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Wrong Medicine at the Wrong Time

With Medicare teetering on the edge of bankruptcy, President Clinton is proposing to add more beneficiaries and more costs. Specifically, all Americans ages 62 to 64 (the Medicare eligibility age is 65) would be able to join Medicare in exchange for a monthly premium between $300 and $400. Those ages 55 to 61 who have involuntarily lost their jobs would have the same option. And employers would face a new mandate: retirees over age 55 who were promised and then denied postretirement health insurance would have the right to buy into their previous employer's health plan. Are these proposals a good idea?

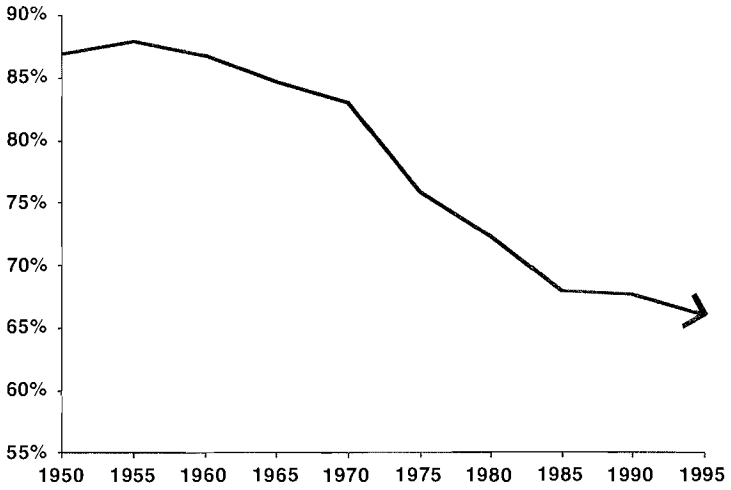
Ignoring the Need. About 86 percent of Americans between the ages of 55 and 65 currently have health insurance. Among those who do not, the average cost of insurance averages about half of the Medicare buy-in price. Even the White House estimates that only 10 percent of those eligible would take up the offer. Moreover, the Kassebaum-Kennedy health insurance reform passed in 1996 has assured portability. Those with medical problems can not be discriminated against if they wish to purchase individual insurance after retiring or losing their job.

Encouraging Adverse Selection. Those most likely to take advantage of the president's proposal are the sickest and most costly patients. While relatively healthy people will be loath to pay as much as $4,800 in premiums each year, those with serious medical conditions will find such below-cost health care irresistible. As a result, the government will surely spend more on additional medical bills than it will realize in additional premiums. This will exacerbate the existing Medicare crisis [see below], whether the new program becomes formally part of Medicare (as is likely) or is treated as a separate program (as the president has proposed).

Subsidizing the Rich. Although the Clinton proposal sounds humane, it would actually subsidize the medical bills of higher-income families with taxes paid by everyone. Even minimum-wage workers pay the 2.9 percent Medicare tax. But only people who can afford $4,800 a year will be able to reap the benefits of Clinton's proposal. Lower-income families will get no subsidy. Those currently on Medicaid also will be excluded. Since expected health costs will exceed premium payments, a substantial government subsidy will be needed. Whether that subsidy is funded from the Medicare tax or from general revenues, the overall effect will be regressive.

FIGURE I

Percent of Men Age 55 to 64 in the Labor Force



Source: US Bureau of Labor Statistics.

Encouraging Early Retirement. By the middle of the next century, we'll have only one and one-half to two workers for every retiree (compared to 3.3 to 1 today). This is partly due to the elderly living longer and women having fewer children. But it's also due to people retiring earlier and becoming beneficiaries rather than taxpayers. [See Figure I.] A majority of workers now retire before age 65, and 79 percent of those begin collecting Social Security benefits at age 62. In recognition of this problem, federal policy since 1983 has been designed to encourage later retirement. For example, the Social Security retirement age is being gradually increased from 65 to 67 beginning in 2003. Last year the Senate voted to raise the eligibility age for Medicare to 67 as well.

The Clinton proposal is a step backward. One of the reasons many near-retirees remain in the labor market is to take advantage of employer-provided health insurance. The Clinton proposal would encourage early retirement by removing this incentive. To insure eligibil-

Dallas Headquarters: 12655 N. Central Expy., Suite 720 • Dallas, TX 75243-1739 • 972-386-6272 • Fax: 972-386-0924 • E-Mail: ncpa@public-policy.org
Washington Office: 727 15th St. N.W., 5th Floor • Washington DC 20005 • 202-628-6671 • Fax 202-628-6474
For more information: Katy Meaker Menges in Dallas at 972/386-6272 or Joan Kirby in Washington at 202/628-6671

ity for those ages 55 to 61, "retirements" would be relabeled "layoffs." And the unemployed would have less incentive to pursue other employment opportunities. Earlier retirement, in turn, would mean fewer people paying into the Medicare and Social Security system and more people drawing benefits.

Discouraging Employer-Provided Postretirement Insurance. Since the employer buy-in provision would penalize companies with retiree health insurance plans, the proposal would discourage companies from providing such benefits in the future. Employers would help their retirees qualify for Medicare instead.

Substituting Public for Private Health Insurance. Recent changes in eligibility for Medicaid — allowing children in families with higher incomes to qualify — are instructive. The increase in the number of children covered by Medicaid was offset by a decrease in the number of those with private insurance, with very little change in the overall percent uninsured. Similar outcomes are likely for near-retirees.

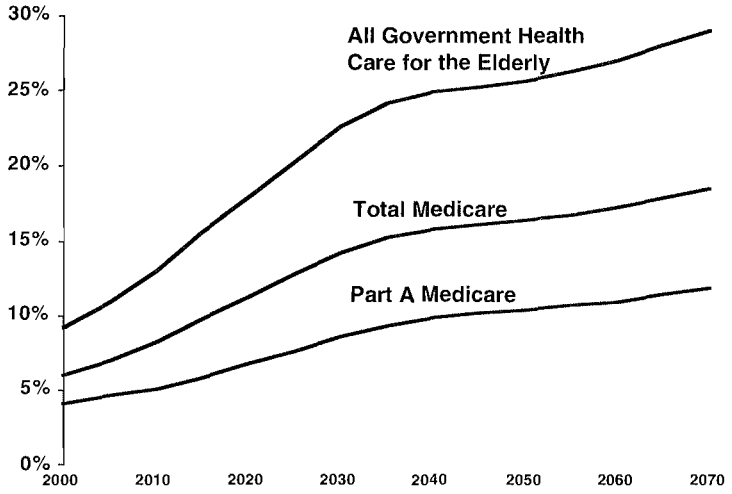
Expanding a Bankrupt System. Medicare is already on a collision course with reality. For the short run, the Medicare Trust Fund — which consists of IOUs the government has written to itself rather than real assets — is projected to be depleted by 2010. In the long run, Medicare deficits will keep rising for as far as the eye can see. [See Figure II.] Projections about the future of the program contained in the annual reports of the Medicare trustees are not encouraging. Take the year 2045, when today's 22-year-olds will reach the age of 65.

- Based on the intermediate assumptions, paying for Medicare Part A (which pays hospital bills) will take 10.2 percent of the nation's taxable payroll.
- When Part B (which pays for physician care) is included, Medicare will take 16 percent of the taxable payroll.
- Paying for all government-funded medical care for the elderly, including Medicaid and the veterans programs, will take 23.2 percent — *almost one-fourth of taxable payroll.*

FIGURE II

Government Spending on Elderly Medical Bills as a Percent of Taxable Payroll

(Social Security Trustees' Intermediate Assumptions)



Source: "The Future of Medicare," testimony of John C. Goodman to Senate Finance Committee Subcommittee on Health Care, March 13, 1997.

Based on pessimistic assumptions, the future looks even bleaker.

- According to the trustees' pessimistic forecast, Medicare Part A will require 19.6 of taxable payroll and both parts of Medicare combined will require 30.8 percent.
- With other government-paid care included, health care for the elderly will require almost 45 percent of taxable payroll.

Funding Hidden Motives. Knowing those sad scenarios, why would the president propose a new program? One of the features of the infamous first-term Clinton health plan was a federal takeover of the insurance of near-retirees. Critics who thought that plan had been buried were wrong. It has risen again.

This Brief Analysis was prepared by NCPA President John C. Goodman and NCPA Senior Scholar Dorman E. Cordell.