



Why Medicare MUST Be Modernized

The Medicare program is only 38 years old, but it is already showing signs of old age. Its convoluted structure makes it very difficult for seniors to calculate the deductibles and copayments of Part A, which pays for hospital expenses. Part B, which pays doctor bills and outpatient expenses, has a completely different deductible and copayment. Medicare seldom pays for outpatient prescription drugs and thus leaves seniors exposed to very high out-of-pocket costs.

While most seniors and health care professionals believe that Medicare worked well in its early years, the entire U.S. health care system has changed since the program's inception in 1965. Medicare is now an anachronism threatening seniors' access to quality care.

What are some of the challenges and problems facing Medicare?

1. Medicare is complicated and hard to understand. Medicare is divided into the Hospital Insurance Trust Fund (Part A) and the Supplemental Medical Insurance program (Part B), each of which has a different deductible and copayment structure. Part A is funded by a 2.9 percent payroll tax and Part B by monthly deductions from seniors' Social Security checks, plus general revenues. It is the most complex health insurance program in existence, primarily because it emerged from a political compromise.

2. Medicare exposes seniors to high out-of-pocket costs. Since Medicare makes it extremely difficult for seniors to calculate their out-of-pocket exposure, millions of them spend \$1,000, \$2,000 or more a year to purchase a private Medigap policy that is intended to protect them from that risk.

3. Seniors cannot choose their own plan or benefits. Politicians often complain that employees have little or no choice in health insurance policies. Ironically, seniors have almost no choice when it comes to Medicare. Although some can choose a Medicare HMO, many who have done so have been left unprotected as their Medicare HMOs dropped out of the program. About 86 percent of seniors still settle for traditional Medicare.

4. Seniors have to join Medicare, like it or not. If a senior accepts Social Security benefits, the federal

government will enroll that person in Medicare Part A, like it or not. The government enrolls the senior in Part B also, but at least seniors can opt out of Part B coverage (though very few do).

5. Medicare has no prescription drug benefit. When Medicare was created, outpatient prescription drugs were a modest part of seniors' total medical expenses. Today, prescription drugs play a vital role in ensuring longer, healthier and more abundant lives. Although many Medicare HMOs have a prescription drug benefit, the traditional Medicare program rarely pays for outpatient prescription drugs.

6. The program is headed for bankruptcy soon. Like Social Security, Medicare is based on a pay-as-you-go system. Money from workers' 2.9 percent Medicare payroll tax goes to pay current retirees' medical bills. Although the media tend to focus on the financial struggles facing Social Security, over the next 75 years Medicare faces a potential budget shortfall twice the size of Social Security's. While the Hospital Insurance Trust Fund is now solvent, its trustees predict that by 2013 Part A will spend more than it takes in. According to the trustees, "The HI Trust Fund fails by a wide margin to meet the trustees' long-range test of close actuarial balance." To get the fund into balance over the next 75 years, "the 2.9 percent payroll tax could be immediately increased to 5.3 percent, or expenditures could be reduced by a corresponding amount, although the latter change would require an immediate 42 percent reduction in benefits." Even those changes would not address the coming shortfall in Part B.

7. Medicare imposes price controls on doctors and hospitals. During the original congressional hearings on Medicare, proponents, including the secretary of Health, Education and Welfare, asserted that the government would not impose price controls on doctors, hospitals or other health care providers. The government, the secretary told Congress (and the American people), was in the business of paying bills, not controlling prices. But exploding Medicare costs made government forget those promises. Today, Medicare imposes price controls on both hospitals and doctors. As a result, the availability and quality of care are going down – while the costs are still going up.

8. Budget constraints are forcing Medicare to deny and ration care for some. Government-run health care systems have to compete for tax dollars with other programs such as defense, education and welfare. So there is never enough money to fund all programs adequately. As a result, all government-run health care systems deny and ration care. For example, the Center for Medicare and Medicaid Services (CMS) had planned a 4.4 percent reduction in physician reimbursements in 2003, after a 5.4 percent reduction in 2002. Congress only recently passed a temporary delay of that reduction.

Doctors increasingly refuse to accept Medicare or accept new patients who rely on Medicare. The *Boston Globe* reported last summer that 702 doctors, or 17 percent, in Massachusetts' three largest health plans had left in the past year, with many claiming that Medicare fees were just too low. The Tufts Health Plan, the state's largest Medicare HMO, had seen a 40 percent drop in physicians since 1998. Budget restrictions cannot be reversed without significant political pressure — which is why health care decisions under government programs are made by politicians, not physicians.

9. Neither workers nor seniors have a private property right in Medicare. The U.S. Supreme Court has ruled that workers have no private property right to their Social Security account. While the Court hasn't addressed that issue with regard to Medicare, it is reasonable to assume the decision would be the same. The money that workers pay in during their working lives does not go into a special account and does not belong to them. Congress can take it away any time it chooses

10. Workers lose their contributions if they die early. Because Medicare accounts contain no real assets and workers have no private property rights to their contributions, those who die before age 65 receive nothing (although a surviving spouse who never personally qualified for Medicare is eligible for benefits based on the deceased spouse's eligibility).

11. Medicare's retirement age discriminates against minorities. Since some minorities tend to live shorter-than-average life spans, on balance they receive less from Medicare – if they receive anything at all.

12. Medicare has no provision for early retirement. Social Security has an early retirement provision for those ages 62 through 64, and nearly 80 percent of workers take that option. Medicare has no such provision. As a result, early retirees are often forced to go uninsured or purchase individual policies until they reach age 65. Although the Clinton administration proposed letting early retirees buy into Medicare, alarm about the financial burden such a change would impose on the program killed that proposal.

13. Medicare limits seniors' ability to privately pay for care. People under age 65 have the right to bypass their insurance company and privately contract with a doctor, and doctors have the right to decide whether they will see a patient on those grounds. Seniors on Medicare lose that right. They cannot privately contract with a doctor unless the doctor is willing to forego seeing any Medicare patients for two full years, which is unrealistic for most doctors. Nor can patients pay the difference between what a doctor normally charges and what Medicare pays. That practice, called balance billing, is against the law.

14. Medicare persecutes doctors. One way to keep health care costs down is to keep doctors in fear. Increasingly, Medicare is harassing, prosecuting and even jailing doctors, and many doctors are responding by not taking any new Medicare patients or in some cases refusing to treat any Medicare patients at all.

15. Government knows the kind of care every senior receives. When Medicare pays the bills, the government keeps a record. Thousands of government workers have legal access to seniors' medical records, and others could gain illegal access through the computer network. If the government had an excellent record of protecting privacy, that would be one thing — but it does not. As a result, seniors' medical records are at risk of exposure. The government knows who you are and what you're doing.

Conclusion: What is needed is top-to-bottom Medicare reform. The Medicare system is headed for collapse. In the near future, government will be unable to afford to pay for it, more medical care and services will be denied to patients and more seniors will suffer. This will create a political nightmare as politicians cast blame and seek temporary solutions. What we need is fundamental – and we need it now.

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