

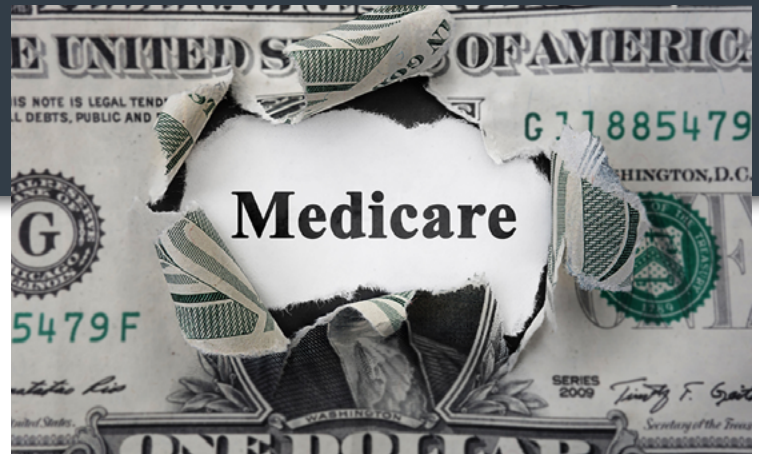
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Medicare and the Social Contract

By Kerry Weems
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On Tuesday, March 7, 2023, President Biden released portions of his budget for Fiscal Year 2024. [1] As promised in his State of the Union address, the budget proposes to extend the solvency of the Medicare Part A Trust Fund into the 2050s. Unsurprisingly, it does so by increasing taxes and shifting savings from direct negotiations for Part B and D drugs to the Part A trust fund. The budget leaves reimbursement for Medicare services intact and makes no attempt at delivery system reform.

In the coming days, the political performances will begin, and the Republicans will declare the President's proposal "dead on arrival."



And it is. The proposal is a "put up or shut up" shot across the bow of the Republicans. The Republicans will condemn it because of the tax increases, an easy talking point. However, the President's proposal crosses an even more fundamental line: it tears at the fabric of our social welfare contract.

AN EGALITARIAN SOCIAL CONTRACT

Medicare became the law of the land on July 30, 1965, at a signing ceremony in Independence, Missouri, attended by President Lyndon Johnson and former President Harry Truman. Truman worked to enact Medicare in his presidency, but ultimately fell short. At the signing ceremony, Truman referred to the cloth of our social contract by distinguishing Medicare from welfare or charity.

"Not one of these, our citizens, should ever be abandoned to the indignity of charity. Charity is indignity when you have to have it. But we don't want these people to have anything to do with charity and we don't want them to have any idea of hopeless despair."

Since then, Medicare has become many things:

- A playground for lobbyists.
- A cudgel with which to beat one's political opponents.
- A needlessly complex payment system that defines the contours of the U.S. health system.

From 1965 until 2010, the contract of Medicare hospital insurance remained virtually the same: all workers pay the same tax rate on their earned income, regardless of income, and beneficiaries receive the same benefits regardless of income. [2]

The Affordable Care Act added a 3.8 percent Medicare surtax on net investment income for high earners, fraying the contract, making it less egalitarian.

THE PRESIDENT'S PROPOSAL

The President's Budget proposes three financing changes to the Part A Trust Fund:

1. Proposes crediting additional savings from Medicare drug negotiations to the Part A Trust Fund rather than the General Fund. This is an accounting trick that dilutes the tie between the obligation to remit payroll taxes today in return for Medicare eligibility in the future. (Accounting gimmicks often garner bipartisan support, since they avoid hard legislative choices.)
2. Tightens the definition of net investment income so more investments will be subject to the Medicare surtax.
3. Raises the tax rate on net investment income for those earning over \$400,000 from 3.8 percent to 5 percent — a nearly 32 percent increase.



This is dangerous ground on which to make a political stand. Americans on the right and the left defend Medicare and Social Security as an earned right. "I worked for it." Any proposal that weakens the tie between work and benefits, makes Medicare look more like "charity" and less like a democratic, shared contract.

WHAT THE PROPOSAL NEGLECTS

The pandemic and its echoes have left many American health systems in dire financial straits. Higher costs for labor and supplies have not been offset with higher reimbursement. Many systems are operating at losses, financing their operations from their balance sheets.

I have no doubt that the President's proposal would extend the life of the Part A trust fund into the 2050s if enacted. However,

simply adding additional revenue to the trust fund while neglecting the rapidly deteriorating delivery system seems silly. Unlike a purely private market, Medicare-dependent providers can't innovate away from operating losses. They are stuck with Medicare reimbursement rates and the hidebound rules that go with them.

As hospitals close across the nation, talking points about extending the life of the Part A Trust Fund will ring hollow.

THE LOYAL OPPOSITION

Once the gales of "It's a tax increase and unacceptable" pass, the Republicans are still left with the same problems of the coming bankruptcy of the Part A trust fund and a failing delivery system model. As hospitals close in their States and districts, their talking points regarding tax increases will ring equally hollow.

The President's proposal is not designed to pass. It is designed to bring all factions to the bargaining table to face the rapidly unfolding fiscal realities. However, that seems unlikely until the battle over raising the debt ceiling is somehow resolved. (Read my commentary on [The Debt Ceiling and the Death of Fee for Service](#).)

The various factions should take this proposal as an invitation to help fix a very broken system. As they consider reform, they should remember the place Medicare occupies in our social contract of earned wages and attendant benefits. Lyndon Johnson's words referred to that contract when Medicare became law:

"No longer will older Americans be denied the healing miracle of modern medicine. No longer will illness crush and destroy the savings that they have so carefully put away over a lifetime so that they might enjoy dignity in their later years...And no longer will this Nation refuse the hand of justice to those who have given a lifetime of service and wisdom and labor to the progress of this progressive country."

SOURCES

1. The full President's Budget will be released on March 9. While unlikely, it could contain not yet disclosed Medicare proposals.
2. Unlike Social Security, the Medicare portion of the FICA tax has no wage base limit. This means the Medicare portion fall against all wages, regardless of how much one makes.

AUTHOR



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[The Debt Ceiling and the Death of Fee for Service](#)

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