Subject: Medicare Problems Worse with Deal - Marmor/Hacker
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Poison pill

Why the new reform bill will make Medicare's problems bigger -- and even harder to fix

By JACOB S. HACKER and THEODORE R. MARMOR
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Tomorrow, President Bush is set to sign Medicare's biggest overhaul in 38 years into law. But after watching the shrill yet perfunctory debate that culminated last week in the passage of the bill, even close observers of Washington politics can be forgiven for wondering just what exactly it was all about. On one side, congressional Republicans and President Bush described the $400-billion legislation as a moderate, sensible means of providing long-overdue drug coverage to seniors.

On the other, Democratic opponents-including most House Democrats, Senate minority leader Tom Daschle, and Senator Ted Kennedy, who led an unsuccessful filibuster-decried it as a monstrous giveaway to insurers and drug companies. They also charged that it was a "Trojan horse" aimed at crippling Medicare's universal benefits in order to foster go-it-alone competition.

All this becomes more understandable when one recognizes that the bill is really two bills. The first provides a much-needed, if modest and excessively complex, drug benefit. But while this new benefit is generous for some low-income seniors, it will end up raising out-of-pocket drug costs for other poor beneficiaries. And because it is poorly designed and does not include effective ways of controlling drug costs, the plan will ultimately leave most seniors little better off than they are today, and some worse off.

The second, darker side of the new Medicare bill is a slew of changes that have little or nothing to do with drug coverage and everything to do with special-interest demands and ideological animus toward Medicare. These include huge new subsidies for private insurers, and provisions that ensure that drug companies will be spared from their greatest fear: that Medicare will use its massive buying power to demand reductions in drug prices. Perhaps most ominous, the bill also contains elements that favor private plans and risk further degeneration of Medicare's

all-in-the-same-boat structure. Six sizable "demonstration projects" are intended to introduce greater competition into Medicare; they will also likely raise costs for seniors who remain in the traditional program.

What is most striking about the bill is not the consistency of its vision, but its deep incoherence. In the name of greater free-market competition, the legislation offers massive new subsidies to the pharmaceutical and insurance industries. In the name of providing greater protection, it threatens Medicare's guarantee of universal benefits. (Indeed, it even provides more than $6 billion to support Health Savings Accounts outside of Medicare, risking the fragmentation of the broader insurance risk pool.) And in the name of greater cost containment, it encourages the expansion of private plans that have, to date, not saved Medicare money, while creating new budgetary rules that could very well make Medicare less equitable and affordable down the road.

Behind these glaring inconsistencies lies the one great fact of contemporary American politics: partisan and ideological polarization. But if the bill were the product of political conflict alone, we would expect not a massive new entitlement with so many contradictions and problems but a more modest, lowest-common-denominator agreement-for example, a bill covering catastrophic drugs costs only. Instead, what we have is a bill driven principally by a mix of high Republican ideals and low political calculations that was crafted almost entirely in isolation from Democratic input and then tweaked just enough to win moderate votes and sidestep potentially hostile public opinion.

This brings us to the most overlooked reason for the unnecessary and self-defeating complexity: the conservative reform agenda itself, which is simultaneously driven by ideological principles that celebrate free competition and the interests of powerful industries that hope to avoid it at all costs. Private insurers and drug companies don't want true competition: They want a playing field tilted in their favor. And they're willing to do whatever it takes to seize the advantage, including, according to recent news reports, bidding exorbitant sums for the future lobbying services of the current Medicare administrator, Thomas Scully. Republicans, eager to win campaign funds and hostile to the very idea of Medicare, essentially gave the medical industry what it wanted. But what they produced has about the same intellectual purity as an ad jingle.

To be sure, politics usually requires compromises. But what's shameful about the present bill is just how deeply the compromises-or, more accurately, the concessions to knee-jerk beliefs and private interests-undercut the stated goal of the bill: drug coverage for seniors. By our back-of-the envelope calculations, the roughly $400 billion in new spending over the next 10 years (not to mention the $140 billion in new premiums paid by Medicare beneficiaries themselves) will buy only about half as much coverage as a sensibly designed bill could. This is not only because of the subsidies for private health plans and for Health Savings Accounts, but also because of the higher overhead costs of private plans

(about five to six times higher than for traditional Medicare) and the 20-to-30-percent higher prices for drugs that seniors will have to pay because Medicare is forbidden from using its bargaining power to negotiate better deals.

All this helps explain why the drug benefit itself is so convoluted and ultimately so meager-covering, for example, only a small share of seniors' expected drug expenses overall, and reimbursing the 300th dollar of drug spending but not the 3,000th. It also helps explain why, according to polls, seniors already don't like the benefit very much. A recent University of Pennsylvania survey, for example, shows opposition to the bill outweighing support by two percentage points among the general public, but by some 16 points among Americans over 65.

Indeed, a significant proportion of Medicare beneficiaries will almost certainly be worse, not better, off under the bill. This includes several million low-income seniors who will lose the generous coverage they now enjoy under state Medicaid programs. It also includes millions who already have pretty good drug coverage through their former employers-coverage which will likely be dropped, despite the bill's subsidies for employers that retain coverage.

Even if these clear losses are ignored, all credible estimates suggests that, except for the very poor and very sick, drug spending will consume a larger share of seniors' incomes in the coming years than it does now, despite the new legislation. This is not just because the benefit is so meager, but also because the bill fails to authorize the negotiation strategies that large corporations and public programs like the veterans' health plan use to rein in skyrocketing drug prices. Fortunately for Republicans, none of this will become crystal clear until after the 2004 election, because-not coincidentally-the new drug benefit does not kick in until 2006.

Nonetheless, some hopeful Democrats argue the bill is worth supporting because it will, in the long term, be a stepping stone to a good drug benefit and sensible Medicare reforms. Might they have a point? Making the benefit more rational and generous, especially for low-income seniors and those with high but not catastrophic drug costs, is essential. But for three important reasons, the new bill is unlikely to be refined and improved down the line.

The first is the dismal historical record of Medicare's attempts to encourage private plans within the program. If the past is any guide, the next debate will not concern the expansion of benefits but figuring out how to make the amazingly complex legislation actually work. And there will be considerable pressure from conservatives to delay any major changes until after the demonstration projects designed to showcase the alleged benefits of market competition occur-in 2010.

Furthermore, efforts to upgrade the benefit will run headlong into the

massive budget deficit, and into the fact that the profligate legislation has no effective cost-control mechanisms.

Finally, the legislation's one bow to cost control is guaranteed to create conflict on terrain highly unfavorable to those seeking to expand and rationalize benefits. In a relatively unnoticed provision that wasn't in either the original House or Senate legislation, the bill creates a new standard for Medicare "insolvency." It would define the program as insolvent whenever, in two consecutive years, more than 45 percent of its spending comes from general income tax revenues (not incidentally, the most progressive source of Medicare financing) rather than payroll taxes and premiums. When this ceiling is hit, which is likely to happen sometime in the next decade, the law will require the president to propose spending cuts and tax increases within the program. That's likely to cause benefit cuts and premium hikes, not benefit expansions.

It's also certain to cause political conflict-which may be the bill's ultimate contradiction. Republicans hope to take off the table an issue with which they have been battered for years, and they may well do so through 2006. But by pushing through such an unwieldy bill, they are virtually ensuring that Medicare will be the biggest issue in American politics in the coming decades. Sadly, at the present juncture, that seems to promise more acrimony, confusion, and disappointment, rather than the constructive steps forward that Medicare so desperately needs.

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