

MEDICARE

SPECIAL REPORT

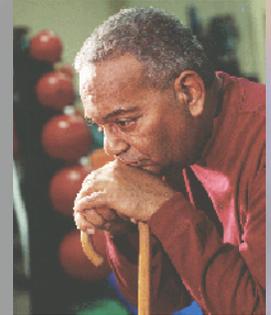


**DEMOCRATIC
POLICY
COMMITTEE**

**SPECIAL REPORT
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**REVISED AND
UPDATED**

**SACRIFICING THE HEALTH
SECURITY OF AMERICA'S SENIORS:**



**THE MEDICARE TRUST FUND FINANCES
THE PRESIDENT'S BLOATED TAX CUT**

SACRIFICING THE HEALTH SECURITY OF AMERICA'S SENIORS:

The Medicare Trust Fund Finances The President's Bloated Tax Cut

– A Revised, Updated Version of Special Report –

President Bush's budget uses virtually the entire non-Medicare, non-Social Security Trust Fund surplus to support the President's ill-advised, \$2 trillion-plus tax cut and therefore leaves available only the Trust Fund surpluses if we are to make needed investments in prescription drugs, defense, education, and other priorities. The immense magnitude of the President's tax cut also crowds out the resources necessary to provide a meaningful prescription drug benefit for seniors and people with disabilities.

Indeed, the President's budget framework diverts the \$526 billion Medicare surplus into an \$842 billion "contingency" fund – a contingency fund that is available under the Bush budget to fund such high-priority needs as defense spending, Social Security reform, a prescription drug benefit, education spending, investments in agriculture, disaster relief, and unexpected emergencies!! In fact, the Medicare surplus represents 62% of President Bush's so-called "contingency" fund! By placing the Medicare surplus in the "contingency" fund, the President is placing the Medicare Trust Fund directly at risk.

Democrats believe that all Americans – particularly working families – deserve significant tax relief. However, the tax cut must be part of an honest budget framework that pays down the national debt and does not threaten Social Security and Medicare. The Democrats' budget framework demonstrates that it is possible to provide responsible, broad-based tax relief, pay down the debt, protect the Medicare Trust Fund, and provide a comprehensive Medicare prescription drug benefit option for all 39 million beneficiaries.

THE BUSH ADMINISTRATION HAS TO SPEND THE MEDICARE SURPLUS IN ORDER TO PAY FOR ITS TAX CUT. The President's budget outline acknowledges that his tax plan costs over \$2 trillion. When the President's plan is adjusted for changes Republicans have already made or are likely to make, estimates indicate the Bush tax cut would cost as much as \$2.6 trillion, virtually the entire non-Medicare, non-Social Security Trust Fund surplus. Any spending increases the President proposes can only be funded by raiding the Trust Funds.

- **President Bush's Tax Cut Forces Him to Use the Medicare Surplus to Fund Other Priorities.** Because the Bush tax cut uses up virtually the entire non-Medicare, non-Social Security surplus, the President is forced to use the Medicare surplus to support his other spending initiatives. Specifically, as was noted above, the Bush budget diverts the \$526 billion Medicare surplus into an \$842 billion "contingency" fund – a contingency fund that is available under the Bush budget to fund such high-priority needs as defense spending, Social Security reform, a prescription drug benefit, education spending, investments in agriculture, disaster

relief, and unexpected emergencies!!

- **The Bush Budget Will Inevitably Spend The Entire “Contingency” Fund – And Thus The Entire Medicare Surplus.** The Democratic staffs of the Senate and House Budget Committees estimate that the true cost of the President’s proposed tax cut (with AMT reform and interest costs) is at least \$2.6 trillion over 10 years – the approximate amount of the non-Social Security, non-Medicare surplus. Therefore, any increase in spending proposed by the President (such as additional defense spending, Social Security reform, Medicare reform, additional education spending, investments in agriculture, veterans spending, disaster relief, etc. etc.) would immediately tap the “contingency” fund – first quickly depleting the \$316 billion portion of the “contingency” fund outside the Medicare surplus and then running through the entire \$526 billion Medicare surplus as well.
- **Secretary Thompson and OMB Director Daniels Admit The Bush Administration Jeopardizes the Medicare Trust Fund Surplus.** In testimony before the Senate and House Budget Committees in March, Secretary Thompson and OMB Director Daniels admitted that the Bush Administration’s budget fails to protect the Medicare Trust Fund. They conceded that the Bush Administration places the funds in the \$842 billion “contingency” fund, which is used to pay for other spending priorities.

HAVING IT BOTH WAYS – ARGUING THAT MEDICARE IS IN DEFICIT WHILE SPENDING THE TRUST FUND SURPLUS. The Bush Administration argues that if you combine the Medicare Part A and Medicare Part B programs, there is no real Medicare surplus -- even while their own budget tables project a \$526 billion surplus over 10 years. This argument is deliberately misleading, and wrongly assumes that the only funding sources for the Medicare program are Part A payroll taxes and Part B premiums. It ignores the statutory requirement under the Social Security Act to use general revenue funds to finance Medicare Part B program expenses not covered by beneficiary premium contributions. Based on this logic, any government program paid for with general funds is in deficit – including defense.

THE BUSH ADMINISTRATION DIVERTS \$153 BILLION OUT OF THE MEDICARE TRUST FUND TO FUND A PRESCRIPTION DRUG BENEFIT, THEREBY SHORTENING TRUST FUND SOLVENCY BY 5 YEARS. In addition to putting the entire Medicare Part A (Hospital Insurance) surplus of \$526 billion at risk by placing it in the President’s “contingency” fund, the Bush budget also calls for diverting \$153 billion out of the Medicare Part A surpluses dedicated to paying Medicare Part A benefits promised under current law and using the money instead to fund an inadequate prescription drug benefit and undefined Medicare “reforms.” Under current law, the entire Medicare Part A Trust Fund surplus of \$526 billion is already committed to paying Medicare Part A benefits – including benefits related to hospital, skilled nursing home, hospice, and certain home health services – **not** prescription drugs and Medicare “reform.”

Furthermore, diverting \$153 billion out of the Trust Fund will shorten its solvency. The Medicare trustees currently project that the Medicare Trust Fund will become insolvent in 2029. Diverting \$153 billion out of the Medicare surplus for a prescription drug benefit and

“reforms” will shorten the solvency of the Medicare Trust Fund by five years – bringing the date of Medicare insolvency back to 2024.

THE BUSH ADMINISTRATION BUDGET FAILS TO PROVIDE A MEANINGFUL PRESCRIPTION DRUG BENEFIT. As has been noted above, the Administration’s budget includes only \$153 billion over 10 years to provide for prescription drug coverage and undefined Medicare “reforms.” Although even senior Republicans agree that the President’s investment in this coverage is underfunded, the President’s \$2 trillion-plus tax cut makes it impossible to provide additional investments. The President’s proposal for prescription drug coverage is a two-part proposal: 1) a four-year program, called “Immediate Helping Hand,” that would provide block grants to the states to help low-income seniors purchase prescription drugs; and 2) later, an unspecified Medicare prescription drug benefit, developed along with Medicare “restructuring.”

- **The Current Investment in the Bush Administration Budget Cannot Even Fund the Immediate Helping Hand Proposal for 10 years -- Much Less a Real Medicare Drug Benefit.** The President’s budget provides \$153 billion over 10 years for a prescription drug benefit and Medicare reform. However, the cost of covering only the low-income population (“Immediate Helping Hand”) over 10 years – using the Administration’s own cost estimates (adjusted by CBO’s projected rate of drug inflation) -- would cost over \$200 billion.
- **The Immediate Helping Hand Is a False Promise for Seniors.** The Bush Administration’s low-income drug coverage (“Immediate Helping Hand”) would deny eligibility to about 20 million Medicare beneficiaries – most of whom lack affordable, dependable prescription drug coverage today. Under Bush’s proposal, an 85-year-old widow with an annual income of \$17,000 would receive no assistance with her prescription drug costs. Due to notoriously low enrollment in state programs, the plans would inevitably assist less than half of eligible low-income seniors.
- **Using President Bush’s Investment in Prescription Drugs to Provide a Medicare Prescription Drug Benefit Would Provide Beneficiaries with a Benefit Worth about \$200 per Year.** If Congress rejects the Immediate Helping Hand proposal and tries to provide a Medicare drug benefit using the amount allocated by the Bush Administration’s budget, the \$153 billion he has allocated would provide a prescription drug benefit worth approximately \$200 per beneficiary per year.
- **The Bush Administration Drug Benefit Is Underfunded Even Compared to Other Republican Proposals.** Current estimates indicate that even an inadequate, poorly designed, and unworkable drug benefit such as the one proposed by the House Republicans last year – one which even the HMOs and private insurance industry say won’t work – will cost \$213 billion over 10 years.
- **Even Senate Republicans Believe that the Bush Administration’s Investment in Prescription Drugs is Too Small.** In a recent hearing held by the Senate Budget Committee, Senator Grassley stated that providing \$153 billion in a prescription drug benefit “is a starting point” rather than a true investment in prescription drugs. In response, Secretary Thompson was unable to defend the

Administration's investment, instead admitting that \$153 billion may not be the right amount. Indeed, on April 3, Senate Republicans all voted for an amendment to the budget resolution that doubled the amount of money that should be set aside for possible use for prescription drugs.

DEMOCRATS HAVE A MEANINGFUL PRESCRIPTION DRUG BENEFIT PLAN -- AND A REAL TAX CUT FOR WORKING FAMILIES. By contrast, the Democrats' budget framework provides responsible, broad-based tax relief, pays down the debt, protects Medicare, and provides a comprehensive Medicare prescription drug benefit option for all 39 million beneficiaries. This new benefit would provide: a voluntary Medicare prescription drug benefit option for all beneficiaries with an affordable premium and a comprehensive benefit; a benefit administered through the private sector, providing buying power and lower prices for Medicare beneficiaries; and a benefit that ensures access to the drugs seniors and people with disabilities need at the pharmacies they trust.