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Forgotten Americans:
The Future of Support for Low-Income Older Adults

Issues in Public and Private Sector Implementation of
Health and Income Programs

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The National Committee to Preserve Social Security and Medicare is one of the nation's largest senior citizen membership organizations. The National Committee's job is to educate and lobby Congress on issues important to older Americans. As part of that process, we also educate the public, so they can understand exactly what legislative ideas have been proposed and how these new concepts will affect them.

We have discovered during our meetings that most people outside policy gatherings such as this do not understand the words "social insurance". But when Social Security is used as an illustration of the values social insurance represents, and the goals it attempts to achieve, we see many nods of agreement in our audiences.

This dynamic was particularly in evidence during the recent effort to block President Bush's Social Security privatization initiative.

Privatizing Social Security is not a new idea for this President. He has advocated for private accounts since the first time he ran for Congress. Private accounts were also part of his platform in his first Presidential campaign, but he did not dwell on them, and he did not try to push for them until the beginning of his second term. That year – suddenly – during the State of the Union, the entire nation heard the President proclaim that privatizing Social Security would be the top domestic priority of his second term.

To launch this effort, the President embarked on a 'Sixty Cities in Sixty Days' campaign to convince the American public his idea should be supported.

But a funny thing happened on the way to privatization – the more President Bush talked about Social Security private accounts, the less the American public liked them. And I believe the reasons are based in the fundamentals of social insurance that the Social Security program represents.

To lay the groundwork for private accounts, the President and his supporters understood that first they needed to create a feeling of crisis with the public. Most people like Social Security and place great value on having a guaranteed, basic benefit that lasts as long as you live. As the President viewed the situation, he first needed to convince Americans that radical changes were needed. The public needed to be persuaded that the risks inherent in private accounts were outweighed by an even greater risk – the risk of losing Social Security completely. Only then could the public be maneuvered into accepting changes that would undermine many of the core benefits of Social Security they valued so highly. So the first job of those supporting privatization was to paint a doomsday picture of Social Security's future.

The painting of this false picture has taken two forms – greatly exaggerating the challenges faced by Social Security and promoting the notion that Social Security is part of a larger and intractable "entitlement" problem. When Social Security's traditional 75-year estimates did not produce numbers that frightened the public sufficiently to lay the groundwork for private accounts, conservative analysts promoted the concept of viewing costs over an 'infinite horizon'. Using an infinite horizon allows analysts to project cost estimates into infinity – an exercise that makes absolutely no sense either to accountants or as a matter of public policy. It does, however, tend to generate extremely large cost estimates.

The truth is that Social Security's funding gap is both modest and manageable. According to the Social Security actuaries, Social Security has sufficient funding to pay full benefits until 2041 and will have income adequate to pay 75 percent of benefits thereafter. The Social Security shortfall over the next 75 years is only about one-third of the cost of extending President Bush's tax cuts. Reasonable solutions are available to keep Social Security financially sound without drastically reducing benefits or unraveling the program's many protections.

The other technique adopted by proponents of privatization was to promote the idea that Social Security was part of a larger problem of unaffordable entitlement programs. Proponents have combined the long-term cost estimates for Social Security, Medicare and Medicaid into one huge number that appears impossible for the nation to sustain. They use this process despite the fact that the three programs have little in common other than their entitlement status, and the fact that the cost pressures affecting each is completely different. Social Security is an income security program whose cost increases are primarily driven by demographics and by the changing nature of income. Medicare, on the other hand, is a health care program subject to all of the pressures that are rapidly making health insurance unaffordable for our working population.

Unfortunately, these exaggerations have been most successful with the young, more and more of whom firmly believe Social Security won't be there for them when they retire and that they will have to bear an excessive burden if these programs retain their current form. Since they're convinced they have 'nothing to lose', they are more willing to take the risks inherent in private accounts. They also are the least likely to understand the real value in social insurance because, at their age, they feel invincible.

But those approaching middle age and those already in their senior years are well aware of the critical need for social insurance. They understand that sometimes "bad things happen to good people" because they have experienced the "hazards and vicissitudes" of life that Social Security was designed to protect against. They believe there is an important role for the government to play in protecting people, and they clearly understand the inherent risks of trusting Wall Street with yet another piece of their retirement future. To the extent these generations have any retirement savings at all, they have extensive experience with both the highs and the lows of the stock market. They understand the dangers of converting Social Security's guaranteed benefits to accounts that will be at the mercy of Wall Street's gyrations.

That was a key reason the President took such pains to reassure seniors that converting Social Security's guaranteed benefits to private accounts would not affect them, in hopes they would stay on the sidelines during the debate. He did not seem to understand one basic truth – that seniors care about Social Security not just for themselves, but for their children and grandchildren. And they were not about to stand aside and allow the program to be dismantled.

Although the notion that Social Security is in financial crisis has become widely accepted, it did not take long before people realized that the principal solution the President was proposing – private accounts – actually did nothing at all to solve the problem. In fact, because they divert payroll taxes out of the Trust Funds, private accounts actually reduce Social Security's solvency.

The key solvency measure the President endorsed was the so-called progressive price indexing plan proposed by Robert Pozen. Although it was described as a formula that would merely protect lower-income workers and make Social Security more progressive, Mr. Pozen's price-indexing proposal turned out to have a dramatic impact on the middle-class. Over time, the plan would have cut Social Security benefits for every worker earning over $20,000. The result would have been a reduction in benefits for 70 percent of future retirees. And the cuts would have been dramatic. According to research done by Alicia Munnell, if Social Security benefits had been indexed in this fashion in 1951, middle-wage workers retiring today would have a Social Security benefit that is one-half the size of the currently scheduled benefit. That would have pushed millions of retirees back into the poverty they experienced before Social Security was created.

Not surprisingly, that violated people's general notion of fairness. While they generally support progressivity in Social Security's benefits to protect those who need it the most, they still believe there should be some connection between a worker's contributions during a lifetime of employment and the benefit earned in retirement. Converting Social Security's 'earned benefit' into a safety net welfare program is not a step most members of the public are prepared to support.

The second key reason for the failure of the privatization effort lies in the issue of intergenerational equity. The President and his supporters often cite the decline in the worker-to-retiree ratio in support of privatization, especially when they are talking to younger audiences. We have tried to counter this argument by pointing out the importance of the total dependency ratio rather than just the worker-to-retiree ratio. Our audiences respond to this argument, but we find them even more receptive when we also point out the generational effects of the *cost* of private accounts.

Social Security is a pay-as-you-go system in which today's payroll taxes are used first to pay today's beneficiaries, with the surplus invested in special issue Treasury bonds. Today's workers pay the benefits of today's retirees with the expectation that their benefits will be paid by tomorrow's workers. Private accounts, on the other hand, require today's workers to save for their own retirement. It does not take long for people to realize that converting from one system to the other requires one or more generations to pay twice.

In this case, the burden will fall on the younger generations.

Private accounts would increase the national debt by nearly $5 trillion in the first 20 years of full implementation. And that is just the beginning – the costs would continue to grow. After four decades, the additional debt resulting from privatization would reach more than 20 percent of GDP. This debt would be paid by today's younger generation.

Although there are some politicians who believe 'deficits don't matter', the public is becoming increasingly aware of the dangers of passing mountains of debt along to their children and grandchildren. While they are willing to support borrowing to invest in the future, they were not willing to support taking on huge levels of new debt that would be used to convert a program that works into one that would result in lower benefits and dramatically increased risk for themselves and future generations.

As the general public learned about these and other arguments against private accounts, most public support for the President's initiative faded. That has not stopped the Treasury Department from continuing its effort to define the debate in a way that leads unavoidably to private accounts. Recently Secretary Paulson announced the release of the first in a series of Social Security Issue Briefs, ostensibly to lay out areas of common agreement. A closer inspection of the material brings out the many areas in which it is biased toward privatization – from the use of "infinite horizon" calculations to define the size of the problem, to the insistence on the Administration's notion of "pre-funding". It is almost inevitable that future Issue Briefs will make it clear that "pre-funding" as used by the Administration is merely a code word for private accounts.

For those of us who advocate on behalf of both Social Security and Medicare, attempting to use the lessons we learned in the privatization battle over Social Security in order to protect Medicare has been extremely frustrating. In part, this has resulted from the timing of the Medicare Modernization Act of 2003. While groups like ours were focusing our attention on Social Security, the move to privatize Medicare through changes imbedded in the Medicare Modernization Act was well underway. The Medicare Modernization Act was such a complicated piece of legislation, most people only focused on the new prescription drug benefit created as Medicare Part D. Only recently has more attention been drawn to the other elements of privatization built into the legislation.

This privatization took many forms. It started with the prescription drug benefit itself, which was fully privatized. Not only could the federal government not offer an drug option for those who did not want to enroll in private plans, the legislation specifically prohibited the government for negotiating with the drug companies for lower prices. Every business in the world uses its purchasing power to try and negotiate bulk pricing deals for its customers, but the Medicare program is prohibited from doing the same thing to help moderate drug price increases for its beneficiaries.

A second major element of privatization relates to the reimbursement rates that private insurance companies would receive in order to participate in Medicare. It is this piece of the privatization puzzle that we find especially dangerous to the program.

Before Medicare was created, seniors were essentially on their own. Because older Americans are virtually guaranteed to draw higher health claims than any other segment of our population, they were mostly shunned by private health plans.

Medicare changed all that. By creating a universal insurance pool, Medicare allowed the previously uninsurable senior population to share their risks, providing affordable coverage where little had existed before.

Unfortunately, it is extremely difficult to educate the public on the importance of providing a broad risk pool to help moderate the cost of health insurance. It is even more difficult to explain why privatization destroys the foundations of Medicare's risk pool. With Social Security, the impacts of privatization quickly became obvious – the Treasury check that comes like clockwork every month would be replaced with a check from a private investment company, and the size of the payment would depend on how lucky your investments in the market turned out.

With Medicare, the impacts are much harder to explain because health care itself is delivered through the private sector. Beneficiaries see their own doctors, have tests and procedures done by private companies and are admitted to their choice of hospitals. The government influence is built into the reimbursements, not the delivery of care, and so is not obvious to the average person.

Until recently, these distinctions were not important as private insurance companies had little interest in insuring the elderly and disabled because costs were so high. It was not until the mid 1990s that private insurance companies became interested in insuring the Medicare population. Managed care was very much in vogue at that time – heralded as the magic bullet that would reduce the cost of healthcare for all Americans.

Private insurance companies convinced Congress to allow them to participate in Medicare, and they we so confident in their ability to cut costs that they were willing to serve beneficiaries at 95% of the cost of traditional Medicare. Not surprisingly, the cost savings did not materialize because, despite the industry assertions, private companies do not necessarily provide health care coverage less expensively than the government. When Congress refused to increase payments to private industry in order to keep them in the Medicare program, they abandoned the effort, leaving millions of beneficiaries who had signed up for their plans scrambling for healthcare.

In 2003, the industry tried again, but this time their pleas for "incentives" to cover Medicare beneficiaries fell on much more sympathetic ears. The President pushed Congress to enact the prescription drug benefit he had promised for Medicare. For many in the Congressional leadership at the time, the price for their support of this benefit would be the privatization of the Medicare program.

The old Medicare+Choice program that had left so many seniors without coverage in the 1990s was renamed Medicare Advantage. As with most names selected to hide the underlying purpose, this program has nothing to do with helping Medicare. In fact, the program gives private companies the advantage over traditional Medicare that will end up destroying the program.

Buried in the Medicare Modernization Act are payment formulas that have resulted in Medicare Advantage plans being paid an average of 12% <u>more</u> than it would cost traditional Medicare to serve the same beneficiaries. And the fastest growing type of Medicare Advantage plan – known as Private-Fee-For-Service Medicare – is being overpaid an average of 19%. In some parts of the country, overpayments can run as high as 50%.

Where do these overpayments come from? Some of the money comes from the federal government and the rest out of the pockets of every person in the Medicare program – whether they have signed up for Medicare Advantage or not. It comes out to $1,000 a year per beneficiary in subsidies to private plans – almost $50 in higher Part B premiums each year per couple enrolled in Medicare. The 10-year estimate of how much Medicare would save if payments were equalized is about $150 billion – many believe this is an under-estimate. And of course these numbers will grow exponentially in the future.

Earlier this year it looked as though the new Congressional majority was poised to eliminate these subsidies. But insurance companies are very good lobbyists. They have spent millions of dollars trying to convince Congress not to stop the gravy train, and trying to convince beneficiaries that they are actually receiving better benefits than they could get through traditional Medicare.

It is true that Medicare Advantage plans are required to cover everything that traditional Medicare covers, but they are not required to cover it in the same way. So they often have "extra" benefits like glasses or enhanced dental benefits – or even gym memberships for those trying hard to attract a younger client base. This lures many seniors out of traditional Medicare without costing the plans a great deal. What seniors do not realize is that many of these plans have significantly higher co-payment requirements for expensive services such as hospitalizations, chemotherapy and home health care. If they end up with an illness that causes them to need some of these services, they revert back to traditional Medicare at the first available opportunity because it will cover the excess costs that their private plan will not.

This process is a perfect example of how the introduction of private insurance plans into Medicare has begun shattering the insurance risk pool that makes Medicare work. As more seniors flock to Medicare Advantage plans, the overpayments to the private plans keep rising. Seniors left in traditional Medicare subsidize these plans by paying higher premiums, which pushes more of them to switch to the Medicare Advantage plans themselves. Meanwhile, the part of the subsidies that are paid for out of general revenues also keeps getting higher. The overall cost of the program keeps rising, and this feeds into the arguments made by those denouncing the cost of entitlement programs, thus strengthening their claim that our country cannot afford Medicare.

Because there is nothing about any of this that actually helps reduce health care inflation, the program's death spiral is complete – and the hope of those who oppose social insurance programs is that the only solution will become to give every senior a voucher and let them fend for themselves. We already have seen this theory in action with so-called "consumer based" healthcare – Health Savings Accounts (HSAs) and their cousins that shift more of the risk of health care onto individuals.

Those who engineered this legislation have been quite up front about what they hoped to accomplish.

Back in 1995, Newt Gingrich said: "Now, we don't get rid of traditional Medicare in Round 1 because we don't think that's politically smart. But we believe **it's going to wither on the vine** because we think people are voluntarily going to leave it …."

And in 2003, Ways & Means Committee Chairman Bill Thomas said: "Some of our friends on the other side of the aisle are saying that if the MMA becomes law, it will be the end of Medicare as we know it. Our answer to that is, **we certainly hope so**."

The National Committee and its members hope the answer is exactly the opposite – that as the negative aspects of privatization become better understood, we can reverse the push to eliminate the last vestiges of our social insurance network. In fact, the debate involving health insurance generally that has become part of this year's Presidential candidate's debates has begun that public discourse. There is a clear line of demarcation between those candidates offering health insurance proposals that maximize the values of social insurance, and those that emphasize individual responsibility and risk.

It is our hope that this process will result in renewed public enthusiasm in support of social insurance, and consensus to strengthen both Social Security and Medicare. A nation as great as ours owes its citizens nothing less.