

Senator Orrin Hatch
Statement on the Senate Floor
On Five Proposals to Reform Medicare and Medicaid
January 23, 2013

Mr. President, I rise today to speak on a matter that is of the greatest importance.

Our nation is on an unsustainable fiscal path. The national debt currently stands at a whopping \$16.4 trillion, with annual trillion-dollar deficits having become the norm with the current administration.

Put simply, unless we change course, our debt threatens to cripple our economy and saddle future generations with bills that they won't be able to pay.

Federal spending has been growing and will continue to grow at a rate that outpaces government revenues by leaps and bounds.

Despite some claims to the contrary, the difference simply cannot be made up by increasing taxes.

We do not face a problem of not taxing enough in this country; we have a spending problem.

Moreover, in the run-up to the fiscal cliff, we had a national discussion on increasing taxes. Taxes were increased, and the revenue discussion is done. It is time to turn our attention to our country's runaway spending problem and our unsustainable entitlement programs.

The only way we can make meaningful progress toward reducing our deficits and eliminating our massive debt is to focus on the main drivers of these problems. And, the main drivers of our debts and deficits is not a lack of revenue, it's our entitlement programs.

Let's just take a look at our two main health care entitlements, Medicare and Medicaid.

In just the next ten years, the federal government will spend more than \$12 trillion on Medicare and Medicaid.

Let's just put that in perspective. That's \$12 trillion dollars on just two programs. That's more of the entire economies of Germany, France, the UK, Italy, and Spain combined.

If we do not act to slow the rate of growth in these two programs, they will consume roughly 10 percent of our entire economy by the year 2035.

Medicare by itself spent nearly \$480 billion last year. Over the next ten years, it will spend more than \$7 trillion. In fact, by the end of that same 10 years, we'll be spending more on Medicare than on our entire national defense.

The prospects for Medicare's solvency only get worse as time goes on. Over the long term, Medicare has nearly \$39 trillion in unfunded liabilities – that's \$328,404 for every American household.

Fixing Medicare won't just be a matter of trimming off some of the fat and waste – the problems with the program are systemic.

Now, let's talk about Medicaid for a moment. Things aren't much better with that program.

The federal government spent \$261 billion on Medicaid in 2012 and the states spent about \$196 billion, bringing the total cost of the program to \$457 billion in a single year.

In the next ten years, federal Medicaid spending as a share of the U.S. economy is set to grow by 37 percent. The federal government will spend more than \$4.4 trillion on the program over that time.

And, according to the National Governor's Association, Medicaid represents the single largest portion of total state spending, accounting for an estimated 23.6 percent of state budgets last year.

So between Medicare and Medicaid, we have two programs that threaten to swallow up, not only the federal government, but state governments as well.

We simply cannot afford to keep these programs running on autopilot. Nor can we afford to just tinker around of the edges when we talk about reform.

If we're serious about addressing our nation's debt, Medicare and Medicaid need structural reforms.

Today, I want to lay out five specific reform proposals that can help to rein in entitlement spending and put our nation on a better fiscal course. These are reasonable, rational ideas that have all enjoyed bipartisan support over the years. I believe they should be included in any deficit reduction package.

Number One – *We need to adjust the Medicare eligibility age from 65 to 67.*

Raising the retirement age is simply common sense. It would reflect increases in life expectancy and align Medicare eligibility with that of Social Security.

This idea was supported by the Simpson-Bowles Commission and was included in the bipartisan deficit negotiations in 2011. In addition, prominent Democrats, including former Senate Budget Committee Chairman Kent Conrad and House Budget Committee Ranking Member Chris Van Hollen have expressed support for raising the retirement age as part of a discussion on entitlement reform.

So, Mr. President, raising the retirement age is not just a Republican idea, members of both parties have supported it.

Number Two – *We need to modernize the Medigap program by limiting supplemental Medicare insurance plans from covering initial out-of-pocket expenses for Medicare beneficiaries.*

In 2010, Medicare paid, on average, \$9,765 per beneficiary. The average out-of-pocket expense – coming from co-payments, co-insurance, and deductibles – per beneficiary was \$1,679. Almost 90 percent of Medicare recipients use some kind of supplemental insurance to offset some of their out-of-pocket costs. Almost 30 percent of beneficiaries have so-called Medigap policies that provide first-dollar coverage.

Multiple studies have found that this 30 percent – the ones with Medigap insurance policies – use about 25 percent more services than those without similar coverage. This over-utilization of services leads directly to higher costs for all seniors in Medicare.

Limiting first-dollar coverage will encourage seniors to make better healthcare choices and ensure the highest-quality outcome while lowering costs for the entire Medicare program.

This policy was supported by the Simpson-Bowles Commission and it was part of the Biden-Cantor deficit reduction negotiations in 2011. In addition, the Democratic members of the House Ways and Means Committee included this idea as part of a set of cost-sharing reforms in their 2011 deficit reduction proposal. And, the President's own 2011 deficit reduction package included a similar proposal to reduce costs associated with Medigap insurance plans.

Once again, this is a policy that both Democrats and Republicans should be willing to get behind.

Number Three – *We need to simplify Medicare beneficiary cost-sharing while protecting seniors from catastrophic health costs.*

Currently, Medicare cost sharing – co-pays, deductibles, etc. – vary significantly depending on the type of service being provided. Beneficiaries now have separate deductibles for inpatient care under Part A and physician and outpatient services under Part B. This overly complex benefit structure is difficult for beneficiaries to navigate and it promotes overutilization.

By streamlining the cost-sharing and creating a single combined deductible for both Part A and Part B, we can make it easier for seniors to use Medicare more efficiently and reduce costs associated with overutilization.

At the same time, we should institute an annual catastrophic cap to protect seniors who face serious health events, which will provide seniors with much needed financial security.

This was another policy supported by the Simpson-Bowles Commission. It was also part of the Coburn-Lieberman Medicare proposal introduced in the last Congress.

It is, in every sense, a bipartisan proposal.

Number Four – *We need to increase quality and lower costs in Medicare by introducing competitive bidding into the program. By allowing private health plans to compete with traditional fee-for-service Medicare, we can provide seniors with their guaranteed Medicare benefit while, at the same time, reducing costs and improving the quality of care.*

Entitlement reform should draw upon market-oriented solutions. Increased competition will allow seniors to choose for themselves – based on transparent cost and quality information – if they want to use the traditional Medicare program or a private health plan. This is the type of structure seniors enjoy under Medicare Part D, which has controlled costs and is very popular among beneficiaries.

This is not a Republican fantasy or a conservative plan to gut Medicare as some may claim. Democrats have supported this approach over the years as well.

President Clinton proposed a major set of Medicare reforms in 1999 that included a version of a premium support system. And, Alice Rivlin, OMB Director under President Clinton, recently worked with former Senator Pete Domenici on a Medicare reform bill that included a defined premium support plan. In addition, Democratic Senator Ron Wyden worked with House Budget Committee Chairman Paul Ryan to develop a similar proposal in the 112th Congress.

So, while there may be some resistance to this particular idea, it has enjoyed bipartisan support.

And, finally, **Number Five** – We need to strengthen Medicaid for patients and states through realistic reforms. Setting per capita limits on federal Medicaid spending would put the Medicaid program on a sustainable budget and, when combined with increased flexibility for patient-centered reforms at the state level, would reduce costs and improve patient care across the board.

As with the other ideas I've mentioned, this is a bipartisan proposal.

In 1995, President Clinton introduced a Medicaid reform plan that included a per capita cap on federal Medicaid spending. At that time, all 46 Democratic Senators – including several that are still serving today – signed a letter to President Clinton expressing support for this proposal.

In addition, in October of last year, former Democratic Senate Majority Leader Tom Daschle publicly expressed his support for per capita caps on Medicaid spending as a way of quote guaranteeing the benefits of the Medicaid program unquote.

So, there you have it, Mr. President, a concrete, bipartisan approach to reforming our health-care entitlement programs and restoring fiscal sanity here in Washington.

I know that it is popular to talk in abstractions when it comes to reforming our entitlement system, but these are specific ideas that have enjoyed the support of both Republicans and Democrats over the years. This is precisely what has been missing from the current debate over deficit reduction.

Mr. President, entitlement reform is not a matter of choice, it is a necessity. That being the case, it is not a Republican or Democratic issue – it's a challenge facing our entire country.

My proposals, which have all enjoyed bipartisan support, will help ensure that future generations have a viable and sustainable safety net in place. Far from being offered out of any sense of "suspicion" about government safety net programs, as a cynic might suggest, my proposals are designed to help sustain the programs.

I believe these five proposals are a good starting point for a serious discussion about entitlement reform. I hope my colleagues on both sides of the aisle will want to be part of this conversation. I yield the floor.

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