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Ben A. Franklin, Editor

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MEDICARE

The Good, the Bad, and the Ugly

We recently saw a newspaper headline that said: "Older Americans Find New Medicare Law Confusing." Senior citizens are not the only ones. So do hospitals, doctors, newsmen and many of the members of Congress who passed the Medicare bill.

The Congressional Budget Office predicts that the bill that some are already saying changes the health care program's name to "Mediscare" will reduce the generous drug benefits that 2.7 million people have received from their former employers. And bankrupt state governments are slashing Medicaid and poor children's health benefits.

It's all so baffling that we asked Henry Aaron, a senior fellow at Washington's non-partisan Brookings Institution and a Ph.D. luminary on health care financing and long-term health care, to give us some clues. For answers to other questions try the website of the Center on Budget and Policy Priorities (www.cbpp.org) or of the Medical Rights Center (www.medicalrights.org). The Medical Rights Center also has a toll-free phone number, available noon to 2 p.m. EST, Monday-Thursday: 1-888-466-9050.

By Henry J. Aaron

In a political shoot-out more dramatic than any ever filmed by Sergio Leone, the director of western gunslinger movies, Congress passed, and the president signed into law in December, what is commonly known as the Prescription Drug Bill. It is, in fact, a great deal more than the name suggests. Like the famous flick, the new law has features that are good, bad, and ugly. Many parts will, and should be, subject to editing and end up on the cutting room floor.

At first, Medicare, as enacted in 1965, mimicked most private insurance plans of that day. It included no coverage for prescription drugs, apart from a few drugs that were administered in doctors' offices instead of hospitals. That deficiency mattered little then because the proportion of health care dollars going to prescription drugs was low, and falling. In recent years, however, an avalanche of highly effective and quite costly drugs have become central to modern medical care and have become a major financial burden for many of the elderly and disabled.

After taking office, President George W. Bush recognized this problem but proposed only to offer drug discount cards to Medicare enrollees. He also earmarked \$400 billion in his 10-year budget plan for a comprehensive reform of Medicare.

Medicare suffers from numerous shortcomings. Hospital insurance faces a large gap between projected spending and the revenues earmarked to pay for it. Medicare enrollees' out-of-pocket costs are unlimited. Coverage of home health care is spotty. Nursing home services are covered only immediately after a hospital stay.

Coverage of preventive health services is poor. Coverage to pay for case management—the coordination of care paid for by multiple providers—is nonexistent. Most people have some supplemental coverage to shield them from the burden of high cost sharing and coverage gaps. These plans do fill gaps but are costly and complex.

To fix all of these problems, higher earmarked taxes or increased premiums and cost sharing for those beneficiaries who can afford them are inescapable. Coverage of prescription drugs could serve as a sweetener for thorough reform.

Unfortunately, no consensus emerged on how to reform Medicare as a whole, and how much that would cost. So it looked as if the \$400 billion

that President Bush put on the table would remain there.

Meanwhile, actual and projected drug costs continued their explosive ascent. Various Democratic and Republican members of Congress introduced plans to cover out-patient prescription drugs. The 10-year cost of the Democrats' plans greatly exceeded \$400 billion. The Republicans' plans were much more limited.

This situation created a political opportunity that the White House and congressional Republicans energetically seized. The 2003 budget resolution took the \$400 billion and earmarked it for prescription drugs.

In 2003 Speaker of the House Dennis Hastert and Senate Majority Leader Bill Frist respectively sponsored bills labeled H.R.1 and S.1. Each offered prescription drug coverage that would just fit within the \$400 billion price tag. This meant that any successful legislation could be stamped as a Republican bill signed into law by a Republican president.

It Will Cost at Least \$395 Billion In Its First Decade

"It would be one thing if this high cost was attached to a sound and vital piece of legislation that had been carefully designed to deliver as much benefit as possible to the nation's elderly and disabled citizens. Sadly it does not."

—From a report by the Center on Budget and Policy Priorities (available at www.cbpp.org)

The road to legislative success was bumpy. H.R. 1 passed the House of Representatives by a single vote, with all but 19 Republicans in favor and all but nine Democrats against.

Enter Ted Kennedy. The senior senator from Massachusetts, the longtime leader of Democrats on health issues, saw the inclusion of \$400 billion in the budget resolution not as a Republican coup, but as an opportunity to embellish Medicare with an important and needed new benefit—a crowning Democratic legislative achievement.

Although \$400 billion was not enough to provide the benefits that Kennedy sought, he insisted that once prescription drug coverage was a reality, a future Congress could extend and improve it. Kennedy believed that, if Democrats stuck together, they could force the Republican congressional majorities to go along with an acceptable bill. Democrats had the 40 Senate votes necessary to sustain a filibuster.

With Kennedy on board, the Senate also passed a prescription drug bill, on a bi-partisan vote with the approval of 41 Republicans and 35 Democrats.

A Senate-House conference committee met over several months to resolve differences, and almost failed. House conservatives feared a new and costly entitlement with no means to pay for it. As the price for their support, conservatives insisted on provisions that would begin to convert Medicare from a government-managed benefit to a private insurance plan. That change, however, was a sure-fire way to guarantee opposition from nearly all Senate Democrats and enough moderate Senate Republicans to block passage.

The breakthrough occurred when Senators Max Baucus of Montana and John Breaux of Louisiana broke ranks with their Democratic colleagues and, as the only Democrats admitted by the Republicans to an ostensibly bipartisan conference committee, were allowed to meet secretly with the Republican conferees.

The final bill included only a tiny and deferred experiment in allowing private insurance into the regular Medicare program, enraging House conservatives, who wanted more, and infuriating Senator Kennedy and his supporters, who wanted less.

The House voted first. At the end of the customary 15 minutes allocated for electronic voting, the bill seemed to be failing. The Republican leadership held open the voting for nearly three hours until they succeeded in arm-twisting a few G.O.P. opponents into switching their votes from nay to aye. A few Democrats were ready to shift their votes into the negative column, but their leadership failed to get them back to the floor in time, and the chair gavelled the vote closed. The bill passed the House by a single vote.

With Senate Democrats rancorously divided, the final approval in that chamber was not close. Then the White House rented Washington's commodious Constitution Hall auditorium to stage the bill signing ceremony, presided over by President Bush. The drug bill became law.

From a political standpoint, the bill was a Republican triumph. It gave substance to President Bush's self-designation as a "compassionate conservative," a claim that had become rather threadbare in the face of steep spending cuts even for the social programs that President Bush had embraced.

The Democratic opposition was breathtakingly mismanaged. That hoary quip by Will Rogers—"I do not belong to any organized political party; I am a Democrat"—never seemed more apt.

The political drama has ended, at least for now. What will be the consequences of the new law? Keep in mind that the bill runs to more than 1,000 pages and contains much, much more than prescription drug coverage for Medicare enrollees.

THERE'S MORE—The final bill contains scores of other provisions, including the excessive payments provided to managed care plans; premium increases on about 3 percent of the highest income elderly and disabled for Supplemental Medical Insurance; a distressingly cumbersome and costly appeals process for patients who object to practices of drug plans.

The bill indisputably and significantly deepens an already horrendous fiscal mess. Plausible projections indicate that over the decade 2005-2014 cumulative federal budget deficits will run to about \$4.7 trillion. The Medicare bill will add just under \$600 billion in that decade and \$1.5 to \$2 trillion in the succeeding decade, when deficits will explode. Closing these deficits would require either renegeing on these benefits or enormous tax increases.

If a Medicare drug benefit is worth having, responsible legislators could have raised taxes or cut other spending programs enough to pay for it. President Bush and Congress did neither.

The need for Medicare prescription drug coverage is indisputable. By 2005 Medicare beneficiaries will be spending an estimated \$140 billion on prescription drugs. In 1999, 17 percent of enrollees spent \$5,000 or more on prescription drugs, accounting for 54 percent of total spending. More than half the prescription drug buyers' total spending was out-of-pocket. By 2010, per capita spending by Medicare enrollees is projected to average more than \$5,000. One-fourth of Medicare enrollees lacked any prescription drug coverage in 1999.

The bill blends insurance and assistance. It provides insurance by covering 95 percent of costs for drugs includ-

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ed on approved drug lists called “formularies,” determined by private drug insurers once out-of-pocket expenses reach \$3,600. It also provides assistance for anyone with annual spending of over \$250. For all expenses between \$2,250 and \$5,100 a year, however, no assistance or insurance is available. Any insurance plan that covers the 300th dollar but not the 3,000th is a bit wacky.

BANKING ON HEALTH—Perhaps the most far reaching provision of the bill has nothing directly to do with Medicare. Couples and families who are insured through plans with deductibles of at least \$2,000, or \$1,000 for singles, may establish health savings accounts (HSAs). Annual deposits to HSAs by individuals or their employers up to the amount of the deductible are exempt from income tax. So are all withdrawals for health care.

Such insurance plans may promote cost-sensitive purchasing of health care. They could also harm low-income workers. HSAs also introduce a new and potentially budget-busting tax principle. Heretofore, so-called tax-sheltered accounts such as IRAs or 401k plans have required people to pay personal income tax on either deposits or withdrawals, but not on both. If this new principle of super tax exemption spreads, the deficit gap will widen further.

And for the poor, about 6 million Medicare beneficiaries are dually eligible for Medicaid, which covers prescription drugs in most states—more generously in some than the new Medicare drug bill will.

Medicaid charges no premiums and imposes negligible deductibles. The federal government pays 50 to 80 percent of Medicaid costs through grants to the states, but the new Medicare bill terminates such grants for drug benefits for dual eligibles. That means that some dual eligibles will have narrowed coverage and others will be exposed to the deductibles and premiums imposed by the new bill. These problems are particularly serious for nursing home residents, who under Medicaid rules must sign over rights to all income but a pittance.

In the name of cost control, the new drug bill could provoke an entirely artificial Medicare financial crisis that would trigger far-reaching benefit cuts or tax increases, even if Medicare costs are running below projections. Currently, Medicare hospital benefits (Part A) are covered by dedicated taxes that now exceed costs and that, together with the excess collections from past years, are projected to cover all benefits through 2026. Three-fourths of the cost of Medicare’s Supplemental Medical Insurance (SMI, or Part B), which covers doctors’ bills, durable medical equipment, and certain other expenses, are paid from general revenues, and the balance by beneficiary premiums.

Nonetheless, the drug bill would declare the whole Medicare program to be in financial crisis if general revenues are projected to finance more than 45 percent of the total cost of the program for two of the next seven years. In that event, the president would be required to prepare plans to cut Medicare benefits or raise regressive payroll taxes, and Congress would have to vote on those plans. No such requirement would apply to the rest of the budget, where massive and growing deficits exist.

CHOSEN CITIES—The Medicare drug bill authorizes experiments starting in 2010 in so-called “premium sup-

port.” In up to six designated metropolitan areas Medicare enrollees are to receive dollar sums and permission to shop among private plans or traditional Medicare.

Enrollees who join particularly costly or inexpensive plans will either pay extra charges or keep some of the savings. Such plans could increase insurance choice and lower costs, but they carry serious risks.

Private insurers might design and market their plans selectively to attract only relatively healthy customers. That could leave traditional Medicare with the highest-cost elderly and disabled. Premiums for traditional Medicare could escalate.

To forestall such effects, private companies should be required to offer only a few standard plans and to prevent selective marketing. An independent and disinterested agency should be vested with responsibility for disseminating information about various plans to Medicare beneficiaries and for handling enrollment.

Unfortunately, the new legislation lacks such safeguards. The six-city demonstrations are long delayed and may not even occur. A previous attempt to field similar experiments was aborted because officials in the “lucky” communities selected for the experiments saw no community gain and refused to play.

So, what should be the final verdict on the drug bill? Mine is that the bill will do some important good, but also do a lot that is bad and ugly.

Overall, its cost vastly exceeds, as an issue, the balance of benefits and flaws that it contains. The importance of the fiscal crisis that this nation confronts cannot be exaggerated, and this bill seriously aggravates it. Cutting prescription drug benefits for the poorest elderly and disabled is outrageous and inexcusable.

Supporters of this bill have acknowledged that it is “far from perfect” but have opined after years of debate that “it was time to act.” Right on both scores, but neither justifies a bad bill.

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More Evidence—Now comes another official finding about President Bush and Iraq, adding to the assertions that he exaggerated, if not fabricated, his pre-war, invasion-justifying claim that Saddam Hussein was accumulating nuclear material for weapons of mass destruction (WMDs), none of which alleged weapons have been found to exist.

After months of closeted meetings, a 16-member government panel called the Foreign Intelligence Advisory Board has found that the Bush White House and the Central Intelligence Agency must share the blame for the president's false claim, in his State of the Union address last January, that Iraq had nuclear weapons, and other WMDs. The board is headed by Brent Scowcroft, a former national security adviser to the first president Bush. George W. Bush and the Bush speechwriters should have known better, or maybe they did and decided to pump up war anyhow. The *Washington Post* got an advance look at the panel's report, due for publication in February.

Another harsh judgment comes from one of Washington's foremost conservative think tanks, the Cato Institute. In a 23-page report released in December it took a strong whack at Bush's pre-emptive-war strategy in Iraq.

The report, entitled "Iraq: The Wrong War," also cites the president's failure to diminish the terrorism threats of Al Qaeda, which it calls "the real threat to America." It says Bush has "created conditions for increased anti-American sentiment" in the Middle East and "the ill will of many friends and allies." To read the report, go to www.cato.org.

The January-February issue of the liberal magazine *Mother Jones*, named for the famous 19th century labor union activist, has a devastating expose of the Bush administration's plans to invade Iraq, plotted long before 9/11/01. It is based on an exclusive interview with a retired Air Force intelligence officer. Their website is www.motherjones.com.

Another Bush Tome—Kevin Phillips, a distinguished historian and onetime G.O.P. strategist, has added to his series of readable, serious books on American politics with a new and sharp attack on the Bush administration, *American Dynasty: Aristocracy, Fortune, and the Politics of Deceit in the House of Bush*, just published by Viking Penguin.

It follows in the tradition begun by such volumes as *Lies and the Lying Liars That Tell Them* by Al Franken and *Bushwhacked* by Molly Ivins. As we go to press we have just begun to read Phillips's book, but reviewers of it are full of lavish praise.

Phillips describes the Bush "practice of crony capitalism" as "government favors for the well-connected and publicly financed rescues of private financial interests. During both Bush administrations such practices flourished to a degree that mocked their ostensible commitment to free markets."

The book includes a chapter on Bush evangelism. He says: "George W. Bush's early emergence in national politics, between 1986 and 1994, tapped religious forces akin to those promoting Ariel Sharon and Benjamin Netanyahu in Israel and fueling the rise of Islamic parties in Pakistan, Turkey, and elsewhere."

Few Were Watching—When 600 registered voters were asked in a recent survey what they thought was "the most important achievement of Congress this year," 55 percent said they couldn't think of any, and 6 percent simply refused to answer.

These citizen judgments almost certainly came without benefit of their having scanned the annual "Resume of Congressional Activity," an official legislative accounting published in the *Congressional Record*, as the legislative session comes to an end.

The bookkeepers found that 4,547 bills—a five-year record—had been introduced in the Republican-dominated House of Representatives during the 1,003 hours that it met during the first session of the 108th Congress in 2003, but that only 664 bills—14.6 percent—were adopted. The Senate passed 24 percent of the 2,368 measures introduced there during its even longer 1,444 hours in session.

Any New Fans?—Several readers sent us their negative opinions about former Secretary of State Madeleine Albright and their strong objections to our use of a piece by her in our October 1, 2003, issue. The complaints included accusations that she is not a genuine Democrat.

Well, now comes the publication by the *Washington Post* of a recent Albrightian quip: "Do you suppose that the Bush administration has Osama bin Laden hidden away somewhere and will bring him out before the election?"

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