



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Statement of Chairman Chuck Grassley
"Medicare Financing and Prescription Drugs"
March 22, 2001

Today the Finance Committee begins to tackle one of our toughest issues this year: Medicare financing and prescription drugs.

If you read the media headlines on the Trustees' Report this week, they all note the slight improvement in Medicare Part A's solvency. But that is only a short-term view, and taken in isolation it is deceptive. Over the long-term, the program is in a much greater deficit than previously projected. Taking a closer look at Medicare costs, the trustees now project that over 75 years, Medicare's costs will grow 1 percent faster than Gross Domestic Product. In fact, the trustees project that promised Medicare benefits will exceed scheduled Medicare payroll taxes and premiums by \$333 trillion over the next 75 years. That's an astounding number -- \$333 trillion -- and that doesn't even take into account a new prescription drug benefit.

Today there are four workers for every Medicare beneficiary, but by 2030 there will be only 2.3 workers per beneficiary. Add to that, the retirement of the baby boom population which will result in a doubling of beneficiaries by 2030. Overall, as more beneficiaries enroll in Medicare over the next several decades, there are fewer workers paying taxes to cover benefits, resulting in increasing costs to Medicare at the same time revenues are decreasing. To bring Medicare into balance, the trustees report that over the next 75 years, either benefits have to be reduced by 37 percent or revenues have to be increased by 60 percent.

Taken as a whole, Medicare is troubled even in the near term. If we compare all the money the federal government collects to pay for Medicare to all the money the federal government spends on Medicare, we are short roughly \$1 trillion over the next decade, which will have to come from general revenues.

Our health care system today is much different than 35 years ago when Medicare was first enacted. For example, in the year 2000, Part A expenditures -- mostly hospital services -- grew a modest 2 percent, while Part B expenditures -- physician visits and outpatient care -- grew a whopping 10.1 percent. Furthermore, while 22 percent of Medicare beneficiaries made use of Part A services, 87 percent of beneficiaries took advantage of Part B services.

So we need to be honest with our nation's beneficiaries and taxpayers when we talk about Medicare's financial condition. It is misleading to only account for hospital spending -- Part A -- when beneficiaries today rely on physician visits and outpatient care -- Part B -- to meet their health care needs.

After hearing today's testimony, I hope we can all agree that in light of the enormity of the potential costs of prescription drug coverage and Medicare's worsening financial condition, we must

be fiscally responsible in adding any new benefits to Medicare. Equally important, we must carefully consider the larger picture. While prescription drugs may be one of the most visible improvements to Medicare, it is clearly not the only modernization that is necessary. We have an opportunity to strengthen and improve Medicare overall, and we owe it to our beneficiaries who rely on Medicare, to our providers who strive to deliver high-quality care, and to our taxpayers who foot the increasing costs of the program to do so.

It's clear that we have a major challenge ahead of us and I am committed to working with all of you on this Committee to find viable solutions. Thank you.