WHY REAGAN SHOULD VETO THE FLAWED MEDICARE BILL

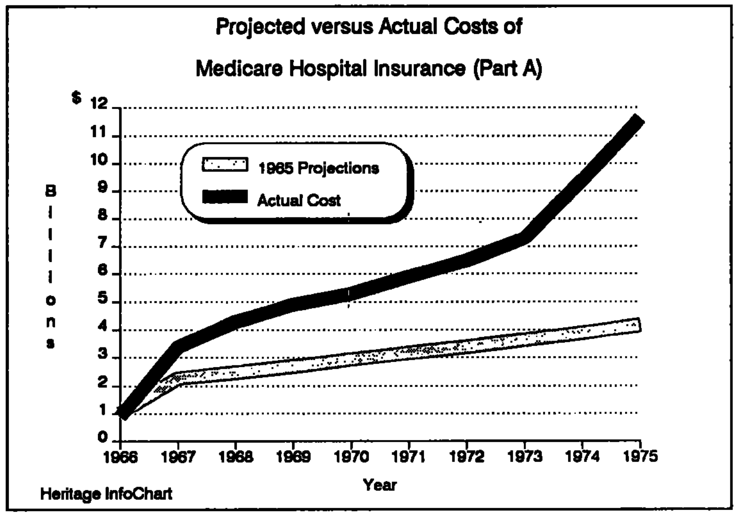
Congress is expected soon to complete action on the Medicare Catastrophic Protection Act of 1988 (H.R. 2470), reported out of conference committee on May 25. The legislation, which would provide unlimited hospital care for the elderly and adds a reimbursement for prescription drugs, is the biggest expansion of Medicare since the program was launched in 1965. Health and Human Services Secretary Otis Bowen has said he will recommend that the President sign the bill when it reaches the White House. Bowen is giving the President bad advice. The President should veto the bill on the grounds that the legislation does little to address the real concerns of the elderly and yet will lead either to a catastrophic expansion of the deficit or to steadily rising taxes on senior citizens.

Failing to Meet the Catastrophic Costs. The legislation is projected by the House-Senate conferees to cost $31 billion over just the first five years. Yet only 5 percent of this money would help low-income elderly Americans. Another 30 percent would help pay for prescription drugs. But survey data show this provision to have the least support among retirees. Nevertheless, the drug benefit was the item most aggressively demanded by lobbyists for the American Association of Retired Persons (AARP), which would benefit directly from the provision because the group happens to be the nation's second biggest mail-order pharmacy. The remaining 65 percent of the new spending would do nothing more than replace benefits now offered in the private "Medigap" insurance policies purchased as supplements to Medicare by about 75 percent of the elderly. At the same time this bill does nothing to meet the real catastrophic costs of the elderly — long-term nursing care.

In exchange for these expensive but marginal benefits, all Medicare enrollees would face stiff increases in their Part B premiums and millions of retirees would be forced to pay hundreds of dollars in additional income taxes. The current $24.80 monthly Part B premium would be raised by $4 in 1989, and by 1993, this additional premium is projected at $10.20 a month.

Yet this premium hike covers only part of the new program's anticipated cost. About 13 million elderly Americans also would be forced to pay a new Medicare income surtax. In 1989, this surtax would mean an extra $22 in tax added to every $150 of income tax they already owed the IRS, up to a maximum of $800 in additional taxes. Worse still, while other Americans would find their total tax bill reduced for the bracket creep effects of inflation, senior citizens would face an increasing surtax to keep pace with the rising cost of medical treatment. Thus the elderly would face much higher marginal tax rates than those paid by non-elderly individuals with the same income. In 1989, for example, elderly who otherwise would be in the 15 percent bracket would be taxed at 17.2 percent; in 1993, the rate would be 19.2 percent. Similarly, elderly in the 28 percent bracket would be taxed at 32.1 percent in 1989 and 35.8 percent in 1993. Moreover, these tax rates would continue escalating indefinitely into the future as Medicare expenditures increase.

Heavy Taxes, Few Benefits. Supporters of the bill claim that this legislation is self-financing, and congratulate themselves on their fiscal restraint. Yet this demonstrates a very naive understanding of the political process. The fact is that the legislation will cease to be self-financing as soon as the irate seniors realize that they will have to pay heavy new taxes for few benefits and begin to lobby Congress for relief. The history of Medicare shows that, faced with raising costs to the elderly in line with program costs, Congress has turned more and more to raids on the general revenues. This is likely to happen with the new legislation because even the staggering official cost projections underestimate the likely real expense of these new benefits. Past estimates of Medicare costs have been notoriously off the mark (See Graph) and the same is likely to be true of the catastrophic legislation. The future cost of the drug benefit is especially difficult to calculate and even the experts admit the only available data on which projections are based are extremely unreliable. Moreover, demand for new entitlements is always difficult to predict.



Should Ronald Reagan sign this bill, the irony is that the same man who campaigned against Medicare in 1965 will go down in history as having initiated and approved its greatest expansion. Reagan began the discussion of catastrophic care legislation last year out of a personal, compassionate desire to help the few, needy retirees with very high medical bills. But, by allowing Secretary Bowen to reject numerous sensible proposals in favor of an expansion of Medicare, the President set in motion the congressional bidding process, leading to the fiasco of a massive spending bill, with an unlimited financial commitment. What is much worse, the bill does not even address the root of the problem. Only Ronald Reagan now can get the worthy goal of catastrophic health care back on track. And only a presidential veto can begin that process.

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For further information:

Edmund F. Haislmaier, "Catastrophic Health Legislation: Congress's Case of Medicare Malpractice," Heritage Foundation *Issue Bulletin* No. 139, April 18, 1988.