Medicare, Medicaid, and Controlling Health Care Costs

Discussion Guide

Challenging Trends Facing Medicare, Medicaid, and Health Care in the United States

Since their inception in 1965, Medicare, the national health-care program for the elderly, and Medicaid, the federal-state program for the needy, have transformed health care for the nation's retirees, the disabled, and lower-income Americans. More than one-third of the U.S. population is covered by federal health-care programs -- including Medicare (37 million Americans 65 and over, and more than 7 million Americans with disabilities), Medicaid (about 60 million), the State Children's Health Insurance initiative for children who do not qualify for Medicaid but whose families cannot afford private health insurance (7 million), and the military, veterans', and civil-service employees' health-care systems (26 million) -- dramatically improving health and well-being for countless Americans.

So far, we've been able to support Medicare through a combination of employee and employer Medicare taxes supplemented by additional government revenues from the general tax base, while increasing federal and state Medicaid spending in part by cutting other spending. Unfortunately, several powerful trends spell potentially enormous financial problems for Medicare and Medicaid over the next 20 years.

The major challenges facing Medicare and Medicaid—which are our nation's biggest, long-term fiscal problem—cannot be separated from a host of larger issues affecting health care for all Americans. Overall health-care costs—for the U.S. government, individuals, and private insurers—have risen an average of 2 ½ percentage points faster than U.S. economic growth for more than 40 years. Health care cost the United States $2¼ trillion in 2008—one-sixth of our entire economy—rising from one-sixteenth of GDP in 1965. It is projected to account for one-third of our economy by 2040, if costs are not brought under control. With a national debt over $10 trillion and implicit fiscal exposures for Medicare alone topping $32 trillion in 2007, we cannot afford to continue on our current path.

The development of new medical technologies and drugs, economic and cultural incentives for Americans to consume ever more health care, an aging population, and the curtailing of health-care benefits by employers are among the reasons that health care costs are rising so rapidly. Medicare and Medicaid, together with Social Security, now consume just over 40 percent of federal spending, but would rise to 100 percent by 2040 if these programs are not reformed or overall taxes and spending are not dramatically increased. Of course, health care in the United States faces many challenges: Not only are costs high and rising, but 50 million Americans lack health insurance, and the quality of health care ranges from the world’s best to much that is mediocre or poor. From a cost perspective, with the government already paying nearly half of our nation’s health-care bill, reforming health care and reforming Medicare and Medicaid are inextricably related and why this must be one of America’s top priorities.

Given all of these factors, we seem on a collision course for disaster. Either we’re going to lose Medicare and Medicaid as they become too expensive to maintain, and we are unable to provide decent health care for Americans of all ages, or we’re going to keep these programs but bust the federal budget through unsustainable debt.

This guide suggests three different approaches to the challenges facing Medicare, Medicaid, health care costs, and the nation’s budget. Perhaps you have other ideas that you wish to put on the table. Which makes the most sense to you, and why?
Option One

Maintain Our Current Commitment to Elderly and Low-Income Americans

Medicare and Medicaid are promises that whatever health care older and low-income Americans need will be covered at public expense. Those promises must be honored, even if it means raising taxes or reducing spending in other areas. As things stand, elderly persons are paying more than ever for out-of-pocket medical expenses that are not covered by Medicare, and low-income Americans are desperately squeezed by their out-of-pocket health care expenses. Minor adjustments can be made to reduce the programs’ costs, and aggressive measures should be taken to reduce fraudulent claims. But it is immoral and unthinkable to reduce medical benefits for the nation’s seniors and those in economic need.

Therefore, we should:

- Keep the basic structure of Medicare intact, ensuring that all Americans are eligible for benefits when they turn 65.
- Keep the basic structure of Medicaid intact, with both federal and state support, ensuring that all Americans in need are eligible for benefits.
- Make modest adjustments that cut costs without threatening the basic structure, such as stronger penalties for fraud and more preventive medicine so that the need for expensive treatments can minimized.
- Raise taxes on Medicare Part A for hospital care and premiums on Medicare B for physician and home health care, increase other taxes, or cut other government programs so that Medicare’s increasing costs do not drive the nation into deeper debt.
- Improve the cost-effectiveness of health care by establishing medical records and best-practices databases
- Impose stricter controls on the costs of health-care providers

Arguments for:

- Providing for the elderly, the poor, and children is one of the fundamental responsibilities of government.
- Everyone who has paid into Medicare, regardless of their income, deserves to have their health care costs covered in retirement through public funds.

Arguments against:

- Unless we rethink Medicare and Medicaid, the costs will become staggering in the years ahead, and we won’t have enough for other critical needs, such as national security, education, or developing new sources of energy.
- It’s wrong for wealthy retirees get benefits at the nation’s expense while nearly 50 million Americans have no health insurance at all.
Option Two

Make Health Care Affordable by Focusing on Those Who Need it the Most

Unless we revisit what Medicare and Medicaid promised, the programs will drive up either our taxes or our national debt so much it will cripple the nation. Before the baby boomers retire, we need to pare down benefits to make them more affordable and focus benefits for those who need them the most.

Therefore, we should:

- Require that retirees who can afford it pay a larger portion of their health care costs.
- Require that all Americans purchase health insurance, giving them a variety of choices as is done in the Federal Employee Health Benefits Program, with government subsidizing the premium costs of lower- and middle-income Americans—instead of paying for health care for those covered by Medicare, Medicaid, and other existing programs.
- As difficult as it is, we simply have to find a fair and acceptable way to set limits on “heroic” health care measures for senior citizens that is contributing so much to rising healthcare costs. We simply can’t afford for everyone, no matter how old they are, to have a liver or heart transplant.
- Cover the uninsured so that they do not consume expensive Medicaid-funded services such as emergency-room visits for more minor health problems.

Arguments for:

- If we don’t take serious measures to contain costs, the soaring expense of providing health care to the elderly and lower-income Americans will force us to cut back on other essential public programs, raise taxes through the roof or drive up our federal debt to crippling levels.
- Managed competition among insurers could help control soaring health-care costs.
- The existing Medicare system provides generous benefits to millions of well-heeled retirees who don’t need public subsidies.

Arguments Against:

- Linking benefits to retirees’ income will undermine support for Medicare, which is popular because it is a “universal” rather than a “targeted” program (that is, it is a program for everyone once they reach a certain age).
- Health care is uniquely important and isn’t an area in which we should cut corners. If doctors can help elderly patients with a certain procedure, Medicare should provide funds to make it possible.
Option Three

Increase Individual Responsibility for Health Care

We would be better off if Medicare and Medicaid were basically no longer public programs. Instead, they should be replaced by a combination of required health insurance and individual medical savings accounts. This approach would make health care more a matter of personal responsibility rather than looking at it as a societal responsibility. It would encourage people to take care of themselves and rely on market forces to bring costs down.

Therefore, we should:

- Require that all Americans purchase health insurance (with competition among insurers), with government subsidizing the premium costs of lower- and middle-income Americans—instead of paying for health care for those covered by Medicare, Medicaid, and other existing programs.

- Replace Medicare with a system of medical savings accounts for the retirement years, similar to the tax-deferred retirement accounts that millions of Americans already manage for themselves. People would use these accounts in retirement to pay routine medical bills as well as premiums on catastrophic illness insurance.

- Maintain a free market that will respond to individual consumer choices by minimizing regulations on doctors, insurance companies and drug companies.

- Place greater emphasis on public health, rewarding Americans who engage in healthier behaviors

Arguments for:

- This approach emphasizes personal responsibility and limited government, basic values America has embraced throughout its history.

- Under this system, individuals who pay for their own health care have an incentive to shop around, which will cut costs.

Arguments against:

- Under a self-financed system, lower-income retirees would suffer disproportionally, as would those who plan poorly or simply have bad luck.

- Ensuring that elderly and lower-income Americans and children get good health care is a public responsibility and an expression of our shared concern for older Americans, which is why Medicare, with Social Security, are two of the most popular and important government programs in our history.