

Don't Forget About Medicare

AS HE BEGINS HIS SECOND TERM, President Bush has made it clear that one of his priorities will be to reform Social Security. This goal is appropriate as Social Security faces long-run financial problems that must be addressed. But what about Medicare? The Medicare program faces even more imminent financial difficulties, yet the president hasn't included it among his priorities. He needs to add Medicare reform to his to-do list.

The passage of the Medicare Modernization Act of 2003 made the largest changes to the Medicare program since its inception. The law adds a new prescription drug benefit, thus addressing a gap in the Medicare benefit package. But Medicare's long-term financing problems remain. Unless Medicare undergoes fundamental change, the program will face increasing financial pressures and ultimately won't have enough money to pay benefits.

Earmarked payroll taxes finance Medicare's Health Insurance (HI) trust fund, which covers inpatient hospital services for the aged and disabled. Any unused payroll taxes accumulate in a trust fund. According to last year's Medicare trustees report, spending for these services would exceed payroll taxes beginning last year.

By 2019, the HI trust fund assets will be depleted and tax revenue will cover only 80 percent of benefit costs. By contrast, the Social Security trust fund isn't projected to run out of money until 2042.

Medicare's Supplementary Medical Insurance (SMI) trust fund, which covers physician and outpatient hospital services as well as the new Medicare prescription drug program, is financed through beneficiary premiums and general income tax revenues. The good news is that the SMI trust fund will remain solvent. But this is only because its financing is reset annually to meet projected future costs. And because SMI costs are growing faster than HI costs, general revenues will finance increasing shares of total Medicare spending over time.

The new Medicare law attempts to address Medicare's

attention to the need to manage the added burden Medicare places on the federal budget, and sets the stage for future congressional debate over corrective action to limit the burden the program places on general tax revenues.

Congressional action is not guaranteed, however, and other financing problems remain. The rising number of beneficiaries and increasing health care costs will cause Medicare to consume ever-growing shares of the federal budget and the economy as a whole. The Congressional Budget Office estimates that 12 cents of every federal dollar spent in 2000 were used to pay Medicare benefits and that this share could double by 2030. By that time, Medicare, Social Security,

and Medicaid could combine for two-thirds of all federal spending. Needless to say, these expenditures may crowd out funds for other federal programs. It's unclear whether society will be willing to make these trade-offs in the future.

Medicare has increased the access to health care among older and disabled Americans. To ensure that future generations also benefit from the program, the president and Congress need to implement changes to improve Medicare's financial outlook. They should explore the full range of potential options, which include raising payroll taxes, reducing benefits, increasing beneficiary premiums or cost sharing, and implementing more private-sector competition strategies. And action should be taken sooner rather than later. Failure to act now to address the financial problems of Medicare will make it harder to maintain the program's fiscal stability and necessitate more extreme financial reforms later.



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