

Medicare dependent while building a bright Medicare-free future for all Americans.

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Bill Gates Doesn't Need Any Help from Younger Workers

Michael F. Cannon

Medicare is fundamentally unfair to younger workers.

Every year, Medicare transfers hundreds of billions of dollars from young wage-earners to older beneficiaries. In the decades since Medicare's inception, Congress has repeatedly turned to workers to cover the growing cost of the program. Medicare's payroll tax rate is now nearly double what the program's original supporters claimed would be necessary, having been raised at least eight times since its creation. Over time, Congress also has reduced beneficiaries' financial responsibility for Part B (physician services) from 50 percent to 25 percent of the cost of that coverage.

Supporters claim this is equitable because Medicare repays seniors for the contributions they made in their youth. That view overlooks the fact that successive generations of politically active seniors have secured for themselves benefits that well exceed the contributions they made in their working years—the new prescription drug entitlement being the most recent example.

That is why the Urban Institute's Gene Steuerle and Adam Carasso have estimated that typical Medicare beneficiaries can now expect to receive Medicare benefits that exceed their lifetime contributions by \$100,000 or more. My colleague Jagadeesh Gokhale has estimated that to pay for those generous benefits promised under current law, Congress would have to increase Medicare's payroll tax nearly seven-fold, to almost 20 percent of workers' wages.

Fortunately, Congress recently took a small step away from this tradition of soaking the young. The Medicare Modernization Act mandates higher Part B premiums for wealthier beneficiaries. By 2009, individual beneficiaries making \$80,000 per year will pay 35 percent of the cost of their Part B coverage. Those making \$200,000 will pay 80 percent of the cost. Those provisions will affect only five percent of seniors and will provide only \$15 billion in revenue between now and 2013.

Those provisions should be expanded and applied to all parts of Medicare. Requiring a beneficiary making \$200,000 to pay 80 percent of the cost of Part B coverage sounds less impressive when one considers that that amounts to just 36 percent of the full cost of his Medicare benefits. Congress should apply premiums to all parts of Medicare and adjust those premiums according to lifetime income.

Bill Gates can and should be required to pay more than 36 percent of the cost of his future Medicare coverage. Mere millionaires can and should pay more than 13 percent.

Because seniors are already getting far more than their fair share from Medicare, broader means-testing would be more equitable than raising taxes on current workers.

Expanded means-testing would also be more politically feasible than raising taxes. Means-testing unites anti-tax conservatives and many left-leaning politicians, such as Sen. Dianne Feinstein of California, who has argued that "high-income beneficiaries can afford to pay a larger share of Medicare's costs."

Finally, requiring wealthy seniors to pay a larger share of their Medicare coverage would make it difficult for Medicare beneficiaries to vote themselves greater and greater benefits at the expense of others.

Critics will object that means-testing will discourage seniors from working. That effect can be mitigated by adjusting premiums according to lifetime income rather than current income. Moreover, increasing taxes on younger workers

would discourage work as well—and create a deadweight loss equal to two-thirds of the revenue raised, according to Harvard economist Martin Feldstein.

Critics will object that means-testing would also weaken political support for Medicare, because wealthy seniors would be more likely to opt out of the program. Yet the political history of Medicare is one of politically powerful seniors uniting against the interests of workers. If broader means-testing can improve Medicare's financial picture as well as weaken the political coalition that repeatedly raids the paychecks of working Americans, then those are two arguments in its favor.

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“How Little I Knew”

Barry Casselman

As I approach my own personal relationship with Medicare, I have realized how little I knew about this very significant entitlement program, which touches all seniors and affects all others who must pay for it.

As a free market advocate, I am always dubious about solutions to economic problems and challenges that are based on the principle that wealth must be redistributed in order to have a good and just society.

The current orgy of proposed new taxes by the new Democratic Congress in Washington and the new Democratic legislature in St. Paul—after several years of tax-cutting by Republicans—is only the latest example of this atavistic thinking. Our economy is doing relatively well, even with the drains on the economy by the Iraq war effort and the challenges posed by Social Security and Medicare. I think those who proclaim so-called supply-side economics a failure simply have no idea what they are talking about.

In the case of Social Security, there is already a positive direction this program can take to resolve its long-term problems. While it was rejected in the previous Congress, and almost certainly will not even get a hearing in the new Congress, privatization is really the primary way out of long-term deficits of this program. (I suspect it will take a centrist Democratic president, at some time in the future, to take this direction.) Raising the age at which Social Security benefits become available can also help this program. Social Security is fundamentally a good idea that was born in the ignorance of future demographics. As a pure entitlement program, it has little future in our new century. As a program with a free market component that will grow in participation over time, it can be transformed and made workable again.

But what about Medicare? What about the rising costs of health care in this new century?

A recent and very positive development was the enactment of health savings accounts. This is a case where government has used tax policy as an incentive to bring about change in the way Americans find ways to pay for their health care in a free market environment.

Since the Great Depression, America has undergone a dramatic change in the demographics of its wealth. Our form of democratic capitalism, with its inherent reward of entrepreneurship, has created a natural and dominant middle class. The level of goods and services available to all Americans is the highest in our history. Inequalities exist, but they are not the kind of inequalities that existed in the 1930s, or even in the 1950s.

Yet there are persons who face economic hardship because of reasons beyond their control. This includes most of our senior citizens.

We have already acknowledged that the programs that affect them most, Social Security and Medicare, cannot be sustained as they now exist. I have already suggested that there is a solution to Social Security, but what is the solution for Medicare?