Lieberman's Plan to Fix Medicare Just Kicks the Can Down the Road

With substantial increases in premiums and extensions of age of eligibility, Lieberman said their plan would save $600 billion over the next 10 years, and reduce Medicare's unfunded liability from $85.6 trillion to under $75 trillion. Depending upon income levels, individuals would pay into Medicare at least $12,500 a year, with high income earners paying $22,500 a year. And Medicare's eligibility age would be pushed out to 67, starting in the year 2025. He noted that there is something in his proposal for everyone to dislike:

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> Each part of our proposal will make some group of people unhappy and will provide easy target[s] for attack by those who understandably want to preserve the status quo, but the status quo only leads to the collapse of Medicare and fiscal disaster for our country.
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> Our national debt is over 14 trillion dollars and [is] growing by more than a trillion dollars every year. The biggest … driver of the debt [is] Medicare. So if we don't deal with those entitlements, we're never going to balance our budget again.

Senator Coburn echoed Lieberman's concerns: "Medicare has to be fixed. We have to change it. If Congress doesn't do anything … we're not going to be able to borrow the money to [pay for] it."

The Senators were right in calling Medicare an entitlement. Some still consider Medicare and its sister welfare-state program, Social Security, a "right" simply because they have contributed some money into them. But more and more taxpayers are aware that these programs resemble Ponzi schemes, dependent upon a continuing flow of new contributors to keep the game afloat. And even with the Lieberman "savings" of $10 trillion, the unfunded liability remaining for Medicare will simply overwhelm it if nothing is done.

When Medicare was signed into law in 1965, there was no attempt to sell it as an insurance policy with reserves and private individual accounts the way Social Security was sold. After 30 years of receiving, and becoming more and more dependent upon, Social Security benefits, taxpayers were open to having the government pay for their healthcare and let the actuarial niceties be ignored. And when Part D (the prescription drug benefit) was added under the George Bush administration, there was nary a mention of how those benefits were to be paid for.

As a result, Medicare now spends more than it takes in each year, and the gap is widening alarmingly. The latest report from the trustees (more accurately they are merely accountants as there are no trust assets or any semblance of fiduciary responsibility involved) estimated that ultimate insolvency of the program is likely in 2024, five years sooner than reported in 2008.

Part of the problem is that beneficiaries are unwittingly milking the system. The Urban Institute determined as far back as 2004 that beneficiaries will cost the program far more than the taxes they paid in during their working years. In an updated study, the Associated Press estimated that a couple who had an income of $89,000 annually would receive over their lifetimes more than $350,000 while having only paid $114,000 into the system. The *Wall Street Journal* came up with even more unsettling numbers. Writer John Cogan wrote,

> According to my calculations … married couples will begin receiving monthly Social Security checks that will, on average, total about $550,000 after inflation. [In addition] they will receive health-care services paid for by Medicare that, on average, will total another $450,000 after inflation.

These welfare-millionaires are, Cogan says, the result of “decades of separate legislative actions by both political parties to liberalize retirement and health-care benefits, the sum total of which no one has bothered to calculate.” At the moment, Medicare premiums paid by senior citizens barely cover one-quarter of physician and related services, while copayments cover less than a fifth of the costs.

The Cato Institute, in its massive study *Downsizing the Federal Government*, concludes that while Medicare spending must be greatly reduced, the program itself is fatally flawed. It reduces individual freedom of choice while increasing dependency upon government, its price-fixing nature actually increases costs and reduces the quality of medical care, and it is subject to mammoth waste and fraud. Authors Michael Cannon and Chris Edwards write that Medicare is "a pyramid scheme allowing each generation to take advantage of the next. ”

> This pyramid scheme cannot last. Medicare spending is rising much faster than tax revenue, thanks to the escalating retirement of the baby-boom generation, increasing longevity, and rising outlays per enrollee.

There are at least three major flaws in Medicare that are driving it into insolvency. First, the program has no economic incentive by either users or providers to be careful with costs. After all, Medicare is paid for with “other peoples’ money. ” Second, Medicare costs grow because it is perceived as a giant piggy bank by politicians, with additional benefits to be added at any time without any concern for how they will be paid for: i.e., the prescription drug benefit added in 2003. Third, Medicare overpays for many services, which draws providers to recommend services that may not be needed. This, coupled with the “fee for service” structure, invites providers to bill for services because that is what the system rewards.

The Cato study’s authors recommend that Congress “move retiree health care from today’s dysfunctional system of central planning to an innovative system based upon personal savings, individual choice, and competition.” The approach favored by Senators Lieberman and Coburn misses the point — the system cannot be “fixed” — their fixes will only delay the inevitable destruction that will certainly occur when costs overwhelm revenues.

The Cato Institute’s recommendations sound familiar: adopting Rep. Paul Ryan’s plan for individual savings accounts and vouchers, starting at age 55. But the authors ask, why not start those savings accounts now? Medicare vouchers are a good idea, too, but why not start them now?

> Vouchers are the only way to protect Medicare enrollees from government rationing of medical care. Congress has no choice but to reduce Medicare spending. Only vouchers can give Medicare enrollees the freedom to retain the coverage and medical services they value most. Otherwise,

> politicians and government officials will decide which medical services enrollees will and will not receive.

In simple terms, vouchers would enlist the power of the free market to provide the services that consumers are willing to pay for, with medical professionals working hard to innovate and reduce costs. Such innovation might include “greater use of retail clinics, telemedicine, integrated delivery systems, electronic medical records, comparative-effectiveness research, [and] care coordination.”

The Cato approach is going to be a tough sell. What’s the incentive to change the system which, at the moment, seems to be working? Appeals to ethics and morality may fall on deaf ears. Lawrence Kotlikoff writes that Medicare amounts to “borrowing from our grandchildren and their children without their consent.” Healthcare analyst Joe Antos concurs: “The older generation made a generous promise to itself — [and] then imposed the cost of keeping [it] on its children and grandchildren.” Congress won’t eliminate wasteful healthcare spending or even substantially reduce the growth of Medicare as long as the beneficiaries and their health care providers are spending other people’s money. That’s the moral question behind any substantial or significant change in the present welfare-state system.

Photo of Joe Lieberman: AP Images