

Obama proposes “saving” \$320bn from Medicare and Medicaid

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The US president, Barack Obama, has proposed saving \$320bn (£210bn; €240bn) in Medicare and Medicaid spending over the next 10 years. The proposal comes amid political jockeying over growth and deficit reduction that has intensified in Washington, DC, in the past 12 months.

It was submitted to the so called “supercommittee” created by Congress this summer as part of the short term compromise to lift the debt ceiling and avert a government fiscal crisis. If the supercommittee doesn’t reach a deal on deficit reduction by the end of the year, a series of automatic cuts in spending will take place.

Material provided by the White House says that “The president will veto any bill that takes one dime from the Medicare benefits seniors rely on without asking the wealthiest Americans and biggest corporations to pay their fair share.”

More than a third of the proposed savings, \$135bn, would come from paying less for prescription drugs. States, which fund Medicare and Medicaid jointly with the federal government, can currently negotiate lower prices with drug companies for drugs purchased under Medicaid programmes for poor people (primarily children). President Obama proposes extending this negotiability to the Medicare programme for all 48 million senior citizens, who use a substantially greater number of drugs.

Prescription drugs consume about 10% of the US healthcare dollar. About 85% of prescriptions written are for generic drugs, though the greatest share of profits comes from those drugs still on patent.

Another big hit, \$42bn, would affect providers of rehabilitation and home healthcare services and nursing homes. The changes would require that use of those services subsequent to a hospitalisation be tied to a hospitalisation that was not avoidable.

Another proposal is the addition of a \$100 copayment for each home visit not tied to hospitalisation.

The federal government currently pays about two thirds of the costs of the Medicaid programmes, while the states pay the balance and administer the programmes. Some states add more of their own money either to cover people with higher incomes or to provide a better range of medical services. President Obama has proposed changing the Medicaid formula to save the federal government \$14.9bn over a decade. Most states have already reduced their Medicaid programmes and have been able to maintain what they have only with additional subsidies from the federal government, which were provided to stimulate the economy. The states are likely to oppose the attempt to shift this burden to them.

New (not existing) Medicare beneficiaries would be asked to pay more for doctors’ and outpatient services. They currently must pay the first \$162 a year, which is adjusted annually for inflation. President Obama would increase that by an additional \$25 in 2017, 2019, and 2021.

People who purchase a private “Medigap insurance” policy, which covers what Medicare does not, would pay a 15% surcharge to the federal government. Critics say those policies lead to overuse of Medicare.

The proposal also seeks to save \$1.4bn by reducing waste, fraud, and abuse. Estimates are that about 10% of the \$452bn spent on Medicare alone (in fiscal year 2010) falls into this category and would be ripe for real savings.

However, the records systems necessary to police the programme adequately are not in place, and advocates fear that increasing the administrative burden might drive more doctors away from participating in the programme.

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