



Protecting Medicare and Trimming the Deficit

2/1/2017

Executive Summary

Over 2,000,000 NRLN retirees from 131 U.S. corporations and public entities urge Congress to avoid reductions in Medicare expenditures that could negatively impact the care that current and future retirees receive from doctors, hospitals and other health care services. Medicare benefits and Social Security income payments have become an inextricable part of American retirees' retirement planning and critical to their sustaining a livable economic base in retirement. The NRLN recommends below ways to reduce Medicare and health cost inflation, generally without cutting benefits or quality of care.

Medicare is not a welfare program; it is a covenant with the American people that is consistent with the democratic principle of an elected government choosing to provide for its constituency. There is an obligation to meet, not run from this covenant. We believe that cutting benefits is not appropriate as long as there is genuine and obvious waste to remove from the federal budget.

The 2012, current and future debates regarding whether or not Medicare is affordable prospectively is far more complex than the debate regarding Social Security income payments. The "X" factor in the Medicare debate is the fact that health care costs in general are rising at double the Consumer Price Index (CPI). It's not just Medicare that is at stake: the impact of rising health care costs on all middle income families, and especially on fixed-income retirees, is undermining sales of other products and services, choking off new jobs and our economic future.

Former Congressional Budget Office (CBO) Director Rudolph G. Penner wrote in a recent study for the Urban Institute that Social Security benefits are "not keeping up with inflation, and for those retired a long time, the real value of the net benefit can erode significantly."

Looking ahead, Penner said in the study, "The rapid growth in healthcare costs is leaving the entire population with relatively less to spend on non-health goods and services, and the elderly are affected the most because so much more of their income goes to healthcare."

The May 2011 Medicare Trustees report indicates that spending for the program will increase faster than either workers' earnings or the economy over all. Medicare spending is growing at a 7.2% annual rate—far faster than the economy. The Medicare Trustees report also states that from 1985 through 2010 Medicare expenditures grew at a rate of 8.2%. The trustees predict that average Medicare spending per beneficiary will increase from \$12,042 in 2011 by more than 50%, to nearly \$17,000 in 2021. Given rising costs and an aging population, Medicare's unfunded liabilities over the next 75 years would amount to about \$31 trillion. In 2012, the Trustees reaffirmed these trends. At the heart of Medicare spending is the increasing cost of health care, not the U.S. budget or deficit but the cost of prescription drugs, wheelchairs, insurance company overhead and profit, hospital and doctor care.

While this may lead some to conclude that Medicare is unsustainable, a more rational and ethical conclusion is to address the root causes of the high costs and take adequate steps to eliminate them. For example, there is an enormous Medicare fraud problem that requires immediate attention. Centers for Medicare and Medicaid Services (CMS) estimates that \$48 billion of Medicare's total outlays of \$509 billion in fiscal 2010 (Trustee report says \$523 billion) went to improper payments, including fraudulent ones. According to the FBI, between 3% and 10% of all health spending is lost to health care fraud.

Adding to the complexity, as the 2007 recession deepened, the Medicare program's financial health deteriorated. Higher unemployment levels drove payroll tax revenues precipitously lower, from 62.2% of Medicare revenue in 1990 to 38.9% in 2010, a nearly 40% decline. If health care costs are not curbed by 2020, it is estimated that Medicare payroll taxes and premiums will only cover 33% of Medicare costs.

General tax revenues covered 27.9 % of Medicare's costs in 1990, but due to the shortfall in payroll tax revenue, health care cost inflation and the onset of baby boomer eligibility for Medicare, the share covered by general revenue rose to 44.0% in 2010, and is predicted to rise further to 45.9% by 2020, according to the Trustees report. This pressure on general revenue is increasing despite the fact that participant premiums used to cover costs increased from 9.8% in 1990 to 13.2% in 2010, a 35% increase. Premiums paid by participants are predicted to cover 15.1% of Medicare's cost by 2020. Under the debt ceiling bill passed in August 2011, Congress is now forced to cut the federal budget elsewhere or trigger a huge automatic cut in Medicare spending. The Pork barrel syndrome must die. Congress must manage.

Private insurers with 12-to-16% overhead and 4% plus profit margins could never improve upon Medicare as the low-cost provider when Medicare's total overhead is just 3-4%. They both purchase from the same health care product and service providers and Medicare has the larger purchasing leverage. The NRLN agrees with the CBO's analysis that concludes that adding of private insurance plans into the mix would raise administrative costs and would not keep medical inflation as low as traditional Medicare has done.

Philip Moeller, a writer for US News & World Report, in an article published Aug 19, 2011, noted that "[i]n most years, a significant portion of the cost-of-living increases received by most Social Security beneficiaries" is used to pay for higher Medicare premiums.

NRLN Recommendations:

- Eliminate waste, cut back federal budgets for projects, non-strategic grants and planned budget expenditures and stop authoring wasteful preferential bills and amendments.
- Attack Medicare fraud with the full force and effect of the government. Congress must enact laws that contain stiffer federal penalties including more prison time, for defrauding the Medicare system.
- Pass legislation that would compel safe importation, competitive bidding, funding to accelerate generic drug sales and eliminate non-competitive practices in the prescription drug industry.

- Set fair and equitable rate formulae for determining physician fees and make adjustments up or down annually. Examine costly referrals and redundant visit practices and disallow them.
- Finally, Congress must honor its covenant with the American people. The effect of unemployment on payroll tax revenue, the surge in baby boomer eligibility and rising health care costs can't be offset by slashing Medicare benefits without regard for this covenant. Congress must increase the Medicare tax on workers and employers until such time as taxes can again fund 60-65% of the Medicare budget.

The whitepaper researched and written for the American Retirees Education Foundation (AREF) is the source of information for this Executive Summary. The AREF expands the research and education reach of the NRLN.

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