



Medicare, not Social Security, may require most reform

Health-care entitlement's problems are worse -- and will arise sooner

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Reforming Social Security is only the first step in the Bush administration's effort to ease the federal government out of entitlement promises it has made to aging Americans. Medicare reform is next.

And in fixing the federal program that helps seniors and the disabled pay for health care, many experts think it will be impossible for the president to repeat the pledge he has made on Social Security -- that the benefits of retirees and those nearing retirement will be untouched.

"I think that President Bush cannot make those promises and legitimately keep them," said Vicki Gottlich, senior policy analyst for the Center for Medicare Advocacy, a nonprofit group representing beneficiaries.

The reason? Medicare's problems are worse, and come sooner. If Social Security has rough water ahead, Medicare faces a financial tsunami.

President Bush has insisted the Social Security program is already in crisis, although it is backed by a trust fund big enough to support full benefits until 2042.

In comparison, the Medicare trust fund that covers hospital expenses will be exhausted by 2019, according to the most recent report of the program's trustees. Add in doctors' bills, and Medicare expenditures will exceed Social Security's by 2024. Medicare costs will be double those of Social Security by 2078.

Marilyn Moon, director of the health program at the American Institutes for Research, who has served on Medicare's board of trustees, said seniors should get ready for proposals to change the program in ways they may not like.

The Bush administration "will require people to go into private plans or pay a lot more for traditional Medicare," Moon predicted. "They'll do it because they want to avoid taxes, and won't be able to find reasonable solutions that totally avoid taxes unless they are quite restrictive for both current and future beneficiaries."

Initially, cuts should be aimed at wealthier beneficiaries, who now are entitled to exactly the same Medicare benefits as low-income seniors receive, argues Stuart Butler, vice president for domestic policy at the Heritage Foundation, a conservative think tank with close White House ties.

"Rich people do not need Medicare," Butler said. "Benefit cuts for those who don't need benefits is a very powerful way to be sure we can deliver services for those who actually do."

"Exempting the current Medicare population would limit the reform options," concedes Gail

Wilensky, a Medicare adviser to Bush's father when he was president. "But at a practical level, I think those already on Medicare would be very gently treated. Only those with high income might be subject to change."

But change must come, Wilensky said, because Medicare's financing problems are "much bigger, much harder" than Social Security's.

Current Medicare spending exceeds \$281 billion annually and is projected to rise an average 7.5 percent each year for the next 10 years, "a faster pace than either workers' earnings or the economy overall," according to the 2004 trustees report. And that's without even counting the added burden of the prescription drug benefit that begins next year.

Medicare, like Social Security, suffers from the demographic bulge created by retiring members of the huge Baby Boom generation, who are living longer and whose benefits must be largely supported by a dwindling proportion of workers.

But Medicare has the additional problem of fast-rising growth rates in health-care costs per beneficiary as the march of technology brings expensive medical advances, said Paul Ginsburg, president of the Center for Studying Health System Change. "Therefore, it's more likely that Medicare reform will apply to current or imminent beneficiaries, and it's likely to involve cutting benefits," Ginsburg said.

John Rother, policy director for AARP, the group that lobbies for seniors, noted Medicare beneficiaries already pay "an incredible amount out of pocket, on average more than one-fifth of their total incomes," for health care. Seniors were hit last year by a 17 percent increase in Medicare premiums. Those increases are likely to continue, he said, eating into Social Security benefits no matter how either program is reformed.

Bush's Medicare chief, Mark McClellan, responds, "We're not only thinking about long-term reform, we're implementing this year the results of last year's Medicare law," which expanded seniors' benefits in an effort to improve their health.

McClellan said more reform could further improve the program, but he did not rule out future cuts affecting current beneficiaries.

Without change, the combined costs of Medicare and Medicaid, which provides health care to the very poor and helps some seniors with nursing home costs, will grow over time to 20 percent of the Gross Domestic Product, from the current 4 percent, warns Douglas Holtz-Eakin, director of the nonpartisan Congressional Budget Office.

That's as big a bite of the economy as the entire federal government takes today.

David Cutler, a professor of economics at Harvard University who has helped shape government actuarial assumptions for Medicare projections, thinks it is possible to reform Medicare without reducing benefits.

"The only way you can do it ... is you must raise taxes," Cutler said. "That can be done. We ought to do some tax increases."

That, along with long-term reforms in the nation's overall health care system and, although it could be considered a form of benefit cut, increasing the age of eligibility, could make Medicare sustainable, he said.

Bush, however, "is running a big budget deficit and he wants to make his tax cuts permanent and he wants to transfer money to private accounts for Social Security," Cutler said. "He's going to have to cut services in Medicare. There's no other way it adds up."

Those cuts may be visible soon.

"I think they'll cut services to pay for the drug benefit" that goes into effect in 2006, said Bob Moffit, a conservative Medicare expert at the Heritage Foundation. "You'll have a reduction in the supply of benefits."

Medicare, Moffit concluded, "is a full-scale mess."

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