67, raising payroll taxes and requiring better-off beneficiaries to pay more. The most po-

Photo illustration By Dan Winters



litically contentious plan, devised by Rep. Paul Ryan (R-Wis.), chairman of the House Budget Committee, would limit federal spending on Medicare and alter the way the government pays for benefits. Republicans say this plan is a fiscally responsible way of extending Medicare’s viability as millions of boomers enter the program. Democrats call it “the end of Medicare as we know it” and a way to shift more costs to beneficiaries.

Polls show that most Americans prefer to keep Medicare as it is. “Ryan’s plan is a fundamental change in the structure of the program,” so it makes older voters more nervous than lesser proposals do, says Robert Blendon, professor of health policy at Harvard’s School of Public Health. But whoever gains the upper political hand in November, he adds, will have to wrestle with the budget deficit—and some of those decisions will likely affect Medicare.

With that in mind, AARP asked policy experts from across the political spectrum—Henry Aaron, senior fellow of the economic studies program at the Brookings Institution; Stuart Butler, director of the Center for Policy Innovation at the Heritage Foundation; and experts at Avalere Health, a Washington health care policy and research company—to give arguments for and against some Medicare proposals. (Read these in full and contact the experts at earnedasay.org.) Here are summaries of their opposing positions on seven options that most directly affect beneficiaries:

Changing the way Medicare pays for beneficiaries

Medicare now offers two ways to receive benefits. If you’re in traditional Medicare, the government pays directly for each covered medical service you use. If you’re in a Medicare Advantage private plan, the government pays a set annual amount to the plan for your care. Under the Ryan plan—known as “premium support” to its proponents and as a “voucher system” to its critics—the government would allow you a certain sum of money to buy coverage from competing private plans or from a revised version of traditional Medicare.

FOR: This would put Medicare on a budget to hold down spending and reduce the tax burden on future generations. You’d receive a share of this

The future of Medicare looms as a **key battleground issue** in the 2012 election, and older Americans vote in large numbers

budget to help you purchase your health care and have more flexibility to make choices. For example, if you wanted more generous coverage (such as seeing any doctor of your choice), you’d pay the premium difference out of your own pocket, and if the difference became too high, you could switch to a less expensive plan.

AGAINST: The value of the voucher would be tied to some economic index—not to actual health costs, which generally rise faster than other costs. So there is a high risk that benefits would become increasingly inadequate and more out-of-pocket costs would be shifted to the consumer. Medicare already has competing private plans, through the Medicare Advantage and Part D drug programs, yet the hoped-for savings from them have not yet materialized.

Raising Medicare eligibility age to 67
Eligibility for Medicare has always been at age 65, except for younger people with disabilities. This proposal aims to gradually bring Medicare in line with Social Security, where full retirement age is now 66 and set to rise to 67 by 2027.

FOR: With more Americans living longer, and health spending on older people rising, we can’t afford Medicare at age 65. Raising the eligibility age would reduce federal spending on Medicare by about 5 percent over the next 20 years.

AGAINST: This proposal would increase other health care spending—especially costs for employer health plans and Medicaid—and uninsured people would pay full costs for a longer time. Medicare premiums would rise due to fewer people in the program to share costs.

Raising the Medicare payroll tax
This tax, which funds Medicare Part A hospital insurance, is currently 2.9 percent of all earnings (1.45 percent each for employers and employees; 2.9 percent for the self-employed). People who have paid this tax for a sufficient time do not pay monthly premiums for Part A.

FOR: Part A currently faces a small long-term deficit after 2024, when it’s estimated that available funds will not fully pay for all services. Increasing the payroll tax by just 0.5 percent each for employers and employees would more than fix that problem, leaving a small surplus to act as a cushion against future shortfalls or fund extra benefits in Medicare.

AGAINST: Raising the payroll tax would mean a higher rate of tax for each dollar earned by working Americans, slowing economic growth and increasing the tax burden on future generations. Even workers not earning enough to pay income taxes would pay this bigger tax.

Raising Medicare premiums for higher-income people
Most people pay monthly premiums for Part B, which covers doctors’ services and outpatient care, and for Part D prescription drug coverage. The standard premiums pay for about 25 percent of the costs of these services, while Medicare pays the remaining 75 percent out of general tax revenues. People with incomes over a certain level—those whose tax returns show a modified adjusted gross income of \$85,000 for a single person or \$170,000 for a married couple—pay higher premiums.

FOR: The easiest way to bring in more money for Medicare would be to raise the premiums even more for higher income people—so that the wealthiest older people pay the full cost and re-



AARP asked **policy experts** from across the political spectrum to give arguments for and against some proposals to change Medicare. Join the discussion at **earnedasay.org**.

Redesigning copays and deductibles

Currently, Parts A and B in traditional Medicare have different copays and deductibles. Some proposals would combine the programs to have only one deductible—for example, \$550 annually, and uniform copays for Part A and Part B services, plus an annual out-of-pocket expense limit, similar to employer insurance plans.

ceive no taxpayer-funded subsidy. Another option is to lower the income level at which the higher premium charge kicks in, so that more people have to pay it.

AGAINST: Higher-income earners already have paid more into the Medicare program through higher payroll and income taxes, and now pay up to three times more for the same Part B and D coverage. If increased taxes make healthier and wealthier people drop out of the program, standard premiums would eventually become more expensive for everyone.

Changing medigap supplemental insurance

About one in six people with Medicare buys private supplemental insurance, also known as medigap. It covers some of their out-of-pocket expenses under traditional Medicare, such as the 20 percent copayments typically required for Part B services. This option would limit medigap coverage, requiring people to bear more out-of-pocket costs.

FOR: People buy medigap to limit their out-of-pocket spending in Medicare. But because they pay less, they tend to use more Medicare services, increasing the burden for taxpayers.

AGAINST: There is no evidence that raising medigap premiums or reducing benefits would deter people from using health services unnecessarily, and most patients can't tell whether a service is necessary or not. But there is evidence that postponing needed services leads to greater health problems that cost Medicare more to fix.

FOR: Simplifying Medicare benefits to make them less confusing could save Medicare up to \$110 billion over 10 years. An out-of-pocket cap would provide great financial protection, especially for sicker beneficiaries, and reduce the need for medigap supplemental insurance.

AGAINST: Some beneficiaries might pay less, but others—especially those who use few services or spend longer periods in the hospital—would pay more out of pocket than they do now, unless they have additional insurance.

Adding copays for some services

Medicare does not charge copays for home health care, the first 20 days in a skilled nursing facility—rehab after surgery, for example—or for laboratory services such as blood work and diagnostic tests. Several proposals would require copays for one or all of these.

FOR: Added copays would discourage unnecessary use of these services. Over 10 years, copays could save Medicare up to \$40 billion for home health, \$21 billion for stays in skilled nursing facilities and \$16 billion for lab tests.

AGAINST: Patients without supplemental insurance could pay significantly more for these services, or might not be able to afford them. This could end up harming patients and costing Medicare even more money if postponing treatment worsened patients' health, leading to expensive emergency room visits and hospital admissions. Also, patients generally follow doctors' orders and do not know which services are medically necessary and which are not. □

Sudoku

Fill in the grid so that the numbers 1 through 9 appear only once in every horizontal row, every vertical column and every 3x3 mini-box. Only one solution is possible.

	5	1			6		4	
			5	8				9
7		8			1			
	7		1			6		
5				4				2
		3			2		8	
			8			7		
2				1	5			
	4		7			1	9	

FROM SUDOKU TO EXERCISE YOUR MIND BY FRANK LONGO (AARP/STERLING, 2006)

Answer See page 42.

Online Exclusive



VIDEO: A Centenarian's First Pitch at Fenway Park

Bill Hogan Jr. had to wait a century to enjoy a thrill of a lifetime—the chance to throw out the first pitch at the baseball season opener at Boston's Fenway Park. Hogan, a longtime Red Sox fan, celebrated his 100th birthday at the iconic ballpark with family and friends. See him wind up to try to throw one over home plate amid the crowd's cheers. aarp.org/pitch



WHAT'S THIS? A QR code. Instantly watch the video after downloading a free app to read QR codes from the app store, then scanning this QR code with your smartphone camera.