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Repealing the Affordable Care Act:
Implications for Medicare Spending and Beneficiaries

The Patient Protection and Affordable Care Act of 2010 (ACA) contains many changes to the Medicare program, including both savings and benefit improvements. Some policymakers, including the Republican presidential nominee Governor Mitt Romney, have proposed repealing the ACA. This data note describes key Medicare provisions in the ACA and explores the implications of repealing the law for Medicare program spending and beneficiaries' out-of-pocket costs.

How does the ACA affect the Medicare program?

Medicare provisions in the ACA include the following:

- **Savings provisions.** Some provisions of the ACA reduce the growth in Medicare spending. This is achieved mainly by phasing down payments to Medicare Advantage plans, reducing updates in payment levels to hospitals and other providers, and increasing premiums to be paid by higher-income beneficiaries.[1]
- **Benefit improvements.** The ACA also contains provisions that improve benefits, providing free coverage for some preventive benefits, and closing the coverage gap in the Part D prescription drug "doughnut hole" by 2020. The law also includes higher payments for primary care physicians.
- **Delivery system reform.** Some provisions are designed to reduce costs and improve the quality of patient care for elderly and disabled beneficiaries; this includes incentives to reduce preventable hospital readmissions and establish accountable care organizations (ACOs).
- **New revenues.** The ACA establishes new sources of revenue dedicated to the Medicare program, including an additional payroll tax on earnings of higher-income workers and a fee on the manufacturers and importers of branded drugs.

Originally, the Medicare provisions of the ACA were estimated to reduce net Medicare spending by $428 billion between 2010 and 2019.[2] More recently, the Congressional Budget Office (CBO) estimated that the Medicare provisions would reduce Medicare spending by $716 billion from 2013 to 2022. The increase reflects a new ten-year budget window and changes in the CBO baseline.[3]

How would *repealing* the ACA affect Medicare spending and the program's fiscal outlook?

If the ACA were repealed, the law's savings and revenue provisions would be reversed, as would its benefit improvements. Repeal would increase Part A and B spending by restoring payment rates to private insurers (Medicare Advantage plans) and health care providers to their pre-ACA levels, among other changes. Repeal would also produce offsetting savings by eliminating coverage in the Part D "doughnut hole" and reinstating cost-sharing for preventive services. Because the ACA is expected to reduce net spending over ten years, *repealing* the ACA would *increase* net Medicare spending by $716 billion over ten years relative to the current baseline.

Repealing the ACA would also accelerate the projected year of insolvency for the Part A Hospital Insurance (HI) Trust Fund by eight years, from 2024 (current projection) to 2016 (if the ACA is repealed). This is because spending for services under Part A would increase, and revenues dedicated to Part A would decrease. As a result, within four years, Medicare would not be able to fulfill its obligation to pay for all Part A covered services.

Solvency projections of the Part A trust fund:

Source: Part A solvency projection for current law from 2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds; solvency projection with ACA repeal from Centers for Medicare and Medicaid Services (CMS) Press Release, "Medicare Stable, but Requires Strengthening," released April 23, 2012.

What would *repealing* the ACA mean for beneficiaries?

Repealing the ACA is expected to increase premiums and other costs for beneficiaries over the next decade:[4]

- **Part A deductible and copayments** would rise due to an increase in Part A spending. This is because the Medicare Part A deductible is indexed to prospective payment system (PPS) payment rates, and Part A co-payments for inpatient hospital and skilled nursing facility stays are tied to the change in the Part A deductible.
- **Part B premiums** would increase with the increase in Part B spending. This is because premiums are automatically set to cover 25 percent of projected Part B spending.
- **Part D cost-sharing** for outpatient prescription drugs would rise for Part D enrollees with relatively high drug costs who would have otherwise benefited from provisions to close the doughnut hole. An estimated 3.6 million Medicare Part D beneficiaries had spending in the doughnut hole in 2011; these beneficiaries saved, on average, about $600 each in 2011 as a result of ACA provisions that phased in coverage of the doughnut hole, according to estimates by the Department of Health and Human Services.[5]
- **Part D premiums** would decline with the repeal of the provision in the ACA that closes the Part D doughnut hole. Because closing the doughnut hole will increase Part D spending, repealing the doughnut hole benefit improvement would reduce Part D spending. In turn, this would reduce Part D premiums, since Part D premiums are set to cover 25.5 percent of Part D program costs.
- **Coverage of free preventive benefits** would be eliminated if the ACA is repealed, thereby increasing beneficiary out-of-pocket spending for these services.
- **Income-related Part B and Part D premiums** would be reduced or eliminated for some higher-income beneficiaries. If the ACA were repealed, higher-income Part D enrollees would not be obligated to pay a new income-related Part D premium and fewer higher-income beneficiaries would pay income-related Part B premiums in the future.

Other potential effects. Changes in payments to plans and providers could also affect beneficiaries. For example, some have expressed concern that reductions in payments for Medicare Advantage plans that were included in the ACA will lead plans to cut back on the extra benefits they provide for enrollees. (Medicare Advantage plans are required under law to provide all Medicare-covered services without regard to payment changes). If payments to Medicare Advantage plans are restored to pre-ACA levels, plans may be less likely to reduce extra benefits in the future. However, if the spending reductions for Medicare Advantage plans are repealed, then Medicare spending would rise, increasing Part B premiums for beneficiaries in Medicare Advantage plans and in traditional Medicare. Prior to the ACA, federal payments to Medicare Advantage plans per enrollee were 9 percent higher than what it would have cost to cover similar beneficiaries under the traditional fee-for-service Medicare program, according to the Medicare Payment Advisory Commission (MedPAC).[6]

Experts have questioned whether changes in payments to providers will ultimately affect access to services. The Department of Health and Human Services (HHS) Office of the Actuary has expressed concern about the long-term effects of provider payment reductions on beneficiaries' access to care. If the ACA's Medicare provider payment reductions are repealed, access to care for beneficiaries may be less of a cause for concern, at least as it relates to provider payment levels.[7]

Discussion

In summary, the Medicare provisions of the ACA played an important role in putting Medicare on stronger financial footing, while offsetting some of the cost of the coverage expansions of the ACA and also providing additional benefits to people on Medicare. These savings were achieved primarily by reducing payments to providers (such as hospitals and skilled nursing facilities) and Medicare Advantage plans. As a result of these changes, Medicare spending per beneficiary is projected to grow more slowly than private health insurance spending per capita over the next decade; premiums and cost-sharing for many Medicare-covered services are lower than what they would be without the ACA; delivery system reforms are being developed and tested; and the Medicare HI Trust Fund has gained additional years of solvency. Some have argued that the Medicare savings in the ACA may come at the price of reductions in access to care in the future, while others believe the ACA will leverage greater efficiencies without necessarily creating access concerns. Repeal of the ACA would undo these changes, raise costs for beneficiaries, and increase federal spending at a time when the nation is struggling to address the deficit and debt.

References

[1] The ACA froze the income threshold for the Part B income-related premium at $87,000/individual and $170,000/couple through 2019; as a result, a larger share of Medicare beneficiaries would be subject to the higher Part B income-related premium. The law also included a new Part D income-related premium, using the same income thresholds as Part B premiums.

In addition, the ACA established the Independent Payment Advisory Board (IPAB), which the Congressional Budget Office expects will produce modest savings over the next ten years.

[2] Kaiser Family Foundation analysis of Congressional Budget Office (CBO) cost estimates for the Affordable Care Act (P.L. 111-148), as amended by the Health Care and Education Reconciliation Act (P.L. 111-152) as provided on March 20, 2010.

[3] Specifically, the more recent estimate is different for a few reasons:

- The initial CBO estimate uses a 10-year window that includes years in which some of the savings proposals had not yet taken effect (i.e., 2011 and 2012);
- The more recent estimate uses a 10-year window that includes savings in later years, which are greater since savings tend to increase over time; and
- The CBO revises the Medicare baseline annually, based on newly available data.

[4] According to the Office of the Assistant Secretary for Planning and Evaluation (ASPE) issue brief, "Medicare Beneficiary Savings and the Affordable Care Act," released February 2, 2012, traditional Medicare beneficiaries are expected to save $4,200, on average, between 2011 and 2021, as a result of the provisions in the ACA. Thus, if the ACA is repealed, beneficiary costs are expected to increase. Available at http://aspe.hhs.gov/health/reports/2012/MedicareBeneficiarySavings/ib.pdf.

[5] U.S. Department of Health and Human Services, "The Affordable Care Act: Strengthening Medicare in 2011," released February 15, 2012. Available at www.cms.gov/apps/files/MedicareReport2011.pdf.

[6] Medicare Payment Advisory Commission (MedPAC) "Report to the Congress: Medicare Payment Policy," released March 2010.

[7] Statement of Actuarial Opinion by Chief Actuary Richard Foster, 2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, April 2012, page 277.

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THE HENRY J. KAISER FAMILY FOUNDATION

Headquarters: 2400 Sand Hill Road Menlo Park, CA 94025 650.854.9400 Fax: 650.854.4800 Website: www.kff.org
Washington Offices and Barbara Jordan Conference Center: 1330 G Street, NW Washington, DC 20005 202.347.5270 Fax: 202.347.5274

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