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# The Bush Medicare Reform Plan

**by John C. Goodman**

The Bush administration is proposing the most sweeping improvements in Medicare since the program's inception in 1965. These reforms would increase seniors' choices, reduce their financial risk and help rein in escalating costs. However, the administration is also proposing an expansion of senior entitlements (and thus taxpayer burdens) averaging more than $1,000 per year per beneficiary over the next 10 years. This cost is far more than reform requires. Moreover, the expense of the additional entitlements will grow over time, offsetting much of the long-term benefit the administration hopes to achieve through Social Security reform.

The Bush plan has three main elements. First, seniors who remain in traditional Medicare would receive a prescription drug discount card that could reduce out-of-pocket costs by 10 percent to 25 percent. They also would receive protection against catastrophic drug expenses. Second, seniors could choose among private sector plans offering more generous benefits, in a program modeled after the current health plan for members of Congress and other federal employees. Finally, seniors could enroll in managed care plans that provide still more benefits, continuing an option many have today.

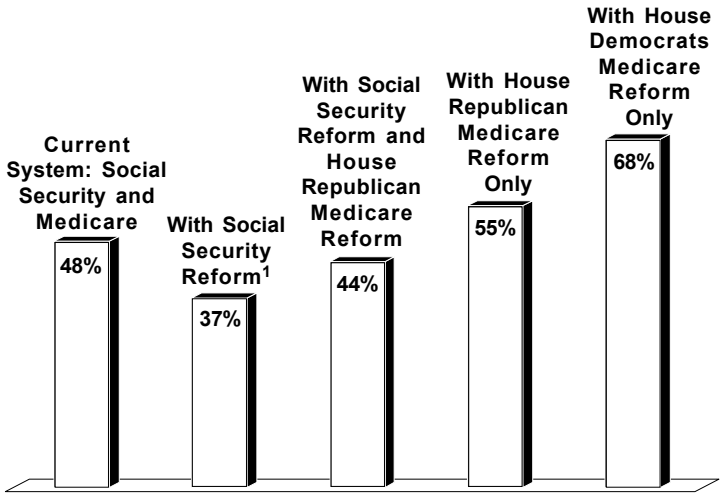
So far the plan is only an outline, giving those who fill in the details considerable discretion.

**Case for Reform.** The case for fundamental reform is strong. Despite its political popularity, Medicare violates almost all of the principles of sound insurance. It pays too many small bills the elderly could easily afford themselves while leaving them exposed to thousands of dollars of potential out-of-pocket expenses, including drug costs. For instance, each year about 750,000 Medicare beneficiaries spend more than $5,000 out of pocket.

To prevent financial devastation from these medical expenses, about two-thirds of Medicare beneficiaries acquire supplemental insurance through a former employer or direct purchase. However, most of these "medigap" policies do not cover prescriptions, and coverage is often incomplete among those that do. Moreover, having a second health plan to fill the holes in the first is wasteful. Seniors with medigap insurance spend 30 percent more on health care than those without such insurance.

Dollar for dollar, drugs offer a better return on health care spending than do other major therapies. Yet Medicare's practice of covering very few prescription drugs encourages doctors and their elderly patients to choose physician and hospital services over

**Percent of Income Taxes Needed to Pay Social Security and Medicare Deficits in 2050**




[1] Option two proposed by the Commission to Strengthen Social Security.

Source: Calculations by Andrew J. Rettenmaier, Private Enterprise Research Center, Texas A&M University.

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less costly, more appropriate drug therapies. Ironically, Medicare will pay to treat a stroke victim in a hospital but will not pay for the drugs that would have prevented the stroke in the first place.

Medicare's benefit structure has failed to keep pace with modern medicine in other ways. Medicare will pay to amputate the leg of a diabetic but not for the chronic care that could have made that amputation unnecessary. About 28 percent of all Medicare spending is for patients in the last year of life. Yet, while spending billions on patients who are about to die, Medicare will not pay for the commonsense care that would prevent many premature deaths.

**Solution: One Premium for One Plan.** Seniors are the only people in our society who routinely buy a second health plan to fill the gaps in the first. But, as noted above, paying two premiums to two plans is wasteful and inefficient. Paying a third premium to a third plan, as some have suggested, would be even more so.

In a study for the National Center for Policy Analysis, Milliman & Robertson estimated that combining the average Medicare expenditure with the average medigap premium would provide enough money to enroll seniors in the same type of health plans other Americans have — including HMOs and Medical Savings Account plans — assuming the private plans pay Medicare reimbursement rates. In other words, we do not need more money. We need structural change.

In many urban areas, seniors have the option of enrolling in private managed care plans. Some say Medicare+Choice has failed because a number of private plans have withdrawn from the market. But the withdrawals have been in response to too much bureaucracy and too little reimbursement. From the patients' point of view, the program has been a great success.

The privately managed plans have disproportionately attracted low-income seniors without medigap insurance. After collecting about $250 in additional premiums from each enrollee, the plans have provided about $1,000 in extra annual benefits, including coverage for prescription drugs. Medicare+Choice shows that even those seniors most in need of financial help can enroll in plans that meet their health care needs with little if any additional federal spending.

**Danger: New Federal Entitlements.** The Bush budget allocates more than $400 billion over the next 10 years to Medicare reform. If these funds are spent on new elderly entitlements, they will do much more than transfer resources from poorer taxpayers to wealthier seniors. They will set a baseline from which expenditures will grow through time, creating even greater obligations for future taxpayers.

The figure shows that by midcentury, the Medicare and Social Security deficits will claim more than one-third of federal income taxes (compared to a zero net claim today) even if the president succeeds in getting private retirement accounts. This means the government will have to eliminate more than one-third of all federal services or increase tax collections by that amount. Enter Medicare reform. A bill passed last year by House Republicans would erase more than 60 percent of the taxpayer gains promised by Social Security reform. In the likely event of Medicare reform with no Social Security reform, deficits in the combined programs would claim 55 percent of all income tax revenues by 2050.

Nor is this the worst that could happen. If House Democrats get their way, the Medicare entitlement will expand twice as much and Social Security will not be reformed at all. In that case, by midcentury deficits in the combined programs will claim more than two-thirds of all federal income taxes.

An administration that — admirably — came to office promising a better future for young voters risks leaving office having made that future less secure.

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