Senate and House Democratic Policy Committees
Joint Hearing

"The President's Budget Request for Fiscal Year 2004"

Barbara B. Kennelly
National Committee to Preserve
Social Security and Medicare

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Good Morning Chairman Dorgan, Leader Pelosi, and other distinguished members of the Senate and House. On behalf of seniors across this great nation who support the National Committee to Preserve Social Security and Medicare, I am delighted to be here today to discuss the administration's 2004 budget proposal as it affects Social Security and Medicare. We thank you for this opportunity, and for your efforts.

The president's 2004 budget would undermine the sustainability of Social Security and Medicare, squandering their surpluses to pay for a large tax cut for the wealthiest Americans, delaying reforms, and moving us further toward a policy that jeopardizes Medicare benefits. It not only fails to meet the needs of a rapidly growing senior population, it compounds the problem by dramatically increasing federal debt over the next several decades.

We have no choice but to meet the demographic reality of soon-to-retire baby boomers. We must make it our top domestic priority to keep Social Security and Medicare strong.

At a time of growing deficit, and the looming baby boom retirement, we cannot sustain the administration's appetite for permanent tax cuts that overwhelmingly benefit the well off. A recent analysis from the Center on Budget and Policy Priorities indicates the total cost of the administration's proposed new tax policies could exceed $2.3 trillion by 2013. Yet the administration seems strangely unconcerned about this.

Why, one asks, is the administration unwilling to provide in its budget the standard 10-year costs of their tax proposals? The OMB Director deems those kinds of long-term projections unreliable. Yet OMB is willing to project Medicare costs for the next 75 years. The budget document greatly exaggerates the concerns facing the program, which we understand are serious enough, and then lumps Medicare figures together with projected 75-year costs of Social Security to paint an excessively bleak picture for both programs.

The return to deficits holds dire consequences for Social Security and Medicare. The surpluses generated by these programs, which are intended to pay down federal debt, are being squandered to pay for the large tax cut. Considering that the true 2004 deficit is closer to $468 billion -- not $304 billion-- when the $163 billion Social Security surplus is excluded, such a long-term commitment on the tax side represents a serious miscalculation. That the president chooses to spend the trust funds instead of excluding them is simply wrong.

A recent *Los Angeles Times* poll found that only about a fifth of Americans strongly support privatizing Social Security, a move the president advocates, but does not discuss in his budget. We are pleased that the budget provides some resources to address some of the important administrative concerns of SSA and we look forward to working with you and SSA in that regard. But we are very concerned that the administration has proposed no immediate steps to shore up the current program for the long term. We must work now to keep Social Security funded beyond 2041. Postponing action until 2005 only makes that challenge more difficult.

Medicare's hospital trust fund is projected to remain solvent until 2030. This is one of the longest periods of health ever projected for Medicare. Still the program does not cover outpatient prescription drugs, nor does it cover dental care, eye care or sufficient preventive benefits.

The president's proposal to revamp Medicare simply moves the program into the private sector. We still do not have all the details, but from what we read in the news reports -- the administration's plan would fundamentally redefine Medicare. The National Committee opposes efforts to privatize Medicare by transforming it into a defined-contribution program with private HMOs offering the benefit. A shift toward privatization would violate Medicare's social insurance nature, exchanging benefits defined in law for benefits that may change or disappear with little notice. Medicare was created in 1965 because the private insurance industry found little profit in this high-risk age group. Existing evidence indicates this market reality has not changed.

We do have a current, operating model for what it would be like were Medicare to be privatized. That model is Medicare Plus Choice. Its plans have failed to fulfill their 1997 mandate to reduce costs and add benefits. In the last four years, Medicare Plus Choice managed care plans have reduced services, terminated plans (dropping over 2.2 million enrollees) and abandoned service areas. The average premium increase in 2002 was 12 percent. That's tough for seniors on a fixed income, especially since this year's Social Security COLA was only 1.4 percent. Meanwhile, CMS and the General Accounting Office have consistently found that private Medicare plans cost the program more per patient than does traditional fee-for-service Medicare. This is because the private plans tend to market to healthier seniors, who cost less to insure. Medicare Plus Choice plans have introduced new uncertainty for millions of seniors and persons with disabilities, and they have not saved the Medicare program one dime.

Still, the administration's Medicare "reform" plan would take the program further down the path toward private solutions, rewarding private plans for historically bad performance and placing on them even fewer constraints to produce minimum benefit guarantees. The administration proposes allocating Medicare $400 billion in new money over the next 10 years, primarily to subsidize private plans. Yet there is no guarantee that these subsidies will succeed in coercing private plans to expand coverage areas, improve benefits, or offer prescription drug coverage that truly is adequate and affordable.

The administration makes the centerpiece of its Medicare plan a prescription drug benefit for seniors. But if, as many independent reports suggest, the benefit is made available only through private plans, the vast majority of seniors (who are enrolled in traditional Medicare) will be forced into an unenviable choice -- staying with the doctors they trust or switching to a private plan for the drug benefit they need. We await the details regarding this critical aspect of the Administration's proposal.

We have many other serious concerns regarding this budget too numerous to detail in my brief time. The proposal underfunds Medicaid, calls for cuts to many vital community services like elder abuse prevention and home-delivered meals, and advances new retirement savings policies that may actually serve to undermine long-term retirement savings for today's younger workers.

The baby boom retirement is arriving soon. We still have time to prepare while the fiscal challenge is serious but manageable. This hardly is the time to run up the national credit card on expensive long-term tax cuts at a time when other bills and responsibilities are coming due. Our national priorities must be put in order.

Thank you for this opportunity to speak to you today.