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How Not to Fix Medicare

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Today we remember Medicare's establishment in July 1965 as a ringing affirmation of the ideal of social insurance. Less well remembered is how close Washington came to creating a very different system. Not long before Medicare's passage, the Kennedy administration seemed on the verge of a compromise with Senator Jacob Javits, the moderate Republican from New York. Senator Javits and his allies wanted to give private insurance a leading place in the new program so government could play a smaller role — an idea opposed by liberal Democrats and organized labor. The opposition won out, and the private insurance idea seemed consigned to the dustbin of history.

At least it was until last week, when both the House and Senate passed bills that would give private health plans a huge new stake in Medicare as well as provide prescription drug benefits. With pressure from President Bush to pass legislation, Congress stands on the threshold of the biggest overhaul of Medicare since its inception. But unless crucial aspects of the Senate and House measures are rethought, such an overhaul will come at the peril of America's elderly and disabled.

If this warning seems apocalyptic, that's only because most Americans are under the impression that the measures on the table are centrist compromises that would protect everyone's interests. In reality, neither the Senate nor the House legislation would achieve this. And while the Senate bill is indeed an attempt at compromise, albeit a deeply flawed one, the House bill is a radical measure directly at odds with Medicare's longstanding aims. It threatens to cripple the program for generations to come.

Bluntly put, the House legislation is a ruse. The bill delivers a prescription drug benefit, but this benefit is simply the attractive window dressing for the legislation's ultimate aim: fundamentally revamping Medicare to create a competitive system based on private health plans. Consider the bill's major features. Private health insurers would be given increased government payments so that they could sweeten their benefits to lure the elderly and the disabled out of the traditional Medicare program. Beneficiaries choosing private plans with lower premiums would get a rebate from the government; those choosing plans with higher premiums would have to pay more. In 2010, the traditional program would be forced to compete with private plans. From then on, the amount that beneficiaries paid for Medicare would be set not by law, but by market forces.

This might sound like a great way to encourage consumer choice — until one realizes that the cost of alternative insurance options would be mainly determined by the health of those enrolled. Since the least healthy enrollees would most likely stay in traditional Medicare rather than brave the private market, the program's premiums would likely rise substantially. This would encourage healthier beneficiaries to seek lower premiums in the private sector, leaving only the sickest behind.

The problems don't end there, nor are they confined to the House bill. Neither the House nor Senate

legislation, for example, provides what the majority of Americans want: a drug benefit within Medicare itself. Instead, beneficiaries would be forced to turn first to private insurers, which would be able to set their own premiums for drug coverage. (The Senate bill allows for a drug benefit directly through Medicare only if a beneficiary does not have access to more than one private drug insurance plan in his region.)

Because drug costs are risky and expensive to cover, few insurers seem eager to sign up for this complex and untested idea. But even if private plans emerged, the likely result would be chaos as insurance companies continually dropped coverage and altered their benefits — which is precisely what has happened to millions of Medicare beneficiaries enrolled in private H.M.O.'s over the past five years.

Perhaps these risks would be tolerable if the standard drug benefit authorized by the bills were generous. It is not. Both bills feature an upfront deductible of \$250 or more, require significant co-payments above that amount and force beneficiaries to pay a huge amount out of pocket before catastrophic protection kicks in. As a result, an elderly woman with \$6,000 in total drug costs would end up paying more than \$4,000 of her own money under the Senate bill, and even more under the House legislation.

A recent study by Consumers Union underscores the meagerness of the benefit. According to the report, beneficiaries with average drug costs and no private coverage will spend roughly \$2,300 this year. If either the Senate or House bill takes effect in 2007, they will pay at least \$2,500. In other words, Medicare beneficiaries would spend more, not less, on prescription drugs after Congress came to the rescue.

The real solution is no secret: make the drug benefit a part of Medicare and, yes, spend more money on it. The \$400 billion over 10 years that Republicans have pledged for drug coverage may sound like a lot, but it's just a fraction of the nearly \$2 trillion in pharmaceutical expenses that beneficiaries are expected to incur over the next decade. Of course, a larger benefit would cost more. But, in the end, somebody is going to pay; the question is how the burden is distributed. The whole point of social insurance is to spread the responsibility across rich and poor, sick and healthy, rather than letting the burden fall on individuals and their families alone.

At a minimum, defenders of Medicare should insist that a prescription drug bill truly is a prescription drug bill — and not a vehicle for tearing down the existing system. If history is indeed any guide, Congress needs to resolve all these issues before rushing a compromise bill to the president's desk. In 1965, Medicare advocates thought they could wait until after the legislation was passed to revise the measure and expand coverage for the nonelderly. Of course, that never happened. In 2003, more than 40 million Americans remain uninsured. If today's Medicare advocates allow themselves to be steamrolled, they will be living with the fallout for decades.

Not coincidentally, perhaps, none of this will become clear until after the 2004 election. Republicans may ride a prescription drug benefit back into office. But the bills on the table now are mainly a prescription for resentment and dashed expectations — and, most fearful of all, for the unraveling of the social compact that has made Medicare an integral part of American social policy for nearly 40 years.

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