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Medicare as Pork Barrel

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Given all the excitement, you'd think that passing a Medicare drug benefit would solve one of the nation's pressing social problems.

It won't. But you wouldn't know that from politicians or the news media. They treat the elderly's problems in getting drugs as a major social crisis. You *would* know it if you'd read a government survey of Medicare recipients in 2002. It asked this question: "In the last six months, how much of a problem, if any, was it to get the prescription medicine you needed?" The answers were: 86.4 percent, not a problem; 9.4 percent, a small problem; 4.2 percent, a big problem.

Medicare has about 41 million beneficiaries, so even 4.2 percent represents about 1.7 million people. The survey doesn't say whether their problems reflected high drug costs, doctors' reluctance to write prescriptions or something else. But most people can somehow afford drugs. In 1999 about 30 percent of retirees had insurance from former employers. About 20 percent had government coverage (mainly from Medicaid and the Department of Veterans Affairs). Another 25 percent bought insurance -- Medigap -- or had some other coverage. For the very poor without coverage, pharmaceutical companies provide free or heavily discounted drugs.

No one designed this system. It is a flawed and messy hodgepodge that, on balance, works. It may not work forever, and it doesn't work for everyone. Some retirees without insurance suffer staggering drug costs. But no system will ever be perfect. The test of any replacement is whether it improves upon the status quo for the whole nation, not just retirees. By that test, Congress's drug benefit fails.

It would actually make a major national problem -- paying the baby boom's retirement benefits -- worse. In its first decade, costs are estimated at about \$400 billion, which isn't so much compared with projected total federal spending of \$28 trillion. But if a new "blockbuster" drug appears, forget the \$400 billion estimate. Spending will explode anyway as baby boomers retire and drug use rises. Douglas Holtz-Eakin, director of the Congressional Budget Office, puts the second decade's costs between \$1.3 trillion and \$2 trillion.

Even this may be too low, considering inevitable pressures to expand coverage. The basic benefit has huge gaps. For most retirees -- though not the very poor -- it has a \$250 deductible and covers 75 percent of drug costs up to \$2,250. After that, coverage stops until drug spending hits a catastrophic level of about \$5,100. Of course, this makes sense only as politics. The idea was to give everyone some benefit but limit total costs. Once Medicare recipients discover the coverage gap, they'll clamor that it be eliminated.

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Who's going to pay? Well, tomorrow's workers -- the main taxpayers. They're today's children and young adults. The drug benefit will add to the huge costs of retirement programs. By 2030, the number of Medicare beneficiaries rises almost 90 percent to 77 million. As a share of national income, spending on Social Security, Medicare and Medicaid (which covers some nursing home care, too) is already projected to jump about 80 percent by 2030. To pay for this spending would require a tax increase of roughly 35 percent that, in today's dollars, is about \$700 billion annually. And that's before a drug benefit. Everyone in the White House and Congress knows this. But the young aren't paying attention, so they're ignored. Supporting the drug benefit then becomes an exercise in short-term politics. To wit:

- The White House wants more elderly voters in 2004. (Among voters 60 and over, Bill Clinton won by 50 percent to 38 percent in 1992; in 2000, Al Gore won 51 to 47.)
- AARP -- with 35 million members -- believes that once a drug benefit is enacted, Congress will have to improve it.
- Many Democrats fear voting against coverage -- and crossing AARP -- even though they'd prefer a bigger program.
- Drug companies think sales and profits may improve. Demand will rise and they'll be paid (by Medicare) for some drugs they now give away.
- Corporate America sees a way to drop retiree drug insurance (to limit that, the bill offers -- over 10 years -- \$71 billion to companies that keep coverage).

Medicare has become pork barrel. It plays to retirees' desires and raises their discretionary income. The question of generational justice is nearly absent. Who cares about the long-term budget outlook or about clueless younger workers?

What's been missed was an opportunity to strike a grand bargain: some sort of drug benefit in exchange for cost-saving changes in retirement programs (gradual increases in eligibility ages, some benefit cuts for wealthier retirees, measures to curb Medicare spending). Although retirees deserve protection against crushing drug bills, future workers also deserve protection against crushing tax burdens. But that bargain was nowhere in sight because it requires more political candor and courage than either party can summon.

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