

WHY MEDICARE IS CRUCIAL TO OUR GENERATION'S FUTURE

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Preserving and strengthening the Medicare program is not about charity towards our elders, it is an issue of immediate material self interest to you and me.

Reason 1 that Medicare is essential to our future: Health care costs.

Health care costs are exploding, swallowing up an ever-larger share of both public and private budgets. Medicare controls costs relatively well, and it needs to play a major role in turning around our profoundly broken system of health care finance.

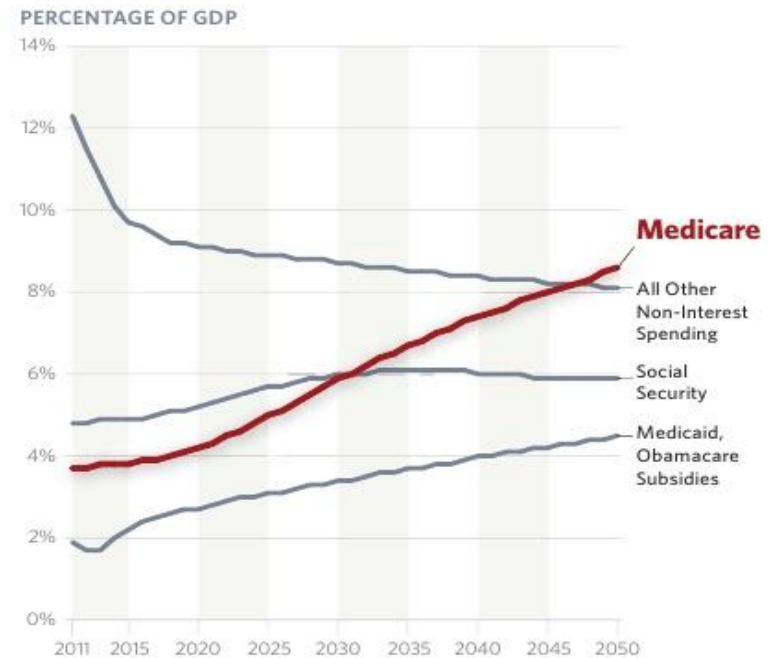
We often hear that “Medicare is bankrupting us,” that we’re in the midst of an “entitlement crisis”

For instance, here’s a slide from an earlier presentation that Ms. Nix gave. We will doubtlessly see something of this nature today.

Medicare spending is growing faster than the rest of the federal budget

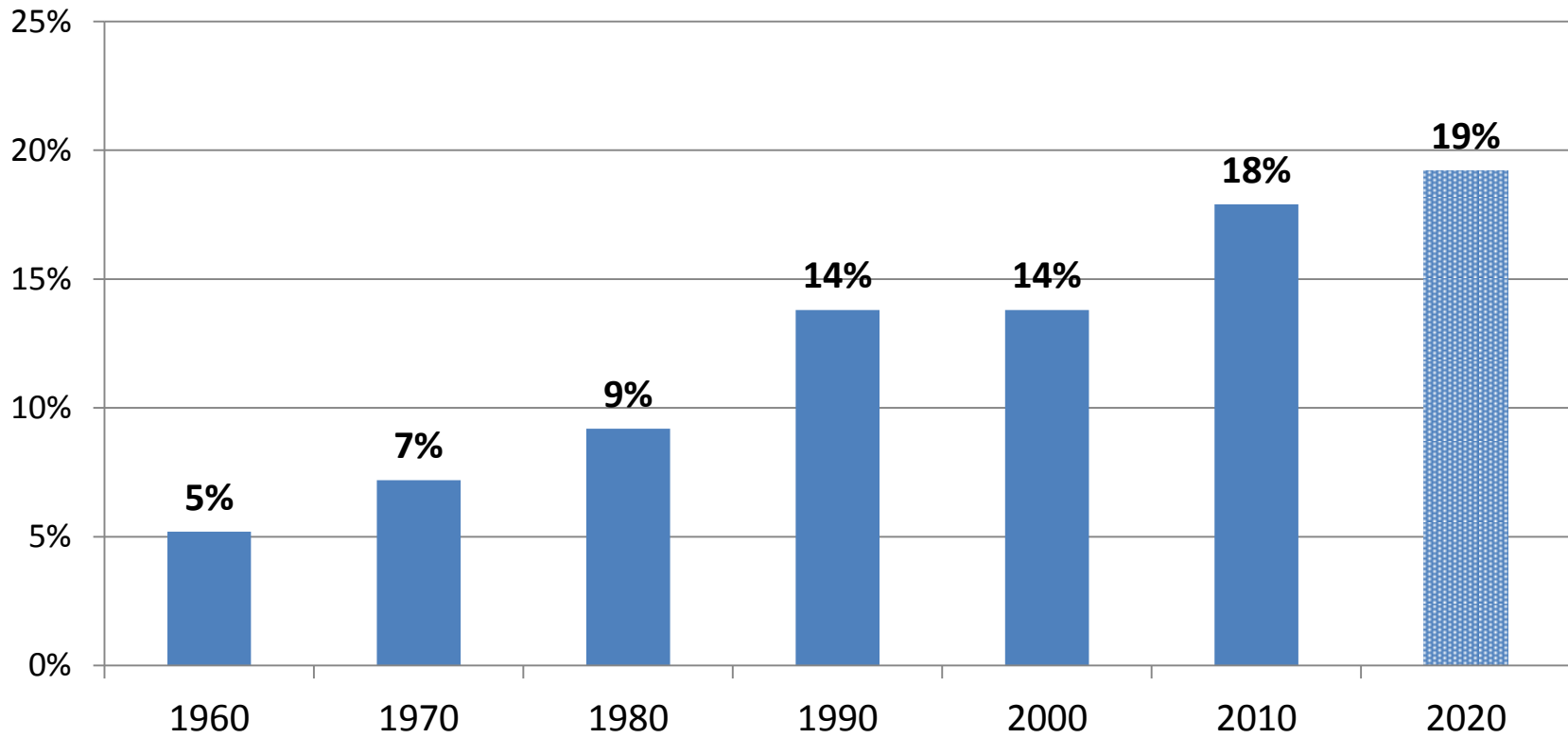
Entitlement spending is the main cause of long-term runaway federal deficits. Medicare is the fastest-growing program due to retiring baby boomers and rising health care costs.

Source: Congressional Budget Office (Alternative Fiscal Scenario).



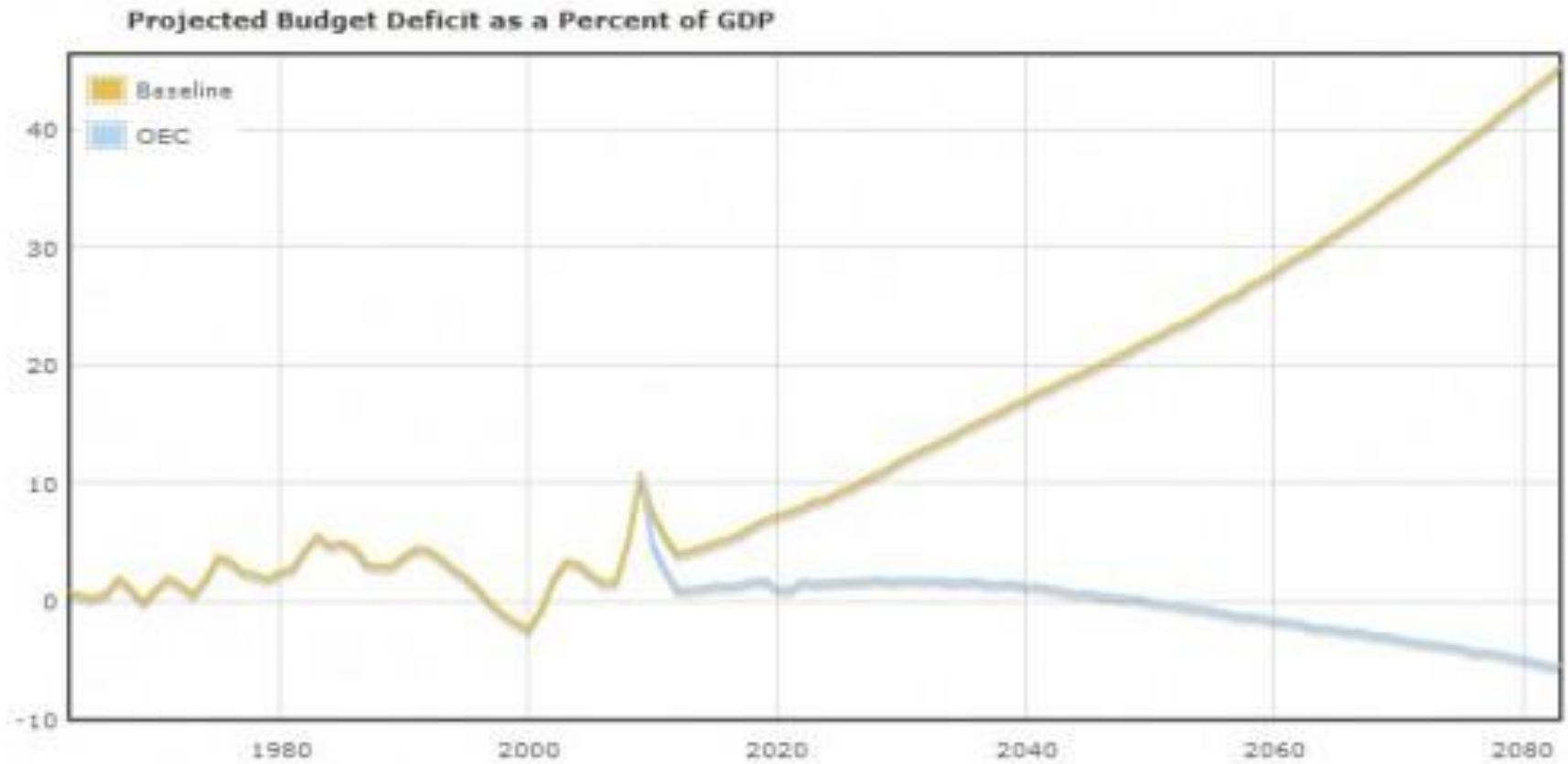
...but rising spending on public health programs is part of a larger trend, rising across-the-board health care costs. By 2020, we will spend nearly one out of ever five dollars on health care.

Health care as a share of GDP



Source: CMS National Health Expenditure Web Tables

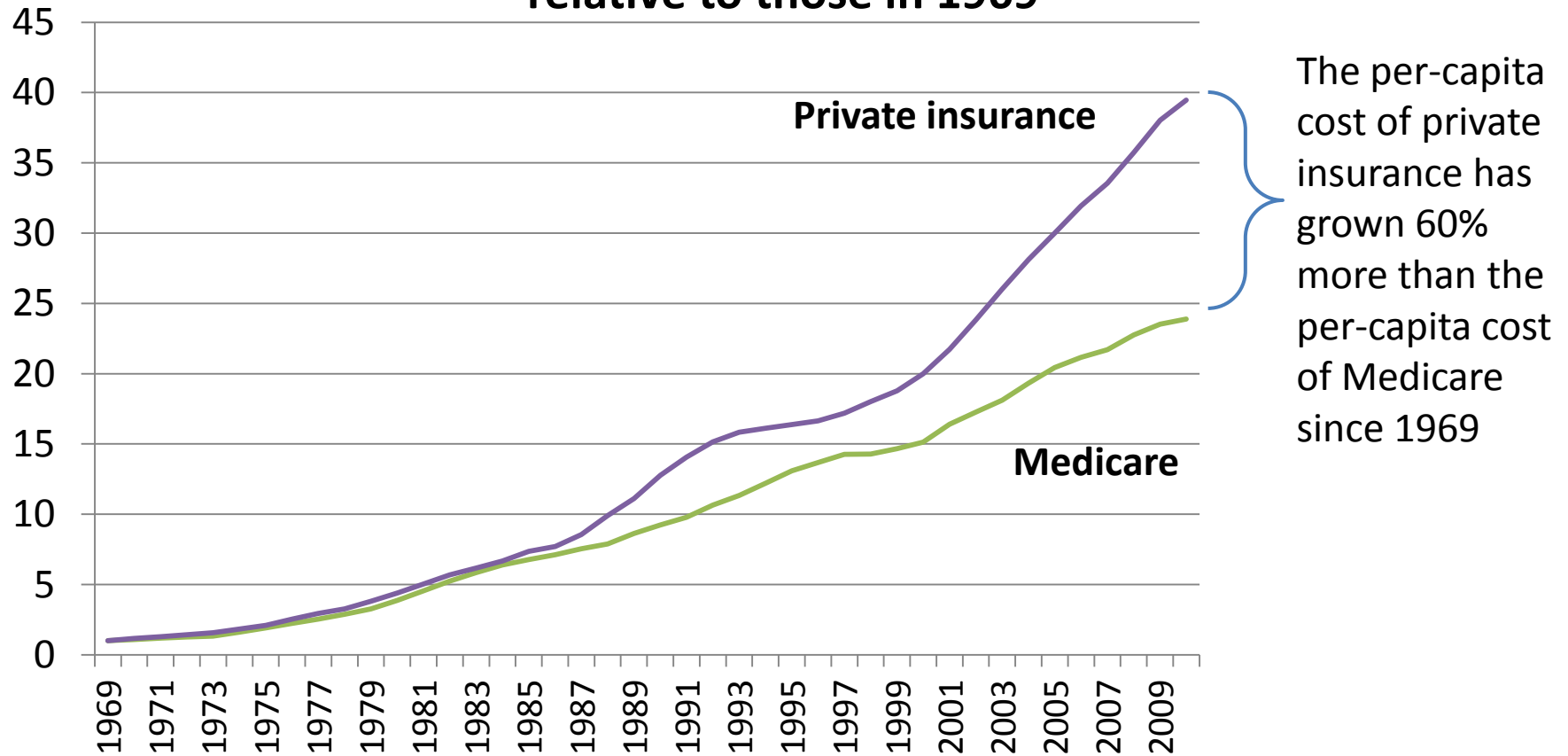
Rising health care costs are driving the federal budget deficit. If America's health care costs were projected to rise in line with the average for industrial nations, there would be no long-term debt problem



Source: The Center for Economic and Policy Research

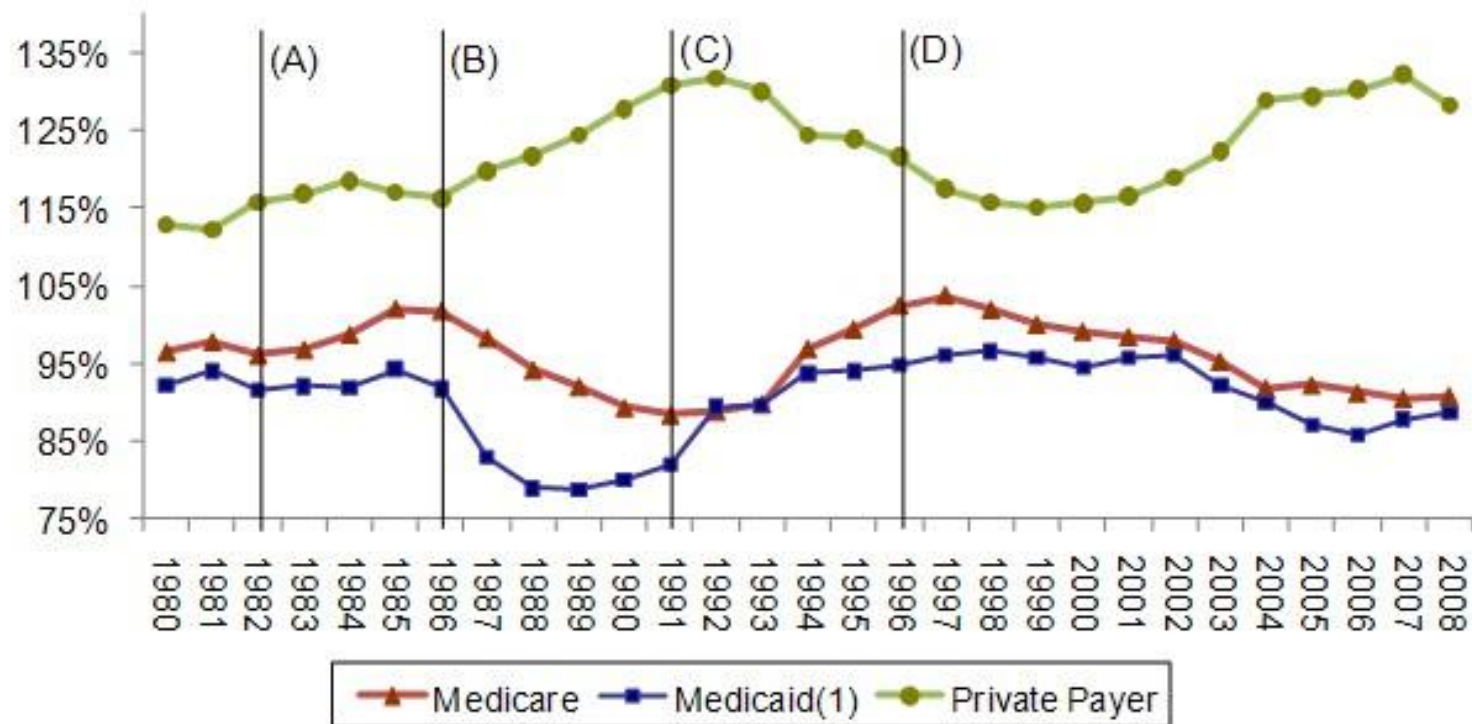
The real culprit here is the private sector, where costs are rising substantially faster.

**Per-capita costs of Medicare and private insurance
relative to those in 1969**



Why does Medicare control costs more effectively – mostly because it's much better at holding down the prices it pays to providers.

Medicaid, Medicare, and Private payment rates



Source: The American Hospital Association, via Austin Frakt

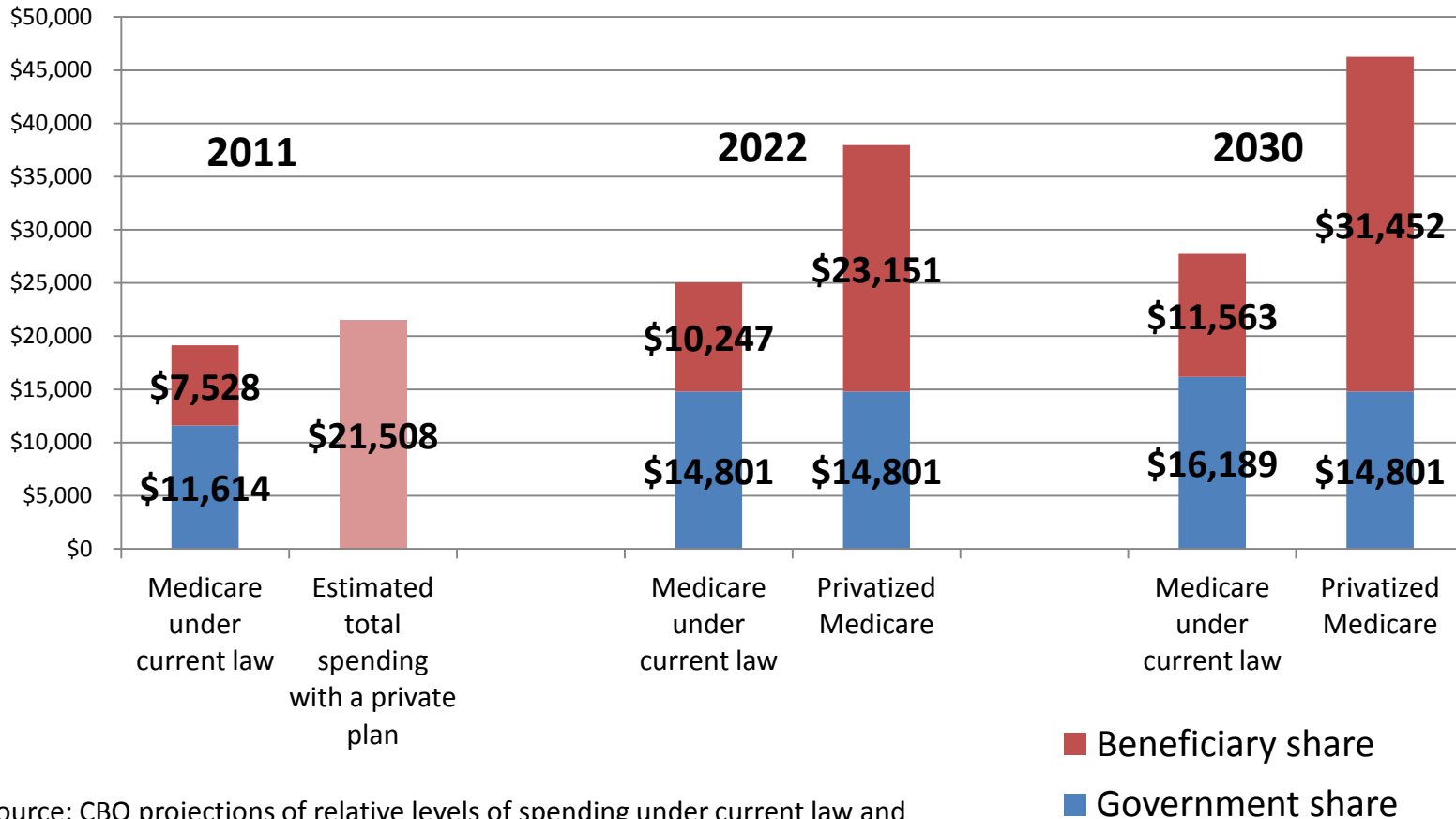
Rising prices in the private sector exert a great deal of upward pressure on the rates Medicare pays. Here's how it works:

- Medicare officials worry that if prices diverge too much, doctors will hesitate to see Medicare patients. Data indicate that this is not happening now, but it could in the future.
- Hospitals come to depend on ever-rising rates and operating costs are allowed to float upward.
- Hospitals successfully lobby Congress to raise Medicare rates to keep pace with private insurance payments – – that's why Congress has intervened every year since 1997 to raise rates faster than the law dictates.

So how can Medicare protect us from out-of-control cost growth?

- Medicare is financing a wide variety of experiments in new payment models. Historically, major innovations in healthcare have been incubated by Medicare.
- Simply allowing working Americans to buy into Medicare would exert substantial downward pressure on the price of medical services

Since privatization raises the overall cost of Medicare, the only way a so-called “premium support” model could lower costs for the government would be by limiting the value of the voucher and shifting costs to beneficiaries.



Source: CBO projections of relative levels of spending under current law and Rep. Ryan’s proposed applied to CMS projections of future health care costs.

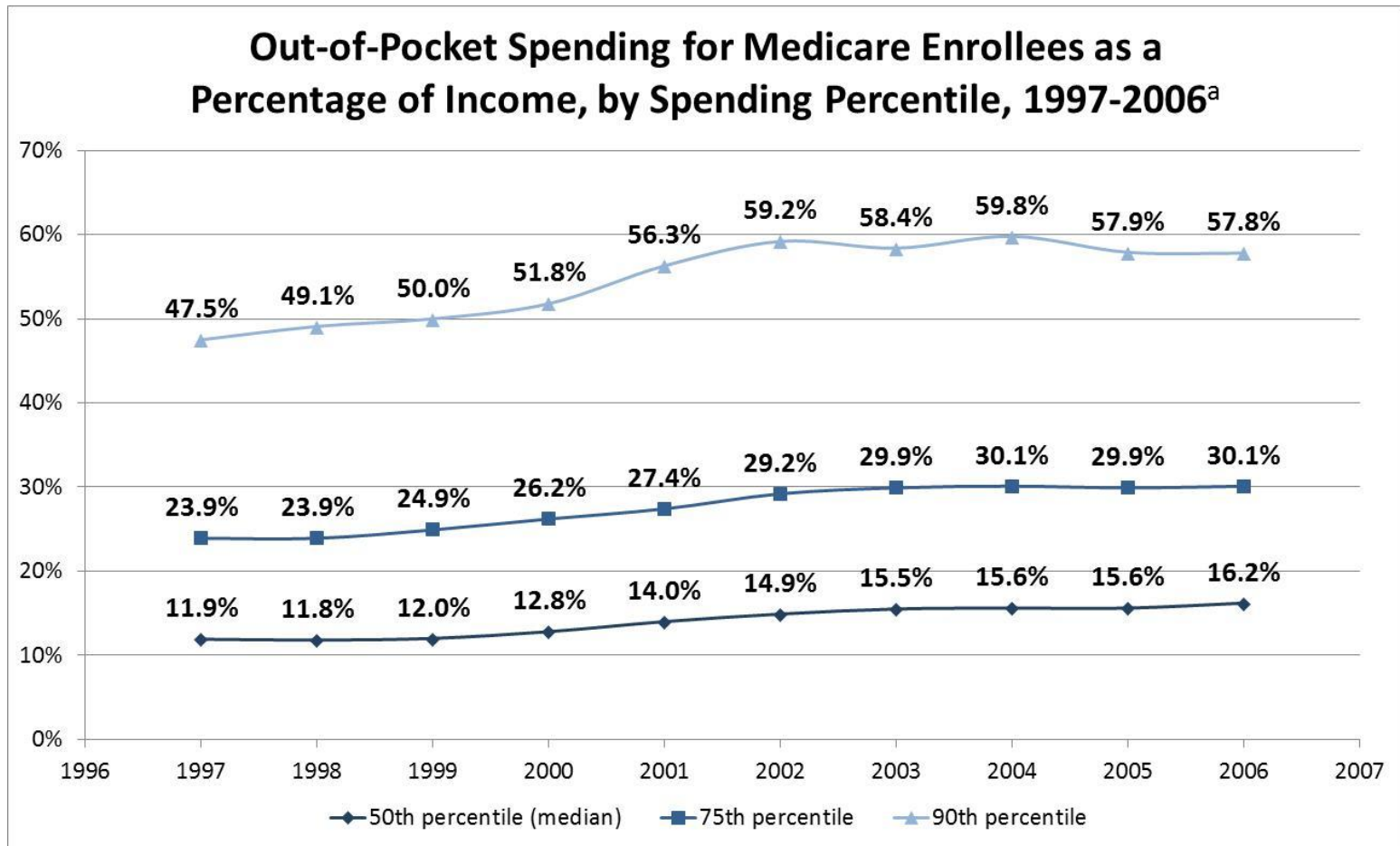
Would a cost shift really be so bad?

Yes.

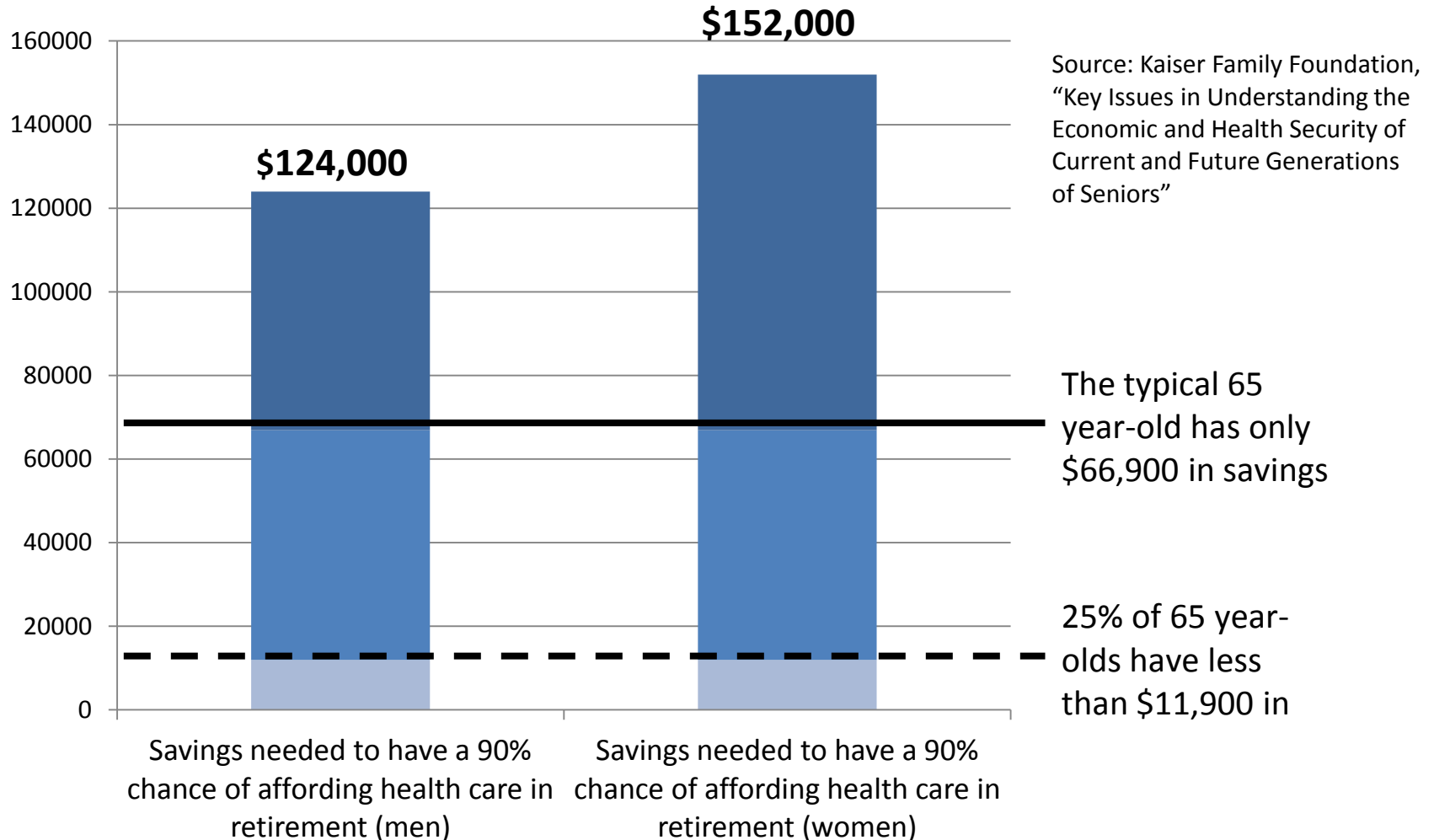
Reason 2 that Medicare is essential to our future: Rising insecurity.

Our economy offers ordinary working people less and less stability. If the next 40 years look anything like the last 40, we are not going to be able to retire without a robust social insurance system.

Today's retirees are not exactly sitting pretty. While the typical Medicare beneficiary is paying a manageable amount for health care, those with the highest costs are bearing an increasingly unsustainable burden.

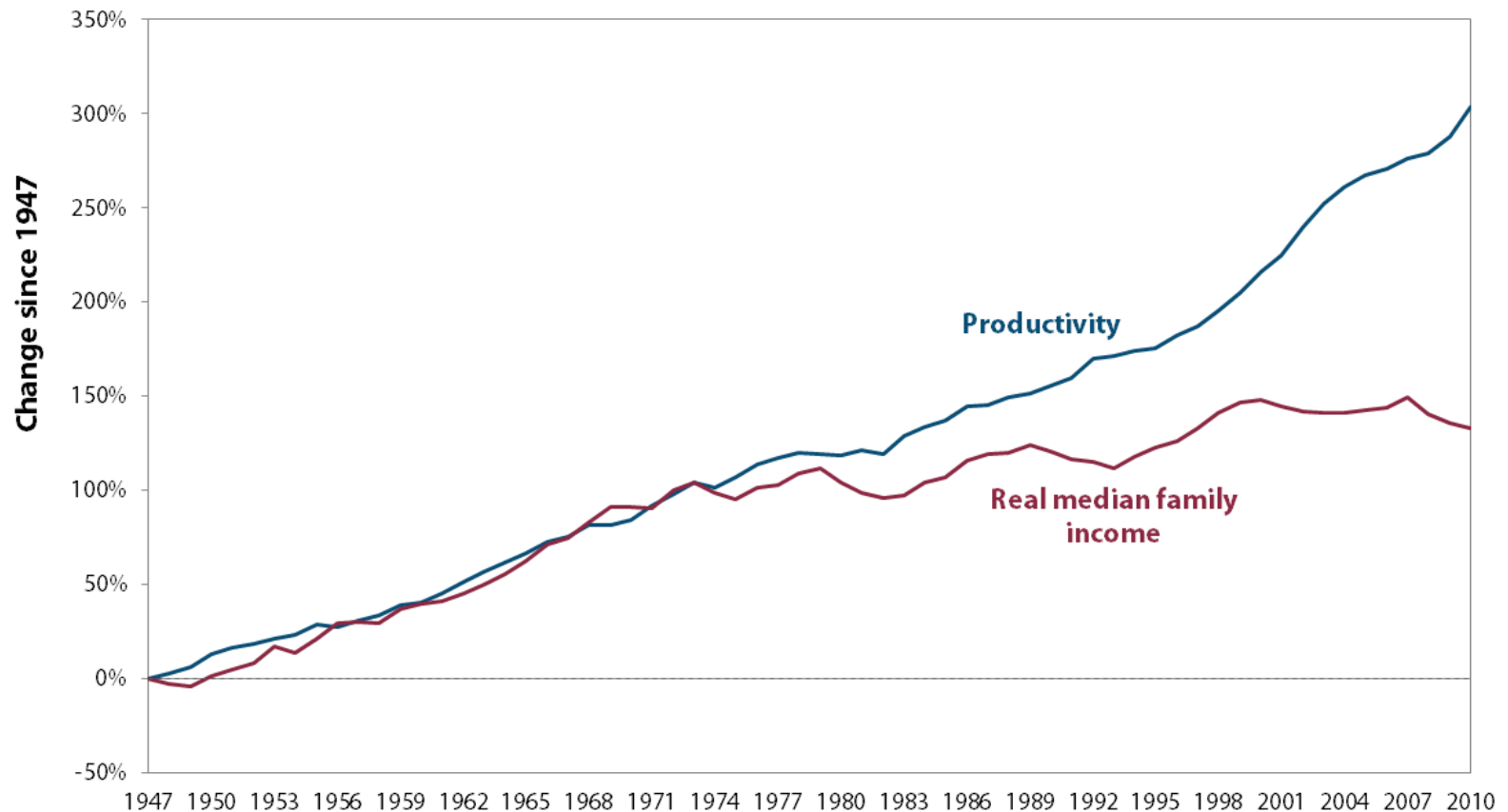


As a result, most 65-year-olds today are vulnerable to serious economic shocks in the case of major medical expenses, even with Medicare intact.



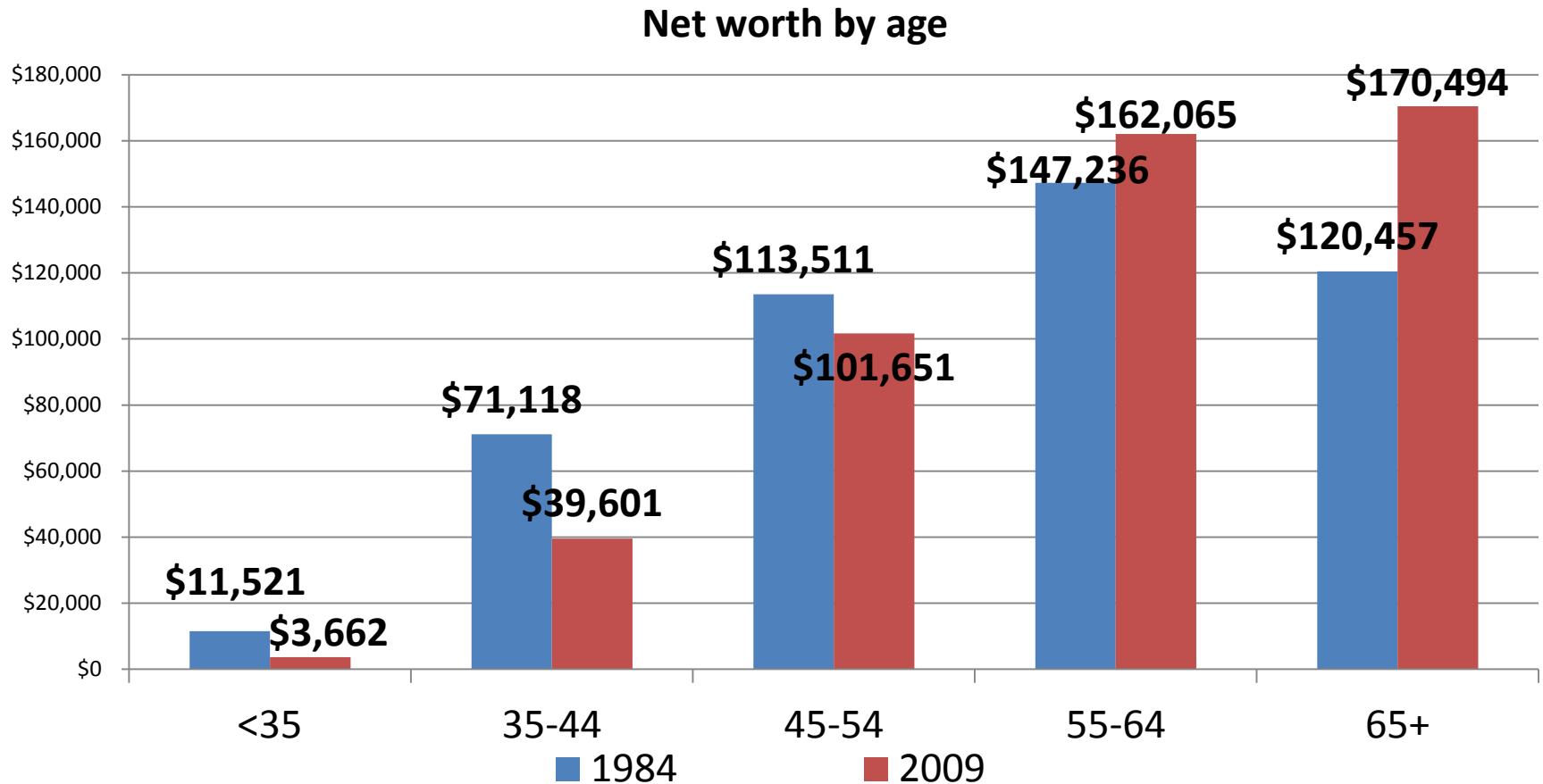
But prevailing economic trends are about to make things much worse.

Since the 1970s, wages have been decoupled from productivity and the gains of economic growth have not been broadly shared.



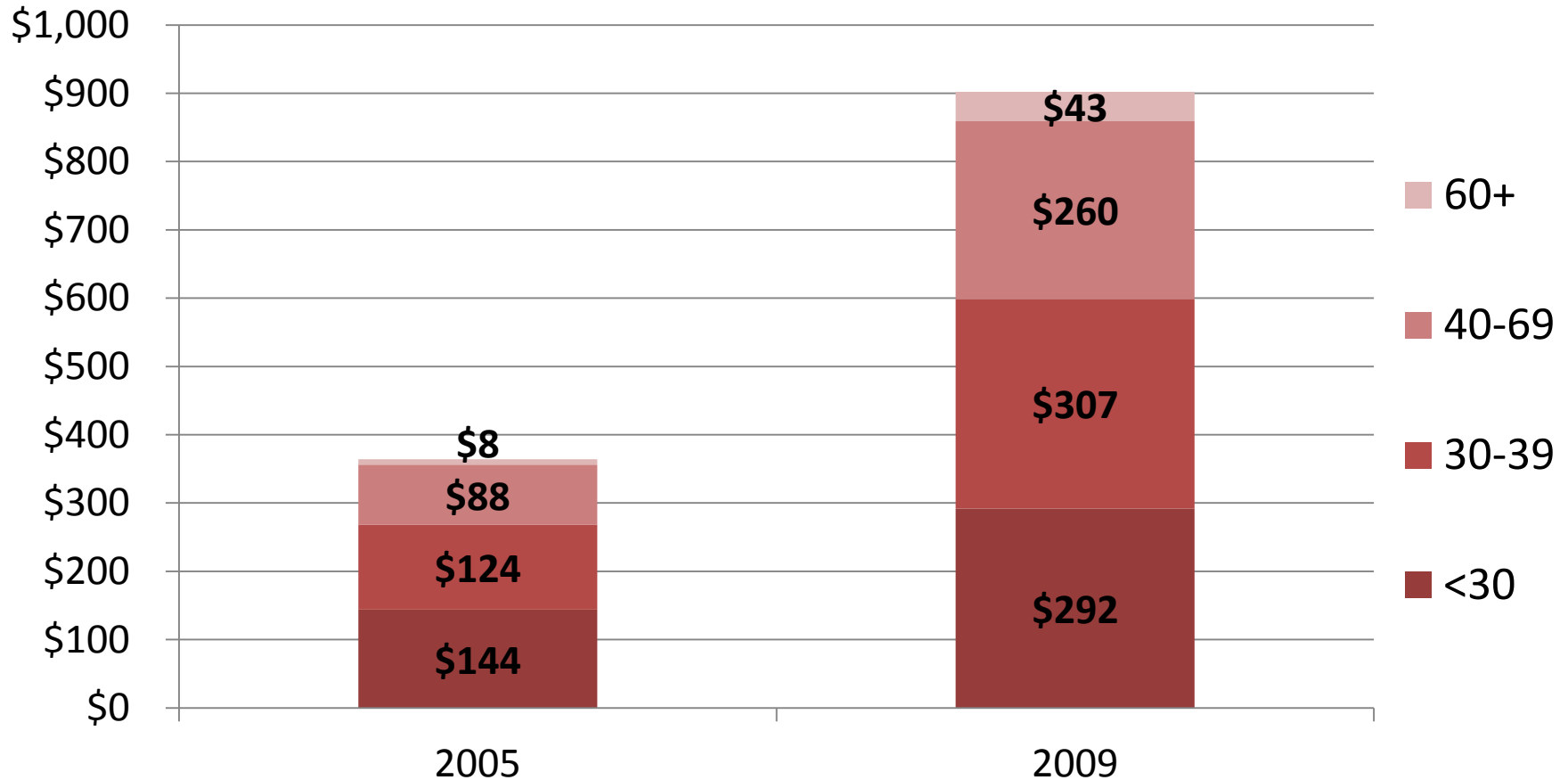
Source: EPI analysis of U.S. Census Bureau, *Income, Poverty and Health Insurance Coverage in the United States: 2010 – Historical Income Tables*, Table F 5: Race and Hispanic Origin of Householder – Families by Median and Mean Income, Excel spreadsheet accessed November 23, 2011.
U.S. Bureau of Labor Statistics, *Productivity – Major Sector Productivity and Costs Database*. Accessed November 23, 2011.

Stagnant wages have interrupted the process of wealth accumulation, meaning we will be *less* prepared than our parents to cope with retirement on our own.



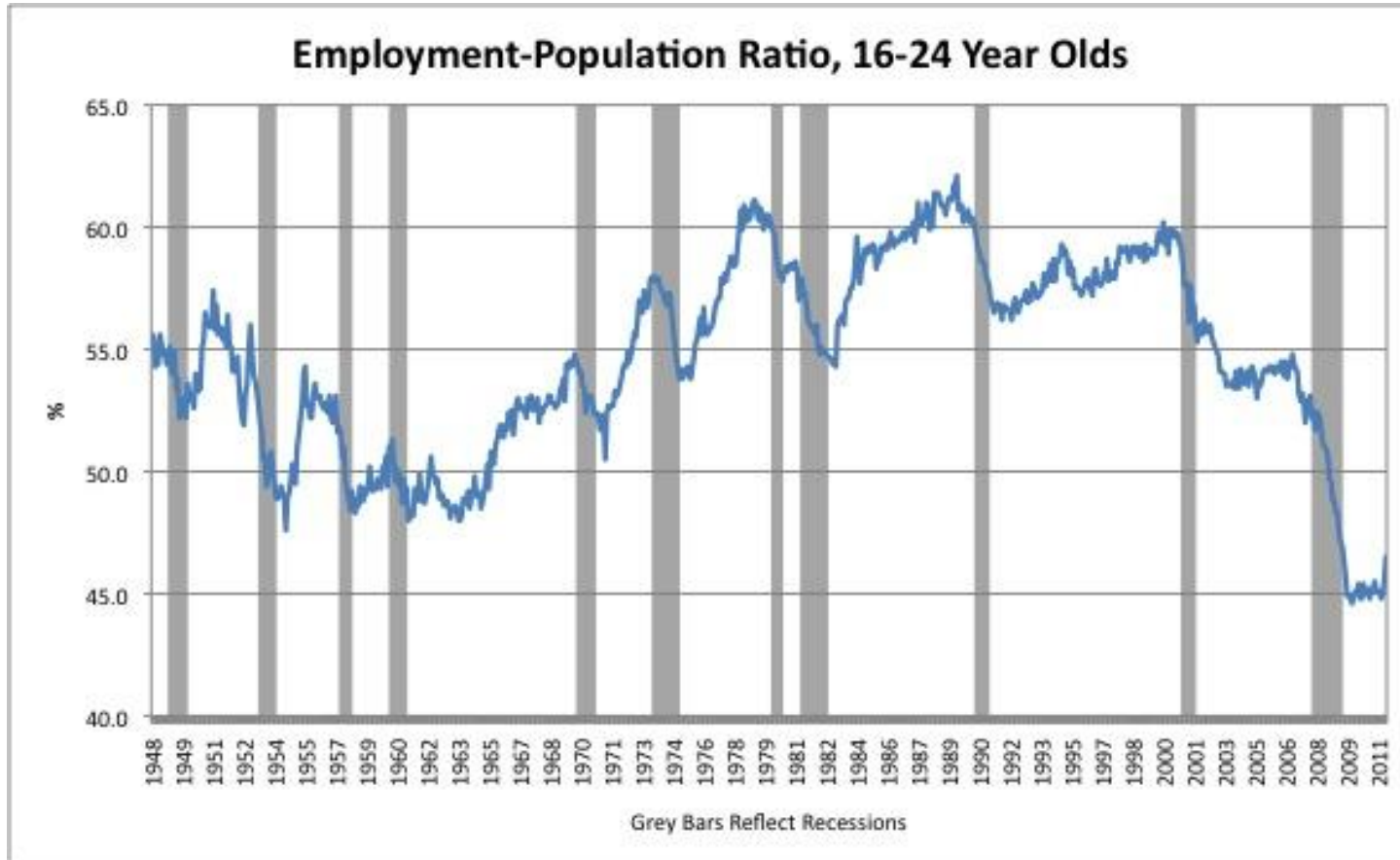
It's also no secret as a generation we are increasingly indebted, so there are new obstacles to wealth accumulation.

Total student debt by age (in billions)



Source: New York Federal Reserve

The situation is likely to get worse not better in the immediate future: work force participation for young people is at a historical low.



And no, this is not a story about rising college attendance – this line does not conform to that for rising college attendance at all.

Right-wing plans to restructure Medicare (and social security) exempts people currently 55 and older. Those who would be exposed to more risk in retirement will also be those whose wages seen stagnant wages and minimal wealth accumulation throughout their working lives.

We are not going to cut our parents and grandparents' Medicare, but they may very well cut ours.

There is a good reason that David Frum called the Ryan Budget a “going-out-of-business sale for the baby boom generation.”*

*In *New York Magazine* in November, 2011

In the mean time, Medicare's financial challenges are not all that difficult to meet.*

- The Medicare trustees have calculated that raising payroll taxes by 1.35 percentage points would close the gap in Medicare Part A's finances for the next 75 years.
- There are a number of common-sense reforms that can dramatically reduce the cost of care without harming beneficiaries. Some standouts that could save billions:
 - Negotiate prices for prescription drugs
 - Coordinate care for dual-eligibles
 - Freeze and reduce hospital subsidies written into Medicare payment rules

*Or wouldn't be if Congress weren't totally beholden to medical providers and insurers along with the super-rich