Cost-Shifting to Medicare Beneficiaries:  
A Route to Decreased Access and Increased Cost  
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Abstract

Growth in overall Medicare spending is a major concern for the federal budget. It is the largest U.S. health insurance program, and almost all Americans become beneficiaries. Medicare spending is currently pressured by both the aging of the population and the internal structure of Medicare, which funds part B and part D benefits out of general tax revenues. President Obama’s 2015 budget, Paul Ryan’s Medicare voucher proposal, and the Simpson-Bowles Moment of Truth project all include some measure of increasing beneficiary cost-sharing as a way of addressing fiscal issues. However, a large number of Medicare beneficiaries have financial, medical and socioeconomic vulnerabilities. The research literature shows that increased cost-sharing is likely to affect access to quality health care for a significant portion of American seniors. Furthermore, decreased access and affordability of health care due to changes in premiums and benefits will likely increase Medicare’s costs over time because of worse health outcomes, and have the opposite effect on the Federal budget from that intended.

Making changes in premiums, deductibles and offered services does not address a fundamental structural problem of Medicare insurance, which is its exposure to socioeconomic externalities. Using economic principles, these externalities can be addressed. A focus on incentivizing and rewarding insurers, states and beneficiaries for desired health outcomes will be an important step. Prioritizing beneficiaries’ health will in turn provide fiscal protection to the federal budget.