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Medicare, Social Security Officials Urge Action to Slow Rate of Cost Growth

By Emily Ethridge, CQ Staff

Medicare's actuary warned Tuesday that controlling cost growth is the primary challenge to the entitlement program's financial stability, but that neither the premium support system sought by Republicans nor the cost-cutting measures pushed by the administration provide all the answers.

Richard S. Foster, chief actuary for the Centers for Medicare and Medicaid Services, testified alongside Social Security Actuary Stephen C. Goss during a House Budget Committee hearing on strengthening the finances of the two entitlement programs. Both urged lawmakers to find solutions, but committee members were far from agreement.

Chairman Paul D. Ryan, R-Wis., and ranking Democrat Chris Van Hollen of Maryland concurred at the morning hearing that they wanted to move quickly if they could reach bipartisan solutions.

But while Van Hollen said that President Obama's fiscal 2013 budget proposal "gets us off to a good start," Ryan said that the committee had a clear choice: either accept Obama's recommendations or "chart a brighter future" for the two programs.

Ryan advocated for a gradual series of changes that would preserve Social Security and Medicare for current and soon-to-be beneficiaries, then change the programs to address their sustainability.

Van Hollen said he would not support plans that shift costs onto beneficiaries. "We must address these issues using a responsible and balanced approach," he said. "We need to have shared responsibility as we move forward."

Goss called on Congress to act quickly, noting that without legislation, the program's trust fund reserves will be depleted by 2036.

"We hope and pray that Congress would act well before the trust fund would be exhausted," he said. "If we wait a substantial amount of time before we enact changes . . . then we would clearly and severely limit the options."

Goss recommended that lawmakers consider providing additional revenue to maintain or increase Social Security's scheduled benefits. He said that workers should be encouraged to invest more in their personal savings to help supplement Social Security.

"Making Social Security solvency sustainable will therefore require a choice to increase revenue by 33 percent after 2035, reduce benefits by 25 percent after 2035, or enact some combination of these changes," he said.

Contributing Causes

Lawmakers directed the majority of their questions at Foster, who explained why some high-profile proposals may reduce Medicare's spending in a certain area, but they did not address the drivers of increases in health care spending growth, such as overutilization of services and heavy reliance on the most expensive technologies.

He cited programs promoted under the health care overhaul (PL 111-148, PL 111-152) — such as bundled payments and better coordination of medical services under Medicare-accountable care organizations and medical homes — as efforts that can reduce cost levels, but not overall growth rate.

"All of these have had some success in reducing the level of costs, but in terms of their impact on cost growth, they have not had a large effect," said Foster, who stressed that his opinions were his own and do not represent an official position of the Health and Human Services Department or the Obama administration.

In addition, Foster said that a premium support plan, such as the one in Ryan's fiscal 2012 budget, has the potential to lower costs and provide more competition, but would still struggle to lower the cost growth rate. Under that plan, beneficiaries would receive a set subsidy from the government to help purchase private insurance.

Foster said that the biggest contributors to the cost rate growth are the volume of services, a preference for new, more expensive health technologies, and economic inflation.

As incomes rise, people tend to spend more on health care services, both in volume and by choosing the more expensive services, he said.

"A typical beneficiary or individual doesn't see the full cost of the service they get," which does nothing to discourage people from taking the more expensive service, he said. "It's a no-brainer, and we all go for it."

Foster said that personal health care spending has had an annual average growth rate of 9.7 percent since 1965. He attributed 4 percentage points of that rate to economic inflation, and 2.9 percentage points to more expensive medical technology and an increase in the use of services.

Foster did not make many specific recommendations for slowing the growth rate, but noted that stakeholders should continue to consider research into the comparative effectiveness of different treatments, as well as alternative health care delivery systems and payment methods.

Ryan continued to push for his premium support plan, and asked about applying competitive bidding across the Medicare program, which would set market-based prices determined by competing bids.

"To us, it's about getting the right incentive structures in place so that we can have a program of genuine security for health care for people in old age," Ryan said.

Several Republicans at the hearing criticized the Independent Payment Advisory Board, a group of independent experts created in the health care law and charged with making recommendations to limit Medicare spending growth. Obama's budget request proposed changing the trigger to compel earlier implementation of the board's recommendations.

Foster said the board "has the potential" to limit beneficiaries' access to care if the recommendations result in deep payment cuts for providers.

Republicans have said that the board would put power into the hands of unelected, unaccountable officials and could hurt providers and limit access to care. Health and Human Services Secretary Kathleen Sebelius told House Ways and Means Committee members Tuesday that the administration is slowly vetting candidates to serve on the board, and that it is not likely to issue its first cost-cutting recommendations until at least 2018.

The House Energy and Commerce Committee is scheduled to mark up a bill (HR 452) Wednesday that would repeal the provision of the law that created the board. The House Ways and Means Subcommittee on Health announced Tuesday that it will hold a hearing about the board and its effect on Medicare on March 6.

Rebecca Adams contributed to this story.

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