

**Can Consumers Save Medicare?**  
**Comments on Pauly & Feldman**

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**Pauly's Proposal**

- A tax financed voucher
  - Risk – adjusted
  - Enforced quality standards
  - Competition among private plans
  - A “safe-harbor,” probably traditional government sponsored plan
  - Public funding of information



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**Pauly's Key Elements**

- Controlling Costs:
  - Limited-growth vouchers
- Adverse Selection:
  - Risk adjustment
- Health plan quality:
  - Government standards of coverage
  - “Safe harbor” traditional plan



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### Pauly's Competition

- Not designed to save money
- Designed to avoid "one size fits all"
  - People allowed to buy supplemental coverage
  - People allowed to cash out
- Designed to provide value at any level of voucher or benefit package selected
- Designed ultimately to save Medicare in an era when the cost burden is staggering

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### Two Points to Discuss

- Does One-Size-Fits-All really matter?
- Will (or when will) the politics of Medicare allow a limited-growth voucher?



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### One-Size-Fits-All ?

- Health status clearly matters and is reflected in various risk adjustment models
- ...but *preferences* -- tastes for coverage -- are little studied
  - Work by Monheit & Vistnes (1999) used questions on perceived values of insurance in the 1987 NMCES to help explain why some people have jobs with insurance & others don't.



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### Preferences Matter

- Preference measures:
  1. "I'm healthy enough that I really don't need health insurance."
  2. "Health insurance is not worth the money it costs."
- Those with strong preferences for coverage
  - 14 percentage points more likely to have a job offering coverage than those with weak preferences
- Usual employment and demographic characteristics explain 17 percentage points
- Preferences as important as demographics in determining coverage

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### A Limited Growth Voucher ?

- The key to fiscal success of the voucher is limiting its growth
- Experience of the "Sustainable Growth Rate" for Medicare Part B does not bode well




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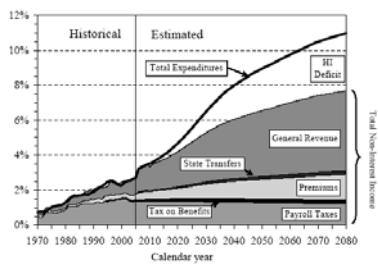
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### Political Costs of Inaction?

Chart D—Medicare Expenditures and Non-Interest Income by Source as a Percent of GDP



Source: Palmer and Savings (2006), Chart D

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### Feldman's Key Elements

- Controlling Costs:
  - Consumer incentives to reduce use of health services use and to search for lower prices services
- Risk Mitigation:
  - Essentially stoploss coverage for costs well above the indemnity payment
- Physician Market Power:
  - Enforcement of antitrust laws



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### Two Points to Discuss

- Economies of diagnosis & treatment
- Cost containment potential



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### Economies of Scope

- Auto repair model:
  - Estimate of damages
  - Repair
- Medical model:
  - In many cases diagnosis is itself a significant undertaking
  - Often considerable economies in doing both diagnosis and treatment



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### Cost Containment Potential ?

- With the indemnity
  - Forego some/all care
  - Search for lower prices
- “Social welfare” requirement to get some care undercuts cost containment
- Not clear individual consumers will be able to obtain lower prices
  - Unlike the clear evidence from managed care selective contracting.



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