

February 24, 2003

Bush Proposes Major Changes in Medicare and Medicaid

By ROBIN TONER and ROBERT PEAR

WASHINGTON, Feb. 23 — President Bush has begun one of the most ambitious efforts to reinvent Medicare and Medicaid since the programs were created 38 years ago. Combined with his earlier plan for Social Security, the proposals offer a fundamentally different vision of social welfare policy, many experts say.

Mr. Bush's proposals for Medicare and Medicaid, taking shape in recent weeks, would transform these pillars of the Great Society and their guarantee of health benefits to the elderly, disabled and poor. States would have far more power to determine who receives what benefits in the Medicaid program, which covers 45 million low-income Americans. The elderly would rely more on private health plans, and less on the government, for their health benefits under Medicare, which covers 40 million elderly and disabled people.

The administration's vision for Medicare and Social Security moves away from the notion that everyone should be in the same government-managed system with the same benefits. It promises individuals more choices, including the option of picking a private health plan or investing some of their Social Security taxes in the stock market.

But critics say these proposals would also mean less security, fewer guaranteed benefits and more financial risk for beneficiaries.

The magnitude of the Bush proposals is only gradually dawning on members of Congress. Unlike President Bill Clinton and former Speaker Newt Gingrich, Mr. Bush has not boasted about the boldness of his vision for these programs, perhaps because he is mindful of the voters' anxiety about major changes in health care.

Indeed, a senior administration official dismissed the idea that Mr. Bush was attempting fundamental change in Medicare and Medicaid.

"We're looking at two programs that have worked, that have provided health coverage to people who need it, and we want to help them work better," the official said. "The idea is to strengthen and improve the programs."

A test for the administration will come in the next few days, as officials seek an endorsement of the Medicaid plan from the nation's governors, meeting here. The initial reaction at the governors' meeting today was mixed.

Administration officials and their allies in Congress, including some centrist Democrats, said such changes were essential to modernize creaky government programs and to stem the growth in entitlement spending.

"I think the administration, like all of us, is looking for an answer to the question of how we can afford all of this," said Representative Jim McCrery, Republican of Louisiana and an influential member of the Ways and Means Committee. "How can we structure the system of health care for the elderly, in the case of Medicare, so that our society can afford the cost?"

Medicare, Medicaid and Social Security accounted for 42 percent of all federal spending last year, and that share is expected to grow.

But several architects of those programs argue that the Bush administration is retreating from the goals of the Great Society and the New Deal, and the promises the government made across the generations. The Bush plans, they say, are essentially an effort to limit the federal government's financial responsibilities and to cap what is now an open-ended guarantee of specific benefits — an effort to move from a defined benefit to a defined contribution.

Robert M. Ball, who worked at the Social Security Administration for three decades and was commissioner from 1962 to 1973, said, "These proposals are a major departure from the principles that have governed the social insurance programs from the beginning."

Senator Edward M. Kennedy, Democrat of Massachusetts and one of three remaining senators who were in Congress when it created Medicare, said, "Medicare and Medicaid are two of the most successful social programs ever enacted."

Mr. Kennedy added, "Medicare is a firm commitment to every elderly American, not a profit center for H.M.O.'s and other private insurance plans."

Mr. Bush's Medicare proposal, being revised after an earlier draft drew fire on Capitol Hill, would encourage many beneficiaries to leave traditional Medicare and get their benefits through private health plans associated with the program.

Administration officials assert such plans can manage care, tailor benefits and control costs better than traditional Medicare, one of the last bastions of fee-for-service medicine. The officials also argue that Medicare must be overhauled before Congress adds prescription drug benefits, a priority for each party. "When it comes to cars, and when it comes to health care, 1965 is not the state of the art," Mr. Bush has said.

Democrats, as expected, are fiercely resisting the administration's plans, although there is widespread agreement on Capitol Hill that the program needs to be updated with a prescription drug benefit. More troubling for the administration is the criticism that has come from influential Congressional Republicans, alarmed at the possibility that the administration might be overreaching. They have been particularly scathing about the possibility that the Bush plan would require the elderly to leave traditional Medicare and join a private plan to get drug benefits, discussed in the earlier draft.

Both sides in this debate have a strong sense that the nation is at a crossroads — politically, philosophically and demographically — as the entitlement programs are strained by an aging society. The architects of Medicare said the program was created with some fundamental precepts that the Bush proposal would undermine: that all working Americans pay into the same Medicare system; that the healthy and the sick, the rich and the poor, end up in the same program; and that all have the same core benefits when they retire.

The idea that the elderly would be better served by a private, for-profit insurance market is anathema to these veterans of the Great Society. Before Medicare, they say, the private health insurance market was a failure for the elderly, nearly half of whom had no hospital coverage. They fear that private health plans would be tempted to recruit the healthiest of the elderly, leaving sicker, more costly patients to the original fee-for-service Medicare program.

Critics also argue that "choice," a favorite theme of the Bush administration, is not necessarily what the elderly want or need.

Dr. Philip R. Lee, recruited by the Department of Health, Education and Welfare in 1965, said of the Bush administration: "They talk about giving people choice; Medicare gives people the choice of their individual practitioner. That's what most people think about when they think about choice."

The issues raised in the Medicaid debate revolve largely around the role of the federal government. Citing the model of the 1996 welfare law, Health and Human Services Secretary Tommy G. Thompson says states can be trusted with far more authority to decide who receives what benefits.

The administration's proposal would offer states vast new power to reduce, eliminate or expand health benefits for low-income people, including many who are elderly or disabled. In return for the flexibility, and a temporary increase in federal assistance, states would eventually have to accept a limit on the federal contribution to the program's cost. The choice would be up to the states; they could stay with the existing program.

Administration officials say the plan would allow states to stretch scarce resources during fiscal crises. Critics assert it would replace the poor's entitlement to health care with a block grant to the states, just when the number of uninsured is rising.

Gov. Bill Richardson of New Mexico, a Democrat, said the new Medicaid proposal was "extremely risky in an uncertain economy."

There were other critics today among the governors. Janet Napolitano, the new governor of Arizona, a Democrat, expressed deep concern about the Bush administration's Medicaid proposal because, she said, the federal money would not keep pace with the rapid growth of the state's Medicaid program. Noting that Arizona's population grew 40 percent from 1990 to 2000, a surge reflected in the state's Medicaid rolls, Ms. Napolitano added, "Fast-growing states in the West should be very, very concerned about this."

But Gov. John G. Rowland of Connecticut, a Republican, was enthusiastic about the plan. "It's a great deal," Mr. Rowland said. "I'm very pleased with the prospect of greater state flexibility."

Mr. Thompson argued that the administration proposal would preserve comprehensive insurance for most of the poorest beneficiaries. But states would have "carte blanche," he said, to alter Medicaid coverage for about 15 million recipients."

States are not required to cover these people, but once they are on the Medicaid rolls, they have legally enforceable rights to benefits.

Mr. Bush's proposal for Social Security, first offered in the 2000 campaign, would also break sharply with the past by allowing workers to divert some of their payroll taxes to individual accounts that would be invested in stocks. While its political prospects have been dampened by the declining stock market, Mr. Bush reiterated his support for the idea last month in his State of the Union address.

Both sides agree that the coming debate over these proposals will be a fundamental clash of political philosophies — over the obligations of government, the rights of the individual and the role of the private sector.

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