2006 Medicare Trustees Report:
The Sky is NOT Falling, but Republican Privatization Agenda Threatens Medicare
May 1, 2006

While President Bush has presided over an unprecedented drop in solvency and created a new measure designed to scare people into thinking that Medicare is unaffordable, Medicare remains strong. By historical standards, the Trust Fund will be solvent for as long or longer than 19 out of the last 34 reports in which projections were provided. But Republican efforts to privatize Medicare are taking their toll.

Current projections. According to the 2006 Medicare Trustees Report, under the intermediate assumptions, Medicare Part A Trust Fund becomes insolvent in 2018. This is a two-year drop from last year's projection of 2020. Under low-cost assumptions, trust fund assets would be depleted by 2041; high-cost assumptions project depletion in 2013.

President Bush and Congress have taken Medicare in the wrong direction. Since the 2001 report, solvency projections have dropped by an unprecedented 16 years. This drop is attributable to reduced projected revenue intake due to the lackluster Bush economy, the MMA's higher payments to private plans and higher-than-expected Part A spending. While this date is not alarming by historical standards, the pattern stands in stark contrast with the increased solvency seen during the 1990s.

Path to GOP entitlement cap paved in this year's report. The 45% trigger is an arbitrarily designated threshold created by the MMA to cap Medicare's funding. This year's report contains the first official warning that the projection is in sight. If the second warning is given next year, President Bush will be required to send Congress legislation cutting Medicare in 2008, at which point it will get expedited consideration in the Congress. President Bush proposed in his FY2007 budget to take this process further by requiring across-the-board Medicare cuts if Congress fails to act on his recommendations. Republicans want to end Medicare as we know it, and the 45% trigger lays the groundwork to do so.

New trends, not competition, primary reason for lower Part D projections. The largest factor by far in driving down Part D expenditures are new data indicating slower overall growth in drug spending in 2004 and 2005 – prior to implementation of Part D – which were used to adjust future growth. Dramatically decreased participation estimates also lowered spending projections. The latest estimates predict that just 29 million beneficiaries will covered under Part D in 2006, compared to 41 million when the MMA was enacted and 37 million in the President's FY2007 budget submission.

Private plans cost *more* than traditional Medicare. According to CMS and MedPAC data, Medicare HMOs are paid on average 115% of the cost of traditional Medicare. In fact, CMS Chief Actuary Rick Foster confirmed in testimony before the Committee on Ways and Means (3/24/04) that there are *never* any savings under the Medicare Advantage program. Because payments for private Medicare Advantage plans are drawn from both Parts A and B, the overpayments erode solvency, raise premiums for all beneficiaries and hasten the so-called 45% trigger. In addition, Medicare's administrative costs run far below those of private plans. Simply said, Medicare is more efficient than the private market.

Privatization funnels money to special interests at the expense of Medicare beneficiaries and all taxpayers. Under the MMA, HMOs and drug companies are the real winners. The law prohibits the government from negotiating discounts for prescription drugs and it directs more than $63 billion in excess payments to HMOs. Thus, the Republican privatization agenda is not about saving the government money.