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## One More for the Ownership Society

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As politicians slam around President Bush's controversial proposal to create private accounts in Social Security, conservative think-tankers are quietly contemplating similar plans for Medicare.

Pre-funding Medicare -- requiring people to save for their own retiree health care while in their working years -- is an idea that's as old as the 1965 program itself. Then-Rep. Wilbur Mills, D-Ark., who chaired the powerful House Ways and Means Committee in the early 1960s and whose support was essential to the creation of Medicare, at the time resisted what eventually became Medicare's financing mechanism: having current workers pay the health care costs of current retirees.

Mills expressed grave concern about the potential funding

liability of such a system. Indeed, Mills prophesied Medicare's current predicament, pointing out that at times the working population would simply be too small to fund the health care of a larger pool of retirees -- the Baby Boomers, for instance.

As Boomers near retirement, as health care costs soar, and as Medicare faces an expensive new drug benefit, conservative think-tankers say that it's time to revisit the pre-funding idea. "You have the same problem with Medicare that you have with Social Security -- they are pay-as-you-go programs," said **John Goodman, president of the conservative National Center for Policy Analysis**, based in Dallas. "And the problem with health care is much worse than Social Security because the trend line is much steeper. We are not

only going to have the problem of more retirees relative to workers, but health care costs are going up faster than national income." And that's not expected to change anytime soon, he said.

The leading proponent of pre-funding Medicare is Thomas Saving, a Medicare trustee who is also director of the Private Enterprise Research Center at Texas A&M University. **Saving is also a senior fellow at the National Center for Policy Analysis.** Saving and Andrew Rettenmaier, executive associate director of the research center, began pushing the idea in 1999, when some say the timing was as good as it gets, because the large budget surpluses of that time could have financed the transition to a pre-funded system.

But today, with budget deficits here to stay, if

current workers saved for their own retiree health care, they would still have to fund current retirees -- saddling them with a double burden. By some rough estimates, under a pre-funded Medicare system, young people just entering the workforce today could find themselves contributing \$1,700 a year toward their own retiree health care, plus another \$1,700 a year to pay the costs of current retirees. The hit would be harder for older workers, who have fewer years to save before retirement.

"We missed the opportunity of the nation's lifetime in 2001, when we had these large surpluses," said Robert Reischauer, president of the Urban Institute. Reischauer calls pre-funding Medicare "impractical," and says that today's budget deficit makes the idea politically impossible. In 2001, "we had the opportunity to use those resources to restructure Social Security and Medicare, to pre-fund them, ... to add to national savings. Instead, we

chose to give ourselves a tax cut," he complained.

Even if pre-funded Medicare is an idea whose time has come, disagreement exists over how to do it. Would pre-funded contributions go into individual private accounts, like those the Bush administration wants for Social Security, or would the government collect and invest the funds collectively? Could individual contributions be kept separate, in something like a health care savings account, which could carry over to retirement from a person's working days?

Some suggest it would be better for the government to collect the contributions from cohorts, or groups of workers -- perhaps all people scheduled to retire in a given year -- and combine them to form a risk pool. The cohort system would act much like life insurance. If a person died before qualifying for Medicare at age 65, the contributions from his working days would fund the health care costs of the other retirees in his cohort. If

he was one of the longer-surviving seniors in his cohort, his retiree health costs might exceed his working-life contributions, yet his costs would be covered by those in his cohort with fewer health care needs, and by those who died earlier.

As a Medicare trustee, Saving says he may write about his pre-funding idea in the annual Medicare trustees' report due out this month. John Palmer, a Democratic-appointed trustee, said he agrees that more savings are needed, but that they could come in a number of ways. "I agree we have to increase savings rates as a society to address the demographic changes going on with health care costs... What you want to do is promote stronger economic growth over time, so there are more resources in the next generation. You can do it through private accounts or pre-funding." Then again, he said, it can be done by "running government surpluses."