
FULFILLING THE MISSION OF HEALTH AND RETIREMENT SECURITY FOR ALL AMERICANS

America continues to pursue two interconnected domestic policy goals: Opportunity, which allows individuals to take risks and work hard to improve in life; and security, which protects the rewards of risk-taking and hard work from the vagaries of life.

When the unprecedented miseries of the Great Depression destroyed the savings and jobs of millions, America responded to the need of working families for a basic level of economic security. The nation formed a social contract to provide this security for workers in retirement or in unemployment. Social Security was later supplemented by Medicare to assist the health care needs of senior citizens.

Social Security and Medicare were created to provide a minimum level of security below which no one would be allowed to fall. Funded by current workers' and employers' contributions, beneficiaries are provided resources to supplement their personal savings for a secure retirement.

This social contract with working households was not intended to encourage government dependency or stigmatize beneficiaries. It was meant to respect the honest pride Americans take in work, independence, and the fulfillment of their responsibilities to self and family.

Unfortunately, years of neglect by policymakers unwilling to confront the structural challenges of these pay-as-you-go security programs have left Medicare and Social Security threatened by out-of-control costs, their funds increasingly drawn from general revenues and their day of fiscal reckoning fast approaching. Left unchecked, the explosive growth of these programs, especially Medicare, threatens not only the ability of government to keep its promises to beneficiaries, but also the solvency of the federal government and the health of the U.S. economy. Denying the existence of these severe problems is tantamount to actively allowing these crucial programs to collapse.

It is morally unconscionable for elected leaders to cling to an unsustainable status quo with respect to America's health and retirement security programs. Current seniors and future generations deserve better than empty promises and a diminished country. Current retirees deserve the benefits around which they organized their lives. Future generations deserve health and retirement security they can count on. By making gradual structural improvements, Congress can preserve America's social contract with retired workers.

Saving Medicare

Major proposals

- **Save Medicare for current and future generations while making no changes for those in and near retirement. For younger workers, when they reach eligibility, Medicare will provide a Medicare payment and a list of guaranteed coverage options from which recipients can choose a plan that best suits their needs. These future Medicare beneficiaries will be able to choose a plan the same way members of Congress do. Medicare will provide additional assistance for lower-income beneficiaries and those with greater health risks.**
- **Ensure that the cost of frivolous litigation is not passed on to consumers in the form of higher health-care premiums by capping non-economic damages in medical liability lawsuits.**
- **Stop the raid on the Medicare trust fund that was going to be used to pay for the new health care law. Any current-law Medicare savings must go to saving Medicare, not financing the creation of new open-ended health-care entitlements.**
- **Fix the Medicare physician payment formula for the next ten years so that Medicare beneficiaries continue to have access to health care.**

With the creation of Medicare in 1965, the United States made a commitment to help fund the medical care of elderly Americans without exhausting their life savings or the assets and incomes of their working children and younger relatives. In urging the creation of Medicare, President Kennedy said that such a program was chiefly needed to protect, not the poor, but people who had worked for years and suddenly found all their savings gone because of a costly health problem.¹

Created with the mission of providing health coverage for America's retirees, Medicare's structural imbalance threatens beneficiaries' access to quality, affordable care. A flaw in the structure of the program is driving up health care costs, which are, in turn, threatening to bankrupt the system – and ultimately the nation. Unless Congress fixes what's broken in Medicare, without breaking what's working, the program will end up causing exactly what it was created to avoid – millions of American seniors without adequate health security and a younger working generation saddled with enormous debts to pay for spending levels that cannot be sustained.

The Medicare program attempts to do two things to make sure that all seniors have secure, affordable health insurance that works. First, recognizing that seniors need extra protection when it comes to health coverage, it pools risk among all seniors to ensure that they enjoy secure access to care. This budget strengthens and enhances this aspect of Medicare so that seniors will have more health-care choices within the same stabilized risk pool.

Second, Medicare subsidizes coverage for seniors to ensure that coverage is affordable. Affordability is a critical goal, but the subsidy structure of Medicare is fundamentally broken and drives costs in the opposite direction. The open-ended, blank-check nature of the Medicare subsidy drives health-care inflation at an astonishing pace, threatens the solvency of this critical program, and creates inexcusable levels of waste in the system.

Politicians' repeated efforts to patch this problem without reforming the structure of the subsidy have amounted to one failure after another. Time and again, Congress has applied band-aids to control costs by reducing the rate at which doctors and hospitals are reimbursed for treating Medicare patients. These repeated fee reductions have had two consequences: Providers have either increased the volume of services they provide for each condition, leading to waste, fraud and abuse; or they have stopped accepting Medicare patients, limiting access for seniors.

Despite these repeated fee reductions, the rising cost of Medicare has continued unabated. Today, Medicare spending is growing at a rate of 7.2 percent every year. This is more than twice as fast as this nation's economy is growing. The unchecked growth of the Medicare program cannot be sustained – eventually, it will threaten not just the affordability of coverage for seniors, but also the security that comes with knowing that coverage can be obtained at any price.

Letting government break its promises to current seniors and to future generations is unacceptable. The reforms outlined in this budget protect and preserve Medicare for those in and near retirement, while saving and strengthening this critical program so that future generations can count on it to be there when they retire.

This budget ends the raid on the Medicare trust fund that began with passage of the new health care law last year. It ensures that any potential savings in current law go to shore up Medicare, not to pay for new entitlements. In addition to repealing the health care law's new rationing board and its unfunded long-term care entitlement, this budget stabilizes plan choices for current seniors.

This budget also achieves savings by advancing common-sense curbs on abusive and frivolous lawsuits. Medical lawsuits and excessive verdicts increase health care costs and result in reduced access to care. When mistakes happen, patients have a right to fair representation and fair compensation. But the current tort litigation system too often serves the interests of lawyers while driving up costs.

This budget fixes the Medicare physician payment formula for the next ten years so that Medicare beneficiaries continue to have access to health care. It provides for a reimbursement system that fairly compensates physicians who treat Medicare beneficiaries while providing incentives to improve quality and efficiency.

¹ President John F. Kennedy. *Address at a New York Rally in Support of the President's Program of Medical Care for the Aged*. May 20, 1962.

Finally, this budget will save Medicare for future generations, protecting those in and near retirement from any changes while forging for younger workers a Medicare program modeled on the system of affordable, quality health coverage options now enjoyed by members of Congress.

Premium support – a better way to deliver secure benefits

Starting in 2022, new Medicare beneficiaries will be enrolled in the same kind of health care program that members of Congress enjoy. Future Medicare recipients will be able to choose from a list of guaranteed coverage options, and they will be given the ability to choose a plan that works best for them. This is not a voucher program, but rather a premium-support model. A Medicare premium-support payment would be paid, by Medicare, to the plan chosen by the beneficiary, subsidizing its cost.

STOPPING THE RAID ON MEDICARE BY REPEALING THE HEALTH CARE LAW

The health-care law last year was emblematic of the wrong way to fix the problems with Medicare. First, it raided the program to fund a new, unsustainable, open-ended health-care entitlement. Second, it created a government panel with the power to save money by rationing care and restricting access to treatments.

- *The federal government cannot spend the same dollar twice.* The trillion-dollar overhaul of the U.S. health-care sector enacted by the last Congress was filled with gimmicks and double-counting to hide its true cost. The most egregious example of this was the way the overhaul's supporters claimed that it would both shore up the Medicare trust fund and offset the cost of the expensive new health-care entitlement that the new law created.

The President himself announced that the new law “actually added at least a dozen years to the solvency of Medicare,” while also claiming that it wouldn’t add to the deficit. But at the House Budget Committee’s first hearing of the year, Medicare’s chief actuary, Rick Foster, testified that it would be impossible for the new law to do both unless the savings were double-counted.

“Both will happen as a result of the same one set of savings, under Medicare,” Foster explained. “But it takes two sets of money to make it happen... when we need the money to extend the Hospital Insurance Trust Fund, we have a promissory note... and Treasury has to pay that money back. But they have to get it from somewhere. That’s the missing link.”

- *Rationing is an inferior solution to Medicare’s problems.* There are two ways to control health care spending: Give bureaucrats more control to ration care, or give patients more power to reward providers who deliver high-quality, low-cost care (and deny business to those who fail to provide quality, affordable, care).

The new health care law empowers bureaucrats at the expense of patients and providers, setting up an unelected board of “experts” – the Independent Payment Advisory Board, or IPAB – tasked with squeezing savings out of Medicare through formulaic rationing. One-size-fits-all decisions to restrict certain treatments punish beneficiaries by hitting all providers of the same treatment with across-the-board cuts, with no regard to measures of quality or patient satisfaction.

This budget would eliminate IPAB and stop the raid on Medicare. Then, after ensuring that current-law savings go to shore up Medicare for those in and near retirement, this budget makes sure that the program is there for future generations by adopting a better way to control costs – through true choice and competition, ensuring that patients and doctors are at the center of health care in the United States.

The premium-support model would operate similar to the way the Medicare prescription-drug benefit program works today. The Medicare premium-support payment would be adjusted so that wealthier beneficiaries would receive a lower subsidy, the sick would receive a higher payment if their conditions worsened, and lower-income seniors would receive additional assistance to cover out-of-pocket costs.

This approach to strengthen the Medicare program ensures security and affordability for seniors now and into the future. First, it ensures security by setting up a tightly regulated exchange for Medicare plans. Health plans that choose to participate in the Medicare exchange must agree to offer insurance to all Medicare beneficiaries, to avoid cherry-picking and ensure that Medicare's sickest and highest-cost beneficiaries receive coverage. This reform builds upon the bipartisan Rivlin-Ryan Medicare reform plan advanced in the President's Fiscal Commission in 2010.²

While there would be no disruptions in the current Medicare fee-for-service program for those currently enrolled or becoming eligible in the next ten years, all seniors would have the choice to opt into the new Medicare program once it begins in 2022. No senior would be forced to stay in the old program. This budget gives seniors the freedom to choose a plan that works best for them and guarantees health security throughout their retirement years.

These reforms also ensure affordability by fixing the currently broken subsidy system and letting market competition work as a real check on widespread waste and skyrocketing health-care costs. Putting patients in charge of how their health care dollars are spent will force providers to compete against each other on price and quality. That's how markets work: The customer is the ultimate guarantor of value.

For too long in the Medicare system, the federal government, not the patient, has been the customer – and the government has been a clumsy, ineffective steward of value. Controlling costs without limiting access or sacrificing quality has proved to be an impossible task for government bureaucrats. In a vain attempt to get control of the waste in the system, Washington has made across-the-board payment reductions to providers without regard to quality or patient satisfaction. It hasn't worked. Costs have continued to grow, seniors continue to lose access to quality care, and the program remains on a path to bankruptcy. Absent reform, Medicare will be unable to meet the needs of current seniors or future generations.

In health care, as in any other economic arrangement, control of money is power. When it comes to controlling health-care costs and saving the nation from bankruptcy, the question is: Who gets the power? One centralized federal government, or 50 million empowered seniors holding providers accountable in a true marketplace? Patient power will always serve the needs of the people far better than bureaucrats managing the decline of a government-run system on the verge of bankruptcy.

Reform aimed to empower individuals — with a strengthened safety net for the poor and the sick — will not only ensure the fiscal sustainability of this program, the federal budget, and the U.S. economy. It will also guarantee that Medicare can fulfill the promise of health security for America's seniors.

Advancing Social Security Reforms

Major proposals

- **Force policymakers to come to the table and enact common-sense reforms to keep the program solvent for current beneficiaries and make it stronger for future generations. Social Security must be reformed to prevent severe cuts in future benefits.**
- **Set in motion the process of reforming Social Security by establishing a requirement that in the event that the Social Security program is not sustainable, the President, in conjunction with the Board of Trustees, must submit a plan for restoring balance to the fund. The budget then requires congressional leaders in both the U.S. House of Representatives and U.S. Senate to put forward their best ideas as well.**

² Rivlin, Alice M. and Paul D. Ryan. *A Long-Term Plan for Medicare and Medicaid*. November 17, 2010. <http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=225826>

- **Move the conversation to solutions that save Social Security, thus providing the space to forge a bipartisan path forward and ensure that Social Security remains a key part of retirement security for the future.**

One common reaction to the question of what to do about the problem with Social Security has unfortunately been, “What problem?” The deniers claim that the Social Security trust fund will remain solvent for another 16 years, at which point the government could theoretically cover the shortfall by raising taxes. Others downplay whether any changes to Social Security will be necessary – they claim that sustained economic growth could take care of the problem all by itself.

Neither is correct. First, any value in the balances in the Social Security trust fund is derived from dubious government accounting. The trust fund is not a real savings account. From 1983 to 2011, the trust fund collected more in Social Security taxes than it paid out in Social Security benefits. But the government borrowed all of these surpluses and spent them on other government programs unrelated to Social Security. The trust fund holds Treasury securities, but the ability to redeem these securities is completely dependent on the Treasury’s ability to raise money through taxes or borrowing.

Beginning in 2011, the Social Security started paying out more in benefits than it collected in taxes – a trend that will skyrocket as the baby boomers continue to retire. In order to pay full benefits, the government must pay back the money it owes Social Security.

Those who wish to solve this problem by raising taxes are ignoring the profound economic damage that such large tax increases would entail. Just lifting the cap on income subject to Social Security taxes, as some have proposed, would, when combined with the Obama administration’s other preferred tax policies, lift the top marginal tax rate to over 60 percent.

Most economists agree that raising marginal tax rates that high would create a significant drag on economic growth, job creation, productivity and wages. This nation cannot fix its retirement-security system by leaving young families with nothing to save.

President Roosevelt himself viewed Social Security as an evolving program. As he wrote in a 1939 message to Congress, “We shall make the most orderly progress if we look upon Social Security as a development toward a goal rather than a finished product. We shall make the most lasting progress if we recognize that Social Security can furnish only a base upon which each one of our citizens may build his individual security through his own individual efforts.”³

The evolution must continue today, because Social Security’s fragile condition poses a serious problem that threatens to break the broader compact in which workers support the generation preceding them, and earn the support of those who follow. The legacy envisioned by President Roosevelt must be upheld.

The House Budget Committee believes there is a bipartisan path forward on Social Security – one that requires all parties first to acknowledge the fiscal realities of this critical program. The President’s Fiscal Commission recently made a positive first step by advancing solutions to ensure the solvency of Social Security.

The Commission suggested a more progressive benefit structure, with benefits for higher-income workers growing more slowly than those of workers with lower incomes who are more vulnerable to economic shocks in retirement. It also recommended reforms that take account of increases in longevity, to arrest the demographic problems that are undermining Social Security’s finances.⁴

In addition, there is bipartisan consensus that Social Security reform should provide more help to those who fall below the poverty line after retirement. There is no security in a program that is blind to the needs of the

³ President Franklin D. Roosevelt. *A Message Transmitting to the Congress a Report of the Social Security Board Recommending Certain Improvements in the Law*. January 16, 1939.

⁴ The National Commission on Fiscal Responsibility and Reform. *The Moment of Truth*.

nation's most vulnerable citizens. Lower-income seniors should receive more targeted assistance than those who have had ample opportunity to save for retirement.

While certain details of the Commission's Social Security proposals, particularly on the tax side, are of debatable merit, the Commission undoubtedly made positive steps forward on bipartisan solutions to strengthen Social Security. This budget builds upon the Commission's work, forcing action to solve this pressing problem by requiring the President to put forward specific ideas on fixing Social Security.

In a shared call for leadership, this budget also puts the onus on Congress to offer legislation to ensure the sustainable solvency of this critical program. Both parties must work together to chart a path forward on common sense reforms, and this budget provides the nation's leaders with the tools to get there.

This century can be America's greatest century, but it will take strong leadership from this generation. The window to avert disruptions is quickly closing. Each year that passes without meaningful action, the debt grows larger, the problems grow more entrenched, and the available options grow fewer in number and greater in pain.

If the nation acts now, those in and near retirement can enjoy the continuity of health and retirement arrangements around which they have organized their lives. If Washington continues to play politics with the future of these programs, however, then it won't just be future generations at risk: Current retirees will also find their benefits subject to the vagaries of a severe debt crisis.

This will not just mean painful benefit cuts for current seniors – it will mean huge tax increases on younger working families, robbing them of the opportunity to save for their own retirements. And it will mean that those pledges of future health and retirement security that the government is currently making to younger families are nothing but empty promises. Unless government acts, Medicare and Social Security will not be there for younger families.

People are living longer. The baby boomers are beginning to retire. Health-care costs are skyrocketing. These are facts, and they require a better approach to renew the social contract. This budget fulfills the mission of health and retirement security for all Americans by saving and strengthening existing programs through common-sense reforms. The 112th Congress has a unique opportunity to fix what is broken in these programs without breaking what's working.

The solutions are clear; what remains in question is whether elected leaders have the resolve to save these programs.