



A Facing Up to the Nation's Finances Discussion Guide

Making Medicare Work: Ensuring Health Care Coverage for Seniors in an Age of Exploding Costs

Introduction

With a national debt that is spiraling out of control, our nation has a lot of work to do to get its financial house in order. This is going to require progress on several fronts. For example:

- We need to learn to stop running deficits every year, borrowing money to run the government, and thus creating long-term debt.
- We need to figure out how to provide Social Security and Medicare benefits to the huge baby boom generation that is about to retire without busting the budget.
- We need to make sure our leaders are trustworthy and accountable in how they handle the nation's finances.

All of these questions need attention, but we can't deal with them all at once. This guide focuses on one of these key areas: *Making Medicare Work: Ensuring Health Care Coverage for Seniors in an Age of Exploding Costs*.

Making Medicare Work in an Age of Exploding Health Care Costs

Challenging Trends Facing a Successful Program

Since its inception in 1965, Medicare, the national health-insurance plan for the elderly, has transformed health care for the nation's retirees and the disabled. Nearly every elderly American is covered by the program, dramatically improving both the health and financial well-being of Americans senior citizens.

So far, we've been able to support this popular program through a combination of employee and employer Medicare taxes supplemented by additional government revenues from the general tax base. Unfortunately, several powerful trends spell financial trouble for Medicare in the near future.

One trend is *demographic*—specifically, the shift toward an older population as the huge baby-boomer generation (born between 1946 and 1964) heads toward retirement and begins to draw Medicare benefits. This will result in fewer and fewer younger workers contributing to the system through payroll taxes at the same time that more and more retirees draw benefits from the system. Moreover, today's retirees are living considerably longer than early generations, and so will be drawing on Medicare benefits for a longer period of time.

As if the retiring baby boomers were not enough of a financial challenge, there's another problematic trend: rapidly-rising *health care costs*. When Medicare began, no one anticipated the development of new medical technologies and drugs that are keeping older Americans healthier, but do so at considerable expense. As a result, the cost of Medicare has risen more rapidly than any other government program.

Finally, yet another challenging trend is that *fewer and fewer employers offer retirement packages that include health care*. As a result, more retirees are dependent on Medicare for health coverage.

Put these three trends together—a huge wave of retirees, spiraling health care costs, and the abandonment of health care benefits by employers—and it's easy to see why we're headed for one of two unfortunate results. Either we're going to lose Medicare as it becomes too expensive to maintain, or we're going to keep Medicare but bust the federal budget through unsupportable debt.

These appear to be our choices, that is, *unless* as a nation we face up to the problem and make some tough decisions now that will enable us to provide for the seniors in a sustainable way.

This guide suggests three different approaches to the challenges facing Medicare and the nation's budget. Perhaps you have other ideas that you wish to put on the table. Which makes the most sense to you, and why?

Approach 1: Maintain Our Current Commitment to the Elderly

Medicare is a promise that whatever health care retired individuals need will be covered at public expense. That promise must be honored, even if it means raising taxes or reducing spending in other areas. As things stand, elderly persons are paying more than ever for out-of-pocket medical expenses that are not covered by Medicare. Minor adjustments can be made to reduce the program's cost, and aggressive measures should be taken to reduce fraudulent claims. But it is immoral and unthinkable to reduce medical benefits for the nation's seniors.

Therefore, we should:

- Keep the basic structure of Medicare intact, ensuring that all Americans are eligible for benefits when they retire.
- Make modest adjustments that cut costs without threatening the basic structure, such as stronger penalties for fraud and more preventive medicine so that the need for expensive treatments can be minimized.
- Raise taxes or cut other government programs so that Medicare's increasing costs do not drive the nation into unsupportable debt.

Arguments for:

- Providing for individuals as they age is one of the fundamental responsibilities of government.
- Everyone who has paid into Medicare, regardless of their income, deserves to have their health care costs covered in retirement through public funds.

Arguments against:

- Unless we rethink how we do Medicare, the costs will become staggering in the years ahead, and we won't have enough for other critical needs, such as national security, education, or developing new sources of energy.
- It's wrong for wealthy retirees get benefits at the nation's expense while 40 million Americans have no health insurance at all.

Approach 2: Make Medicare Affordable by Focusing on Those Who Need it the Most

Unless we revisit what Medicare promised, the program will drive up either our taxes or our national debt so much it will cripple the nation. Before the baby boomers retire, we need to pare down benefits to make them more affordable. Even more importantly, we need to change the system so that affluent retirees pay more of their own health care costs. In this way, we can maintain benefits for those who need them the most.

Therefore, we should:

- Require that retirees who can afford it pay a larger portion of their health care costs.
- Gradually raise the Medicare eligibility age a reasonable amount to account for the fact that people are living and working a lot longer than they used to.
- As difficult as it is, we simply have to find a fair and acceptable way to set limits on “heroic” health care measures for senior citizens that is contributing so much to rising health care costs. We simply can’t afford for everyone, no matter how old they are, to have a liver or heart transplant.

Arguments for:

- If we don't take serious measures to contain costs, the soaring expense of providing health care to the elderly will force us to cut back on other essential public program, raise taxes through the roof or drive up our federal debt to crippling levels.
- The existing Medicare system provides generous benefits to millions of well-heeled retirees who don't need public subsidies.

Arguments Against:

- Linking benefits to retirees' income will undermine support for Medicare, which is popular because it is a “universal” rather than a “targeted” program (that is, it is a program for everyone once they reach a certain age).
- Health care is uniquely important and isn't an area in which we should cut corners. If doctors can help elderly patients with a certain procedure, Medicare should provide funds to make it possible.

Approach 3: Make Health Care in Retirement a Matter of Personal Choice, not a Shared Responsibility

We would be better off if Medicare were no longer a public program for older Americans. Instead, it should be replaced by a combination of required and voluntary individual medical savings accounts. This approach would make health care in old age more a matter of personal responsibility, rather than a government or social responsibility. This would encourage people to take care of themselves, while relying on market forces to bring costs down.

Therefore, we should:

- Replace Medicare with a system of medical savings accounts for the retirement years, similar to the tax-deferred retirement accounts that millions of Americans already manage for themselves. People would use these accounts in retirement to pay routine medical bills as well as premiums on catastrophic illness insurance.
- Maintain a free market that will respond to individual consumer choices by minimizing regulations on doctors, insurance companies and drug companies.

Arguments for:

- This approach emphasizes personal responsibility and limited government, basic values America has embraced throughout its history.
- Under this system, individuals who pay for their own health care have an incentive to shop around, which will cut costs.

Arguments against:

- Ensuring that elderly persons get good health care is a public responsibility and an expression of our shared concern for older Americans, which is why Medicare and Social Security are two of the most popular and important government programs in our history.
- Under a self-financed system, lower-income retirees would suffer disproportionately, as would those who plan poorly or simply have bad luck.