MEDICARE: DRIFTING TOWARD DISASTER

Prologue Series

Michael O. Leavitt

Secretary
U.S. Department of Health and Human Services

Prologue Series

I have come to understand that public service is a generational relay. Many of the most profound problems are not ours to solve in finality, but rather to incrementally improve during our temporary stewardship.

Three foundation goals thus form the basis for my public service: to leave things better than I found them; to plant seeds for the next generation; and to conclude my work knowing I have given my all.

For nearly sixteen years, my life has evolved in four year terms. I was elected three times as Governor of Utah. Some of what I consider our accomplishments were initiated in my first term, but fully matured in my third. Likewise, some seeds planted in my third term are only now beginning to flower.

Living in four year cycles has taught me the importance of choosing priorities and impressed the need for urgency. Time passes quickly.

I am currently in my fifth year as a member of President George W. Bush's Cabinet. I served first as the Administrator of the Environmental Protection Agency and now as Secretary of Health and Human Services. The constitutional constraints on the President's service imposed limits on what initiatives I might see to completion. However, I view it as my obligation to lead with a longer horizon in mind.

Over time, I have developed a set of tools useful in keeping a long-term vision in mind while managing the day-to-day problems. One such tool is establishing a 5,000 Day Vision, with a 500 Day Plan.

The 5,000 Day Vision is our aspiration for various long-term outcomes. The 500 day plan is more granular, listing what needs to be done now to bring about the larger vision. Both are recalibrated periodically.

As my stewardship comes to a close, it is time to plant seeds for the next generation. I intend to write and deliver a series of formal speeches to convey some of the 5,000 Day Vision and share what I see on our approaching horizon.

I call these speeches *The Prologue Series*. There is a statue behind the National Archives that I look at nearly every day as I drive between HHS and the White House. The statue, the work of Robert Aitken, is called "The Future." It depicts a woman looking up to the horizon from a book as if to ponder what she has just read. At the base of the statue are the words from Shakespeare's *The Tempest* "What is past is prologue."

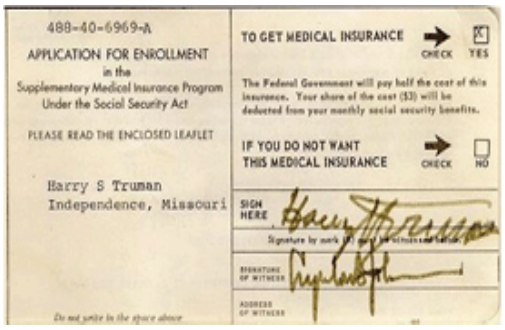
This is the first speech in *The Prologue Series*. It is entitled "Medicare: Drifting Toward Disaster."

Michael O. Leavitt
Secretary
U.S. Department of Health and Human Services
Speech given on April 29, 2008
at the Newseum in Washington, DC

Cover image: HHS Photo/Chris Smith

I want to begin by explaining my motivation for giving this speech. Our nation has made a promise to provide health care to our seniors. I am going to speak critically of our current course. I don't want to see us fail. To keep this commitment requires change.

Time is running out. Medicare is drifting toward disaster.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APPLICATION FOR ENROLLMENT
in the
Supplementary Medical Insurance Program
Under the Social Security Act

PLEASE READ THE ENCLOSED LEAFLET

Harry S Truman
Independence, Missouri

Do not write in the space above

TO GET MEDICAL INSURANCE → CHECK ☒ YES

The Federal Government will pay half the cost of this insurance. Your share of the cost ($3) will be deducted from your monthly social security benefits.

IF YOU DO NOT WANT THIS MEDICAL INSURANCE → CHECK ☐ NO

SIGN HERE Harry S Truman

Signature by mark (if applicable)

SIGNATURE OF WITNESS

ADDRESS OF WITNESS

President Lyndon B. Johnson signed Medicare into law on July 30, 1965 in ceremonies at the Harry S Truman Presidential Library. Truman was enrolled as Medicare's first beneficiary in honor of his significant efforts to achieve medical insurance.

This is an important hour for the Nation, for those of our citizens who have completed their tour of duty and have moved to the sidelines. These are the days that we are trying to celebrate for them. These people are our prideful responsibility and they are entitled, among other benefits, to the best medical protection available.
—President Harry S Truman at the Signing Ceremony
July 30, 1965

I am a trustee of the Medicare Trust Fund. On March 26, 2008 I attended what will likely be my last annual spring meeting of the trustees. Our primary business was to issue a report to the people on the condition of the Social Security and Medicare Trust Funds. The report is based on work by government actuaries.

In the Treasury conference room we use, there is a wall clock that has been there since 1873. At one time, the clock was actually hooked to the Western Union telegraph line which calibrated the exact time on a regular basis.

This year, Rick Foster, the chief Medicare actuary, sat in perfect alignment between me and the clock. As Rick gave his report that the Medicare Hospital Insurance Trust Fund was projected to be insolvent in 2019, I could see time passing with each swing of the clock's pendulum: tic, toc, tic, toc.

I'm not sure if that caused what I am going to describe to you, but as I listened I felt the weight of this responsibility pressing on me. When the report was finished, the final page of the report was passed around for our signatures.

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.
—President Lyndon B. Johnson at the Signing Ceremony
July 30, 1965

It felt like the moment required more than just signing my name and moving on to the next appointment. This is serious business involving trillions of dollars and the lives of hundreds of millions of people.

As much as anything, the weight was a blend of responsibility and selfish panic. I realized that when the actuaries' forecast matures—and it will—somebody is going to say to me, "Weren't you a Trustee of the system for four years? What did you do to address the problem?" Somehow, the response "I signed the report each year," just doesn't feel adequate. Though the truth is, that's about all the authority the Trustees are given.

Just before the vote to accept the report, I asked the Secretary of the Treasury, Hank Paulson, the managing Trustee, if he would keep the record of the meeting open because there are some things I felt a need to say. He agreed.

My remarks today are a response to my discomfort and I plan to submit them as part of the minutes of the March 26th Trustees' meeting.

I have constructed a metaphor in my mind that is useful in describing our dilemma with the Medicare entitlement program which I will share with you today.

Without change, rising costs will drive government spending to unprecedented levels, consume nearly all projected federal revenues and threaten America's future prosperity.
—Treasury Secretary Henry M. Paulson, Jr.
Statement on the 2007 Social Security and Medicare Trust Fund Reports

Whitewater canoeing at the championship level is high adventure and comes with serious dangers. My friend, Matt Knot, is an instructor and guide on the Gauley River in West Virginia.

There are treacherous places in whitewater country. Canoers call them hydraulics. They are given descriptive names like "Hungry Mother" or "Lunch Counter" that dramatically communicate danger.

Hydraulics form when water pours over an obstacle like a rock. Unwary canoeists get sucked into them and can be trapped in one place by the force of the current. They are instantly overwhelmed and dragged under by the whirlpool effect created.

Matt says when you go into a hydraulic everything gets very dark as you are pulled deeper. Water circulates the boat back to the surface and then drags it down again, over and over. Survival depends on keeping your wits, waiting—and hoping—to be flushed out the bottom.

There is no backup plan in the law to ensure that hospitals continue to be paid when the Trust Fund is depleted.

Some thrill-seeking river runners find the experience of navigating a hydraulic exhilarating. However, the worst hydraulics are known as "keepers." Boaters become victims when they get sucked down into a hydraulic, and instead of being tossed about and flushed out from the bottom, they get mired in a jungle of debris.

This is an important point to remember: it is not just the hydraulic that brings fatal consequences; it is the combination of the hydraulic and debris beneath the surface.

Matt teaches students to anticipate. He calls it "scouting the river." Scouting is more than looking ahead. It's listening for the roar and sensing when the current is pulling you toward a dangerous place.

Safety comes only with foresight and avoidance.

Here's the second important point: safety comes only with foresight and avoidance. Matt says, "You have to start positioning your canoe well ahead of the danger, commit to a course that avoids the dangerous area, and then paddle hard."

I'm sure it is obvious to you that the river in my metaphor is the growing obligation our nation has to the pay for the health care of our senior and disabled citizens. Medicare's liabilities have grown from a mere trickle 40 years ago into what Matt Knot would call "Class 5 rapids." As new streamlets merge, it is becoming a raging torrent—more demanding and dangerous with each successive day.

Twice I have asked Alan Greenspan what he considers the greatest threat to the U.S. economy, and both times he has answered immediately with a single word: Medicare.
—Geoff Colvin quoting Alan Greenspan in *Fortune Magazine* on March 4, 2008

The Medicare Trustees Report does a good job of "scouting the rapids." But a nation that does not act on the warnings the report contains is no different than a canoeist ignoring evidence of hydraulics in the river ahead.

Disaster is not inevitable. If we act now, we can change the outcome. In health care, the core problem is that costs are rising significantly faster than costs in the economy as a whole.

Disaster is not inevitable. If we act now, we can change the outcome.

Health care has done exactly that my entire life. When I was born, it was four percent of the economy. When my son was born it had doubled to eight percent. When my first grandson was born two years ago, it had doubled again to 16 percent.

Every piece of evidence shows the trend continuing. The problem is beyond the fact that medical cost growth is faster than that of any other part of the economy. Our problem is also demographic. Our population is aging and as we age, medical expenses grow.

Today, 12 percent of the population is 65 or older. By 2030, nearly 20 percent of us will be seniors. There is nothing we can do to change that.

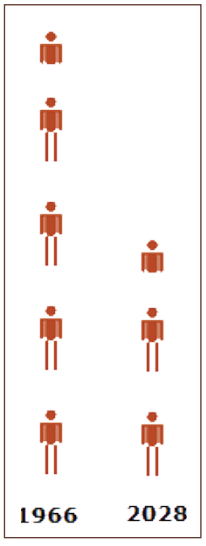
We have made a decision in our society that the cost of seniors' health care will be borne primarily by younger people who are still working. When that decision was made, it was assumed there would always be a fresh crop of earners to support the health care of their parents. That is not proving to be true. The demographic reality is that there are diminishing numbers of workers per senior. This ratio will decline rapidly once the "baby boom" generation reaches Medicare eligibility age starting in 2011.

Our problem is also demographic. Our population is aging and as we age, medical expenses grow.

In preparing to deliver this speech, I had economists, actuaries and demographers developing detailed scenarios demonstrating how this will unfold. I then spent hours— writing draft after draft—looking for the right combination of facts to illustrate our dilemma. I've concluded today that such a fact-filled analysis is unnecessary. Most of you have done the math yourself and know the simple truth: higher and higher costs are being born by fewer and fewer people. Sooner or later, this formula implodes.

Higher and higher costs are being born by fewer and fewer people.

Workers Per Medicare Beneficiary



Source: Office of the Actuary, Centers for Medicare and Medicaid, and Social Security Administration

The real urgency of this problem starts between now and 2019 when the Medicare Hospital Insurance Trust Fund is projected to become insolvent. There is no backup plan in the law to ensure that hospitals continue to be paid when the Trust Fund is depleted.

Congress will not be able to sit idly by and allow the Medicare program to become insolvent—they will be forced to take action. They will have the old familiar choices of raising taxes, cutting benefits to seniors, or imposing reduced payment rates on health care providers. Some of these choices represent the ugliest of political dilemmas, pitting a generation of workers against their parents and grandparents.

I have a son who is 30. He and his wife are just beginning their household. They have one young daughter and

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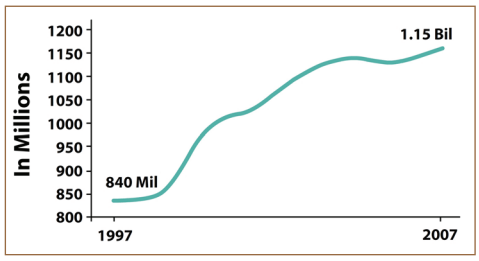
Total Medicare Claims



Source: Centers for Medicare and Medicaid Data, April 2008

another baby on the way. They are in many ways becoming a typical American household. This is a wonderful thing to see as a parent, but I worry about our national economic future; I worry about our growing generational divide.

Let's consider what their generation's economic prospects look like over the next two decades. The typical household is going to see its health care spending basically double in the next twenty years—from 23 percent to 41 percent of total compensation. At the same time, we are going to nearly double the share of federal spending that goes to pay for Medicare, from 13 percent to more than 23 percent. We are going to do this while the number of working people per Medicare beneficiary is sliced nearly in half, from four to two-and-a-half.

This is clearly not a rosy scenario for growing young households like my son's. These working families will argue, "My generation did not agree to this arrangement. This is happening at a time when my own health care is unaffordable. I have children who need food and clothes. I'm struggling to make ends meet. Seniors need to either have lower benefits or pay more of the cost themselves."

In fact, they will insist, "We are the ones with the heavy burden. Government needs to help us more so we can continue to work and enjoy the benefits our parents did."

But their parents and grandparents will have legitimate worries too. They will argue, "I did my time. I paid into the system. I have a legal entitlement for health care, and the government has a moral obligation to provide it. I know the demographics have changed, but that isn't my problem."

In fact, seniors will argue, "Health care costs are so high, my Medicare premiums, co-pays and deductibles are eating up almost half of my Social Security check. You need to help us more, not less."

The problem is: both will be right. The problems we see today with Medicare have the power to pit these parents and children against each other in an intergenerational economic struggle where each side will suffer.

Frighteningly, we will see that competition for resources play out much like another economic tension we are already experiencing. Our choices about social investment—in infrastructure, education, national defense—are being reduced as mandatory spending crowds out discretionary spending. In the last two decades, we've gone from half of our national spending being discretionary to only 38 percent. In four years, it is projected to be down to less than one-third.

We are seeing mandatory health care expenses crowd out other government spending—just as we are going to see health care spending crowd out non-health care spending in American households.

By now the current has grown so much that we are being sucked down into the hydraulic whirlpool again and again, with little surface time for air. The debris is piling up, and we may not have a way out.

Would it be a stretch to say 20 years hence, we would likely have accumulated a substantially larger national debt than we have now; and that a significant portion of that debt would be in the hands of foreign capital sources? Again, that's our current course.

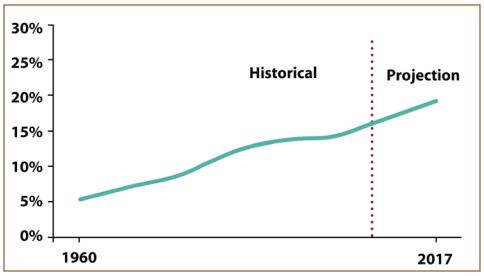
Other nations, of course, have scouted out the river. What will the impact be of continued trade deficits, and new global competitors who spend a fraction of what we do on health care, yet produce similar or better health results?

We factor continued growth into our scenario like it is certainty. Without continued investment from private and public sources, our prosperity would be taken away.

I was in Singapore the week before last. Their health care system consumes four percent of their gross domestic product. Rather than a Medicare-like government system,

Rapidly rising health care costs are not simply a federal budget problem; they are our nation's number one fiscal challenge.
--David Walker, Government Accountability Office Testimony Before the U.S. Senate Committee on the Budget, January 29, 2008

National Health Expenditures as Percentage of GDP



Source: Office of the Actuary National Health Expenditure Data

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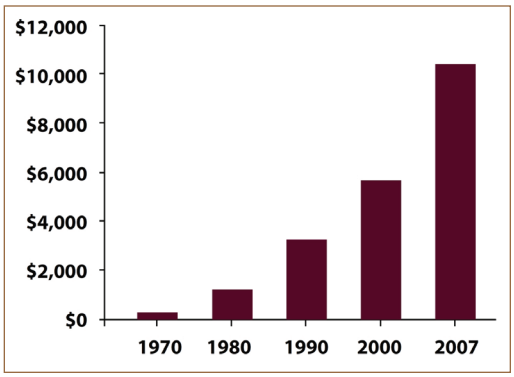
Average Cost Per Beneficiary



Source: Office of the Actuary, based on 2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

they require citizens to save. Incidentally, the Singaporean life expectancy is slightly longer than it is in the United States.

I would simply ask this question. If you were considering between an investment in two organizations and one spent four percent on health care with no future liability and the other spent 16 percent and had trillions of dollars of unfunded obligations, which one would you be most interested in?

In the late 1990s, I was Governor of Utah, and went to Argentina to develop trade relationships. I met various ministers of the Argentine Government who, at the time, were proposing some aggressive and controversial changes. Among these was an attempt to transition their country away from a constitutionally protected pension system, their version of entitlements.

I remember thinking, “These are the most courageous political leaders I’ve ever met.” I soon found it was not just courage. They were compelled.

At the beginning of the 20th Century, Argentina was one of the wealthiest countries in the world—wealthier even than the United States. Over the next 50 years, successive governments constructed, and then expanded, an ever-generous system of social benefits, nationalized industries, and created a vast and bloated public administration. Yet protectionist policies and a failure to invest in innovation in agriculture and other key industries meant the world economy began to change while Argentina’s didn’t. Its productivity suffered. But the country kept on spending, content and confident it was better-off than its neighbors.

As it turns out, Argentina had been operating for many years on money borrowed from the financial markets and organizations like the World Bank and the International Monetary Fund. By the 1990’s, the mortgage outstripped the country’s ability to pay. Creditors told Argentina, “no more dollars, unless you fix your entitlements.”

Frankly, Argentina had started down the path of reform late, and once the government started, the political pain was too much—the nation could not sustain it. The government developed a solid monetary policy, but could not change its fiscal or spending practices.

A few years later, Argentina was in political turmoil, with a rapid succession of governments, a currency in free-fall, and a rapid spike in unemployment. The country teetered on the verge of civil unrest. Why? Because Argentines had put off hard choices for so long they were forced to make change too quickly, and they simply didn't have the political strength to do it.

It seems inconceivable that the United States of America, the strongest economic power in human history, the land of the free and the home of the brave, could ever be in a situation like Argentina faced a decade ago. But, is it?

Let's think on a horizon of 20 years.

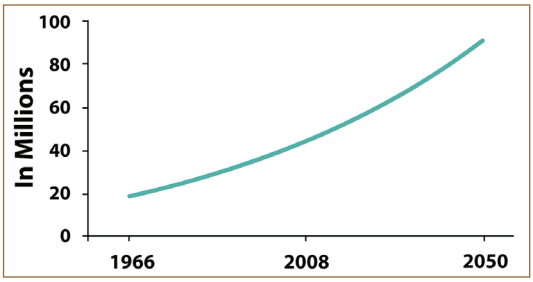
Is it hard to conceive of a severe productivity dip in the United States as labor markets become more sophisticated in nations like China, Vietnam, India, and Brazil? They are increasingly competing not only with our manufacturing sectors but also with our more dynamic knowledge sectors.

Is it really difficult to imagine world credit markets saying to the United States of America—as the world did to Argentina: "Given your lack of action in dealing with your deficit and the entitlements causing the problem, we are beginning to lack confidence in you."

When we talk about the metaphoric torrent we are navigating, it is much more than just Medicare, of course. The massive burden we are feeling is created by a full 16 percent of our Gross Domestic Product rushing through a single sector of the economy.

We need changes that can affect this entire sector we call health care.

Medicare Enrollment



Source: Office of the Actuary, based on 2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

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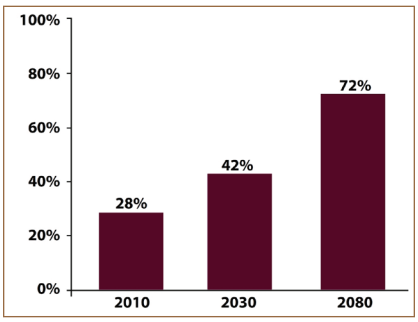
But, is it?

Percent of Average Social Security Benefit Consumed by Out-Of-Pocket Medicare Costs



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I believe the key to health care reform in our nation is Medicare reform.

But there is a very close relationship between Medicare and the balance of the U.S. health sector. Medicare is such a powerful payer; the rest of the sector has based their billing and reimbursement mechanisms on Medicare.

I believe the key to health care reform in our nation is Medicare reform. Successfully changing Medicare will trigger the rest of the health care sector to follow. That would be better news if changing Medicare were not so politically and bureaucratically complicated.

Since I am speaking in my capacity as a Trustee of the Social Security and Medicare Trust Funds today, it is important to acknowledge that this job is about sounding the alarm. I hope I have made clear to you just how alarmed I am and how alarmed we should all be. There is serious danger here.

It troubles me that this matter is not receiving more attention in the presidential candidates' discussions. The next President will have to deal with this in significant part. In fact, if they don't deal with it, our opportunity to apply Matt Knot's strategy of repositioning early and paddling hard is lost.

So, given the strong possibility this won't get fixed in the next 266 days, I would like to add some general advice on the creation of a political construct for action and a general strategy to solve the problem. I want to add, these are not being presented as Administration policies or proposals. I take complete responsibility for them as a Trustee simply laying out my thoughts.

In our country we maintain special facilities called "Level Four Laboratories" for handling lethal biologic agents. It would be unreasonable to expect anyone to handle lethal bio-agents without special protection.

To members of Congress, fixing entitlements like Medicare is lethal. Persuading them to accept the inherent risks will require a system of special political protection. Without it, Congress is unlikely to ever deal directly with Medicare's problems.

In an era where Election Day marks the beginning of the next campaign season, the degree of bipartisan statesmanship needed to solve the entitlement problem will be hard to come by. It will require what I call a partisan eclipse — a brief moment of time when political planets align to create an opportunity.

Partisan eclipses are often brought on by a crisis or national emergency. They can also happen in the vortex of a political storm. There are moments during certain election cycles when both parties feel mutually at risk of being the minority party.

During the final weeks of the 2006 election for example, it was not clear whether either party would win control of both Houses of Congress. Both parties were competitive but neither had the benefit of certainty. While the situation presented intense partisanship on most issues, it also represented a rare moment of opportunity for leadership.

What if leaders of both parties in Congress had met privately and acknowledged that while they could not agree on how to fix Medicare, they could agree that the approaching Medicare insolvency had to be dealt with. Both would likely be motivated by an understanding that it was in their party's long-term interest because solving such a problem would be especially costly in political terms to the party in power at the time the dilemma matures.

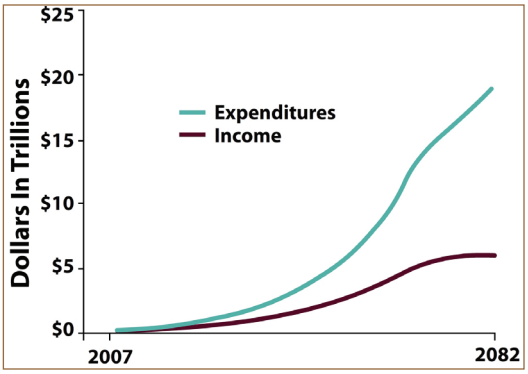
I grew up in a family of six boys. My mother would often resolve disputes over the remaining portion of a dessert by requiring one brother to cut the pie and the other to choose the first piece. The equilibrium of uncertainty created an elegant self-enforcing fairness.

What if Congressional leaders used a moment of political equilibrium of uncertainty to define a process not for themselves, but for a Congress and President to be elected years in the future? What if that legislative process they agreed on was so scrupulously fair and bi-partisan that either party would be willing to proceed even if they were not in the majority? A partisan eclipse will occur

I hope I have made clear to you just how alarmed I am and how alarmed we should all be.

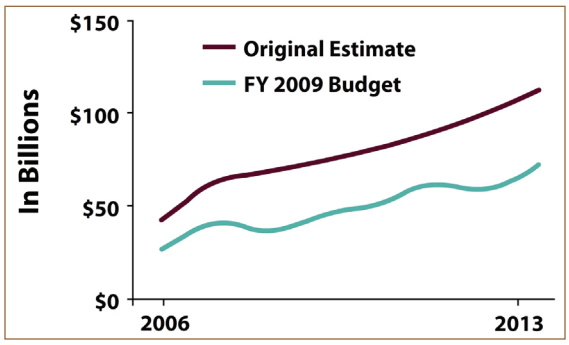
This is serious business involving trillions of dollars and the lives of hundreds of millions of people.

Comparison of Projected Hospital Insurance Income to Projected Expenditures



Source: Office of the Actuary, based on 2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

Medicare Drug Benefits: Almost 40% Below Original Estimates



Source: Office of the Actuary, Centers for Medicare and Medicaid

A Medicare System solvent through the 21st Century would have three characteristics.

First: value of care would replace volume of care as Medicare's best-rewarded virtue.

Second: Medicare parts A and B would operate like Part D.

Third: each generation would carry its share of the load.

in the future and it should be used to provide political protection and a viable path forward at a future date.

The legislation resulting from the partisan eclipse must incorporate another practical principle: separate commitment-making from pain-taking. The bill should establish measurable trigger points for action. For example, if Medicare currently constitutes 3.2% of GDP, when the government actuary declares Medicare expenditures to it to have exceeded 4% of the GDP, a special decision-making process would be triggered.

The special process could resemble the one Congress has used successfully for military base closure. A special bipartisan committee was established to assemble a proposal. The proposed plan is submitted to the President for review. Within a time certain, the President is required to approve or disapprove the entire plan. Once the President approved a plan, it was submitted to Congress, where they could not amend the proposal, but were forced to vote the proposal up or down within a specific time frame. It worked.

It would be critical that the law enabling this special process also include one other provision. If either the Congress or the President fails to act, a series of default provisions must be triggered which solve the problem. Without a default trigger, Congress will not act. Senators Judd Gregg (R-NH) and Kent Conrad (D-SD) have offered bi-partisan legislation creating a special legislative process.

Finally, there is a group of budget-estimating tools referred to as scoring conventions that are used universally across the federal government. Many of the tools Congress will need to reform Medicare will involve significant behavioral changes and require investments that the current scoring conventions would count solely as expenditures. In an age when the power of investment and productivity are the keys to success, the federal scoring conventions overvalue the status quo while undervaluing the investments that could transform it. Many have called for these to be modernized. I add my voice to that chorus.

So far this morning, I have talked about the serious imperative our nation has to change the course of Medicare.

I also discussed several parts of a political construct that would allow political action. Now I would like to frame up, at a high level, what a solution should look like from my perspective.

A Medicare System solvent through the 21st Century would have three characteristics. First, value-of-care would replace volume-of-care as Medicare's best-rewarded virtue. Second, Medicare parts A and B would operate like Part D. Third, each generation would carry its share of the load.

Skilled nursing facilities that prevent unnecessary re-hospitalizations are paid the same as those that don't.

In Medicare, our most expensive patients are those with multiple chronic diseases. The combination of ailments compounds to magnify each other. The same is true with Medicare. Medicare has three chronic ailments that are defeating the system.

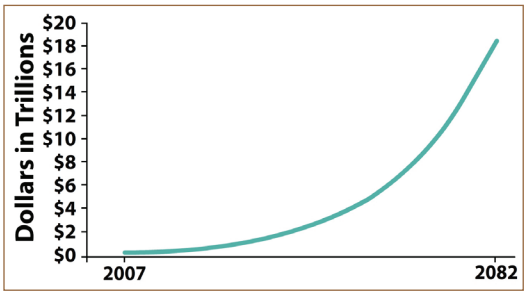
The first, I call Silo Syndrome: each medical action is paid for separately. That provides little opportunity or incentive for coordination among providers and it often results in bad referral decisions, sloppy hand-offs, duplications, fraud, and poor quality of care. The result is inappropriate care and unnecessary cost.

Medicare needs to use its power as the nation's biggest payer to change this. It's not only wasteful but it encourages unnecessary care and expensive medical mistakes.

When patients contract preventable hospital infections, costs skyrocket and in most settings, the hospital profits from it. Not only is our current system quality-indifferent, we reward poor quality!

The second category is Quality Indifference: doctors, hospitals and other medical providers are paid at the same rates for low-quality or high-quality performance. Physicians who take measures that prevent acute flare-ups of chronic conditions are paid no more than those who don't. Skilled nursing facilities that prevent unnecessary re-hospitalizations are paid the same as those that don't.

General Revenue Requirements from Medicare Part B and D



Source: Office of the Actuary, based on 2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

In fact, poor quality is often rewarded. When patients contract preventable hospital infections, costs skyrocket and in most settings, the hospital profits from it. Not only is our current system quality-indifferent, we reward poor quality!

Patients deserve to know the quality of the care they receive according to standards set by the experts. The information should be transparent, and most of all, we should reward quality.

This leads naturally to the third category of Chronic More: there are no mechanisms or incentives for controlling the volume and intensity of care. Not for the patient or the provider. The entire process rewards volume.

Doctor and hospital incomes rise as more units of service are ordered. If those units are more costly, they generate even more revenue.

It is the same for a patient. Our current payment system provides no means for a patient to know the cost and little reason to care.

These volume incentives need to be treated with strong doses of information transparency and by building incentives for high quality, efficient care directly into our payment structure. A variety of policies would force these changes, and luckily the infrastructure of quality metrics and strategies for rewarding value are available. It just takes Congressional action.

Make Medicare Parts A and B more like Medicare Part D.

In addition to changing the incentives from volume-rewarding to value-rewarding, the Medicare Part D Prescription Drug Program provides a good example of how better transparency and competition can drive change. It has not only ensured that seniors get the drugs they need; it has also demonstrated that seniors can use an organized marketplace to drive quality up and cost down.

Today, 90 percent of those who are eligible have drug coverage; satisfaction rates are high, and the cost is almost 40 percent below the original estimates. While there are several things that have contributed to the drop, a big one is the power of a competitive marketplace. Prices are determined through competition. The cost of the benefit is transparent to consumers and they can choose the benefits that meet their needs.

If the Medicare Part D structure were applied to Medicare Parts A and B, it would revolutionize the entire system. Imagine a physician practice investing resources to monitor and track patients with chronic conditions. They might if the program provided beneficiaries with information on the quality-of-care and dollar savings if they used more effective providers. It would drive quality up and cost down.

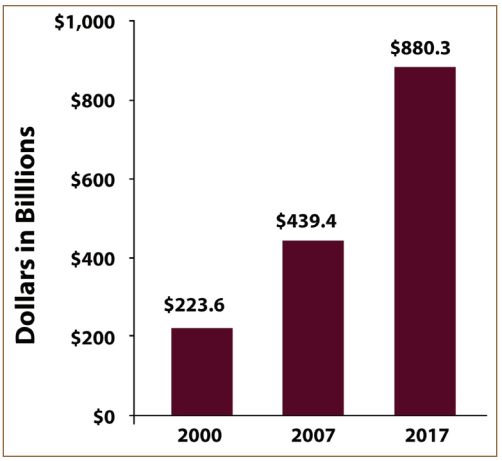
Each generation needs to do its share.

My father and mother are on Medicare. They worked hard all their lives and have done well. My dad likely earns more than my 30-year-old son I told you about earlier. My son is struggling to buy a home, support his family, save for the children's college fund, and buy his health insurance. Yet, my son has taxes drawn from each pay check to subsidize my parents' health insurance.

Medicare can be made more efficient by rewarding value and shifting to a Part-D-like competitive model of delivery. However, what remains the most important obstacle is rebalancing the generational obligation.

This is a classic public policy decision that has to be faced. It is unreasonable to think Medicare can be sustained unless this is changed. If we start now, the change can be made over time and with genuine fairness. We can avoid an intergenerational economic struggle from which both sides suffer. Promises to today's and future beneficiaries to provide coverage of health care must be kept, but not at the expense of future generations.

Annual Medicare Expenditures Have Doubled & Will Double Again



Source: Based on 2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

Growth in Medicare expenditures has outpaced growth in GDP in 30 of the last 36 years.
—Office of the Actuary, National Health Expenditure data

Each generation needs to do its share.

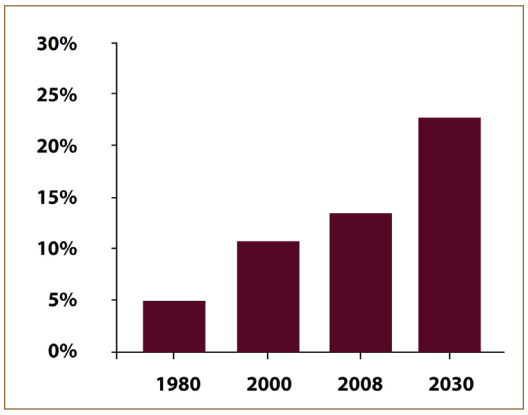
Medicare is indeed drifting toward disaster, but we know what to do. Matt Knot's river advice is the key: "Start positioning your boat well ahead of the danger, commit to a course that averts the problem, and paddle hard."

Every generation of Americans has overcome challenges to secure our nation's role as the world's economic leader. I believe solving the health care puzzle is this generation's challenge. It will require change.

In a global market there are three ways to approach change. You can fight it and fail; you can accept it and survive, or you can lead it and prosper.

We are the United States of America; let us lead.

Medicare Spending as Percentage of the Federal Budget



Source: Office of Management and Budget

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What is past is prologue...