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THE FUTURE OF MEDICARE IN A GROWING FISCAL STORM

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With all the talk today about Social Security reform, you may have been left with the impression that it is our biggest fiscal problem. Yes, it's big with a \$5.2 trillion shortfall projected over the next 75 years. But the projected shortfall in Medicare over the same period is five times greater -- 28 trillion dollars. This means the government will need to borrow 28 trillion dollars to sustain the current program -- an unthinkable proposition.

Much has been said about annual Social Security surpluses (which currently fund the rest of the government) expiring in 2018 with the program then requiring general revenues to supplement Social Security payroll taxes just to pay current benefits. But much more imminent is the shortfall in Medicare. The Medicare Hospital Insurance Trust Fund that pays Part A hospital benefits from the Medicare payroll tax will begin to run annual cash deficits beginning this year requiring infusion of general revenue. And general revenue already by law funds 75% of Medicare Part B.

For years, one of the best kept secrets in Washington was that there are really no assets in so-called "government trust funds" with all the cash surpluses routinely borrowed to fund the rest of the government. By law it's referred to as the requirement to invest the surplus in government securities. But the result is the same: future generations will pay today's entitlement costs. When one of the biggest funds will no longer be able to pay the current entitlements from dedicated revenue sources, it should be big news, but we hear little about it.

And the problem only gets worse into the future fueled by four factors:

- 1) the retirement of the baby boomers
- 2) the rising cost of health care
- 3) the addition of the Part D prescription drug benefit to Medicare
- 4) the likelihood of tax cuts being made permanent

The numbers are daunting. In 40 years, there will be 40 million more Americans over the age of 65 -- more than double the number today. Today we have 3.3 workers for every eligible Medicare beneficiary. In 40 years, we will have only two workers paying the taxes for every one Medicare beneficiary.

With large federal deficits as far as the eye can see, no single part of the equation can be adjusted to solve the problem. The deficits are just too large. Last fiscal year the federal government ran a budget deficit of about \$422 billion -- \$50 billion more than 2003 and over 2 ½ times the deficit in 2002 (\$152 billion). These deficits are not temporary and they will run in the range of \$500 billion annually into the next decade and beyond. These large and growing deficits give rise to every increasing interest payment on this accumulating debt. Interest on debt has been referred to as the fourth entitlement after Social Security, Medicare, and Medicaid. Under current estimates, this interest will become our largest entitlement program in 25 years.

The frequently heard calls for the elimination of “waste, fraud, and abuse” in the federal government that seldom result in significant spending cuts or savings mask a more fundamental problem. Congress, the President, and the American people have some tough decisions to make. We are often told our current budget deficit is only 3.6% of GDP, which is not the historic high. But this comparison fails to acknowledge that our deficits now appear to be permanent rather than temporary as occurred during World War II and that spending cuts alone, or tax increases alone, or entitlement reforms alone can not solve the problem. For example, to balance this year’s federal budget with spending cuts alone would require eliminating the entire defense budget or cutting all non-defense appropriated programs. An equally untenable spending cut to balance this year’s budget would be to eliminate both Medicare and Medicaid or to eliminate all of Social Security.

So even a courageous President and a Congress intent upon cutting discretionary spending and enhancing revenues will only achieve marginal progress in addressing the growing fiscal storm. That leaves only one remaining area of cost containment -- entitlement reform.

The subject of today’s seminar is but a small part of a much larger debate that this country must have on the future structure of the healthcare delivery system. Preserving quality and accessibility while making healthcare more affordable will require fresh ideas and innovation. Today 25% of Medicare beneficiaries account for 90% of all Medicare costs. Can we take a closer look at those 10 million seniors and through preventative medicine and better management of their health care needs improve both their quality of life and reduce costs?

It was encouraging to see Hillary Clinton and Newt Gingrich at a joint press conference this morning teaming up to address the future of healthcare. This is the kind of bipartisan effort it will take.

We must begin now to seek a national consensus on the future of healthcare. Arbitrary budget cuts followed by successive givebacks does not constitute entitlement reform. We can do better and must do better. As with all other worthwhile achievements in life, it will require leadership and our willingness to recognize and support those who are willing to present their ideas in the public forum.