

# The Impact of the New Tax Law on Medicare and Medicaid for Seniors

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*This is New Directions in Healthcare, the Commonwealth Fund's podcast, and today we'll look at the possible impact of a new tax law on the nation's senior citizens.*

*Today about 58 million Americans 65 years of age or older depend on Medicare to help pay for health care, but as baby boomers age and people live longer on average, that number is expected to rise dramatically.*

Eric Schneider: "Between now and 2030, just over 10 years from now, Medicare enrollment will jump to more than 80 million Americans."

*Dr. Eric Schneider, a physician and senior vice president for policy and research at the Commonwealth Fund, says that increase will mean greater demand for medical services. That's why Shawn Bishop, the Fund's vice president for Controlling Health Care Costs and Advancing Medicare, predicts a much bigger bill.*

Shawn Bishop: "The Congressional Budget Office says that annual Medicare spending will more than double over the next 10 years."

Eric Schneider: "The spending spikes in part because of the baby boom but also because treatments and drugs with high price tags will come into the picture and account for part of that increase."

*Also facing greater demand and higher costs -- Medicaid.*

Eric Schneider: "Medicaid is an important part of this story, because it provides health coverage to more than 4.6 million low-income seniors."

Shawn Bishop: "So that program is really a vital safety net for elderly who are in need of long-term nursing home care and elderly who don't have enough income to cover their Medicare expenses."

Eric Schneider: "They are a particularly vulnerable group. They're often disabled. They're certainly living in poverty, and those 4.6 million low-income seniors are enrolled both in Medicare and Medicaid, so cutting Medicaid actually does also affect seniors. That's sometimes lost in the debate."

*Experts are already concerned about funding these programs – and Schneider and Bishop say this new tax law will make matters worse because it is expected to add about \$1.5 trillion to the federal deficit.*

Eric Schneider: "Even before the tax bill's new deficits, Medicare was not adequately funded. Taxes and premiums – they don't actually cover the annual costs of the program, and the federal

government has been depleting the Medicare trust fund that covers hospital insurance through part A. The trustees of Medicare predict that the Part A Trust Fund will be depleted in 2029, right as the baby boom generation reaches these older ages.”

Shawn Bishop: “And that’s problematic, because the government is going to have to somehow figure out a way to make up for that deficit, and the question is going to be how?”

*One thing Congress might do is to cut the programs.*

Eric Schneider: “In 2016 at \$1.25 trillion spent, Medicare and the Medicaid program together account for about 30 percent of the federal budget. The math alone makes it attractive to cut Medicare and Medicaid in order to fill the hole created by the deficit. Proposals have focused on either reducing the number of beneficiaries or reducing spending per beneficiary. In order to reduce the number of beneficiaries, people have proposed increasing the eligibility age from 65 to 67 or even older, and that would result in fewer covered elderly. To reduce spending per beneficiary, people could institute caps, they could set limits on the benefits that Medicare insurance would cover or they could increase the cost-sharing.”

*In other words Congress could raise deductibles, copays and premiums, which some seniors already find hard to afford*

*Another possible solution lies with reforms to how we deliver health care and how we pay for it. The Commonwealth Fund’s Shawn Bishop explains that right now providers make money by charging for each service – so if patients don’t get well, doctors and hospitals end up making more. Under a system called value-based care, they’re rewarded for better outcomes and penalized if people don’t get better.*

Shawn Bishop: “Basically it is intended to give providers incentives to deliver the right care at the right time and at the right setting, and that is expected to show improvements in quality but also lower costs.”

*Schneider cites two other money-saving models, including the “medical home” where patients receive coordinated, team-based care*

Eric Schneider: “The patient-centered medical home that actually pays small amounts for coordination of care can reduce the use of high-cost hospital and emergency room care. A second innovation has been around what are called Accountable Care Organizations. These are larger organizations that could include hospitals and other providers that, together, can take a financial risk and actually share in savings if they are able to save money for the program and still deliver high quality affordable care.”

*So far, he and Bishop see signs of success.*

Shawn Bishop: “We are definitely seeing results from value-based payment. Those efforts have been in the Medicare program for at least a decade now, but they’re really coming to fruition in terms of the impact they’re having on Medicare spending. Just a decade ago, a growth rate that Medicare is experiencing today, which is near zero, would have been thought of as really impossible, but since 2010 average annual growth in Medicare per person spending has been just about one percent, and that contrasts to 7.4 percent growth rate in the decade before 2010.”

Eric Schneider: “There is pretty much a consensus now that although some of the flattening of the cost curve was due to the economy. There hasn’t been the kind of rebound that people expected in Medicare spending growth, and most economists now agree that a significant portion of the deceleration is actually due to these reforms in the system.”

*And, he says, there are other reasons to believe that high quality care can be provided at a lower price.*

Eric Schneider: “When we look at other countries, the UK, the Netherlands, and Australia, in particular, they are achieving high levels of performance and longer life expectancy, but spending anywhere from a third to even half as much as what we spend in the U.S., so there is certainly reason to be optimistic that we could deliver high quality care for much less than we spend now.”

*But there’s no guarantee that reforms alone will cover the gap between the projected costs for Medicare and Medicaid and revenue provided through the new tax code.*

Eric Schneider: “There really was very little discussion of the silver tsunami as it’s sometimes called – the aging of the American population. Our biggest worry is that having dug this deeper deficit hole, Congress may face the prospect of having to make indiscriminate cuts to benefits for tens of millions of seniors and leaving them exposed to medical expenses. To us this sets up needlessly painful choices or decisions that will affect the health and financial security of future seniors.”

*That’s Dr. Eric Schneider, the Commonwealth Fund’s Senior Vice President for Policy and Research, joined by Shawn Bishop, Vice President for Controlling Health Care Costs and Advancing Medicare. This is New Directions in Healthcare, the Commonwealth Fund’s podcast. Thank you for listening.*