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Medicare's Troubles May Be Sleeping Giant

The program could run out of funds two decades before Social Security is forecast to, experts say.

By Ricardo Alonso-Zaldivar, Times Staff Writer

WASHINGTON — As restructuring Social Security moves to the top of his agenda, President Bush is sidestepping a troublesome problem: Medicare, which provides health insurance for 41 million elderly and disabled people, is fast going broke.

Medicare is projected to exhaust its hospital-care trust fund by 2019, more than 20 years before Social Security is forecast to slide into the red. The day of reckoning could come even sooner, because Medicare's condition has been going from bad to worse.

The government's unfunded promises to future retirees under Medicare amount to a staggering \$27.7 trillion over the next 75 years, according to Congress' Government Accountability Office. That dwarfs the \$3.7-trillion liability over the same period for Social Security.

"The Medicare problem is about seven times greater than the Social Security problem, and it has gotten much worse," said Comptroller General David M. Walker, head of the GAO. "It is much bigger, it is much more immediate, and it is going to be much more difficult to effectively address."

New technologies and discoveries are likely to keep healthcare costs rising at a faster pace than overall inflation, making future Medicare spending much harder to predict than the price tag for Social Security benefits.

"Costs are going to soar, and that is going to put tremendous pressure on federal revenues," said John L. Palmer, one of six trustees of Social Security and Medicare finances.

"If you stand back and say, 'Which program has the greater need, which is going to be more a problem?' the answer is clearly Medicare," said

Palmer, a professor at Syracuse University's Maxwell School.

Lawmakers, senior administration officials and outside experts are all aware that Medicare's current course will take it over the brink. Even Bush has acknowledged a problem, saying Thursday at a White House economic policy conference that "we've got more to do" on Medicare.

"Medicare suffers from all the demographics that Social Security has and has the added problem of rising healthcare costs," Treasury Secretary John W. Snow said in an interview.

But no one seems to want to grapple with the implications. Politicians "just give you blank stares," said Robert Moffitt, a health policy analyst at the conservative Heritage Foundation.

"The president wants to cut the deficit in half, and

he wants to keep the tax cut, but how are they going to deal with the exploding costs of healthcare?" he asked. "It's almost as if fiscal conservatives have become a fringe group here."

For elderly and disabled Medicare beneficiaries, the talk these days is mainly of rising expectations, not cutbacks or looming shortfalls.

The outpatient drug benefit scheduled to go into effect in 2006 is expected to cut out-of-pocket costs for many seniors, particularly those with low incomes. The government will spend an estimated \$500 billion over the next 10 years to help pay for medications.

Nonetheless, there are some inklings of the crunch to come.

The Medicare Part B monthly premium for visits to doctors' offices and other outpatient services will go up by \$11.60, or 17%, in 2005. The increase will gobble up nearly half of the \$25 monthly Social Security cost-of-living increase that a typical retiree will receive. Economists expect double-digit premium increases to continue for the next few years.

Last year's Medicare

Modernization Act, which also created the drug benefit, included other provisions designed to reduce Medicare spending. It contains programs to better manage complex chronic illnesses, encourage the elderly to join managed-care plans, use technology to handle records and claims more efficiently and provide tests that will identify diseases earlier, when most are more treatable.

"The Medicare Modernization Act was the first step to creating competition in the delivery of Medicare services that, in the long term, will be able to contain costs," White House spokesman Trent Duffy said.

But some of those ideas have already been tried in privately funded healthcare for working-age people, with mixed results. Their full effect on Medicare will not be known for several years.

Meanwhile, the prescription drug benefit, the centerpiece of the 2003 law, is one of the chief reasons for Medicare's worsening fiscal health. It added \$8.1 trillion to Medicare's unfunded promises over the 75-year period used by government actuaries. "Medicare's problem has gotten much worse in the last year, primarily due to the passage of the drug

bill," Walker said.

In the past, Congress has dealt with Medicare's financial problems by cutting payments to hospitals, doctors, nursing homes and other providers, expanding the wage base that is taxed to support the hospital-care trust fund and increasing beneficiary premiums.

Such gradual, measured steps are less likely to work this time around. In seven years, the first members of the baby boom generation will begin to receive Medicare benefits. By 2030, more than one in five Americans will be on Medicare.

"That's the big bubble that's emerging," said Paul Fronstin, director of health research with the Employee Benefit Research Institute in Washington. "The baby boomers are going to need healthcare services on a grand scale."

The hospital trust fund, the biggest part of Medicare, may also be the hardest to deal with. The fund, which is fed by a payroll tax of 2.9% split evenly by employees and employers, is on course to exhausting its surplus in 2019, according to Medicare's trustees.

The trustees say the funding gap could be eliminated by more than

doubling the payroll tax to 6.02%. But a substantial tax hike on workers, millions of whom can't afford health insurance for themselves, could spark a political backlash.

Another option is to cut hospitalization benefits by about half.

AARP policy director John Rother said the public would rather give back Bush's lower tax rates than accept Medicare cuts of that magnitude. "The American people value their healthcare very highly, and they will pay for that," said Rother, whose 35-million-member organization lobbies on behalf of Americans 50 and older.

"Those are some mind-blowing alternatives," Fronstin said. "It is hard for me to imagine what this program will look like down the road."

Other options are also unpalatable. Some doctors have said they will stop taking Medicare patients if their rates are cut. Community hospitals might close down units, and some might go out of business.

Congress might try to scale back the new outpatient prescription drug benefit.

"Three-fourths of Medicare beneficiaries

already have their own drug coverage," said Moffitt of the Heritage Foundation. "Why not target limited funds to people who need the most help?"

But lawmakers are reluctant to tamper with legislation that was so recently hailed as a major accomplishment.

The Bush administration holds out hope that new tax-free health savings accounts could someday be adapted to Medicare, allowing individuals to control their own costs. These accounts, created by the Medicare overhaul, allow individuals to set aside money tax-free for health expenses not covered by catastrophic-insurance policies. But it's not clear that such accounts would be attractive for heavy consumers of medical services living on fixed incomes.

"We are not sure we know what therapy will be successful," said economist Robert Reischauer, president of the Urban Institute, a liberal Washington research group. "The condition is clearly serious, and the consequences are obviously catastrophic. But we are, at this stage, at a loss as to what to do."