

Bush's Medicare 'Reform' Is Back To Haunt Him

by Mary Jane Freeman

The truth is out: President Bush lied to get his 2003 Medicare Modernization Act (MMA) through Congress. Instead of the much-touted "prescription drug benefit for seniors" costing \$400 billion over 10 years, the administration has revealed it will cost three times that much. The Feb. 8 "news" fueled a furor on Capitol Hill where both Democrats and Republicans reacted with incredulity.

Bush's promise to protect and aid our senior citizens with the Act was empty, as *EIR* exposed at the time; now the hidden costs prove that the MMA was nothing but a boondoggle to fill the coffers of pharmaceutical companies and private insurance companies. Or, as Bush recently put it, "the Medicare reform bill really began to change Medicare as we knew it. . . . It introduced market forces for the first time."

The bill was rammed through a reluctant Congress only after Reps. Dennis Hastert (R-Ill.) and Tom "The Hammer"

DeLay (R-Tex.), seeing they didn't have the votes, held the vote open for an extraordinary three hours (until 6:00 a.m.), so that DeLay could strong-arm Republicans who'd voted against it to switch their votes. What makes the news even more galling, is that Bush, to get the plan passed, assured the nation in his 2003 State of the Union speech—falsely—that it would cost just \$400 billion. The fact that the costs were much greater was known to the White House, as evidenced by its threat to fire the chief Medicare actuary, Richard Foster, who had briefed the White House on that fact five months earlier. To ensure passage of the MMA, he was silenced, since at least 13 conservative Republicans opposed the bill if it were to cost more than \$400 billion. Bush signed it into law on Dec. 8, 2003. Once passage was secured, the White House admitted the cost would be at least \$534 billion.

Most egregious was DeLay's effort to bribe Rep. Nick Smith (R-Mich.), a matter which later came before the House Ethics Committee. DeLay said he would support Smith's son who was running for Congress to replace his father, if Smith would vote for the MMA. "I will personally endorse your son. That's my final offer," Smith reported DeLay telling him. There were also unconfirmed offers of a \$100,000 campaign contribution. Smith didn't support the bill and his son lost the Republican nomination.

The same clique of neo-conservatives leading the charge to dismantle our Social Security system and transform our

MMA 'Clawback' Wounds States' Finances

For years, the states have asked the Federal government to help pay for the medical costs of their indigent elderly population, especially those in need of long-term or nursing home care. Instead, the Bush Administration sucker-punched the states with its "Medicare Prescription Drug, Improvement and Modernization Act of 2003," (MMA). Not only does the law give billions of dollars away to private for-profit HMOs, insurers, and employers; it forces states to subsidize all this "into perpetuity"!

Most people, including state elected officials, don't understand how this financing scheme will work, nor how much it will cost the states.

The law increases each patient's Medicare Part B premiums (which cover physician care) by 17.42%, from \$66.60 a month in 2004, to \$78.20 a month in 2005. For those elderly individuals who are indigent and covered by their states' Medicaid program, Medicaid pays that premium. These individuals are called "dual eligibles" because they qualify for both Medicare and Medicaid.

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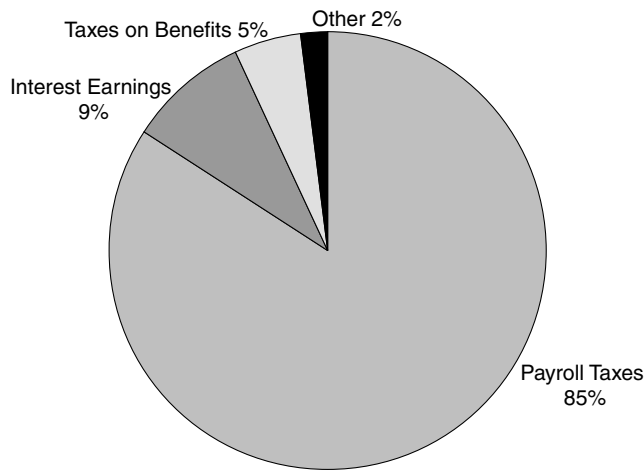
fee, to cover the costs of the Federal government's providing prescription drug benefits for dual-eligible beneficiaries who enroll in the MMA's plan when it goes into effect in January 2006. That is, these indigent elderly and disabled will no longer receive Medicaid coverage for medications. States will no longer provide prescription drug benefits; *but* they will be required to pay 90% of the estimated prescription drug expenditures for dual-eligible people that their Medicaid coverage had paid, before the new law. Thus, states will be financing a large chunk of the Medicare drug benefit with monthly payments to the Federal government. This is considered a "maintenance" fee for Washington assuming medication coverage for these people.

By 2015, the amount states pay will go down to 75% of the total costs for this population. They will have to pay this 75% "into perpetuity" as the National Conference of State Legislators told *EIR*. This is the infamous "Clawback" provision or, the Phased-Down State Contribution—the costs of which are yet undetermined; no details have been released from the Federal government. If a state fails to pay the "clawback," the MMA requires that the Federal government simply deduct that amount, plus interest, from the amount it owes the state in Federal Medicaid payments.

—Linda Everett and Mary Jane Freeman

FIGURE 1

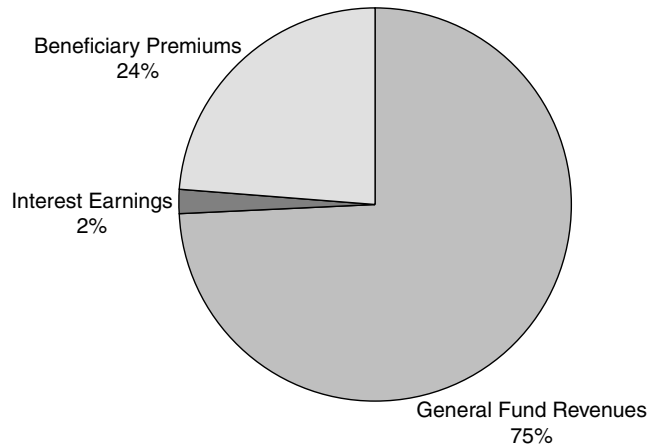
Medicare Part A: Income Sources as of 2003



Sources: *EIR*; Trustees' 2004 Annual Social Security and Medicare Trust Fund Report.

FIGURE 2

Medicare Part B: Income Sources as of 2003



Sources: *EIR*; Trustees' 2004 Annual Social Security and Medicare Trust Fund Report.

military, are the ideologues who drafted and promoted the MMA. Three key moving forces of the Act were Newt Gingrich, Vice President Dick Cheney, and the Heritage Foundation. Gingrich, then head of the Institute for Public Policy at the American Enterprise Institute (AEI), worked on Medicare and health policy reform, pressing for private healthcare schemes. AEI aided in drafting the Medicare bill. Cheney, the *Wall Street Journal* revealed the day after Bush signed the bill, worked with Gingrich behind the scenes, to “goad members of the House and Senate to come together” on passing the bill. Heritage, then as now, played the role of propagandist for scare tactic warnings that Medicare was soon be bankrupt and therefore needed reform; i.e., to be privatized.

Medicare Before and After MMA

Medicare was established in 1965 as an adjunct to the Social Security Act, providing medical insurance for America’s elderly citizens. Today, the program provides health insurance to 40 million-plus senior citizens to aid in paying for doctor and hospital bills. This New Deal-styled legislation has added to the longevity of our elders, a fact disliked by conservative revolutionaries such as Gingrich who has advocated a 20% reduction in medicine use by Medicare enrollees in their last years of life to cut costs. This is because they “consume 50% of [Medicare’s] expenses,” he told an AEI conference in August 2003.

Before the passage of the MMA, Medicare had two principal divisions and two funding mechanisms. Part A pays for hospital services, skilled nursing facilities, home health care, and is a trust fund. It is financed primarily (85%) by a payroll

tax on covered earnings. Employees and their employers each pay 1.45% of earnings, and self-employed workers pay 2.9% of net income. Interest income from securities held in the trust fund is also included. A small percentage of the income derives from taxes on benefits. (See **Figure 1**.)

From Medicare Part B, payments are made to physicians and for other health professional services, as well as to managed care plans, and for the administration of Medicare. Part B’s main source of income (75%) is Federal general revenues, while most of the remainder (24%) comes from premiums paid by Medicare beneficiaries. (See **Figure 2**.)

With the passage of MMA, a new division was added, Part D. It was euphemistically labelled the “Prescription Drug Benefit” plan because it adds Medicare coverage for some drugs—something Medicare did not do. Funding for Part D expenditures, starting in 2006, will come mostly out of general revenues and beneficiary premiums and co-pays, as Part B does. One provision, however, will require the states to kick in funds. (See box.) Coverage for prescriptions for seniors could be a very important aid. But the MMA, as Florida’s *Palm Beach Post* put it, “is . . . this century’s most overhyped and deceptive legislation.” It is a “reform” bill that would not offend special interests that donate to the GOP,” the paper surmised.

Indeed, the MMA provides subsidies to private insurers and HMOs; it has a slush fund to pay businesses to retain coverage of retirees; and most incredibly, drug companies got a gift from its express prohibition of bulk purchase bargaining for drugs. So, not only will seniors have to pay full retail prices for medications, but the MMA also requires co-pays and deductible payments such that, of the first \$5,000 cost, a

'They Haven't Thought Of 2006 at All'

EIR spoke with Mississippi State Rep. Credell Calhoun (D-68th District) on Feb. 2 during the legislative battle in the state to re-instate about 50,000 people who, except for a court order, would have been thrown off Medicaid last year by Gov. Haley Barbour. These individuals in the Poverty Level Aged, and Disabled group (PLAD) have renal failure, five chronic medical conditions, cancer, heart disease; their income is just over the Federal poverty level. They account for 54% of prescription drug costs in the Medicaid budget, but the aged among them are "dual eligible" for Medicare as well (see box on "Clawback"). Next Jan. 1, under the Medicare Reform Bill, Mississippi will have to pay, to the Federal government, their increased Medicare prescriptions premiums as well. Now, as Mississippi legislators debate their future again, the disabled people and their families have been protesting in Jackson and calling their representatives.

Asked what is at stake for those in the PLAD program, Calhoun said, "A lot of these people are on dialysis, or in

nursing homes, and things of that nature. They will be kicked out, without doubt. If Medicaid won't be paying, relatives won't be able to get care for them. It'll be difficult for their whole family. We hope we can solve it. Its very difficult to cover the costs of dialysis and certain amenities that go with the Medicaid program, like transportation. Yet, everything's on the table [for cuts]." Without Medicaid for the PLAD group, "People are going to die," Calhoun warned.

EIR asked if legislators are seeing this battle as something larger than Medicaid, involving the entire national economy. "No, they don't know that," he replied. "Some of them are just following Haley Barbour. And some of them don't care yet. It's going to hit them, and it's going to hit [President] Bush, when that Medicare prescription drug law takes effect next year. I don't think a lot of people are going to be getting care when that law takes effect. Medicaid won't be able to pay for the increased premiums. We don't really know what the costs to the state will be. The legislators have been struggling so hard to find a way out of this crisis, that they haven't considered 2006 at all."

"We know there will be fallout, but they don't care; some Republicans don't seem to give a damn," said Calhoun. But I hear everyday now, that they are not going to support Barbour again."—*Linda Everett*

beneficiary will pay 75% out-of-pocket before full coverage kicks in.

As of 2002, the Medicare Trust Fund was projected to be solvent with a surplus until at least the year 2030, even with a large portion of the Baby Boomers hitting retirement age by then. But with the appointment of Thomas R. Saving as a Trustee to the Social Security and Medicare Trust Funds—he was described by CATO Institute's Social Security Privatization Project executive director Michael Tanner, as "the real hero of the [privatization] revolution"—with skyrocketing costs of health care and prescription drugs, and with the added costs of implementing Bush's prescription drug swindle, that solvency is now projected to vanish by 2019. Saving rants, "the financial problem of Medicare is five times as great" as the alleged Social Security "crisis."

In a message included with the 2004 Annual Report of the Social Security and Medicare Boards of Trustees, it is reported, "the projected financial status of Medicare has taken a major turn for the worse since last year's reports." The trustees assert that the increase in the deficit in the Part A (Hospital Insurance) trust fund is "mainly due to higher actual and projected hospital expenditures, as well as lower actual and projected taxable payroll, and *new Medicare legislation*" (emphasis added). So, clearly, the Feb. 8 revelation was no surprise to the trustees. It's just that Bush didn't want to tell

Congress and the American people.

There is a long-term solvency problem, but it cannot be solved in a "budget" context. Rather, we must step out of the box and think big, as President Kennedy did when he mobilized the nation to get to the Moon. Health care in a productive, growing economy is integral to the functioning of such an economy. Under such conditions, public health becomes a priority. For example, adequate immunization programs will lead to fewer hospitalizations and thus lower these costs. In a productive and scientifically advancing economic environment, new medical technologies will not be limited by HMO gate-keepers. A case in point was the development of MRI scanners, in the late 1970s, which were to be an aid to doctors in *preventive* care, because early detection of a disease can lead to considerable cost reductions.

Will Congress Repeal MMA, or Gouge Medicare?

Reacting to the Bush Administration's latest cost revelations, both Democrats and Republicans raised their voices. Sen. Diane Feinstein and Rep. Nancy Pelosi (both D-Calif.) each called for re-opening the 2003 MMA, due to the huge cost increase. Feinstein said, "the Senate Finance Committee should investigate the process used to estimate the cost of the bill." Pelosi demanded, "Congress must have oversight

hearings on the Republican Medicare prescription drug law, and reopen it to hold down costs,” adding that “an ethical cloud has hung over” the law since it was “passed in the dark of night.” Sen. John Kerry (D-Mass.) greeted the news by saying, “If the numbers don’t add up for Medicare, how can we be sure they will add up for Social Security?” House Minority Whip Steny Hoyer (D-Md.) said, “The President’s credibility is in tatters when it comes to cost estimates.”

Democratic Senator Mark Dayton (Minn.) has introduced a bill, “Meeting Our Responsibility to Medicare Beneficiaries,” (S.18.IS), which would phase out the nearly \$4,000 out-of-pocket “gap” put into Bush’s bill, which is to be paid by the senior beneficiaries who are covered. Senator Kent Conrad (D-N.D.), along with 11 other Democrats, introduced a bill to rescind the \$10 billion fund which the MMA created to “entice” private insurers, i.e., HMOs, into offering coverage to Medicare seniors.

As for Republicans’ reaction to the ballooned costs “news”—many of them did not initially support the bill, but succumbed to DeLay’s heavy-handed tactics—they too are rethinking the bill. Sen. Judd Gregg (R-N.H.) demanded that Congress revisit the MMA prescription drug plan, to limit its decade-long costs to the \$400 billion price tag Bush put on it to get it passed. Senator Trent Lott (R-Miss.) spoke of revising the bill so as to cut “middle- and upper-income” seniors from getting the drug benefits. One must take caution with the “cut costs” initiatives as they will translate into benefit caps and/or cuts, to the detriment of the very senior citizens Bush declaims he’s out to protect.

In the House, Rep. Gil Gutknecht (R-Minn.) said he will seek the repeal of the drug benefit provision. He, like many Democrats, objects to the provision that forbids Medicare officials’ negotiating with drug companies for bulk discounts on drugs. “We have got to deal with the cost of drugs. We have got to force the drug companies to play by some set of rules that is fair to everybody,” Gutknecht said.

The President, in turn, reacted to all this: “I signed Medicare reform proudly, and any attempt to limit choices of our seniors and to take away their prescription drug coverage under Medicare will meet my veto.” But Bush’s bluster met reality in a Feb. 11 statement issued by Senate Democratic Leader Harry Reid of Nevada. “Make no mistake, the President’s blanket veto threat is designed to protect only special interests—the big drug companies and HMOs his flawed bill gave billions to in the new law.”

It seems the strong-arming used to get the MMA passed is now coming back to bite Bush.

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