

# **Medicare: A National Treasure for Forty Years**

July 2005

## **Medicare Rights Center**

1460 Broadway, 17th Floor  
New York, NY 10036  
212-869-3850

1030 15th Street, NW Suite 250  
Washington, DC 20005  
202-589-1329

[www.medicarerights.org](http://www.medicarerights.org)

### **Acknowledgements**

Elisabeth Henderson and Sukanya Pani are the principal authors of this work. The authors wish to thank Karen Davenport who provided helpful comments and insights.

### **Medicare Rights Center**

Medicare Rights Center (MRC) is the nation's largest independent source of health care information and assistance for people with Medicare. Founded in 1989, MRC helps older adults and people with disabilities get high-quality, affordable health care. MRC provides telephone hotline services to individuals who need answers to Medicare questions or help securing coverage and getting the health care they need. MRC brings the consumer voice to the national debate on Medicare reform.

For more information, please contact:

Deane Beebe  
Director of Communications  
212-204-6219  
[dbeebe@medicarerights.org](mailto:dbeebe@medicarerights.org)

## **BACKGROUND**

The 1965 creation of the Medicare program was one of the most far-reaching and successful initiatives of President Lyndon Johnson’s “Great Society” vision. By providing health care coverage to older Americans through a government-based program, the United States advanced the nation’s aspiration to end poverty and promote equality. The Social Security Amendments of 1965 incorporated a vision of health care as a matter of social right and articulated a vision of a general social commitment to meeting individual health care needs. Today, the Medicare program has become a national treasure, reflecting the nation’s commitment to the health and independence of older Americans and Americans with disabilities by providing health care coverage to 42 million people.<sup>1</sup>

During this important anniversary, and in light of the upcoming changes to the Medicare program, we reflect upon the enormous value Americans derive from Medicare and renew our commitment to the ongoing strength and breadth of the program. The original design of the Medicare program – its universality, shared risk, simplicity and dependability – created the foundation for its 40 years of success. Medicare’s universal nature ensures that virtually all older Americans and many people with disabilities receive the health care they need, while Medicare pools risk in order to share the financial burdens of illness across healthy and sick individuals and affluent and low-income families. For 40 years, Medicare has guaranteed coverage for a defined set of benefits at a uniform and predictable cost to all seniors and to people with disabilities regardless of their income, health status, or where they live and has dramatically improved the quality of life for millions of individuals. There are many reasons to celebrate the past 40 years

---

<sup>1</sup> “Medicare Chartbook 2005”; Third edition, summer 2005, The Henry J.Kaiser Family Foundation

of Medicare, but among the most important are: 1) guaranteed access to care for people with Medicare; 2) improved quality of life for older Americans and people with disabilities; 3) administrative efficiency and cost containment; 4) critical support for America's healthcare system; and 5) guaranteed benefits and choice of providers.

### **Medicare Ensures Access to Care**

Prior to Medicare, only half of older adults had health insurance.<sup>2</sup> Private insurers were unable or unwilling to provide comprehensive, affordable health care coverage to the growing aged population, who were either too old or too sick and therefore too high an insurance risk. To support the costs of insuring this high-risk population, private health insurers repeatedly raised premiums and reduced benefits, making private insurance too expensive for many.<sup>3</sup> Frequently, insurers refused to provide coverage, and so insurance became unavailable to many older adults. Private plans charged the sickest enrollees more money to pay for the costs of treating expensive illnesses, making health care less affordable to those who had the greatest need. Through the guarantee of Medicare coverage, the federal government established protections for all people with Medicare that ensure that everyone –including those battling costly illnesses– have access to covered services.

In 1972, Congress extended Medicare coverage to people with disabilities who are eligible for Social Security Disability Income (SSDI) and to people with End Stage Renal Disease (ESRD), thus ensuring that more Americans have guaranteed access to

---

<sup>2</sup> “Regarding Strengthening and Improving Medicare,” Barbara Kennelly, National Committee to Preserve Social Security and Medicare, Testimony before the U.S. House of Representatives, Committee on Energy and Commerce, Subcommittee on Health, April 9, 2003.

<sup>3</sup>Corning ,Peter; “The Evolution of Medicare . . . from Idea to Law,”1969.  
<http://www.ssa.gov/history/corning.html>

health coverage. Other vulnerable groups covered by Medicare include individuals with HIV/AIDS – Medicare is the second largest source of federal spending for HIV care and treatment, and approximately one out of every five HIV-positive Americans receiving regular medical care depends, at least in part, on the Medicare program.<sup>4</sup>

In addition to financing health care services for older Americans and people with disabilities, Medicare has also improved access to care in other ways. For example, Medicare was, and continues to be, instrumental in reducing disparities in access and coverage for racial and ethnic minority groups. As the Federal government launched Medicare in the midst of civil rights struggles of the 1960s, Medicare required hospitals to desegregate as a condition of participating in – and receiving reimbursement from – the new public insurance program.<sup>5</sup> Medicare continues to work to reduce disparities in health care by implementing quality improvement programs that seek to reduce clinical disparities in care and enhance culturally and linguistically appropriate services.<sup>6</sup>

Evidence from a 2001 survey demonstrates that people with Medicare are generally more satisfied with their health care than are persons under age 65 who are covered by private insurance. People with Medicare report fewer problems getting access to care, greater confidence about their access, and fewer instances of financial hardship as a result of medical bills.<sup>7</sup> Medicare creates access to health care across many dimensions:

---

<sup>4</sup> Kates, Jennifer; “Financing HIV/AIDS Care: A Quilt With Many Holes”, The Henry J. Kaiser Family Foundation, (2004).

<sup>5</sup> Eichner & Vladeck, “Medicare as a Catalyst for Reducing Health Disparities,” Health Affairs March/April 2005; 24(2): 365-375.

<sup>6</sup> Eichner & Vladeck, “Medicare as a Catalyst for Reducing Health Disparities,” Health Affairs, March/April 2005

<sup>7</sup> “Medicare vs. Private Insurance: Rhetoric and Reality,” Karen Davis, Cathy Schoen, Michelle Doty et al., Health Affairs Web Exclusive (October 9, 2002): W311–324.

- **Access to physician services.** In a survey of people aged 18 to 64 with disabilities, 85 percent of respondents with health insurance had a regular doctor. In contrast, among respondents who had no health insurance, only 31 percent had a regular doctor.<sup>8</sup> The same trends are evident in the larger population: people without health insurance are less likely to have a regular source of care and more likely to seek care from health clinics and emergency rooms.<sup>9</sup>
- **Access to necessary care.** In contrast to people with Medicare and other health insurance coverage, people with no health insurance often do without needed health care. Nearly half of uninsured adults postpone seeking medical care, and over a third of uninsured adults forgo needed care.<sup>10</sup>
- **Reduced financial barriers to care.** Out-of-pocket expenses create a barrier to necessary health care. For example, when the amount patients pay for prescription drugs doubles, patients with chronic diseases such as diabetes, asthma and gastric acid ailments reduce their prescription use by as much as 23 percent. And, as the use of prescription drugs decreased, visits to hospital emergency rooms increased 17 percent and hospital stays rose by 10 percent.<sup>11</sup> In addition, the RAND Corporation's landmark studies on cost-sharing found that copayments create a financial barrier to care for lower-income individuals.

---

<sup>8</sup>"Understanding the Health-Care Needs and Experiences of People with Disabilities", Kaiser Family Foundation, December 2003.

<sup>9</sup> Kaiser Commission on Medicaid and the Uninsured, September 2003.

<sup>10</sup> Kaiser Commission on Medicaid and the Uninsured, September 2003.

<sup>11</sup>Goldman et al., "Pharmacy Benefits and the Use of Drugs by the Chronically Ill," *JAMA*, May 2004.

In fact, older Americans with Medicare experience comparatively fewer financial barriers to care. In comparison to individuals with employer-sponsored insurance, individual coverage, and Medicaid coverage, as well as individuals who are uninsured, older adults with Medicare coverage are less likely to not fill prescriptions, not see a specialist, skip medical tests, treatment or follow-up appointments, or avoid seeing a physician when sick because of cost.<sup>12</sup>

By the year 2030, 20 percent of the U.S. population – 77 million people – will be eligible for Medicare, compared to the 14 percent of Americans who are Medicare-eligible today<sup>13</sup>. While Medicare gives all Americans a sense of security knowing their parents, grandparents, friends and neighbors can access the health care they need, before long the next generation of Americans will need to count on Medicare too.

### **Medicare Improves the Quality of Life**

Thanks to Medicare, millions of Americans are able to afford life-saving care. But Medicare also improves the quality of life for older Americans in other ways. For example, Medicare is also a social safety net that has lifted millions of people out of poverty. In fact, since Medicare was created in 1965, poverty among the elderly has been reduced by nearly two-thirds.<sup>14</sup> By financing health care services, Medicare safeguards beneficiaries and their families from the ruinous costs of medical treatments and prevents individuals from spending unmanageable proportions of their incomes on medical care or being pushed into poverty by their medical bills. In addition, life expectancy has

---

<sup>12</sup> The Commonwealth Fund Biennial Health Insurance Survey (2003)

<sup>13</sup> Older Americans 2000: Key Indicators of Well-Being. Hyattsville, MD: Federal Interagency Forum on Aging Related Statistics, 2000

<sup>14</sup> “America’s Seniors and Medicare: Challenges for Today and Tomorrow – A State by State Status Report” National Economic Council/Domestic Policy Council, The White House, February 29, 2000.

increased by three years and more people are living past the age of 85 than ever before, while disability rates among the elderly are decreasing. With improvements in Medicare coverage for preventive services, such as breast and prostate cancer screening, and advances in care management for people with chronic conditions, further reductions in morbidity and disability can be expected.

### **Medicare contains health care costs**

Less reported upon, but equally important in assessing Medicare's success, is Medicare's cost-effectiveness. Medicare has proved to be more successful than private insurance in controlling the growth rate of health care spending per enrollee. Medicare has consistently contained health care costs better than private health plans – for example, from 1970 to 2000, Medicare's average per capita annual growth in expenditures of 9.6 percent was noticeably lower than the 11.1 percent growth in per capita spending for private health plans, while differences across Medicare (5.9 percent), private health insurance (8.8 percent) and the Federal Employee's Health Benefit Program (10.7 percent) continued from 1999 to 2003.<sup>15 16</sup> Analysis of cumulative spending over a 30-year period further illustrates Medicare's ability to control costs over time – a comparison of cumulative growth in per enrollee payments for personal health care between Medicare and private insurance shows that private insurers' costs grew 44 percent more than Medicare from 1970 to 2000.<sup>17</sup>

---

<sup>15</sup> Moon, M., and Boccuti, C., "Comparing Medicare and Private Insurers: Growth Rates in Spending Over Three Decades," Health Affairs, March/April 2003

<sup>16</sup> Leatherman, Sheila and McCarthy, Douglas, "Quality of Health Care for Medicare Beneficiaries: A Chartbook"; May 2005

<sup>17</sup> [http://www.cmwf.org/newsroom/newsroom\\_show.htm](http://www.cmwf.org/newsroom/newsroom_show.htm) (Web-based information)

Medicare has been able to accomplish this cost-containment record, in part, by using its resources more efficiently, assessing the clinical effectiveness of services when making coverage decisions and when setting payment rates for certain services<sup>18</sup>. In addition, the private health insurance sector administrative costs – 9.5 percent of total costs – significantly exceed Medicare’s 2 to 3 percent administrative spending.<sup>19</sup> Original Medicare also outperforms Medicare health plans – for example, on average, Medicare Advantage plans spend 15 percent of their revenue on administrative costs, while some Medicare Advantage plans spend as much as 32 percent on administration.<sup>20</sup>

### **Medicare supports the American Health Care Systems**

Medicare’s payment structure supports the United States’ health system infrastructure. For example, Medicare supports the nation’s teaching hospitals and educational opportunities for health care professionals, through enhanced payments. By supporting graduate education for physicians and other providers, Medicare benefits all Americans, whether or not they are covered by Medicare<sup>21</sup>. Medicare also provides extra support to hospitals that serve a disproportionate number of low-income patients and to rural hospitals, which are often more heavily dependent on Medicare reimbursement than other facilities.<sup>22</sup> These subsidies help ensure that low-income communities and rural communities have access to hospital services. Medicare also provides enhanced payments

---

<sup>18</sup> MedPAC, Report to the Congress: Issues in a Modernized Medicare Program, June 2005

<sup>19</sup> “Medicare Reform: A Century Foundation Guide to the Issues,” The Century Foundation, 2001.

<sup>20</sup> “Medicare Privatization: Bad for Seniors and People with Disabilities,” Public Citizen, February 2003

<sup>21</sup> Moran Company, “Medicare Reimbursement for Teaching Hospitals: Understanding the Implications of Indirect Medical Education Payment Policy,” April 2002

<sup>22</sup> “Medicare Reform: A Century Foundation Guide to the Issues,” 2001.



to rural health clinics and Federally Qualified Health Centers in medically-underserved areas to ensure that care is available for vulnerable people.<sup>23</sup>

In addition, Medicare is the largest single payer for services provided by the 7,000 home health agencies nationwide. In 2001, approximately 3.5 million elderly and disabled Americans received home health care, according to the Centers for Medicare & Medicaid Services' statistics<sup>24</sup>.

Moreover, Medicare is an essential part of the entire U.S. economy as well as a pillar of the health system. Medicare accounts for 17 percent of national health care spending<sup>25</sup>. In terms of the entire economy, Medicare's total share (the sum of Part A and Part B spending) of the nation's Gross Domestic Product (GDP) was 2.56 percent and is projected to rise to 4.75 percent in 2030.<sup>26</sup> Hospitals nationwide received 38.4 percent of their revenue from Medicare in 2002, while doctors and other clinical services received 20.8 percent of their revenue from the program.<sup>27</sup> In total, at least 14.2 million Americans are employed by the health care industry and depend on the Medicare program.<sup>28</sup>

### **Medicare Enjoys Widespread Support.**

Original Medicare is simple, popular and reliable. Focus groups reveal that seniors are "very satisfied" with the Medicare program, with many respondents citing choice of providers as a key reason why. In contrast, notions of changing or privatizing the Medicare program are very negatively received – perhaps because participants

---

<sup>23</sup> "Effective State Incentives to Encourage Health Care Professionals to Work in Rural Areas," National Conference of State Legislatures Forum Report, May 2000

<sup>24</sup> "Home Health Quality Initiative"; March 21, 1003

<http://www.cms.hhs.gov/quality/hhqi/HHQIOverview.pdf>

<sup>25</sup> Centers for Medicare and Medicaid Services, "U.S Health Care System" June 2002

<sup>26</sup> Testimony: Assessing the Viability of Medicare," Marilyn Moon, The Urban Institute, April 10, 2003

<sup>27</sup> American Hospital Association, "Trends Affecting Hospitals and Health Systems," September 2004 .

<sup>28</sup> Occupational Employment Statistics, Bureau of Labor Statistics, 2003.

believe private plans routinely limit access to care for people with Medicare.<sup>29</sup>

Significantly, Medicare enjoyed the highest percentage of adults who were “very” or “somewhat confident” that they will get the best medical care available when they need when compared to other sources of coverage, including employer-sponsored insurance, individual coverage, or Medicaid.<sup>30</sup>

Medicare's success is in part related to the unparalleled choice and availability of physicians and health care services that it offers people with Medicare. Today, most private sector health insurance plans restrict enrollees to a pre-selected panel of providers, or require enrollees to pay more out-of-pocket when they visit an out-of-network physician. In contrast, under the traditional fee-for-service program, Medicare patients are permitted to obtain care from any health care provider who is willing to see them. (To date, even beneficiaries who opt to enroll in Medicare+Choice managed care plans have had the ability to rejoin the fee-for-service program, with its virtually unlimited choice of physicians, anytime during a calendar year). Participation of physicians and other health care providers in the traditional Medicare fee-for-service program historically has been extraordinarily high, due in large part to reimbursement rates that made it economically attractive for them to participate in the program.<sup>31</sup>

### **Surveying the Future**

Medicare has served Americans well. It is equally available to all seniors and to people with disabilities, regardless of health or financial status and realizes the right to health care for many of America’s most vulnerable individuals. Medicare continues to

---

<sup>29</sup>Peter D. Hart Research Associates, July 2001

<sup>30</sup>The Commonwealth Fund Biennial Health Insurance Survey( 2003)

<sup>31</sup> Medicare in the 21st Century: A Prescription for Change from America's Internists, Policy Paper [http://www.acponline.org/hpp/change\\_ai.htm](http://www.acponline.org/hpp/change_ai.htm)

symbolize a rational, just and systematic approach to health care access for all Americans.

The recent enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) has prompted significant changes to the Medicare program. The MMA establishes a new outpatient prescription drug benefit – Medicare Part D – for people with Medicare coverage, and will replace Medicaid drug coverage with the new Part D program for people who receive health coverage from both Medicare and Medicaid. In addition, the MMA requires that individuals access their Part D benefits through private prescription drug plans or Medicare Advantage plans – there is no Original Medicare equivalent for Part D coverage. The MMA also includes other changes in Medicare Advantage plan rules and payments – such as a one-year lock-in for Medicare Advantage enrollees that will prohibit them from returning to fee-for-service Medicare for one year, when fully implemented – that are designed to encourage further privatization of the Medicare program.

One of the best ways to celebrate Medicare on its 40<sup>th</sup> anniversary is by making sure that the millions of seniors and Americans with disabilities who rely on it will be able to enjoy its dependability and simplicity in the years to come. Medicare's successes to date should guide future changes to the program, so that it can continue to ensure access to care, improve quality of life, support the health care system, and enjoy broad support among the people who it helps every day.