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SETTING THE RECORD STRAIGHT ON MEDICARE PART B

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Under the Medicare proposals people could be making $50,000, $100,000 or $200,000 a year and still receive medical assistance provided by the Federal Government from a tax on a poor man who has not enough money to put butter on his bread....We should help people who cannot pay their own medical bills....

U.S. Senator Russell B. Long (D-LA)
August 31, 1964

The American public is tired of political promises that go unfulfilled. They realize that tough choices must be made....The first plan...would take $114 billion over five years from Medicare...increasing co-payments for beneficiaries....The second and third plans reduce the spending cuts somewhat but replace them with substantial tax increases. The second plan...provides for $45 billion in Medicare cuts...increasing co-payments for beneficiaries....My own preference would be ...similar to Plan II.

Leon E. Panetta, Chairman
Committee on the Budget, Press Release, May 26, 1992

The President had less compelling reasons to veto the continuing budget resolution. His chief stated reason—to protect Medicare patients—is purely political. The bill would, as it should, prevent Medicare premiums for Part B...from falling $3.60 a month. At a time when Government services across the board will be sliced, there is really no reason to cut Medicare costs for the politically powerful elderly.

The New York Times
November 14, 1995, p. A24

INTRODUCTION

The White House is attempting to draw a "defining difference" between the Medicare Part B premium savings in the respective House-Senate Balanced Budget Reconciliation Acts passed last month and President Clinton's own budget plan, released in June 1995. President Clinton's stated reason for opposing a continuing resolution to keep federal agencies operating until December 1, 1995, is a provision requiring Medicare beneficiaries to continue paying what they pay today: 31.5 percent of the Medicare Part B program's costs.[1] Medicare is also the most contentious issue in the Balanced Budget Reconciliation Act of 1995.

The Supplemental Medical Insurance (SMI) program, also known as Part B, pays for physician, auxiliary, and outpatient services, and for dialysis for those with end-stage renal (kidney) disease. Beneficiaries enroll in Part B voluntarily. In addition to the Part B premium, they are responsible for a $100 per year deductible. Once a beneficiary satisfies the deductible, the taxpayer pays 80 percent of all physician and related services for the rest of the calendar year. Utilization is unlimited, which means the program is an open-ended entitlement. Taxpayers today subsidize approximately 68.5 percent of the Part B program, regardless of a beneficiary's income or past level of contribution. Meanwhile, two-thirds of the uninsured population—working Americans or their dependents, the working poor, and the lower middle class—are forced to spend hundreds of dollars a year subsidizing Medicare, including high income beneficiaries through a mandatory Medicare payroll tax (HI tax) and general federal income taxes.

When Part B was implemented in 1966, the Democratic Congress, under the leadership of the Johnson Administration, set the premium level to require beneficiaries to finance 50 percent of the program's costs. This was Congress's original contract with the American taxpayers. The terms of the contract have been broken. Due to excessively high utilization rates by seniors, Part B costs have grown much faster than the annual Social Security cost of living adjustments (COLAs). Since 1984, Congress has taken the politically safe route of requiring beneficiaries to pay only 25 percent of Part B costs. In the Omnibus Budget Reconciliation Act of 1993 (OBRA 93), President Clinton and Congress again set the Part B premium to cover 25 percent of costs. OBRA 93 applies to Part B premiums from 1996 to 1998. Because of government miscalculations, the current Part B premium of $46.10 per month covers 31.5 percent of the program as opposed to 25 percent.[2]

THE NEED FOR REFORM

In its 1995 Annual Report, the Board of Trustees for the Federal Supplemental Medical Insurance Trust Fund concluded: "Growth rates have been so rapid that outlays of the program have increased 53 percent in aggregate and 40 percent per enrollee in the last 5 years. For the same time period, the program grew 19 percent faster than the economy despite recent efforts to control the cost of the program."[3] Two of the board's seven members are private citizens and referred to as "public trustees." In the "Summary of the 1995 Annual Reports," these public trustees state: "The SMI Trust Fund, while in balance on an annual basis, shows a growth rate of costs which is clearly unsustain-

1 More accurately, President Clinton objected to a provision that would have capped taxpayers' subsidies for seniors at 68.5 percent. In effect, Clinton has proposed to increase the subsidy to 75 percent effective January 1, 1996, and an estimated 80 percent by the year 2002.

2 Congressional Budget Office (CBO) March 1995 Baseline.

3 *1995 Annual Report of the Board of Trustees of the Federal Supplemental Medical Insurance Trust Fund,* April 3, 1995, p. 26. The Medicare Board of Trustees is comprised of the same seven members as the Hospital Insurance (HI) Trust Fund, three of whom are Clinton Administration Cabinet Secretaries: Health and Human Services Secretary Donna Shalala, Treasury Secretary Robert Rubin, and Labor Secretary Robert Reich.

able. Moreover, this fund is projected to be 75 percent or more financed by general revenues, so that given the general budget deficit problem, it is a major contributor to the larger fiscal problems of the nation."[4]

In response to the Trustees' report, Congress proposed a minor yet significant step toward controlling the ever-increasing taxpayer subsidy for Medicare Part B: requiring both current and future beneficiaries to contribute 31.5 percent of program costs ($53.50 per month) effective January 1, 1996, thereby reducing the substantial taxpayer subsidy while helping to insure that beneficiaries pay a fairer share of the costs. Under this policy, Medicare will save taxpayers $47.1 billion over the next seven years while continuing to maintain a very generous subsidy to enrollees.

The Clinton Administration and liberals in Congress insist that a 25 percent enrollee contribution ($43.70 per month) must prevail, which would force all working Americans to increase their current 68.5 percent subsidy to 75 percent as of January 1, 1996. Since Part B premiums are currently $46.10 per month, it is disingenuous for liberals in Congress to call a $53.50 per month premium in 1996 an "increase of $11 per month." Coincidentally, President Clinton's Health Security Act of 1993 (H.R. 3500/S. 1757), which modified the Part B benefit package while adding to the federal deficit, would have required an increase of $22 billion in premiums, or about $11 per month per enrollee.[5] Moreover, Leon Panetta, now President Clinton's Chief of Staff, as Chairman of the House Committee on the Budget recognized that the current $100 per year deductible was not acting to deter unnecessary utilization of medical services. In order to reduce the volume of small claims, an option advanced by Chairman Panetta included increasing the Part B deductible to $150 per year, indexed for future years. The budgetary savings from this change alone would have yielded $11.84 billion between 1993 and 1997.[6] Similarly, the Senate's version of the seven-year Balanced Budget Reconciliation Act of 1995 included exactly the same proposal, to be effective January 1, 1996. It is therefore ironic for the Clinton Administration to condemn congressional efforts to balance the budget as "extreme proposals" that would "violate our values."

TAXING THE ELDERLY

Even President Clinton's own proposal to maintain a 25 percent contribution level would require Medicare beneficiaries to pay a larger portion of Part B's estimated costs. Worse, the 1993 Clinton budget raised the taxes of the nation's elderly receiving Social Security benefits. Despite the Clinton Administration's claim that the new 1993 tax increases were levied only on the rich, individual recipients earning $34,000 a year and couples with income over $44,000 a year saw the maximum portion of their Social Security check subject to income taxes jump from 50 percent to 85 percent, effective January 1, 1994. In other words, the Clinton Administration already has reduced the monthly income of senior citizens in its 1993 budget. Because of the revenues already being obtained from this specific tax, opponents of Medicare reform are able to claim that they are not dipping into the pockets of senior citizens. Nevertheless, this claim can only be short lived since the Clinton proposal would increase Part B premiums in 1999.

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4 Medicare Board of Trustees, "Status of the Social Security and Medicare Programs: A Summary of the 1995 Annual Reports," April 1995, p. 13.

5 Congressional Research Service, "Health Care Reform: President Clinton's Health Security Act," CRS Report for Congress, November 22, 1993, pp. 57-59.

6 Leon E. Panetta, Chairman, "Balanced Budget Options," Committee on the Budget, U.S. House of Representatives, May 26, 1992, p. 12.