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Health - Reuters

Cost-Containment Seen as Undermining Medicare

Tue Nov 11, 5:32 PM ET

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By Julie Rovner

WASHINGTON (Reuters Health) - Lawmakers continue to negotiate behind closed doors to come up with a bill that would both add prescription drug coverage to the Medicare program, and also shore up the program's finances for the future.

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Meanwhile, a new proposal not part of either the House- or Senate-passed bills is prompting outrage from opponents.

The proposal is aimed at controlling the costs of Medicare over the long-term, by requiring Congress to act if the portion of Medicare funded by general tax revenues is projected to exceed 45 percent within 7 years. Such is likely happen by the year 2010 or 2011, analysts say.

Currently, Medicare's Hospital Insurance program, known as Part A, is funded by a payroll tax, while its outpatient program, Part B, is funded 25 percent by beneficiary premiums and 75 percent by general revenues.

"A cost-containment mechanism that would be triggered when Medicare costs exceed a certain percentage of the economy (or of the federal budget)...could be a useful part of a larger effort to address the nation's looming long-term fiscal difficulties," according to an analysis by the Center on Budget and Policy Priorities, a think tank generally seen as inclined to a liberal viewpoint.

But pinning that cost-containment mechanism on the portion of Medicare coming from general taxes "would contradict the basic principles of Medicare's financing structure," according to the study.

The result, said CBPP Executive Director Robert Greenstein, would be to shift more of Medicare's costs away from the progressive income tax, in which the wealthy pay more, and toward its payroll tax, which falls disproportionately on those with low or moderate incomes.

"This is a form of class warfare aimed at shifting costs to the people who can least afford it," Greenstein said in a conference call with reporters.

In a separate call, two university professors and the head of a Medicare consumer group agreed that the cost-containment provision--

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particularly when combined with proposals to force the government-run Medicare program to compete head-to-head with private plans--could lead to a radical restructuring of Medicare.

"Instead of getting what has been touted as possibly the greatest expansion of Medicare's benefits, there may be a tremendous bait and switch," said Judith Stein of the Center for Medicare Advocacy, "where people find what they've gained is a very limited prescription drug benefit in exchange for the greatest restructuring of Medicare in its history."

Andrew Lustig of Rice University said that Republican proposals to reshape Medicare "would substitute an unsatisfactory model of private insurance" for a Medicare system "which has worked."

Theda Skocpol, a professor of government and sociology at Harvard University, agreed, adding that the ultimate effect of the proposals would be "to cut the amount of spending on Medicare, making it less adequate...and less popular in the future."

But she warned that lawmakers who vote for the bill may come to regret it. Those using prescription drug coverage as an excuse to "do a major restructuring of Medicare are walking into a minefield," she said, and such a vote "may come back to haunt them when voters of all ages figure out what has been done to benefits they've come to expect."

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