HEALTH

First Robin of Spring?

Suddenly, Medicare is growing much more slowly than expected, and nobody knows why. Still, no one's complaining. By Margot Sanger-Katz

The release of the Medicare trustees' report, an annual rite that took place again this week, generally boils down to the same story: The program to insure seniors is growing much faster than its revenues, and soon Congress will need to choose whether to cut it or raise money to pay for it. Those familiar projections assume that, in the short term, Medicare's growth will mirror historic trends and limits imposed under current law; in the long term, growth will somehow slow down, because something's got to give. The Medicare trust fund that pays for hospital care will no longer be able to fully pay its bills in 2024, according to this year's report.

But what if Medicare doesn't follow this script? During the past two years, something weird has happened to Medicare spending: It has grown much more slowly than anyone expected. Instead of the program's average 6 percent increase per beneficiary in recent years, 2010's rate was 0.2 percent. In 2011, it was 2.8 percent. This dramatic change was sharper than the slowdown in the private health care market. It came the year after the recession technically ended but before the Affordable Care Act's attempts to bend the cost curve took effect. Even if we don't understand what caused the dip, though, its effects are easy to grasp: If it sticks, it will mean good news for Medicare and for the politicians who will have to fix it.

For now, there are still more questions than answers, and it will take time for analysts to drill into the data in search of an explanation. Take one finding from 2011: Hospital admissions declined by 2 percent among Medicare beneficiaries. That may have been a fluke (perhaps a mild flu season). It may have been an aftershock of the recession (seniors, worried about their finances, put off their knee replacements). Or it may have been an influx of younger seniors into the program (making the mix of patients healthier than in past years).

Health economists are debating even these possible answers, because none necessarily accounts for the low numbers. "If we use the normal models, then the decline in spending has been greater than what we would expect just from a recession alone," says Gail Wilensky, a senior fellow at Project Hope and a former Medicare director. But she still thinks that the program's growth will rebound when the economy improves. Paul Ginsburg, the president of the Center for Studying Health System Change, surveys providers around the country; he recently wrote an essay for *The New England Journal of Medicine* arguing that Medicare may be on the edge of a long period of slower spending growth. But even he calls the recent data "baffling." He added, "It's been a nice surprise."

It's also possible that something structural and permanent has happened that will outlive the downturn. Medicare's growth slowed more dramatically than growth in the health care system overall, adding to the puzzle for economists. Medicare recipients are older and sicker than the rest of the population, their insurance coverage is guaranteed, and their incomes are less likely to fluctuate with the market. So their behavior is typically *less* influenced by economic factors.

Peter Orszag, a former director of the Office of Management and Budget and now a vice chairman at Citigroup, says he is increasingly convinced that the recession alone can't explain the slowdown. He thinks that the health care system is changing and that we're seeing the results first in the older, sicker population that uses it more. Orszag points to developments such as the embrace of electronic medical records and benchmarking data (which urge doctors to avoid wasteful care) and to new financial incentives from private insurers to reduce unnecessary hospitalizations. "The recession clearly has some impact, but I think that there's at least some component of this deceleration that is structural," he says. Karen Davis, president of the Commonwealth Fund, a health care think tank, made similar arguments in her blog recently.

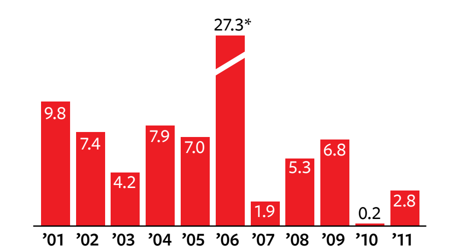
Medicare's chief actuary, Richard Foster, says he will analyze the numbers to figure out whether seniors were cutting back on certain services or just using the health care system less overall. But he resists describing a lasting trend until the data bear it out. Even as he plans to dig deeper, his guess is that 2010 did not usher in a new period of slow growth for the entitlement program. "We'd *like* to see the start of a new trend now," Foster says, "but it's not something I'd like to bet the farm on."

That's a very wise strategy, because even super-slow growth can't fix Medicare entirely. The program will still expand in the coming years and decades, even if per-beneficiary spending declines. Congress may find that fixing Medicare just got a little easier, but it will still have a job to do. ■

Slowing Down

Medicare cost hikes aren't what they used to be.

Average annual percent increase per beneficiary



*Prescription-drug benefit begins. Source: Medicare trustees

Towering burden: Medicare cost overruns.

PHOTO: ASSOCIATED PRESS/WILFREDO LEE