Elder law expert: Ryan plan would fundamentally change Medicare

April 7 2011

House Budget Committee Chairman Paul Ryan's proposal to change Medicare for those under age 55 is nothing short of a complete reconceptualization of the health insurance program, says a University of Illinois elder law expert.

Richard L. Kaplan, a professor of law and expert on retirement issues, says the Ryan proposal would scrap Medicare's current defined-benefit program in favor of a defined-contribution arrangement in which the government would provide seniors with a stipulated amount of money to purchase health insurance from private insurers.

"The Ryan proposal would eliminate the package of benefits that everyone receives but would allow seniors to choose from a variety of plans with different benefits, different premiums and different co-payment obligations," Kaplan said.

Kaplan, the Peer and Sarah Pedersen Professor of Law at Illinois, says that what Rep. Ryan is proposing isn't a radically new idea, as a broadly similar plan was first considered at length during the Clinton administration.

"It was proposed under the title of 'premium support,' though occasionally it has been described as vouchers," he said. "Essentially, it's the same concept – provide seniors with a designated amount of money and let them shop for the plan that best meets their needs."

While there may be nothing new under the sun in Washington, that doesn't mean that some seniors won't come out ahead under the Ryan proposal.

"Some seniors will benefit, because they will be able to use their Medicare dollars for benefits that they prefer," Kaplan said. "For example, Medicare currently pays for individual hospital stays of 60 to 90 days in length. But the average hospital stay for someone 65 years and older is less than six days. So a prospective Medicare enrollee might choose a plan in the proposed system that provides shorter hospital stay coverage but more extensive home health care coverage than Medicare currently includes."

The chief motivator of the Ryan plan is to, plain and simple, save the government money, Kaplan said.

"As medical costs increase, Medicare's costs rise accordingly," he said. "Under the Ryan plan, Medicare's costs would be fixed and known in advance. Increases in medical costs over whatever cost-of-living increase the government dictates for Medicare will not be borne by Medicare, but by those seniors who choose more comprehensive benefit plans."

Although last year's health care reform law left the basic structure of Medicare intact, the Ryan proposal would transform Medicare to make it resemble the types of health insurance plans that many employers offer to their employees. Although this would represent a dramatic change, Kaplan said, such changes to Medicare are not wholly unprecedented.

"Actually, Medicare Part D, which provides coverage for prescription drugs, operates on a very similar basis – private insurers receive government subsidies to provide various drug plans, and seniors select among the options that are available, paying more for greater coverage," Kaplan said.

But in a different health insurance paradigm, the downside is that seniors will almost certainly face more complexity.

"If our experience with Medicare Part D's drug plans is any indication, older Americans will confront a new array of insurance plans under Medicare, some of which may change their components annually," Kaplan said.

But Kaplan is quick to note that the present system is no walk in the park either.

"Presently, most seniors sign up for hospital coverage under Medicare Part A, then decide whether they want to purchase Medicare Part B coverage for physicians' charges, and then decide whether to add a Medicare Part D plan to cover their prescription medication needs," he said. " Then they must consider whether to buy a private Medigap insurance plan to pay for the deductibles and co-payment or co-insurance obligations of Medicare Parts A and B. So, in many ways, the new system of integrated benefit plans will be simpler and more intuitive. But the transition to this new environment will certainly be challenging."

Not all seniors will be affected by the change; adults 55 years and older would be largely unaffected by Ryan's proposal, Kaplan said.

"Unless an option is provided to let them switch, which may or may not be incorporated into the final plan, anyone who is in Medicare presently will not be affected by his proposal," Kaplan said. "Those seniors who are already familiar with Medicare's component parts need not bother with this legislation."

Provided by University of Illinois at Urbana-Champaign

Citation: Elder law expert: Ryan plan would fundamentally change Medicare (2011, April 7) retrieved 6 May 2024 from https://medicalxpress.com/news/2011-04-elder-law-expert-ryan-fundamentally.html

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