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From the Editor

Who Pays For Medicare?

The internecine political warfare that caused the federal government to shut down twice at the end of 1995 is only a foretaste of the role Medicare is likely to play in the 1996 presidential campaign. The immediate argument that pitted President Bill Clinton against the Republican congressional leadership turned on the size of the monthly insurance premium that Medicare beneficiaries should pay. But many broader Medicare issues loom as the presidential sweepstakes begins in earnest. One of the most important is how the costs of the program will be divided between its beneficiaries and the working population. As is America's Social Security program, Medicare's hospital financing scheme is grounded in the principle of social insurance. That is, employees make mandatory contributions as defined in law to dedicated trust funds during their working years, with the promise of receiving benefits (income or services) after they retire. This concept was popularized in the late 1800s by German Chancellor Otto von Bismarck, who constructed Germany's national health insurance plan around it. The principle applies only to Medicare's Hospital Insurance (Part A) trust fund. Medicare's other major component, Supplementary Medical Insurance (Part B), was modeled after traditional indemnity coverage and was created to win the support of doubting Republicans. The money contributed by the nation's workforce today for hospital insurance is not set aside to meet future health expenses. Rather, it is used to cover medical bills of the people who are currently eligible. Overall, the lion's share of Medicare's annual revenue now comes from people who are under age sixty-five (in payroll taxes and trust fund interest). Twelve percent derives from premiums and income taxes paid by people who are elderly or disabled. Most beneficiaries, except the very poor, pay the same premium regardless of their economic circumstance. Every year, the majority of Medicare's expenditures go to a relatively small proportion of its beneficiaries, a feature common to all insurance schemes. In 1993, for example, 29.5 million beneficiaries (81 percent of all enrollees) received covered services under Medicare. The total program payments

for that year were \$129.4 billion, an average payment of \$4,387 per user. But 17 percent (6.2 million) of all enrollees accounted for 83 percent (\$107.5 billion) of the total program payments, according to the Health Care Financing Administration. Most of those who require medical care receive far more from Medicare than they contributed in payroll taxes. For example, a couple retiring in 1995, with one wage earner who had paid average Medicare taxes since 1966, would have contributed \$12,820; his or her employer would have made an equal contribution. The present value of future Part A benefits for such a couple is estimated to be \$105,850, about four times the combined amount paid into the trust fund by the beneficiary and his or her employer. If retirees were required to pay a monthly premium that was equivalent to the actuarial value of their Part B benefit, it would be \$146.20, rather than the current \$46.10. However Clinton and congressional Republicans resolve this immediate issue, the broader question remains: What proportion of the actuarial value of the Medicare benefit should the program's beneficiaries be required to pay? This Medicare issue, and countless others, remains unresolved as election year 1996 dawns. In an effort to address them, *Health Affairs* is publishing a variety of perspectives on the program that, since its creation in 1965, has symbolized the continuing struggle over defining the government's role in America's predominantly private system of health care. The lead essay, authored by Henry Aaron and Robert Reischauer, reflects the ascendancy of Republicans and other pressures to reform Medicare in the face of the coming demands that will be placed on the program by the baby-boom generation. Following are papers from analysts who represent thinking on the political left and right. Marilyn Moon and Karen Davis, both of whom are identified with the Democratic party, discuss the preservation and strengthening of Medicare. Stuart Butler and Robert Moffit of The Heritage Foundation, which is closely allied with conservative Republican causes, outline their belief that the Federal Employees Health Benefits Program could serve as a model for a new Medicare program. Next come perspectives by respected students of the program: Robert Ball, Robert Brook, Sen. Bill Frist, Heather Palmer, and Uwe Reinhardt. Finally, Pete Welch and Gilbert Welch propose how to extract meaningful information from managed care plans. Many of these papers were presented initially at a conference sponsored by the American Association of Retired Persons and *Health Affairs* last summer. We hereby gratefully acknowledge support for the conference from The Commonwealth Fund and the AARP Andrus Foundation. The remaining papers in this volume reflect the wide variety of issues that are swirling around our rapidly changing health care system.

John K. Iglehart, Founding Editor