Saving Medicare

Modernizing Medicare: Harnessing the power of consumer choice and market competition
Edited by Robert Emmet Moffit and Marie Fishpaw
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A dozen top health policy experts have come together with detailed prescriptions for Medicare's looming bankruptcy—solutions with decades of demonstrated success.

The key: Competition and consumer choice in a sensibly regulated system that provides extra support for the poor and most vulnerable.

This peer-reviewed volume, *Modernizing Medicare: Harnessing the power of consumer choice and market competition*, was just published by Johns Hopkins University Press and is the guidebook for policymakers who, like it or not, will be forced to tackle this issue.

Edited by Heritage's **Bob Moffit** and policy consultant **Marie Fishpaw**, the prestigious authors each conclude that the answer lies in the premium support model upon which Medicare Advantage and the Part D Prescription Drug benefit are based.

Doug Badger, a key architect of the Medicare Modernization Act that created these two programs in 2003, explains premium support: "the government makes a per capita, income-related contribution to competing health plans on behalf of beneficiaries, and the beneficiaries choose the health plans they determine best meet their personal needs."

"Medicare beneficiaries and federal taxpayers are benefitting from the efficiencies achieved through the competitive process in Medicare Advantage," former Medicare Trustee **Chuck Blahous** writes, explaining that "competing health insurers…have responded by finding ways to lower their costs while reducing premiums and out-of-pocket expenses facing program beneficiaries."

Nearly half of Medicare beneficiaries have voluntarily enrolled in private Medicare Advantage plans, and AEI's **Brian Miller** and former Medicare chief **Gail Wilensky** recommend that the program should be the default option for new enrollees to better harness MA's market efficiencies. Otherwise, Medicare's outdated fee-for-service segment will continue to be a "blank check" with unlimited draws on taxpayer dollars.

But changes are needed in the 20-year-old Medicare Advantage program: "The opportunity for comprehensive quality improvement lies in the ability of MA plans to operate outside the [fee-for-service] model, using this flexibility to distribute the risk in more ways that both increase physician accountability and incentivize value," they write.

Former Congressional Budget Office Director **Doug Holtz-Eakin**, now president of American Action Forum, says not acting is not an option: "Medicare alone was responsible for 34 percent of all federal debt outstanding at the end of 2019."

"For policymakers, the primary goal of Medicare reform should be the achievement of better value for this major expenditures of America's health care dollars," he writes.

The incentive structure of the Part D drug benefit should be amplified, relying on genuine competition to produce a robust market and "an efficient, high quality program that continues to come in under cost projections and maintain popularity among its members."

"On the basis of evidence to date, there is every reason to expect that a Medicare premium support program can reduce outlays by both beneficiaries and taxpayers," Holtz-Eakin writes. "Over the 2022-2031 budget window, for example, Medicare outlays could decline by at least $2.2 trillion, or 11.5 percent.

"Even more important, however, is that the introduction of consumer choice allows beneficiaries to reveal their values on the crucial issues of medical care and coverage. A values-driven Medicare system will be a better social safety net, regardless of its cost," he concludes.

What are the alternatives? We already know what those who believe in government rather than market control are offering—and their poor record.

The Affordable Care Act that passed in 2010 opted for sharp cuts in payments to hospitals, physicians, and other providers—cuts that grow over time, "eventually endangering the financial stability of providers," AEI's **Joe Antos** writes.

The ACA also promoted alternative payment models, Antos writes, "including accountable care organizations (ACOs), value-based purchasing arrangements, and bundled payments for specific services within traditional Medicare."

"The results have been disappointing," Antos reports. The largest ACO initiative "resulted in higher program spending at first and only began to show savings in the last few years. In 2018, savings averaged $73 per participating beneficiary." Other programs had similarly poor performance.

While Medicare Advantage enrollment is naturally increasing because of the program's attractiveness, "Traditional Medicare is too big to ignore," Antos says.

Chris Pope of the Manhattan Institute details the successes of a defined contribution system of coverage and care. "Competitive private health plans, governed by flexible regulation and free to innovate in payment and care delivery, have proven that they can secure better care at lower costs than the highly centralized, bureaucratically controlled, and outdated Medicare fee-for-service program."

John Goodman of The Goodman Institute offers a range of options to build on these successes, including empowering chronically ill patients with new and better options, harnessing the power of virtual medicine, improving access to primary and preventive care, and rewarding patients for making cost-saving choices. "It is the exercise of patient choice that fueled Medicare

Advantage's successes, and the power of patients to make even more decisions could lead to further improvements," he writes.

The dean of the health policy community, Wharton Prof. **Mark Pauly**, has been diving into the details of Medicare reform longer than any of the co-authors of this book. He concludes that current and near-beneficiaries will strongly resist cutting benefits or increasing taxes. With his usual wry sense of humor, Pauly concludes that "Premium support can thus be a better way of avoiding the doomsday scenario."

Heritage's **Ed Haislmaier** tackles the essential but in-the-weeds issue of Medicare risk adjustment in a premium support system, offering improved ways to stabilize the market and avoid gaming of the system.

He describes an approach to risk mitigation in a reformed Medicare program that "has the virtue of being simple, universally applicable, flexible, and self-correcting…using mechanisms that allow the market to smoothly and organically evolve over time."

And **Walt Francis**, the guru of the Federal Employees Health Benefit Program (FEHBP), writes that the program, which launched in 1960, is now "the largest employer-sponsored health insurance program in America with about 8 million enrollees." He says policymakers can learn from the FEHBP and use the experience to demonstrate the durability of its premium support model in maximizing choice and containing costs.

Design matters, Francis writes, but get this right and he says bipartisan support is possible, as the history of support for premium support models shows.

Bob Moffit and **Marie Fishpaw** deserve huge credit for enlisting these leading scholars to produce a volume of work that can be the Bible for a new president and a new Congress in *Modernizing Medicare,* saving the program by improving it through consumer choice and market competition.