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Biden's Medicare Expansion Proposal: Less Private Health Coverage, Higher Taxpayer Costs

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KEY TAKEAWAYS

Expanding Medicare by lowering the eligibility age would have little impact on uninsured numbers but would erode private and job-based coverage.

The proposal would force taxpayers to pay for private businesses' health care bills, while worsening Medicare's already fragile financial condition.

Lawmakers should instead focus on reforms that improve Medicare, including the Health Insurance Trust Fund, so that the program is solvent and available in the future.

President Joe Biden is committed to expanding the Medicare program by reducing the normal age of entitlement eligibility from 65 to 60. According to his fiscal year (FY) 2022 budget submission to Congress, the President wishes to provide Americans in the 60 to 64 age group "the option to enroll in the Medicare program with the same premiums and benefits as current beneficiaries, but with financing separate from the Medicare trust fund."[1]

Drawbacks

Curiously, although this entitlement expansion is a core component of his agenda, Biden's budget contains neither a description of its specifics nor an estimate of its projected costs. While some

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consequences of this proposal are obviously unknown, certain are undeniable. For example:

- **It would crowd-out the existing private and employer-based health coverage of millions of Americans.** Among the targeted population, 61 percent are currently enrolled in employer-based health insurance, and 17 percent are covered by health plans in the individual market. This proposed Medicare expansion, based on Medicare rates and taxpayer subsidies, would further erode private health coverage—and create a new class of persons dependent on government.

- **It would make federal taxpayers pay for private businesses' heath care bills.** While the Biden Administration provides no cost estimate for this Medicare expansion, an independent analysis indicates that the proposal's annual costs could range between $40 billion (about $120 per person in the U.S.) and $100 billion (about $310 per person in the U.S.).

- **It would subsidize a cohort of the population that has a higher median household income than Americans generally.** Americans ages 60 to 64 are well-off financially compared to younger persons, and far better off than retirees over the age of 65 who have a median household income of $47,357. According to the Census Bureau, in 2019 the median household income of Americans ages 55 to 64 was $75,686, while median household income for all Americans was $68,703.[2]

- **It would have no significant impact on reducing the number of uninsured.** This targeted age group has the lowest rate of un-insurance. Among the target population, only 2 million are currently uninsured.

Impact on Medicare

As the Medicare Boards of Trustees have repeatedly warned, Medicare is already facing enormous financial challenges. These start with the impending insolvency of the Medicare hospital insurance (HI) trust fund in 2026, at which time the program will no longer be able to pay for all its promised benefits. Nonetheless, the bigger problem is Medicare's cost growth, which is continuously consuming an ever-larger share of the federal budget, federal taxes, and the general economy. Regardless of

Biden's stated intention to finance the Medicare expansion outside of the existing Medicare trust fund, his proposal would nonetheless exacerbate these festering problems.

In recent years, the Medicare trustees have been urging Congress and the White House to work together to slow the growth of Medicare spending and put the program on a sound financial footing. Even without Biden's proposed expansion, Medicare's rapidly rising spending guarantees much higher taxes, while generating HI deficits without end and incurring a long-term debt in the form of huge unfunded obligations, amounting to $45.7 trillion—roughly $140,000 per person in the U.S.[3]

Accelerating the Contraction of Private Health Coverage. By crowding out private coverage options, the Biden proposal would, over time, further consolidate the nation's health insurance coverage under direct federal control, thus further weakening competition in the already severely damaged health insurance markets, as well as further eroding personal choice of coverage and alternatives to medical care.

Who Would Be Impacted?

According to Avalere, a prominent Washington, DC–based health policy research firm, opening the Medicare program to persons between the ages of 60 and 64 could shift an estimated 24.5 million persons from existing health insurance coverage into the Medicare program.[4] Of that number, 14.9 million (61 percent) are covered by employment-based health insurance. Of this number, 4.1 million people (17 percent) have coverage in the individual health insurance markets, and only 2 million of this target population are uninsured.[5]

In short, depending on the dynamics of the target population's response to the proposal, including the response of their employers, the proposal would have *minimal* impact on reducing the number of the uninsured—but would have an *enormous* impact on private and employer-based health insurance coverage.

Individual Coverage. In measuring the proposal's impact, the Avalere analysts focus primarily on health plans in the health insurance exchanges created under the Affordable Care Act of 2010 (ACA). As these analysts note, there are several complicated trade-offs in moving from ACA coverage to Medicare. Persons would have to navigate differences in benefits, out-of-pocket and premium costs, and access to provider networks. There would inevitably be winners and losers in such a transition.

A key issue, of course, is premium costs and access to taxpayer subsidies. Under the ACA, a person is eligible for generous subsidies up to 400 percent of the federal poverty level, currently estimated at $52,000 in annual income. For low-income persons, the Avalere analysts observe, Medicare subsidies would be *less* generous than the subsidies they obtain under the ACA, and thus, from a financial standpoint, they would have little incentive to voluntarily enroll in Medicare. For persons with an annual income above $52,000, there are no ACA subsidies available either for premium costs or out-of-pocket costs. For these persons, Medicare's Part B and Part D subsidies would thus be more attractive than high-cost ACA coverage, even if they purchased Medigap or some other private supplemental plan to close crucial Medicare gaps in coverage.[6]

Group Coverage. The largest cohort of persons (14.9 million) within the targeted age group are enrolled in employer-sponsored group health coverage. In this case, the major issue may not be the employee's personal decision to leave employer's coverage and voluntarily enroll in Medicare, but rather the employer's calculations on the advantages or disadvantages of either retaining or perhaps eliminating group health insurance coverage altogether. Younger workers could enroll in ACA plans, and older workers would have the option of enrolling in either ACA plans or Medicare.

Increasing Incentives to Drop Employer Coverage

If a Medicare expansion proposal were crafted to include persons enrolled in group coverage, of course employers would be strongly tempted to stop covering older workers. Ending group coverage would secure significant short-term financial benefits for businesses or corporations, especially with the elimination of coverage for older workers and their spouses. Health care utilization and spending climb as one progresses the age scale, particularly with the onset of chronic medical conditions that often accompany aging: The contrasts in costs and utilization between older and younger workers is thus dramatic.

The Health Care Cost Institute, an independent research organization, details these patterns in a comprehensive 2019 study on employment-sponsored insurance. According to the Institute's report, in 2017, 40.4 percent of persons ages 19 to 25, for example, experienced no insurance utilization, while only 15.8 percent of persons ages 55 to 64 were in that category.[7] These patterns are reflected in dramatic differences in annual employer insurance spending. For persons covered under employer-based insurance, the average spending per person was $5,641, but for those ages 55 to 64, the per-person spending amounted to $10,476.[8]

By getting rid of coverage for older workers and their dependents, the employer-sponsored health plans would experience a decline in medical utilization, thereby lowering the employer group-insurance premium costs. According to a recent Kaiser Family Foundation analysis, if persons ages 60 to 64 were no longer enrolled in their employers' plans, the costs of these group health plans would decrease by 15 percent.[9] If the normal age of Medicare eligibility were further reduced to age 55, as proposed by Senator Bernie Sanders (I–VT), employer health plan costs would fall by 30 percent. These costs would fall by 43 percent if the eligibility age were reduced to age 50.[10]

Once again, with taxpayers picking up the tab for a private corporation's health care bills, the federal government would provide employers with a powerful economic incentive to stop covering their employees and their families on job-based coverage altogether—regardless of employees' needs or preferences.

Social Policy in Search of a Problem

New taxpayer subsidies for the Medicare expansion would be targeted to Americans ages 60 to 64, or, under the Sanders' proposal, those 55 to 64. As noted, this is an age cohort that enjoys a higher median household income than either younger working families or current Medicare beneficiaries.[11] Not only would the proposal expand government dependency down the age scale, but it would also create a new constituency for government dependency further up the income scale.

Worsening Medicare's Financial Condition

Medicare, serving 61.2 million beneficiaries, is the nation's largest payer for health care benefits and services. Beneficiaries' premiums cover only 15 percent of the program's total cost; taxpayers cover the rest.[12] Based on Biden's budget submission for FY 2022, compared to last year's spending of $884 billion, the total (gross) cost of the program is projected to reach $995 billion (about $3,100 per person in the U.S.)—an increase of $111.7 billion in just *one* year.[13]

Big New Costs. Beyond current taxpayer burdens, independent analyses indicate the cost increases generated by a Medicare expansion could be substantial. Writing in the *Journal of the American Medical Association*, Dr. Zirui Song, Professor of Health Policy at Harvard Medical School, estimates that the *annual* cost of the Biden proposal could range between $40 billion and $100 billion, depending on the details.[14]

Any transition of workers enrolled in private and employer-based health insurance into Medicare will entail some complicated trade-offs in costs, coverage, and provider networks, and there would inevitably be "winners" and "losers" among privately insured employees. Without doubt, however, the proposal would worsen Medicare's financial condition. As Kaiser Family Foundation analysts observe, "The shift from employer coverage to Medicare would exacerbate the financial challenges facing Medicare's Hospital Insurance trust fund, without safeguards to prevent this. In his campaign, President Biden proposed to finance the expansion through general revenues, rather than the trust fund."[15]

Whether new tax burdens are imposed through payroll taxes to resupply the depleting Medicare trust fund or bigger income tax increases are imposed to fund heftier general revenue transfers from the Treasury, the impact on the taxpayers' pocketbook is the same. Taxpayers already face the prospect of bailing out an insolvent Medicare HI trust fund in 2026, possibly even earlier. Without an infusion of fresh taxpayer cash, the program will not be able to pay all its promised benefits. Rebalancing the trust fund, as the Medicare trustees warn, would require another payroll tax hike or a benefit reduction, or some ugly combination of both.[16]

Accelerating Spending. But the fate of the Medicare Trust fund is a smaller part of a much bigger financial problem. While Medicare's total annual cost is nearing the $1 trillion mark, the fastest growing portion of the program is the Supplementary Medical Insurance Program (SMI): the Part B and D benefits, which are overwhelmingly financed by general revenues from business and income taxes. Under current law, the Medicare trustees estimate that general revenue transfers from the Treasury to continue SMI functioning will rise sharply—from $356.2 billion in 2020 to $569.3 billion in 2026. This represents an increase of nearly 60 percent in just six years.[17]

Medicare is already eating up a larger and larger share of federal tax dollars. While SMI already consumes 16 percent of all personal and business income taxes, at the current rate, this part of the Medicare program will consume *26 percent* of these federal taxes within the next two decades.[18] Biden's proposed Medicare expansion would, of course, further increase that impending federal tax burden.

For their part, the Medicare trustees have persistently issued warnings about the financial challenges facing the program, namely the pending insolvency of the HI trust fund and the program's spending growth. They have repeatedly urged Congress and the President to address these problems. Instead of addressing these problems, the Biden Medicare expansion proposal would only make them worse.

Other Potential Consequences

Among other things, the Biden proposal is likely to encourage early retirement, thus further reducing labor force participation within a group of highly experienced workers.[19] This would be singularly undesirable at a time when the American economy is struggling to recover from the impact of the COVID-19 pandemic.

Major Critical Unknowns. Absent crucial details, it is impossible to determine how transitioning millions of new enrollees into the Medicare program would impact: (1) care delivery among doctors and other medical professionals; (2) persons remaining in private health insurance; or (3) future access to quality medical care among a much larger population of senior and disabled Americans. Medicare is governed by price controls, and the Medicare trustees acknowledge that current trends will further increase the disparity between Medicare and private payment, threatening seniors' future access to quality care.[20]

Although it is assumed, for example, that reducing or eliminating coverage of older workers would put downward pressure on group health insurance costs, David Crow of Mercer, a major benefits consulting firm, warns that the proposal could backfire:

> If a larger portion of the population enrolls in Medicare plans that reimburse providers at far lower rates than private insurance plans, it is likely to result in even more cost-shifting to the private system. This means that coverage for employees and family members still enrolled in an employer-sponsored plans is likely to get more expensive—for both the employer and the employee.[21]

Conclusion

Although the Biden Administration's Medicare expansion proposal is devoid of detail, it is certain to reduce Americans' enrollment in private health insurance coverage and significantly increase taxpayer costs. In tandem with the Biden Administration's proposal to deploy a "public option"—a new government health plan to compete against private health plans on an unlevel playing field—the Medicare expansion would further crowd-out private health coverage at taxpayer expense.

The Biden Medicare expansion proposal would worsen Medicare's financial condition. That condition is already serious, as the Medicare trustees have warned repeatedly. It is characterized by the accelerating pace of Medicare spending and driven by rapid enrollment growth and the rising cost of care per capita. Under current law, future beneficiaries face potentially serious problems in accessing quality care, while the program will impose ever-greater financial burdens on taxpayers in the form of higher taxes, deficits, and debt. Separate payment or accounting arrangements, either through the current Medicare trust funds or through general revenue financing, does little or nothing to relieve that taxpayer burden.

The expansion of government health care financing is the expansion of government power and control over Americans' health care. That—finally—is, the point of the Biden proposal.

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Endnotes

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10. Ibid., p. 3.
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13. U.S. Department of Health and Human Services, *Fiscal Year 2022 Budget in Brief: Strengthening Health and Opportunity for All Americans*, 2021, p. 79, https://www.hhs.gov/sites/default/files/fy-2022-budget-in-brief.pdf (accessed June 23, 2021).
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15. Rae et al., "How Lowering the Medicare Eligibility Age Might Affect Employer-Sponsored Insurance Costs," p. 5.
16. To secure a permanent rebalance of the HI trust fund, Medicare trustees estimate that it would require either an immediate payroll tax increase, from 2.9 percent to 3.66 percent, or a reduction in spending on hospital benefits of 16 percent. "More realistically, the tax andor benefit changes could occur gradually but would require ultimate adjustments that would be higher than adjustments that were done immediately." Centers for Medicare and Medicaid Services, *2020 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, April 22, 2020, pp. 28–29, https://www.cms.gov/files/document/2020-medicare-trustees-report.pdf (accessed June 23 2021).
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18. Ibid., Table II, F3, p. 38.
19. "Extending Medicare benefits to non-disabled adults younger than 65, either by lowering the eligibility age or by allowing near elderly adults to buy into the Medicare program, could encourage some workers to retire early." Richard W. Johnson, *Changing the Age of Medicare Eligibility: Implications for Older Adults, Employers, and the Government*, Urban Institute, December 2003, p. 26, https://www.urban.org/sites/default/files/publication/42791/410902-Changing-the-Age-of-Medicare-Eligibility.PDF (accessed June 23, 2021).
20. Medicare payments for doctors and hospitals, already well below commercial rates, are projected to fall much further below private payment. "Over time, unless providers could alter their use of inputs to reduce their costs per service correspondingly, Medicare's payments for health services would fall increasingly below providers' costs. Providers could not sustain continuing negative margins and would have to withdraw from serving Medicare beneficiaries or (if total facility margins remained positive) shift substantial portions of Medicare costs to their non-Medicare, non-Medicaid payers." Centers for Medicare and Medicaid Services, *2020 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, p. 183.
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