NRLN
NATIONAL RETIREE LEGISLATIVE NETWORK

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The Honorable Patty Murray, Democratic Co-Chair
Joint Select Committee on Deficit Reduction
United States Senate
448 Russell Senate Office Building
Washington, DC 20510-4704

Dear Senator Murray:

I am writing to you on behalf of the more than 2,000,000 retirees from 125 companies and public entities whose interests are represented by the National Retiree Legislative Network. In your role as a member of the Joint Select Committee on Deficit Reduction, we urge you to protect Social Security and Medicare and reduce the federal deficit by enacting legislation to reduce the cost of prescription drugs.

Social Security and Medicare as standing programs did not cause the federal budget deficit. The real issue is that rising costs in areas such as prescription drugs and wasteful, unnecessary programs in other areas of the economy have inflated our deficit. The "Super Committee" and Congress should not attempt to reduce the current deficit on the backs of retirees by cutting Social Security and Medicare benefits. The Congressional Budget Office (CBO), reported in August 2011 that Social Security and Medicare combined account for less than $50 billion of the projected $1.3 trillion deficit in 2011. From the perspective of the total economy and the deficit, these figures do not point to Social Security and Medicare as the real culprits in our deficit crisis. They are simply fig leaves to cover the real waste in our government spending such as programs and earmarks that curry favor with voters and campaign contributors.

Social Security Is Not a Welfare Program

Elected officials must be clear on the fact that first and foremost, <u>Social Security is not a welfare program paid for by the U.S. government.</u> Unlike almost all other federal spending programs, Social Security is fundamentally a "pension plan" – a means by which workers pool their own contributions to finance a lifetime annuity that ensures against poverty in old age. The current 55 million Social Security beneficiaries and their former employers have paid into the Social Security Trust that was created in 1937. Every year since 1983, the payroll tax for Social Security has generated tens of billions of dollars in surplus, every dollar of which was borrowed by Congress to cover other federal spending.

Our predecessors and current taxpayers have built up an enormous nest egg sufficient to cover 100% of promised benefits for at least another 25 years (to 2036). At the end of 2010, the Social Security, Old Age and Disability Income combined Trusts held $2.7 trillion in government bonds. Although last year was the first year since 1983 that the fund paid out more than it received in tax revenue, it still continued to grow because of the interest accrued — and it is estimated to continue to grow through 2022.

Adjusting the Social Security Payroll Tax

As Americans live longer, it should not be a surprise that the collective cost of insuring against outliving our assets increases. As a consequence, the NRLN believes the most fair and rationale way to close Social Security's long-range funding gap is through modest increases in the payroll tax rate and increasing the cap on maximum wages subject to the tax, which is currently $106,800 a year. In the face of the impending Social Security Trust Fund crisis, it was a mistake in 2010 for Congress to reduce the Social Security payroll tax for workers from 6.2% to 4.2%. It would be even more devastating for Congress to pass the proposal in "The American Jobs Act" that the FICA tax be reduced to 3.1% and to cut employers' share for the payroll tax in half through the first $5 million in payroll. This may be attractive to voters but it will worsen the very problem members of Congress need to solve.

NRLN Opposes the Chained Consumer Price Index

There have been <u>NO benefits added to the Social Security system,</u> other than Cost of Living Adjustments (COLA), since 1961, and there has not been a COLA for the past two years. The NRLN opposes any changes in the way the annual Cost-Of-Living Adjustment (COLA) is calculated. One such proposal would shift the current accounting calculations to the less accurate and less-generous Chained Consumer Price Index (CPI) for the current CPI in calculating the COLA.

Over the next 10 years alone, the Chained CPI would take $112 billion directly out of the pockets of Social Security beneficiaries. For typical seniors who retire at age 65, their Social Security benefits would be $1,000 less by the time they are 85, based on a benefit of just $16,000 a year.

The chained CPI is a deceptive and ineffective way to cut benefits for Social Security beneficiaries. The current CPI already understates the cost-of-living increases facing seniors because they spend more on medical care than the average American. As economists including former CBO director Rudy Penner have pointed out, the Chained CPI is the wrong policy since it imposes the largest reductions on the oldest retirees who are facing high and increasing medical costs.

On the tax side, the Chained CPI would likely draw more revenue. Tax brackets would rise more slowly than incomes, so seniors would fall into higher brackets more quickly with more income subject to taxation. Millions of seniors are already struggling to make ends meet and should not be saddled with a greater income tax burden.

NRLN Opposes Raising the Social Security Eligibility Age

The NRLN opposes the recommendations by Alan Simpson and Erskine Bowles in their December 2010 *"The Moment of Truth"* Deficit Commission report to raise Social Security's full and early retirement ages. Their proposal would reset the full retirement age to 68 by 2050 and 69 by 2075; the early retirement age would rise to 63 and 64 in those same years. This comes on the heels of the increases already made in 1983 by the Greenspan Commission which moved full retirement age to 67 by 2022, in essence spreading out benefits.

The 1983 increase in the eligibility age for Social Security didn't decrease the federal budget deficit then, nor will it do so now. Moreover, longevity gains that proponents cite for increasing the eligibility age have been concentrated among more affluent Americans. A higher retirement age will require Americans to attempt to remain employed when hiring trends in the private sector favor younger rather than older workers.

Social Security Trust Must Be Protected

It is in the best interests of America's seniors that Congress should gradually raise the Social Security tax rate, and increase the cap on maximum wages taxed, until such time as the Social Security Trust is again adequately funded actuarially. This commitment should also require that once the Trust is adequately funded, tax rates and maximum wages taxed should be lowered to maintain actuarial funding only. The Social Security Trust in the future should be insulated from access by Congress and its funds should never again be a piggybank to cover other government spending.

Avoid Reductions in Medicare Benefits

The committee must avoid any reductions in Medicare benefits that could negatively impact the care that current and future retirees receive from doctors, hospitals and other health care services. Medicare benefits have become a fundamental financial security program for assisting seniors with their health care. As the NRLN recommends below, there are ways to reduce Medicare and health cost inflation generally without cutting benefits or quality of care.

Like Social Security, Medicare is not a welfare program; it is a covenant between the American people and their representatives that is consistent with the democratic principle of an elected government choosing to provide for its older 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 NRLN recognizes that the debate regarding Medicare is complex. The "X" factor in the Medicare debate is the fact that health care costs in general are rising at double the 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 recovery.

Medicare Spending Growth

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 $11,000 in 2010 by more than 50%, to $17,000 in 2018. Given rising costs and an aging population, Medicare's unfunded liabilities over the next 75 years would amount to about $31 trillion.

While this may lead some to conclude that Medicare is unsustainable, the reality is that older Americans will incur these rising health care costs whether they are pooled through Medicare or not. The cost to society is the same unless we address the *real* problem of health cost inflation. 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.

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.

Tax Revenues Cover Less 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.

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-to-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.

NRLN Recommendations on Medicare

- 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 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.
- Congress must increase the Medicare tax on workers and employers until such time as taxes can again fund 60-65% of the Medicare budget

Reduce Prescription Drug Costs; Cut the Deficit

The NRLN believes that taking immediate steps to pass the bills cited below will generate the sort of substantial and measurable savings needed to reach a positive solution to unjustifiably high prescription drug costs help reduce the federal budget deficit. These initiatives will simultaneously create hundreds of billions of dollars in savings that can offset national health care reform costs and reduce out-of-pocket spending by American consumers. Savings of this magnitude will dampen health cost inflation and stimulate long-term economic growth for the U.S. economy.

The NRLN advocates free-market competition while also being mindful of prescription drug safety. Congress should enable the safe and controlled importation of prescription drugs, as well as competitive bidding and robust formularies for Medicare Part D. Congress should also ensure that the FDA accelerate access to generic prescription drugs. Backlogs of generic drugs awaiting approval have exceeded five (5) years and must be eliminated by providing for user fees and the staff needed to expedite approvals. Equally important, agreements that might restrain competition among brand-name and generic manufacturers, such as "pay-for-delay" agreements that may keep lower-priced generic drugs off the market, must be further investigated and, if warranted, outlawed.

The NRLN projects that if Congress acts to implement these initiatives, the nation's $4,060 billion in projected prescription drug expenditures over the next ten (10) years can be reduced by 18%. This 18% savings would amount to $730 billion:

Recommended Initiatives	$ Savings	% Savings
Importation, Re-importation	**$203 billion**	**5%**
Competitive Bidding	**$203 "**	**5%**
Generic Drug Market Share Growth of 16%	**$243 "**	**6%**
Elimination of Restraint if Trade Practices	**$ 81 "**	**2%**
TOTALS	**$730 "**	**18%**

If the pledge of $80 billion in savings by the Pharmaceutical Research and Manufacturers of America (PhRMA) in June of 2009 will close 50% of the Medicare D doughnut-hole, then Congress could allocate $160 billion of this $730 billion savings to pay for the virtual elimination of the doughnut hole. This would leave $570 billion that could offset a substantial portion of the $1 trillion or higher cost of national health care over the next ten (10) years. In other words, the savings from the four prescription drug reforms in this paper could close 100% of the Medicare D doughnut hole and reduce the deficit by $160 billion over ten (10) years, and offset the total cost of health care by $57 billion annually.

The NRLN urges you to support passage of the following bills:

S. 319: Pharmaceutical Market Access and Drug Safety Act of 2011 would allow the re-importation and importation of FDA-approved medications from countries with tough safety standards. This would make it possible for Americans to buy more affordable prescription drugs from countries where drug prices are 35% to 55% percent lower than in the U.S.

S. 44, Medicare Prescription Drug Price Negotiation Act of 2011 and **H.R. 2248, Medicare Prescription Drug Price Negotiation Act of 2011** would direct the Secretary of Health and Human Services (HHS) to negotiate with pharmaceutical manufacturers the prices that may be charged to Medicare Part D prescription drug plans. The NRLN advocates that S.44 authorizes HHS to compile a Medicare participant formulary as part of its competitive bidding plan.

S. 27, Preserve Access to Affordable Generics Act would (1) enhance competition in the pharmaceutical market by stopping anticompetitive agreements between brand name and generic drug manufacturers; and (2) support the purpose and intent of antitrust laws by prohibiting anticompetitive practices in the pharmaceutical industry that harm consumers.

While S.44, the bill to provide for the negotiation of prescription drug prices for Medicare participants, has a companion bill in the House in the form of H.R. 2248, we urge you to encourage your colleagues in the House to introduce companion bills for S. 319 and S. 27.

Honor the Social Security and Medicare Covenants

It is time for the "Super Committee" and Congress to go to work, clean up your own backyard, and leave retirees alone. Honor the Social Security and Medicare covenants that Congress struck years ago and immediately pass the prescription drug bills.

More than half of senior couples draw more than half of their income from Social Security and 22% these couples draw more than 90% of their income from Social Security. Also, 73% of single seniors draw more than half of their income from Social Security and approximately 43% of them draw more than 90% of their income from Social Security. Nearly half of the Medicare beneficiaries live at or below 200% of the federal poverty line (i.e., $20,800 annual income for a single person and $28,000 for a couple). Over a third of the beneficiaries are afflicted with three or more chronic conditions.

Current and future retirees have a right to expect this Committee to protect their financial security at the time in their lives when their livelihood may be taken away due health limitations and simple ageism among employers. The NRLN and its more than 2,000,000 members stand ready to assist the committee in any way to ensure that this vulnerable demographic is not harmed by misguided cuts in programs that are vital to their well-being.

I look forward to hearing from you, as do your constituents.

Sincerely,
Bill Kadereit
President, National Retiree Legislative Network