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(III)
OPENING STATEMENT OF SENATOR JOHN BREAUXT

Senator Breaux. Our Committee hearing can come to order.

I would like to start by welcoming everyone to the Louisiana Old State Capitol Building. We are gathered here in the Old House Chambers of the Old State Capitol of Louisiana. For our out-of-state guests who are with us today, it is a very historic building. For instance, right across the hall in the Senate Chamber was where they had the impeachment debate on Huey Long, former governor of this state.

A great number of very historic events have been held in this Old State Capitol. In addition to impeachment trials, we have had other activities that have been very historic. We are honored to be here. It is also a wonderful political history museum of our state, and we invite everyone who has not had the opportunity to tour the facility, either today or at some time in the future.

I want to welcome all the members of our audience who are with us, as well, and thank them for participating in this Field Hearing of the Senate Aging Committee which I have the privilege and honor of serving as a Senior Democratic Member.

In addition, our distinguished Chairman of the full Committee is the Honorable Chuck Grassley, who is a Senator from the State of Iowa. He is the Chairman of the Committee, and I am the Ranking Member of the Committee. He and I have decided that it is very, very important to not just listen to voices in Washington, but, also, to have the opportunity for people in the respective states to participate in what is one of the most important challenges that is facing this Congress and future Congresses and that is the question of what we as a nation are going to do in the area of entitlement reform.

Two of the largest programs in the Federal Government are Social Security and Medicare and both are in trouble. And the solutions to those problems are not going to be easy to find.
I was recently named by President Clinton and Speaker Gingrich and Majority Leader Trent Lott to chair the National Bipartisan Commission on the Future of Medicare, and will be working with a group of eight Republican appointees and eight Democratic appointees to try and make recommendations to the Congress in March of next year on ways to reform the Medicare program for the 38 million-plus Americans who are Medicare recipients.

But I think a critical part of finding solutions to our problems are, first, to educate and to hear from people in my State of Louisiana on their recommendations on Social Security and Medicare reform. We want to hear from people here in our state. We will be continuing these types of activities throughout the year, both in Washington, as well as in Louisiana.

This is one of the most impressive sets of witnesses that have ever had the opportunity to testify before the Senate Aging Committee—ever. I think that each of these witnesses will help educate us about the nature of the problem and, hopefully, give us recommendations that can help solve the problem, as well. So I want to thank all of you in the audience, regardless of where you are from, regardless of what your business is or what age category that you find yourselves in.

I have recently become a grandfather, which is one of the most exciting experiences of anyone's lifetime. If anyone would like to see my granddaughter, I have at least three laminated pictures of her in my wallet, and I would be happy to share with you the most beautiful grandchild in the world.

But the point is that there is not any single generation in America that can really solve this problem by itself. There is no single branch of government and there is no political party that can solve this problem by itself; the solutions are going to have to be found by everybody working together in a very positive manner to try and reach solutions to these problems.

According to the very distinguished Congressional Budget Office in Washington, they said, "The longer Congress waits to initiate fundamental restructuring of Medicare, the more difficult it will be to keep Medicare spending within acceptable limits. We have to develop solutions, and the status quo of short-term fixes or passing the buck, simply cutting payments to providers every year, will simply not work in the future."

I have said publicly that it seems that every time Congress becomes involved in trying to solve Medicare problems or Social Security problems, particularly with Medicare, we use what I have called the S-O-S approach, the same-old same-old, which has basically been merely cutting reimbursement rates to doctors and to hospitals and to medical providers. We clearly cannot continue to do that and say that we have truly reformed the system, because that will no longer be sufficient in the years to come.

The future solvency of this program depends on many factors, perhaps most importantly the one that we will explore today, and that is: The impending retirement of approximately 77 million U.S. citizens, so-called Baby Boomers, who were born in the 18 years following the end of World War II. That will be an explosion of more people into a program which is already taxed to its ability to provide the services that the people really need under the program.
You can imagine that if it is difficult to meet the needs of the people with 38 million people how difficult it will be when 77 million more citizens are added to the program. One of the reasons is that America is simply growing older. I am happy with that. That is good news, that people live longer because of medical science and, because of personal habits in our lifestyles, that we are living longer.

I would like to refer to you the first chart. I thank LSU for helping to put this chart together. I really did not understand it in the beginning; I said it just was a lot of yellow and blue lines. But I will try and explain it to you.

This is what the population is going to look like in the year 2025, not that far from now. Our children and grandchildren will be here during that period, if not all of us. That chart shows that by the year 2025, about 3 percent of America’s population will be over the age of 65 for males; and for females, almost 10 percent of the female population in America will be over the age of 65 years. As compared to someone in my age category, 53 soon to be 54, it will only be about 3 percent.

So the majority of the people—I mean the largest number of people in this country will be over 65 years by a large percentage. The people below the age 65 top line will be the people who will be working to help pay for the benefits for those of us who are 65 and over. By the year 2025, the percentage of Louisiana’s population over the age of 65 will have grown to about 8 percent of the people in our state.

In addition to the sheer numbers of older Americans increasing significantly, life expectancy has increased dramatically over the years. In 1935, this chart shows that when Social Security was created, a 65-year-old woman was expected to live another 13 years on average. Life expectancy today is almost another 20 years at age 65. And in the year 2075, it will be another 22 years at 65.

So when the Social Security program was established, the life expectancy after you became eligible was about another 13 years. Now it is almost another 20 years. So the life expectancy is dramatically increasing, and, of course, that is the good news.

Now, I would also point out that we have time to fix these programs, but we do not have a lot of time. No current beneficiary of Medicare or Social Security needs to worry today about the programs being there for you; the programs will be there for you. What we are talking about are your children and your grandchildren, my granddaughter and future generations having the problem of it not being there for them.

When the Baby Boomers begin to retire—this is the Medicare Trust Fund in the year 2010, not that long from now—the Medicare Part A Trust Fund, which is the hospital program, becomes insolvent. It becomes insolvent in the year 2010, meaning we are spending more money than we are taking in. In fact, today, right now, we are already spending more money on Part A than we are taking in through the payroll tax; the only reason we are able to pay out the benefits is that we have the trust fund.

But you are looking at insolvency, meaning we do not have enough money coming in nor enough money left over in the trust fund to pay the benefits in the year 2010. I mean that is a very
serious decline in the trust fund, because people are living longer, because health care costs more.

All of that combined says that if we do not fix this by the year 2010, we will have a program that will not have enough money in the trust fund or enough money coming in to start taking care of the 77 million Baby Boomers that are going to be showing up at the door and saying, "Here I am; I am eligible now; Where is my health card?" If we do not do something, they are going to say, "Sorry, but we cannot give you one." That is not what you want, I want or anybody wants for our children or their children in America.

At the same time, I would point out Social Security is in a similar situation. Today we are taking in more taxes and more revenues than we are paying out in benefits. But in Social Security in the year 2012—again, not too far off the situation will reverse, leading to insolvency of the Social Security trust fund in the year 2029. What this means is that Social Security will be able to pay only 75 percent of the promised level of benefits by that year.

So what we are saying is that both Medicare and Social Security, because of the facts of life and people living longer and health care costing more, are both going to be exhausted unless changes are made. At the same time, I point out in the next chart, Chart 5, that the strain on the Federal budget if we do nothing will begin as soon as 10 years from now.

Medicare's and Social Security's shares of the Federal budget will continue to grow and consume larger and larger shares of the total budget of the United States of America. Any fears that we have should come not from making changes, but the real fear is: By doing nothing, what will happen?

I mean it shows that by the year 2030, in that pie chart on the bottom right, the two programs that we are here today to discuss, Social Security and Medicare, are combined going to consume almost half of the entire budget of the United States, just in two programs. There will be very little left to do the other things in terms of education, national defense, transportation and the other things that the government does to serve the needs of the people.

So it really is very disturbing to look at what road we are on right now, unless we do something to fix that road and come up with real suggestions as to how we do it. So we will see a lot of interest in these two programs in the coming months, both with the National Medicare Commission—I also serve on a private commission dealing with Social Security and pension reform, which is going to make a recommendation on what we need to do.

The President, as we heard, spoke, I think, very eloquently about this problem. You heard him say, as I did, that he does not want any surplus in the budget being spent until we make sure that Social Security is saved and make sure that it is strong. And that is something that I think most Americans agree with, and we commend him for making that statement.

But we have to have confidence as a country that these two programs are going to be there. They have the joke going around that most young people believe more in flying saucers than they believe in Social Security. And we have to make sure that they know that
we all are collectively working together to make sure that it is there.

We have two distinguished panels today: On our first panel we will have the Social Security Commissioner—no person higher than him in Social Security; this is the top person in Washington, DC. dealing with Social Security—Ken Apfel; the Health Care Financing Administrator, the top person running the Medicare program for the entire United States of America, is Nancy-Ann Min DeParle; and the Assistant Secretary to President Clinton for Aging is Jeanette C. Takamura from Hawaii, who will be with us discussing Social Security, Medicare and our aging population in general.

We will have a second panel consisting of Mr. David Walker, Dr. Ken Thorpe and Mr. Al From, who will take a look at some of the options that we might have in order to help solve these problems. These panelists are the cutting edge of the debate on both of these two very important programs.

So we have a challenge. We all have a challenge—you, me and other members of Congress—to try and find a solution to this massive problem that we are facing as a nation.

We will ask our panelists to speak for about 10 minutes, and then I will have an opportunity to ask them questions. Those of you who have questions in the audience, maybe if you can write them down and submit them to me, I will see that you get an answer to those questions if we can. I want to thank all of you for being here.

Let me introduce these three distinguished Americans who are with us today.

Mr. Ken Apfel is our first witness. He has the distinct honor of being the first confirmed Commissioner of Social Security since it became an independent agency in April 1995. He came to the Social Security Administration from the Office of Management and Budget, where he was Associate Director for Human Resources.

Prior to that, he served as the Assistant Secretary for Management and Budget at the Department of Health and Human Services and served on the staff of former U.S. Senator Bill Bradley, worked in the Department of Labor and served as an administrator at Newberry College in the State of Massachusetts.

I will introduce now our second panelist—and we will take them in order—is the Honorable Nancy-Ann DeParle, who is the Health Care Financing Administrator for the United States. It is, obviously, the government agency which manages and runs the entire Medicare program. She has served as the HCFA, which we refer to her agency as, Administrator since November 1997.

Prior to her current appointment, she served as the Associate Director for Health and Personnel of the White House Office of Management and Budget, and she served as the Commissioner of Human Services for the State of Tennessee and as a professor at the Vanderbilt School of Law. Her knowledge in health care policy is tremendous. We are pleased that she is here, particularly since she left Washington, DC. last night in a terrible thunderstorm to be here in our beautiful weather; we appreciate her trip.

Coming from Hawaii, who I understand, Jeanette just came in and has been to Louisiana before. But the Honorable Jeanette Takamura is Assistant Secretary for Aging for President Clinton.
She has moved to Washington, as I said, from Hawaii, where she served as the First Deputy Director of the Hawaii Department of Health, as the Hawaii Executive Office on Aging and as a faculty member at the University of Hawaii's School of Social Work.

In her current role as the head of the Administration on Aging, Dr. Takamura acts as an advocate for older persons and leads a national network of area agencies on aging and senior citizens and, also, tribal organizations, all of which are linked together under the Older Americans Act.

So, with that introduction, I would like to ask the Commissioner of Social Security, Mr. Ken Apfel, for his comments.

Mr. Apfel.

STATEMENT OF HON. KEN APFEL, COMMISSIONER OF SOCIAL SECURITY

Mr. APFEL. Thank you, Senator Breaux, for inviting me to appear before you today in the beautiful city of Baton Rouge and the Old State Capitol. I can see why you wanted to have the hearing here; this is a wonderful room.

Senator BREAUX. Yes.

Mr. APFEL. I also noticed several pictures of you in this building.

Senator BREAUX. Yes.

Mr. APFEL. I am always happy to have an opportunity, Senator, to visit Louisiana, but, as Commissioner of Social Security, I am especially happy to be here at this time in our nation's history. President Clinton has made Social Security a top priority on the nation's agenda. He has called for a national nonpartisan dialog on Social Security's long-term financing problems, and he has said that he will work with Congress to resolve this issue in 1999.

Senator Breaux, your hearing here today in Baton Rouge is a model of what is needed in every state if we are to successfully address the vital issue of Social Security reform and I want to thank you for bringing the dialog to the citizens of Louisiana.

As we move to address the challenges facing Social Security in the future, we must remember what Social Security has meant and what it means to America. In its more-than-60-year history, Social Security has become the most successful domestic government program in our nation’s history and our most significant anti-poverty program. The elderly poverty rate is just 11 percent now. Without Social Security benefits, the elderly poverty rate would be about 48 percent.

While most people think of Social Security as a retirement program, it is also much more than that; it is America’s family protection program. About one in every three Social Security beneficiaries is not a retiree. They are workers or the families of workers who receive income protection in the event of a wage earner's death or disability.

The people of Louisiana certainly know how valuable Social Security can be; our latest statistics show that there are more than 700,000 Social Security beneficiaries in Louisiana. About 60 percent are retired workers and their dependents, a little more than 20 percent are surviving family members of deceased workers, and a little less than 20 percent are workers who are disabled and their family members.
Frankly, many Americans, especially younger workers, as you pointed out, worry that the retirement benefits of the program will not be there for them in the future. I am confident that Social Security will be there for future generations, but I can certainly understand the reasons of the public's concerns. The Social Security program faces serious long-term financing problems. Changes in the program will be needed.

Today the trust fund reserves are building, but they are projected to become exhausted in 2029. At that time, revenues will be sufficient to pay only about 75 percent of benefits due.

The underlying reason for the shortfall, as you have pointed out in your opening statement, Senator, is that America's demographics are changing. People are living longer and healthier lives. And this ultimately is very good news, but it will create significant strains on our retirement system.

In 1945, the average life expectancy for a 65-year-old was about 14 years; today it is 18 years and rising. But it is not just the number of years people are living; it is the number of people living them. There will be nearly twice as many older Americans in 2030 as there are today.

While these demographic changes raise serious long-range solvency issues, for now, Social Security is sound. But we need to act now to prevent a crisis from ever occurring. We owe it to our children and our grandchildren to resolve those issues on our watch.

Last year, President Clinton said that we had to balance the budget before we could have the financial strength to address other national priorities. That goal has been accomplished; the budget is balanced. The nation's fiscal house is in order. The budget is balanced, the economy is strong, and our fiscal discipline provides us with the opportunity to ensure economic security for future generations of retirees.

During the State of the Union Address, the President proposed that decisions on spending those Federal budget surpluses be deferred until we address the program's long-range solvency. He said that we must save Social Security first. Toward this end, the President is calling for a year-long national dialog on how we can best achieve this goal.

An accurate understanding of the facts about Social Security is needed as the foundation for this public discussion. The Social Security Administration, our employees and the Social Security Commissioner will all be focusing our efforts on educating the public about Social Security so that they are in the best possible position to talk about the program's future.

What do I believe the citizens of Louisiana should understand about our Social Security program? Well, I want them first to understand what Social Security has meant to older Americans. When workers retire, it provides them with a solid measure of economic security, even if they outlive the actuarial tables and their savings.

I want Americans to understand that Social Security is more than a retirement program. I want younger people to know that not only will Social Security be there for them in the future, but it is there for them now through disability coverage and survivors' coverage. There is a one-in-six chance of a 20-year-old dying before age 65, and a one-in-three chance of becoming disabled. The survi-
vors' and disability components of Social Security are very important components.

I also want everyone to understand that Social Security was never intended to provide for all of the worker's retirement income needs; pensions and personal savings have always been part, and should always be, of a sound financial retirement plan. But Social Security has been the most dependable leg of that three-legged stool. Social Security progressively replaces a higher percentage of pre-retirement income from lower- and average-wage earners. This is particularly important for a state such as Louisiana.

I also want people to understand that, as I noted earlier, changing demographics are driving the need for change. I also want them to understand the economic facts about Social Security, that the program is primarily financed on an intergenerational basis and that the trust funds now are taking in more than is paid out, but, as you pointed out, the reserves will be exhausted by 2029 if no changes are made to the program.

Members of my generation need to address the question of whether we would be unfairly burdening our children and grandchildren by not dealing with this issue now. That would, frankly, be unconscionable, especially since, if we act now, we can minimize what needs to be done to solve the problem.

Finally, I want everyone to understand one important fact: There are tough choices ahead. No option for resolving the long-term financing problems facing Social Security is perfect, and every option includes trade-offs. The advantages and disadvantages of each will have to be examined and discussed over the course of this hearing.

With these facts, people will be able to help make informed choices about the Social Security program of tomorrow. As they consider change, I hope they will ask themselves some hard questions: Will changes to the program preserve and protect important Social Security accomplishments? Will Social Security continue to be a benefit that people can count on? Will the elderly and the disabled and survivors of workers be protected from financial hardship? And will the program be universal, efficient, fair and maintained as a public trust?

In conclusion, let me say that because the President has achieved his objective of balancing the budget and putting the nation's fiscal house in order, we are now in a position to address Social Security reform. The first step in this process is the national dialog across generations about the values that this program embodies. The people here today need to talk with their friends and families about what a program of economic security for older Americans means to them today, and they need to talk about what a program of economic security should be like in the future.

The President's call to action begins with hearings such as this. I look forward to working closely with you, Senator Breaux, and other members of Congress in that spirit on this very important endeavor.

[The prepared statement of Mr. Apfel follows:]

PREPARED STATEMENT OF KENNETH S. APFEL, COMMISSIONER OF SOCIAL SECURITY

Thank you, Senator Breaux, for inviting me to appear before you today in the beautiful city of Baton Rouge. I am always happy to have an occasion to visit Louisi-
ana, but as Commissioner of Social Security, I am especially happy to be here at this time in our Nation's history.

President Clinton has made Social Security a top priority on the Nation's agenda. He has called for a National nonpartisan dialog on Social Security's long-term financing problems, and has said that he will work with Congress to resolve the issue in 1999.

Senator Breaux, your hearing today in Baton Rouge is a model of what is needed in every State if we are to successfully address the vital issue of Social Security reform. I want to thank you for bringing the dialog to the citizens of Louisiana.

As we move to address the challenges facing Social Security in the future, we must remember what Social Security has meant—and means—to America. In its more than 60-year history, Social Security has become the most successful domestic government program in our nation's history and our most significant antipoverty. The elderly poverty rate is just 10.8 percent; without Social Security benefits, the elderly poverty rate would be 48 percent.

While most people think of Social Security as a retirement program, it is also much more than that. It is America's Family Protection Program. About 1 out of every 3 Social Security beneficiaries is NOT a retiree. They are workers or the families of workers who receive income protection in the event of a wage earner's death or disability.

This protection can be invaluable, especially for young families that have not been able to protect themselves against the risk of the worker's death or disability with private insurance.

The people of Louisiana certainly know how valuable Social Security can be. Our latest statistics show that there are more than 700,000 Social Security beneficiaries in the State. About 60 percent are retired workers and their dependents; a little more than 20 percent are surviving family members of deceased workers; and a little less than 20 percent are workers who are disabled and their families.

For these people—as for beneficiaries across America—Social Security enables them to live fuller and more independent lives than they could if the program were not there for them.

But frankly many Americans—especially younger workers—worry that the retirement benefits of the program will not be there for them in the future.

I am confident Social Security will be there for future generations, but I can certainly understand the reasons for the public's concern.

The Social Security program faces serious long-term financing problems. Changes in the program will be needed.

Today the trust funds reserves are building. But they are projected to become exhausted in 2029. At that time, revenues will be sufficient to pay only about 75 percent of benefits due.

The underlying reason for the shortfall is that America's demographics are changing. People are living longer and healthier lives, and this is good news. In 1945, the average life expectancy for a 65-year-old was about 14 years; today it's 18—and rising. But it isn't just the number of years people are living, it is the number of people living them. There will be nearly twice as many older Americans in 2030 as there are today.

While these demographic changes raise serious long-range solvency issues, for now, Social Security is sound. But we need to act now to prevent a crisis from ever occurring. We owe it to our children and our grandchildren to resolve these issues on our watch.

Last year, President Clinton said that we had to balance the budget before we could have the financial strength to address other national priorities. That goal has been accomplished. The nation's fiscal house is now in order. The budget has been balanced, the economy is strong, and our fiscal discipline provides us with the opportunity to ensure economic security for future generations of retirees.

During the State of the Union address, the President proposed that decisions on spending Federal budget surpluses be deferred until we address the program's long-range solvency. He said that we must "Save Social Security First." In doing so, President Clinton has made it clear that he intends to work with Congress in a bipartisan effort to preserve the program.

Toward this end, the President is calling for a year-long national dialog on how we can best achieve this goal. At the end of the year, there will be a White House conference on Social Security, and following the conference, the President and Congress will begin bipartisan negotiations in January of next year on Social Security reform.

Of course, we are now at the beginning of this process. President Clinton recently announced that the first in a series of four nonpartisan forums will take place on April 7 in Kansas City.
The President has also said that the national call to action must spread to every corner of the country. I believe the reason is obvious. An accurate understanding of the facts about Social Security is needed as the foundation for this public discussion. SSA has been focusing its efforts on educating the public about Social Security so that they are in the best possible position to talk about the program's future.

What do I believe the citizens of Louisiana should understand about our Social Security program?

I want them to understand what Social Security has meant to older Americans. When workers retire, it provides them with a solid measure of economic security . . . even if they outlive the actuarial tables . . . and their savings.

I want them to understand that Social Security is more than a retirement program. I want younger people to know that not only will Social Security be there for them in the future, but it is there for them now through disability and survivors protection.

I want them to understand that Social Security was never intended to provide for all of a worker's retirement income needs. Pensions and personal savings have always been—and should always be—a part of a sound financial retirement plan. But Social Security has been the most dependable leg of that three-legged stool.

I want them to understand that—as I noted earlier—changing demographics are driving the need for change.

I want them to understand the economic facts about Social Security. The program is financed primarily on an intergenerational basis. The trust funds now take in more than is paid out, and reserves are being accumulated. They will be exhausted in 2029, however, if no changes are made to the program. Members of my generation need to address the question of whether we would unfairly burden our children and grandchildren by not dealing with this issue now. That would, frankly, be unconscionable . . . especially since if we act now we can minimize what needs to be done to solve the problem.

Finally, I want everyone to understand one important fact: there are tough choices ahead of us. No option for resolving the long-term financing problems facing Social Security is perfect, and every option involves tradeoffs. The advantages and disadvantages of each will have to be examined and discussed.

With these facts, people will be able to help make informed choices about the Social Security program of tomorrow. As they consider change, I hope they will ask themselves some hard questions: will changes to the program preserve and protect important Social Security accomplishments? Will Social Security continue to be a benefit that people can count on? Will the elderly, disabled and survivors of workers be protected from financial hardship? And will the program be universal, efficient, fair, and maintained as a public trust?

In conclusion, let me say that because the President has achieved his objective of balancing the budget and putting the nation's fiscal house in order, we are now in a position to address Social Security reform.

The first step in this process is a national dialog across generations about the values that this family program embodies. The people here today need to talk with friends and family about what a program of economic security for older Americans means to them today . . . and they need to talk about what a program of economic security should be like in the future.

The President's call to action begins with hearings such as this, and I look forward to working closely with you, Senator Breaux, and other members of Congress in that spirit on this important endeavor.

Senator Breaux. Perfect timing. Thank you, very much, Mr. Apfel.

These lights—I mean the green light says you can talk. The yellow light is the caution light, and so you start winding up. And then the red light is the ejection light; we just eject them out the back of the table. [Laughter.] Mr. Apfel. So I have a little more time?

Senator Breaux. He had about another 30 seconds before we would.

Perfect timing, and we thank you for your comments. Next, we will hear from the Honorable Nancy-Ann DeParle, who is the HCFA Administrator. Nancy-Ann.
Ms. DEPARLE. Thank you, Senator Breaux.

Senator BREAUX. Pull that microphone real close so we can pick you up out there.

Ms. DEPARLE. OK. Is it working? It does not seem like it is.

Senator BREAUX. Is it working? Mine is working. Here. Hit it again. Try it again.

Ms. DEPARLE. Thank you for the opportunity to be here in the great State of Louisiana and to talk about the challenges facing our country as we prepare for the retirement of the Baby Boom generation.

First of all, I would like to congratulate you on your appointment as Chairman of the National Bipartisan Commission on the Future of Medicare. With your leadership, I know this Commission is in good hands; your bipartisan approach will help us, I think, as we try to develop a consensus about some issues that are very important to me and members of my generation, as well as, I think, to all the members of this audience. [Applause.]

This Commission has been given an assignment of critical importance to us all: Preserving the Medicare program for future generations. Of course, Louisiana's other contribution to the Commission is your Health Secretary Jindal, who will be the Executive Director. He has done outstanding work here in Louisiana, as well, and I am looking forward to working with him on the Commission.

We are on the threshold, Senator, as you said, of a transition era. In the next century, we will witness an American society with greater numbers of elderly, comparatively fewer children and adolescents, and with increasing life expectancy. It is no longer unusual to speak of life expectancy measured in decades after age 65; octogenarians, nonagenarians and even centenarians are becoming more and more common.

That is the good news, as you said, Senator, of course. But it will also require adjustments from the society a whole and from all of us. And this hearing today and other public forums that you will have a role in have an important part to play in setting the stage for your Commission's work and in our planning for how to prepare Medicare for the retirement of the Baby Boom generation.

Medicare has literally changed what it means to be old and disabled and sick in America. Over its 33 years of existence, Medicare has provided access to health care coverage for almost 80 million Americans, many of whom would otherwise have lacked access to any kind of health care.

Importantly, Medicare is coverage that cannot be lost as you get older or sicker or if you lose your spouse. Medicare has helped keep many elderly people out of poverty status and prevented American families from having to bear the full burden of health care costs for elderly or disabled parents or relatives.

When President Lyndon Johnson signed Medicare into law, he predicted that it would take its place beside Social Security and, together, they will form the twin pillars of protection upon which all our people can safely build their lives and their hopes. President Johnson was right. Today, Medicare is serving some 600,000 resi-
students of Louisiana and more than 39 million beneficiaries nationwide.

In Louisiana, Medicare spends about 3.5 billion every year, providing the state's elderly and disabled with over 1.4 million days of hospital care, 500,000 days of skilled nursing home care, some 18 million physician visits a year and provides home health care services to about 86,000 beneficiaries.

The Medicare program has a complex financing mechanism. It is financed by two trust funds: The Hospital Insurance, or HI Trust Fund, sometimes called Part A, and the Supplementary Medical Insurance Trust Fund, or SMI, sometimes called Part B. In 1993, when the Clinton Administration took office, the HI Trust Fund was projected to become insolvent in 1999. President Clinton, together with the Congress, immediately took action and extended the life of the trust fund by several years to 2001.

This summer, President Clinton worked with Congress again to enact a major reform of the Medicare program. The Balanced Budget Act will extend the life of the trust fund another decade to about 2010, and it modernizes the program through new and more efficient payment methodologies and new health plan choices for beneficiaries.

These changes will help prepare Medicare for the 21st century. We will be providing new choices for beneficiaries so that they will have many more types of health plans available to them. We will be providing better information. We established an information program for beneficiaries so that they will know about their options, giving information about local organizations that can help them. I know some of those organizations in Louisiana are here in this room today. We will be providing a toll-free number and an InterNet address to contact if you want more information.

We expanded preventive benefits. This is an area again where Senator Breaux was particularly instrumental. We expanded preventive benefits effective this January to include some services that find and treat small problems before they become big ones. And these new benefits include annual screening mammagrams, colorectal cancer screening, bone mass testing and diabetes and glucose monitoring and patient education.

We are reforming the way we pay health plans and providers. At long last, Medicare will be able to take advantage of some modernized market-oriented purchasing authorities that it has not been able to use in the past. Very importantly, we have new tools to use in the fight against waste, fraud and abuse in Medicare.

We have been working very aggressively with our partners in the Administration on Aging, the Office of the Inspector General, the Justice Department and the States to improve Medicare program integrity. Since 1993, we increased fraud convictions dramatically, saving taxpayers more than 20 billion and returning a billion dollars to the Medicare Trust Fund last year alone. Our new and expanded authority that we got this summer will help us to sharpen our focus on waste, fraud and abuse.

I know, Senator Breaux, that you agree that we simply cannot tolerate those who would cheat our beneficiaries and the taxpayers. That is why I am announcing today that Medicare will open an of-
office in New Orleans that will coordinate anti-fraud and abuse activities in this part of the country.

This New Orleans field office, which will be opening its doors this spring, is the latest step of the crack-down on fraud, waste and abuse that President Clinton began in 1993. It will operate in the same way as our highly successful office in Miami. The New Orleans-based Medicare staff will coordinate efforts among Federal and State officials, law-enforcement organizations, private insurers and consumer advocacy groups, including, I hope, some of you in this audience. Working together, I think, we can do an even better job of finding, prosecuting and preventing fraud and abuse, because every dollar that is wasted in that way is a dollar that we are not spending to help our beneficiaries.

I am optimistic about what the Administration and Congress achieved for the Medicare program this summer with the Balanced Budget Act. We have given the program some breathing room, but, now, we still need to work together to address the longer-term problems Medicare faces. As you can see from the first chart here, although the Balanced Budget Act mitigated the HI Trust Fund problem in the short run giving us some breathing room until about 2010, we still face insolvency down the road due to imminent demographic changes.

If you look at the red line, that is where the old law would have taken us in terms of how much more the expenditures were than what we were taking in was. The line in the middle is where we are now. So we have closed the gap a little bit. So we should feel good about that, but you can see there is still a difference between that bottom line, which reflects the amount the program basically is taking in, and the amount that we are spending. That gap is what Senator Breaux and his Commission colleagues will need to be working on.

As the second chart shows, in the very near future and—I think, as everyone here knows and we have heard earlier this morning, a substantial portion of our population will be elderly. They will be expecting to be part of the Medicare program. This proportion will rise from about 13 percent in 2010 to almost 20 percent of the population in 2030.

The steady improvement in life expectancy, coupled with a decline in birth rates, will result in a major increase in the number of older persons relative to those of working age who are contributing to this program. Right now, there are about four workers paying HI, or Hospital Insurance, taxes to support each one of the HI enrollees, a ratio which will begin to decline rapidly early in the next century. You can sort of see that there as it goes down around 2000.

By the middle of the next century, only about two workers will support each enrollee. It should be pointed out, though, that while the size of the 65-and-over population relative to those aged 20 to 64 is expected to increase, the size and associated costs of the child and adolescent population are also projected to be relatively lower in the future. So maybe that is part of the solution to our problem.

As the next chart shows, it is important to understand that health care services for the Baby Boom elderly will need to be financed in some way. What I mean by that is: Yes, Medicare has
a problem, but if these people's costs—and I am one of them and some of you in the audience are some of them—are not met by Medicare, then they are still going to have these health costs. It is going to fall upon the individuals themselves, their families, states or employers to bear the cost of care. As the chart shows, even today, Medicare only pays about half of the health care costs of the elderly.

Finally, my last chart shows another point that I think it is important to keep in context here, which is that: Although the economic status of the elderly has improved over the past 30 years and, as my colleague, Ken Apfel, says, fewer elderly are likely to be in poverty, it is still the case that many elderly people continue to have lower incomes than the non-elderly. Because of their lower incomes and higher health care needs, they already spend a significant portion of their incomes on health care.

Medicare, as, I think, we have seen today, is a part of a larger complex health care system, and a major component of the overall economy. One thing we have to be sensitive to as we look to the future is that we cannot plan changes to the Medicare program in isolation. It is—Medicare itself is affected by lots of other policies, and Medicare will affect all those other policies.

In the 1950's and 1960's, our country had to find a way to house and educate that Baby Boom generation. In the 1970's and 1980's, we had to integrate this generation into the labor force. In the next century, we will have to figure out how to support Baby Boomers in their old age and provide for their health care.

We will have to make difficult choices, but, Senator, I know that we can meet this challenge just as we have met other challenges in the past. I look forward to working with you and the Commission to help prepare Medicare for the Baby Boomers and preserve it for future generations beyond that.

[The prepared statement of the Ms. DeParle follows:]
STATEMENT OF
NANCY-ANN MIN DEPARLE
ADMINISTRATOR,
HEALTH CARE FINANCING ADMINISTRATION
ON
"PREPARING FOR THE RETIREMENT OF THE BABY BOOM GENERATION"
BEFORE THE
SENATE SPECIAL COMMITTEE ON AGING

FEBRUARY 18, 1998
INTRODUCTION

Senator Breaux, thank you for the opportunity to address the Committee about the challenge facing our country as we prepare for the retirement of the baby boom generation. I want to congratulate you on your appointment as Chairman of the National Bipartisan Commission on the Future of Medicare. This Commission has been given an assignment of critical importance to us all -- preserving the Medicare program for future generations. We are also looking forward to working with Secretary Jindal in his new capacity as Executive Director of the Medicare Commission. We can expect him to apply the considerable talents he brought to the Department of Health and Hospitals in Louisiana to his role in the Commission.

We are facing a society unlike any that has ever been encountered in American experience -- a society with more old people, comparatively fewer children and adolescents, and with life expectancy for many at age 65 measured in decades. The Commission, this hearing and other public forums have an important role to play in our planning for how to deal with these changes to our society.

The Medicare program has a rich history. In 30 some years, Medicare has literally changed what it means to be old or disabled and sick in America. During this time, Medicare has meant access to health care coverage for almost 80 million Americans who would otherwise have lacked access to any kind of health care. Medicare is coverage that cannot be lost as you get older or sicker, or face other changes of status such as widowhood or retirement. It has relieved some of the financial burden of health care, which is critically important for low-income elderly persons with high medical expenses, and has given American families the assurance that they will not have to bear the full burden of health care costs for their elderly or disabled parents or relatives. Medicare has already doubled the number of people it serves.

While we must confront and cure the problems of the program, we must never forget that it has enhanced our health care system and ennobled us all. As President Lyndon B. Johnson said when he signed Medicare into law: “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 country.” My priorities as Administrator are to continue this commitment by ensuring the implementation of the most significant changes made to Medicare in its history, and to continue -- and sharpen -- our focus on fraud, waste, and abuse in Medicare.

Today, Medicare is serving more than 39 million beneficiaries, including about 600,000 residents of Louisiana. The program spends more than $200 billion annually across the country. In Louisiana, Medicare spends about $3.5 billion each year. Medicare spending on home health services is particularly notable, with spending at more than $13,000 per person, more than double the national average, and the highest in the nation. Medicare also provides the State's elderly and disabled with over 1.4 million days of hospital care; 500,000 days of skilled nursing home care; and some 18 million physician visits.

The program that provides these extensive medical benefits to the citizens of Louisiana and the rest of the Nation has a complex financing mechanism: the Medicare program is financed by two Trust Funds.
Funds. The Hospital Insurance (or "HI") Trust Fund, which pays for hospital, nursing home, hospice, and some home health care, is financed primarily by payroll taxes on employers and employees. The HI tax rate is specified in law, and program financing cannot be modified to match variations in program costs except through legislation. It is this Trust Fund that is projected to become insolvent in the next century as spending exceeds revenues.

The Supplementary Medical Insurance Trust Fund (or "SMI"), which pays for physician services, outpatient care, laboratory, durable medical equipment, and some home health services, is financed by general revenues and enrollee premiums. SMI premiums and general revenue payments are reestablished each year to match estimated costs for the following year. SMI income automatically matches expenditures. Thus, this Trust Fund is prevented from ever becoming insolvent.

In 1993, when the Clinton Administration first took office, the HI Trust Fund was projected to become insolvent in 1999. The Administration, together with the Congress, immediately took action and extended the life of the Trust Fund by several years. This summer, the Administration and Congress passed a sweeping reform of the Medicare program. The Balanced Budget Act is estimated to extend the life of the Trust Fund to about 2010 and puts in place major changes that modernize the program and make it ready for the 21st century. We did a number of important things in the Balanced Budget Act, including:

- **New Choices for Beneficiaries** -- We added new choices for beneficiaries, so that they will have many types of health plans available to them—from fee-for-service Medicare and HMOs, to PPOs, Provider Sponsored Organizations, and private indemnity plans.

- **Better Information for Beneficiaries** -- We established an information program for beneficiaries so that each beneficiary will receive pamphlets telling them about their choices, giving information about local organizations that can help them, and providing a toll-free number to call for more information. Beneficiaries also can access the information through the Internet.

- **Preventive Benefits** -- We expanded preventive benefits. In the past, Medicare covered only what were called "medically necessary services." At long last, we are adding to the list some of the most necessary services of all — those that find and treat small problems before they become big ones.

- **Payment Reforms** -- We reformed the way we pay health plans and providers, and gave the program modernized purchasing authorities, so that program costs per beneficiary will be reduced to less than 4 percent average annual growth rate for Fiscal Years 1997 through 2002.

- **New Anti-Fraud Tools** -- We added new tools and new funding to combat fraud and abuse. We have been working aggressively with our partners in the Administration on Aging, the Office of the Inspector General, and the States to combat fraud. Our new and expanded authority will allow us to get even tougher. The only way we can maintain — much less improve and expand — Medicare and other public programs is if we make sure that they are responsibly managed, fiscally sound, and free from waste, fraud, and abuse.
Through Operation Restore Trust and other efforts, this Administration has already taken strong steps to weed out waste and fraud. We assigned more federal investigators and prosecutors than ever before to fight Medicare fraud. Since 1993, we increased fraud convictions by a record number, saved taxpayers more than $20 billion, and returned $1 billion to the Trust Fund last year alone.

It is also important to note that all these improvements are being made in the context of what is a highly efficient insurance program. Medicare’s administrative costs are less than 2 percent of benefit payments, considerably below that of private insurers.

A Long-Term Problem

Although the Balanced Budget Act eliminated the HI Trust Fund problem in the short run, we still are facing insolvency down the road due to imminent demographic changes. [Chart 1]

In the very near future, a substantial portion of our population will be elderly. The proportion will rise from about 13 percent in 2010 to almost 20 percent of the population in 2030. [Chart 2]

The steady improvement in life expectancy, coupled with a decline in birth rates, will result in major increases in the number of older persons relative to those of working age. Currently, about four workers paying HI taxes support each HI enrollee, a ratio which will begin to decline rapidly early in the next century. By the middle of the next century, only about two workers will support each enrollee. [Chart 3] In addition, because of continuing improvements in life expectancy, the ratio does not return to current levels once the subsequent “baby bust” generation reaches retirement age.

It should be pointed out, however, that while the size of the 65-and-over population relative to those aged 20-64 is expected to increase, the size and associated costs of the child and adolescent population will be relatively lower in the future. Of course we need to recognize that public expenditures on children are considerably lower than for aged persons, and the financing for such expenditures is very different. However, it would be a mistake to focus on the public finance implications of the growing elderly population without also recognizing the concomitant reduction in the proportion of children and adolescents.

Nonetheless, the major underlying problem facing us is that in the future this country’s growing elderly population will consume health care services that will need to be financed in some way. If their costs are not met by Medicare, then it will fall upon the individuals themselves, their families, States, or employers to bear the cost of care. Even today, Medicare only pays about half of the health care costs of the elderly. [Chart 4]

It is important to note that although the economic status of the elderly as a group has improved over the past thirty years, many elderly individuals continue to have lower incomes than the non-elderly, and because of their lower incomes and higher health care needs, they already spend a significant portion of their income on health care. [Chart 5]
Thus, we face a growing elderly population, many of whom will not be well-off. Their primary source of health care coverage will be through a program that today covers only one-half of an elderly person's health care costs, since Medicare does not cover long-term nursing home stays, outpatient prescription drugs, and has no catastrophic cap on beneficiary liability. This means that in facing this challenge, we have to look at it far differently than we might have in the past.

I believe that there are two key principles that should guide us.

Medicare and the Larger Society

First, Medicare is a large part of a complex health care system, and a major component of the overall economy. We cannot plan changes to the program in isolation. The issues related to Medicare's role in planning for the retirement of the baby boom generation need to be discussed and understood in a very broad context. We need to take into account policies and issues related to labor supply, personal savings, economic growth, and Social Security. The format of today's hearing—bringing together representatives of Social Security, Medicare, and the Administration on Aging—is consistent with this more expansive view.

Medicare cannot be viewed in isolation from the other structures that support America's seniors. A diversified approach to meeting the health care and retirement income needs of the aged is critical to preparing for the future. The magnitude of the needs, and the importance of ensuring that they are met, suggests the continued desirability of the traditional American approach of a balanced, diversified collection of social insurance programs, private group insurance and pension plans, and individual savings efforts—what some have referred to as the "three legs of the stool" that support the elderly in their retirement years.

The future demographic trends have significant implications for more than just entitlement programs. They are intrinsically related to the nation's economic well being. Sufficiently robust economic growth can help in providing the resources to meet future retirement and health care needs while securing the living standard of the non-aged.

A Broad Agenda

In approaching the challenge of meeting the health care needs of future elders, the second principle to guide us is that the agenda from which we choose should be as broad as possible. We need to be open to a whole range of options, and not approach this from a limited perspective. While preserving the basic architecture of Medicare, we must recognize the need to take action to ensure its continued strength. We need to explore a wide variety of areas such as eligibility, financing, benefit design, and workforce related issues. The complexity of the problem deserves our most creative thinking, not constrained by traditional frameworks.

We look forward to working with the Commission to help identify the problems and potential solutions. Some of the fundamental questions that will need to be addressed include:
What benefits should Medicare offer?

In the budget agreement, we took a step forward by expanding the benefit package to cover important services like flu shots and mammography. As the population ages and the number of retirees increases, the mix of services that Medicare beneficiaries may need will also change, affecting the rates of chronic and long-term care.

How will we control the cost of the Medicare program?

Specifically, we will need to scrutinize how Medicare's per capita costs are influenced by inefficiencies in the program, and the overall cost growth of health care. How can we better track and predict potential changes in technology, disability rates, and other factors affecting these per capita costs?

Should we raise the age of eligibility for Medicare?

The Commission needs to look beyond the aging of the population to other societal changes, such as the length of time people work, and the numbers of uninsured workers in the population, which leads us to the next question:

How will we finance these costs?

Once again, we will need to take a very broad look at our options. For example, do we have the proper mix of premiums, cost-sharing, payroll, and general revenue? Other questions may involve the amount enrollees contribute to the program, the split between Part A and Part B, and the future resources of our State and Federal governments. We also need to remember that not all seniors enjoy the same financial status; we need to pay particular attention to vulnerable segments of the elderly, especially beneficiaries with the lowest incomes.

Some of the answers to these questions may be controversial, and many are still evolving. And, they will be best answered by the Commission, whose mandate is clear -- to educate both the public and the policy makers.

CONCLUSION

In the 1950s and 1960s, our country had to find a way to house and educate the “baby boom” generation. In the 1970s and 1980s we had to integrate this generation into the labor force. In the next century, we will have to support them in their old age and provide for their health care. As we confront the challenge, difficult choices will have to be made. Recently, an important first step was made with the passage of the Balanced Budget Act of 1997, extending the life of the Trust Fund. The Congress also established The National Bipartisan Commission on the Future of Medicare as the next important phase of our effort. I look forward to working with the Commission in meeting the challenge.
Long-range HI Income Rates* and Cost Rates
As a Percent of Taxable Payroll

The ratio of tax income to taxable payroll is the "Income Rate" and the ratio of expenditures to taxable payroll is the "Cost Rate."
The Aging of the U.S. Population

The U.S. Population will age rapidly, creating significant growth in the numbers of individuals eligible for Medicare.

[Bar chart showing the percentage of the population over 65 from 1960 to 2030.]

Source: 1997 Annual Report to the Board of Trustees of the Federal Old-Age Survivors Insurance and Disability Insurance Trust Funds.
Number of Covered Workers per HI Beneficiary

![Graph showing the number of covered workers per HI beneficiary over the years from 1960 to 2070. The graph indicates a decrease in the number of covered workers per beneficiary over time.]

Note: Projections are based on the intermediate assumptions from the 1997 Trustees Reports.
Sources of Payment for Health Services, 1994

Medicare Pays About Half the Total Cost of Beneficiaries' Medical Care

- Medicare: 53%
- Medicaid: 13%
- Private Insurance: 9%
- Out-of-Pocket: 20%
- Other Sources: 5%

Numbers do not total 100% due to rounding.

Source: MCBS; Out-of-Pocket Expenditures do not include Medicare Part B premium or private insurance/HMO premiums.
Spending for Health as a Percentage of Income, 1994

Elderly Households' Health Spending as a Percentage of Income, 1994

The elderly poor spend a greater portion of their income on health.

Source: HCFA, Office of Strategic Planning, Data from the Consumer Expenditure Survey
Senator Breaux. Thank you, very much, Ms. DeParle, for your comments.

Now, we would like to hear from the Honorable Jeanette Takamura.

Dr. Takamura.

STATEMENT OF JEANETTE C. TAKAMURA, ASSISTANT SECRETARY FOR AGING, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Dr. Takamura. Senator Breaux, as a member of the Baby Boom generation, I thank you for this opportunity to present testimony on the status of older Americans, the Older Americans Act and how we might work together to ready America for longevity, taking into account specifically personal savings, long-term care insurance issues and resources essential for present and future generations to remain self-sufficient.

Let me, before I go further, acknowledge you, Senator Breaux, for your steadfast leadership and support on issues of import to an aging America, including the Older Americans Act and its programs. Of particular note is the support you have given the Administration on Aging’s very successful pension benefits counseling program and projects. Because of your efforts, older Americans have the opportunity to better understand and access pension benefits which they worked to earn.

I will be extracting from my written statement in the interest of time. However, let me just mention that since 1965, the Older Americans Act has provided for a spectrum of services and programs which enable millions of elders to maintain dignity, independence and to be free from fear of abuse, neglect, and exploitation. Its programs keep many elders from the pain of hunger, social isolation and loneliness, provide community- and home-based assistance and care and offer families support with elder care, a 24-hour-a-day endeavor.

Older Americans Act programs serve at least 173,000 older persons in your great State of Louisiana. Through the office of Elderly Affairs and 36 area agencies on aging, Older Americans Act grants are provided to the State of Louisiana in its local communities for infrastructure development, for the building of comprehensive coordinated service delivery systems, for critical services such as transportation and nutrition and for advocacy, coordination and other activities, which help to meet the needs and protect the rights of older adults.

State and area agencies on aging administer not only Older Americans Act programs, but Medicaid, Social Services Block Grant, HUD and state revenue programs, as well. Louisiana receives currently a total of nearly $12 million in Older Americans Act funding.

As a group, Americans are blessed with the gift of longevity, with persons 100 years of age and older comprising the fastest growing segment of our population. Since the average American can claim more living parents than children, it should not be a surprise that in two short years, as we approach the 21st century, four-generation American families will be the norm. It will be a very, very crowded household.
In less than 13 years, 76 million Baby Boomers, who currently comprise one out of three of all Americans and 44 percent of the nation's households, will begin to join the ranks of older Americans. I look forward to that myself. According to the U.S. Census Bureau, 1 out of every 9 Baby Boomers will survive to at least 90 years of age.

Here, in Louisiana, I think, you have pointed out the statistics and the demographics. The 65-plus population is expected to number nearly 863,000 persons in the year 2010, a 30-percent increase from the year 1995. During the same 15-year period, the 85-plus population will increase by 54 percent, quite a significant growth rate.

America's gift of longevity comes with many opportunities and many, many challenges. Provided that economic security, access to quality affordable health care, housing and transportation options exist, active aging will be a much more commonplace phenomenon. The Administration's recent calls to preserve, strengthen and protect Social Security and Medicare are very significant steps toward addressing some of the challenges and capitalizing on the opportunities of a longevous society. Moreover, the Administration's ongoing efforts to combat fraud, waste and abuse in the Medicare and Medicaid programs are responsible interventions which must be pursued as we prepare our nation for the 21st century.

I am very pleased that the Administration on Aging, HCFA, the HHS, Office of the Inspector General and the Department of Justice are partners, all of us, in Operation Restore Trust, a very successful anti-fraud demonstration project launched by President Clinton in 1995. Local ombudsmen, aging service providers, volunteers and retired professionals, have been recruited and trained to identify and report waste, fraud and abuse in their own states and communities.

Today, I am particularly proud to announce that as part of AOA's ongoing consumer protection and education efforts, grant awards of $50,000 each will be given to three additional states, including your own State of Louisiana.

While there is growing consensus that America must have a financially literate population if the nation is to be ready for longevity, the 1997 Retirement Confidence Survey found that dismal retirement planning crosses age and gender. Because such dismal retirement planning occurs, pension benefit counseling programs are so very important. And the public and private sectors alike must urge all Americans of all ages to gain financial literacy and understand their long-term income requirements.

At least one study has found that Boomers, the members of my generation, have a tremendous concern about their financial long-term stability. That concern is about the inadequacy of their retirement resources. While many Baby Boomers are attempting to save for their retirements, Stanford University economist B. Douglas Bernheim has concluded that American families, including Baby Boomer families, are saving at about one-third the essential rate, assuming that retirement at age 65 with an adequate retirement cushion is a goal.

Although Baby Boomers are expected to rely on Social Security in the same proportions as their parents, only half of the Boomers
are covered by employer-sponsored pensions. There is a growing tendency towards defined contribution plans, instead of defined benefit plans, placing Boomers at greater risk unless they have other investments and other assets. Moreover, 7 out of 10 Baby Boomer women are expected to outlive their husbands and spend approximately 15 years alone as widows, in most instances, on fixed incomes that lose purchasing power over time.

To help Baby Boomers be financially prepared for their own potential longevity, the pension benefit counseling program might be expanded to enable the aging network to help facilitate appropriate public and private sector collaboration to ensure that all Americans can proactively determine their retirement needs and understand their pension or profit-sharing plans and other opportunities. According to the Retirement Confidence Survey, such concerted efforts would be productive as, first of all, most Americans have started to save for their retirement and, second, retirement education campaigns can have a real significant impact on individual saving behaviors.

Unlike any generation before them, Boomers must not only be prepared for their own older years; they must also be prepared to contend effectively as members of the sandwich generation. I very much feel this one myself. Caught among the demands presented by their children's college tuitions, the need to have help with grandchild care and with the costs of daily living, the work place and elder care giving, it is no wonder that Boomers have also been dubbed the "worried generation."

The sheer number of Baby Boomers means that the need for long-term care assistance will not diminish and that it will be even more important to give care-giving techniques, as well as the spectrum of supportive community resources, broad public exposure. Many of these services can be accessed via the Administration on Aging's Eldercare Locator, a national toll-free information and assistance service which is really funded by the Administration in partnership with the National Association of Area Agencies on Aging and the National Association of State Units on Aging.

Long-term care costs can and do significantly diminish the financial resources of many families. A nation ready for longevity would ensure that all Americans have access to reliable, user-friendly information about the potential and limitations of various long-term care financing options, including Medicaid and private insurance.

Preparedness for longevity would also include a range of actionable items from giving very broad visibility to the importance of healthy lifestyles, health promotion and disease prevention to creating a universal understanding of care-giving challenges, opportunities and resources, such as the services provided through the aging network, and on to coordinating community planning for the development and use of home- and community-based long-term care alternatives, including which take strategic cost-effective advantage of technology.

In the final analysis, an America ready for longevity would be an America with policies and programs that acknowledge both the universal and differential needs of the older adult population. What I know is that we have much to be done to prepare our country, but I do believe that by working together, we can indeed be ready.
I would like to once again thank you for the opportunity to be here today to present the concerns of our older Americans and our Baby Boomers. I also would like to reiterate my thanks to you for the leadership role which you have played in Congress; we appreciate very much your vision and your action. Thank you.

[The prepared statement of Dr. Takamura follows:]

PREPARED STATEMENT OF JEANETTE C. TAKAMURA, ASSISTANT SECRETARY FOR AGING, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Thank you for this opportunity to present testimony on the status of older Americans across the nation and on the Older Americans Act (OAA), which established the national aging network of State and Area Agencies on Aging and Tribal organizations and is overseen by the Administration on Aging (AoA), the agency I head. I am particularly pleased with your request that we discuss how we can work together to ready America for longevity, taking into account personal savings, long-term care insurance issues and other resources which will be essential in order for present and future generations to remain as self sufficient as possible. I would also like to take this opportunity to acknowledge my distinguished colleagues, Nancy Ann Min DeParle, Administrator of the Health Care Financing Administration (HCFA) at the Department of Health and Human Services, and Kenneth Apfel, Commissioner of Social Security. Our joint appearance here today is reflective of this Administration's commitment to the issues of importance to our nation's elders and their families. And finally, I would like to acknowledge you, Senator Breaux, for your continued leadership in the issues important to an aging America, as well as for your continued support for the Older Americans Act and its programs. Of particular note is the support you and Chairman Grassley have given to AoA's very successful pension counseling program and projects. Because of your efforts, we are now able to continue to assist older Americans to better understand and access their pension benefits, giving our older adults new hope that they will not be denied that which they worked to earn.

Since 1965, the Older Americans Act has provided the authorization for the spectrum of services and programs which enable millions of our nation's elders to maintain their dignity; to live as independently as possible; to be free from fear of abuse, neglect and exploitation; to avoid the pain of hunger, social isolation and loneliness; to be assisted and cared for in their own residences if they are vulnerable and frail; and to have their families receive support as they provide elder care.

Let me take this opportunity to briefly highlight some of the important Older Americans Act programs which serve older persons in your great State of Louisiana. The Administration on Aging provides grants to States and local communities for infrastructure development and the building of comprehensive and coordinated service delivery systems. OAA funds provide critical services such as transportation and nutrition, and are also used for advocacy, coordination and other activities which help meet the needs and protect the rights of older adults. State and Area Agencies on Aging administer not only OAA programs, but Medicaid, Social Services Block Grant, HUD and State revenue programs as well.

Here in Louisiana, the Office of Elderly Affairs, in partnership with some 36 Area Agencies on Aging throughout the State, fulfills these OAA responsibilities. Currently, Louisiana receives $4.5 million for supportive services under title III of the OAA, including $133,000 for protective elder rights services such as the Long-Term Care Ombudsman program and elder abuse activities; 5.6 million for congregate meals; 1.7 million for home-delivered meals; $141,000 for the provision of in-home services for the frail elderly; and $233,000 for disease prevention and health promotion activities. According to our latest information, over 170,000 older Louisianans receive these services authorized until title III of the Older Americans Act. In addition, the Louisiana Long-Term Care Ombudsman program responded to complaints from more than 2,500 nursing home and board and care residents.

As a group, Americans are among those who live in nations blessed with the gift of longevity. America's people have an average length of life which is approximately 76 years (72 years for men, 79 years women). Today, there are approximately 48 million older Americans 60 years of age and older, with persons 100 years of age and older the fastest growing segment. From the turn of the century to the year 2010, there will be a 47 percent upsurge in the number of older Americans 55 to 64 years of age. Since the average American can claim more living parents than children, Census Bureau indications are not surprising: that in two short years, four-generation American families will be the norm.
In less than 13 years, 76 million baby boomers born between 1946 and 1964 will begin to join the ranks of older Americans. Equivalent in number of one-third of the current U.S. population, the boomers currently comprise 44 percent of the nation’s households, 60 percent of which are headed by married couples. According to the U.S. Census Bureau, 1 out of every 9 baby boomers will survive to at least 90 years of age.

Here in Louisiana, the demographic trends for older people parallel those of the country at large. For example, the Census Bureau projects that the State’s 65 plus population will rise to 862,685 in the year 2010, a 30 percent increase from 1995. During that same 15 year period, the 65 plus population will increase by 54 percent. In planning for the future, Louisiana and its citizens will need to seriously consider the implications of such changes.

America’s gift of longevity comes with many opportunities and many challenges. Provided that Americans have adequate retirement incomes to sustain themselves over lengthy lifespan, access to quality, affordable health care, places to live, and transportation options which accommodate some possible physical and mobility decline; they will have the option of “active aging” and the chance to be engaged in stimulating, contributory careers, volunteer work and avocations. The President’s strong support for Social Security and Medicare, as well as the Administration’s recent calls to preserve, strengthen and protect these critical programs, are significant steps toward addressing the challenges and capitalizing on the opportunities of a longeved society. In addition, the Administration’s ongoing efforts to combat fraud, waste and abuse in the Medicare and Medicaid programs, play critical roles in helping to prepare our nation for the 21st century. I am very pleased that the Administration on Aging and our national aging network has had an important role to play in Operation Restore Trust, a very successful anti-fraud demonstration project launched by President Clinton in 1995. Together with HCFA, the HHS Office of the Inspector General and the Department of Justice, we have worked hard over the last 3 years to reach out to thousands of older persons by recruiting and training local ombudsmen, aging service providers, volunteers and retired professionals to identify and report waste, fraud and abuse in their own States and communities. That is why I am particularly proud to announce that as part of AoA’s ongoing consumer protection and education efforts, we are awarding $50,000 each to three additional States including your own State of Louisiana. We look forward to working with your State and the Governor’s Office on Elderly Affairs in this important anti-fraud initiative.

We are pleased that there is so much growing interest in attending to the opportunities and challenges of an aging America. I believe that the only way we can succeed in meeting these challenges and taking advantage of these opportunities is to build partnerships, and to collect and share as much information as possible in order to be prepared for what lies ahead. While there is growing consensus that America must have a financially literate population if the nation is to be ready for longevity, the 1997 Retirement Confidence Survey found that “dismal [retirement] planning crosses age and gender.” It is because such “dismal” retirement planning occurs that AoA’s pension benefits counseling program is so important. It is also the reason that the public and mass media must present as many opportunities for Americans of all ages to gain financial literacy and to understand their long-term income requirements. For example, all Americans should know that 56-year-olds retiring today with retirement incomes of $3,000 per month will find the purchasing power of their monthly retirement income to equal $930 when they are 80 years old, $571 when they are 90 years of age, and $351 at age 100.

At least one study has found that boomers’ greatest financial concern is the inadequacy of their retirement resources. Fortunately, many baby boomers are taking responsibility for their financial futures and are attempting to save for their retirement. Unfortunately, a study by Stanford University economist B. Douglas Bernheim concluded that American families, including baby boomer families, are saving at about one-third the essential rate, assuming that retirement at age 65 with an adequate retirement cushion is a goal. That is, Americans are saving only about 38 cents out of what should be a whole retirement dollar—½ the amount that they should be setting aside for their older years. Although baby boomers are expected to rely on Social Security in the same proportions as their parents, only half of the boomers are covered by employer-sponsored pensions. Because they will tend to have defined contribution plans instead of defined benefit plans, boomers may be at greater risk, unless they have other investments and other assets. Moreover, 7 out of 10 of all baby boomer women are expected to outlive their husbands and spend approximately 10 years alone as widows, in many instances on fixed incomes that lose purchasing power over time. A significant number of boomers face economic risk and deprivation in retirement because of a poor history of earnings, spo-
radic employment, discrimination, and inadequate or poor education. To help baby boomers be financially prepared for their own potential longevity, programs such as the pension benefit counseling program which I have referenced several times can enable the aging network to more effectively partner with and help facilitate appropriate public and private sector collaboration to ensure that all Americans are able to proactively determine their retirement needs; understand their pension or profit sharing plans; and understand savings plans and other options which may be available to them. The Retirement Confidence Survey findings suggest that such concerted efforts would be productive because most Americans have started to save for their retirement and retirement education campaigns can have a real impact on individual saving behaviors.

Unlike any generation before them, boomers must not only be prepared for their own older years, they must be prepared now to contend effectively as members of the "sandwich generation"—a generation caught among the demands presented by their children's college tuition, the need to help their children with grandchild care and with the costs of daily living, the requirements which arise at work, and elder care giving. It is no wonder that boomers have also been dubbed the "worried generation."

While disability rates have fallen steadily since the early 1980's, the sheer number of baby boomers means that the need for long-term care assistance will not diminish. Since these trends are expected to continue and to become more dramatic in the 21st century, it will be important to ready all Americans by familiarizing them with caring techniques as well as the spectrum of supportive resources in communities all across the country. Many of these services can be accessed via the Eldercare Locator, a national toll free information and assistance service funded by the Administration on Aging in partnership with the National Association of Area Agencies on Aging in collaboration with the National Association of State Units of Aging.

The cost of long-term care—ranging from the cost of care provided in the home to institutional care, if such becomes an eventuality, has tremendous economic ramifications for American families, and for the nation in general. Long-term care costs can and do deplete or significantly diminish the financial resources of many older adults, their spouses and their children. A nation ready for longevity would ensure that all Americans have access to reliable, user-friendly information about the potential and limitations of various long-term care financing options, including Medicaid and private insurance.

Preparedness for longevity would also include:

- Giving very broad visibility to the importance of healthy lifestyles, health promotion, and disease prevention;
- Creating a facilitative understanding in the general populace about the health care and long-term care service system and how best to access the latter, including home and community-based services such as those provided by the Older Americans Act;
- Ensuring that Americans are knowledgeable about the rights of health and long-term care consumers, as proposed by the President in his Consumer Bill of Rights and as safeguarded by such programs as the Long-Term Care Ombudsman program established under the Older Americans Act;
- Specifically, ensuring that consumers understand the importance of satisfactory discharge planning, long in advance of their departure from a health care facility;
- Creating a universal understanding of caregiving challenges, opportunities, and resources;
- Coordinated community planning for the development and use of home and community-based long-term care alternatives, including those which take strategic, cost-conscious advantage of technology; and

Allowing ample opportunities for experimentation and testing of best practices such as those which have been made possible in recent years through title IV of the Older Americans Act. OAA research, training and demonstration activities funded under title IV have been the catalyst for many successful programs for seniors, such as the home-delivered meals program, long-term care ombudsman program, and pension counseling projects throughout the country.

In the final analysis, an America ready for longevity would be America with policies and programs that acknowledge both the universal and the differential needs of the older American population, i.e. it is a nation that recognizes that each generation of older adults has distinct, distinguishing general characteristics, perspectives and value orientations. A nation ready for longevity has recognized that as we age, we grow more heterogeneous. We acquire and develop our own personal interests, pursue more or less education in a spectrum of fields, follow our own career pathways, live in different communities, engage in a variety of friendship and profes-
sional networks. It is an America in which transportation systems, urban planning and housing, the financial industries, the travel and hospitality industries, mechanisms for consumer protection, the food service industries, public safety systems, lower and higher education, information systems, and other structures and institutions which are part of the fabric of every day life are designed and operate in a manner which embraces longevity as a social reality and accommodates those older persons who enjoy "active aging" as well as those who may be frail or vulnerable. An America ready for longevity is also one in which employers readily accept workers in a variety of jobs without evidence of ageism. I believe that by working together, we can help prepare America for longevity.

Let me conclude by re-emphasizing three key areas where more attention must be focused at the Federal level if we are to empower all Americans to prepare themselves and this country for longevity.

(1) We must give greater emphasis to consumer education and protection. This is particularly important as it relates to health care and long-term care, but certainly applies to taking responsibility for retirement savings and retirement planning as well. Although increased choices are leading to healthy market competition and in most cases, improved potential consumer options, the number and magnitude of these choices is bewildering to many older persons. We are pleased to be working with our colleagues in the Health Care Financing Administration to educate, inform and protect consumers, in particular as it relates to getting the worked out about the new preventive benefits and managed care options authorized through the Balanced Budget Act, as well as through the Administration's anti-fraud, waste and abuse efforts.

(2) We must encourage more public/private partnerships as well as partnerships within Federal agencies which can generate more resources, new creative approaches, and that recognize and address the diverse needs of a longevous population. There is hardly enough we can do in this regard, particularly if we are committed to fostering the development of more coordinated and effective long-term care services for older persons and their families. The Administration on Aging and I take these coordination and advocacy responsibilities seriously, and we continue to explore options at the Federal, State and local level, as well as throughout the private sector.

(3) We need vigorous experimentation and testing to determine what is working and at what cost. I submit again that activities funded under title IV of the Older Americans Act are an important vehicle for conducting the type of demonstrations that can inform and improve our response to increase longevity and the need for retirement planning.

I look forward to ongoing dialog with my colleagues here today as we look new and improved ways to collaborate within and across the Federal government to reach even more older persons and their family members and to help prepare our nation for its longevity. I commend you for your recognition of an attention to this enormous challenge and tremendous opportunity, for your leadership in national aging policy issues throughout your career in Congress, and for convening this important hearing today.

Thank you once again for the opportunity to testify and to be in your home State. I would be happy to answer any questions.

Senator BREAUX. Perfect timing. Thank you, very much, Dr. Takamura, for your comments.

And to all the panel members, Ken and Nancy, as well.

Ms. DeParle, let me ask you. We all know that there is a tremendous potential problem looming out there for Medicare recipients. Can you maybe discuss for the Committee and, also, for the audience perhaps some of the options that might be available, not necessarily what the Administration is proposing or what our Commission can come up with? But can you give us some indication of what are some of the options that may be part of the discussion as far as finding ways to fix Medicare?

Ms. DEPARLE. Sure. We have talked about this some, Senator. One of the important things, I think, about the opportunity that the Commission presents is that in the past couple of years, we have tended to look at Medicare and its problems simply as a budg-
et exercise because we have been faced with this looming insolvency in the short term.

By giving ourselves some breathing room, which you and the Congress and the President did this summer, I think we have time then to look at Medicare not just as a budget exercise, but, also, as whether Medicare is providing the right benefits for people. We took action this summer—you did—to provide some new preventive benefits which—I think everyone thinks they are going to in the long run save money. But those benefits were not part of the Medicare program, because it was designed 30 years ago. So I hope we will look at some things like that.

There are many other ideas that are on the table. The President has proposed, as you know, trying to help a vulnerable group of Americans by allowing them to buy into the Medicare program. You had a proposal last year that you worked with some of your colleagues in the Senate on to raise the eligibility age to make it in conformance with Social Security, but, also, to allow some of the people who would therefore not be automatically covered a way of buying into Medicare.

So some of those things should be looked at. We also need to continue looking at what we are doing to reform the payment methodologies. You have been an advocate of allowing Medicare to operate more like the private sector does and to competitively bid and to try to, instead of just setting prices from Washington, get out there and see if we cannot get a better price.

There are plenty of examples right now where the Veterans' Administration, for example, gets much better prices than we do because they are not set in statute and because they can have some competition. We are going to be trying some of those techniques.

So I think those ideas are some reforms that could also help the Medicare program to be ready for the Baby Boomers.

Senator BREAUX. More and more, people on Medicare are moving away from just a—what we call a fee for service, where they go to the doctor and the doctor gets paid for treating them by Medicare. It seems that more and more seniors are moving into what we call managed care programs. Can you comment on whether we think that that is a good idea or does that help Medicare? What are some of the concerns about the greater utilization of managed care by Medicare patients?

Ms. DEPARLE. Well, I think that it can be a very good thing. Around 15 percent of our beneficiaries are now in managed care plans. It varies across the country. I was talking to someone this morning who said there are about seven of those managed care plans here in Louisiana. There are some areas of the country where there are, you know, 20 of them. And we expect that to expand over the next few years as beneficiaries have access to more choices.

It has been a good choice for some of our beneficiaries; often, these managed care plans can offer more benefits, prescription drug coverage, lower premiums and those kinds of things that can be good for beneficiaries. The problem has been, though, that, in a perverse way, it has—it appears to have cost the Medicare money because the way that we have paid managed care plans by statute is such that it does not reflect the lower cost that they often have
for the people that they cover. The projections are that we may have actually lost money on it.

We are changing that. One of the authorities that we got this summer was to move forward with developing a system where we can risk adjust to make sure that the payments more accurately reflect how much the beneficiary is actually going to spend. I think when we get that right, these choices can be even better for beneficiaries.

Our goal is to make sure that we pay providers and managed care plans fairly and that they treat us fairly in return. I think if the Commission keeps that in mind, as I believe it will, we can come up with some new ideas to work on there, too.

Senator BREAUX. The President and some in Congress have proposed what they call a bill of rights proposal for people who are enrolled principally in managed care programs. Can Dr. Takamura or Ms. DeParle comment on that? What is attempted to be accomplished by a bill of rights legislation proposal?

Ms. DEPARLE. Well, from Medicare's standpoint, on this Friday, we will be reporting back to the Congress. He, in announcing the work of the Presidential Commission on Quality that has developed this Consumers' Bill of Rights, asked us to take a hard look at the Medicare program and see whether it was in conformance with the requirements of the new bill of rights. The good news is that I can pretty much say that it is.

There are some areas where we might need to make a few little changes, but, by and large, Medicare managed care beneficiaries get the kinds of protections that, I think, are even in most cases better than what people in the private sector do in managed care. Some of the things the Congress did this summer helped us strengthen that. So I believe we are moving in the right direction with Medicare.

Senator BREAUX. Dr. Takamura, can you comment on that?

Dr. TAKAMURA. I simply would like to say that the health domain tends to be a very complex one, whether you are an older consumer or a younger consumer. I think managed care as a new entity is indeed very complex. So the Consumers' Bill of Rights is a means by which we can assure all participants of the Medicare program that indeed they will be able to receive certain considerations as they are utilizers of services.

Senator BREAUX. Let me ask one other question.

Mr. Apfel, I am going to get to you, but let me ask Ms. DeParle one other question about home health care.

Congress addressed the question of trying to make sure that the home health care program in this country remains one that is solvent and that continues to provide good service to people who are at home. But Congress and the Administration are trying to make new proposals on how the program is going to be governed. I think, to a certain degree, that has caused some difficulties and some problems. Can you comment on where you think we are with home health care from a Medicare standpoint?

Ms. DEPARLE. Yes, I can, Senator. I think you have characterized it correctly: We are at an awkward stage. This benefit is an extremely important one for our beneficiaries. That is one that the Administration feels very strongly that we want to strengthen.
The problem is that it has had such rapid growth over the years—from 1990 to 1996, I think, it grew more than 25 percent each year—to where it is almost a $20-billion-a-year program. The number of visits per beneficiary doubled. It is interesting here in Louisiana because, in fact, I think, the number of visits here is the highest in the country, and the payment level is second only to my home state of Tennessee, I think, by a few dollars. They are right neck and neck with each other.

Senator BREAUX. We like to be first in everything.

Ms. DEPARLE. Well, Senator, I do not know if you or I should want to be first in this area.

Senator BREAUX. I know.

Ms. DEPARLE. Obviously, what I think we both want and certainly what the Congress and the Administration want is to make sure that this benefit is strengthened and preserved so that it is there for the people who really need it. There are 3.8 million beneficiaries who use it right now who really need it, but we still have to make sure that we are not—managing the program effectively or it will not be there, as you say.

So there were some changes made this summer: One, to try to make sure that unscrupulous providers would not get into the program. This was building on an idea that the State of Florida has used, to require surety bonds to be posted by all home health providers. Also, some new payment methodology which—everyone agrees we need to move to a new way of paying home health agencies so that they will be more efficient.

The industry agrees with that. Congress and the Administration all agree. But we are in that awkward phase of moving from where we have been to where we are going to be and, as you know, these kinds of changes are painful. But we need to make them. When we

Senator BREAUX. Have you extended the time, as I understand, on the surety bond requirement?

Ms. DEPARLE. We have. Our goal on that, Senator, is to make sure that we have the most effective regulation possible so that we keep the bad apples, if you will, out of the program so that they will not rip off the taxpayers and the Medicare program. But, at the same time, we do not want to deter the well managed, good, reputable companies from coming in. It appears there were some technical problems with the surety bond regulation, and we are going to fix those.

Senator BREAUX. OK. Let me ask Mr. Apfel now about Social Security.

We have a little bit of time. But, I mean, how much time do we have? Congress and politicians have said the sky is falling on Social Security. Yet it still continues. I mean how much time do we have to try and fix this program before the 77 million Baby Boomers become eligible for their retirement pensions?

Mr. APFEL. Well, the first Baby Boomers are just about 50 now, as you know. Basically, as you saw in the graphs that were laid out here, there is money in the Social Security Trust Fund through 2029. But if we waited until 2029 to take action, we would be really doing a major dis-service to this country. The changes at that
point would be precipitous and dramatic, and people would not have time to plan for their retirements.

So is there a drop-dead date in the next, say, 2, or 3, or 4 years? The answer is no. But if we can take action now, we can minimize the amounts of changes that have to be made, we can take pragmatic actions and give the whole Baby Boom generation time to plan for these changes. So there is some——

Senator BREAUX. What are some of the options that we are looking at? Social Security works basically this way: We have this many people who are eligible for a retirement plan, and we have this many people working to pay the money for that retirement plan, and that is becoming fewer and fewer. Over 70 percent of the people in America now pay more in payroll taxes than they pay in income taxes.

What is the potential solution here? I mean how do we resolve this? I mean what are some of the broad options that are at least out there, not to say what the Administration is proposing or what our Commissions are proposing? But what are some of the things that might be considered or have been considered?

Mr. APFEL. Again, the Administration has not taken a position or laid out a plan at all at this point. That really is after this year’s public debate. That is what this year’s public debate is about.

But the set of choices and options that are out there includes: Whether the benefit structure needs to be somewhat lower than it has been in the past; whether revenue should be extended to go into the Social Security trust funds; whether the retirement age which is now at 65 and moving up gradually to 67 over the next 30 years—whether that should be somewhat higher than 67 for the future generations; whether the Social Security—whether added funds from the surpluses could potentially have an effect on the Social Security Trust Fund; whether investment portfolio decisions should be changed.

Right now we invest all Social Security trust funds in government securities, which is a very low-risk and a low-return model. Should they be invested more in corporate equities, as state and local pensions are? There are pros and cons to that. That is another option that could be taken.

Whether there should be an individual account to complement or to supplement the floor of protection that Social Security provides is another option that needs to be considered. Whether the system should go through a broad-based privatization, whether the whole system should be privatized—the Administration has opposed radical, broad-based privatization, because it supports that floor of protection, that foundation of protection.

But all of the options are things that need to be considered, and there is a wide range of options. What it is going to take is a major discussion around the country about those pros and cons of those options.

Senator BREAUX. Well, I have been intrigued by the possible concept of allowing a portion of Social Security contributions to be invested in private investments because of the rate of return. I mean we get about 2.3 percent in your Social Security Trust dollars, we invest them in government securities and we get back about a 2.3-percent return.
The Federal Retirement Program is in contrast, we have a range of options which we check off each year to invest a portion of our contributions in a high-risk investment or a low-risk investment. Most people balance out between the two, and the return is much better.

I guess, Mr. Apfel, you have said that one of the options is to look at some type of program that would do that with Social Security trust funds, as well. We have to be careful, I know, because it is a government obligation to the people and we do not want to mis-invest those dollars. But, at the same time, we want to make sure we get the maximum amount of return.

Mr. APFEL. Those are all the issues that need to be thought through this year, Senator.

Senator BREAUX. OK.

Well, I want to thank this panel. I know that we have not solved the problem, but wanted you all in Louisiana to particularly hear from three of the top experts who are in charge of aging programs, the Medicare and the Social Security retirement program—and it does not get any higher than these—outlining the problem and outlining what the challenges are for myself and other members of Congress who are going to be seeking solutions to these problems.

Our national Medicare Commission must report by March 1999. We have to have in place a recommendation on what to do with Medicare in 12 months. So that is a real challenge. These people are going to be involved in helping us, as well. We thank them for being with us in Louisiana. Enjoy your stay and have something to eat while you are here, as well.

It is all right to applaud our panel. [Applause.]

I want to welcome at this time our next panel of distinguished presenters. Mr. David Walker, who is with Arthur Andersen Human Capital Services, practicing in Atlanta, where he is a Partner and Global Managing Director for their world-wide operations—he has a great deal of experience with making public policy.

He has served previously as the Assistant Secretary of Labor for Pension and Welfare Programs. He has served as the Acting Executive Director of the Pension Benefit Guaranty Corporation and as a public trustee for Social Security, the man who looks after the Social Security Trust Fund monies and, also, the Medicare trust funds, as well.

He now serves with me on the National Commission on Retirement Policy. We are delighted that David Walker is with us.

Next, we have Dr. Ken Thorpe. Ken Thorpe is a Louisianian now, because he is a professor in the Department of Health Systems and Management, and the Director of the Institute for Health Services Research at Tulane University in New Orleans. Dr. Thorpe's extensive knowledge of the Medicare program comes from his work as the Deputy Assistant Secretary in the Department of Health and Human Services in Washington and the years of teaching and research at the University of North Carolina and at Harvard University School of Public Health, Columbia University, Pepperdine University and Duke University. The only one he missed was LSU.

Finally, Mr. Al From, who is our President and founder of the Democratic Leadership Council, an organization that President
Clinton chaired. I succeeded President Clinton as the chairman of the Democratic Leadership Council. Mr. From is also Chairman of the DLC's think tank, the Progressive Policy Institute.

Through the work of organizations like the DLC and the Progressive Policy Institute, Mr. From has become a leader in defining the new Democrat blueprint for governing. He was formerly the Executive Director of the House Democratic Caucus in Congress and a Deputy Advisor on Inflation to President Jimmy Carter and a Staff Director for the Senate Sub-committee on Intergovernmental Relations under Senator Ed Muskie.

So we are delighted to have these three gentlemen with us. I would ask Mr. David Walker if he would begin his testimony.

David, welcome to Louisiana.

STATEMENT OF DAVID M. WALKER, PARTNER AND GLOBAL MANAGING DIRECTOR, ARTHUR ANDERSEN LLP

Mr. WALKER. Thank you, Senator. It is a pleasure to be back in Louisiana, not only for this hearing, but I am also hoping to come back in a couple of days to enjoy for the first time Mardi Gras in New Orleans. I am looking forward to that.

Senator BREAUX. Yes. That is the real challenge.

Mr. WALKER. Yes, sir. I am sure it will be a good time.

Senator, in addition to my background with Arthur Andersen and, previously, with the Federal Government, I am also a Baby Boomer and a father of two. I am not a grandfather yet, although my daughter just got married; so who knows how long that might be? So this is an issue of great concern to me from a variety of perspectives.

I have been asked to come before the Committee this morning and to summarize the current projected financial condition of the OASI, the Old Age Survivors Insurance, retirement income fund of Social Security, based upon the 1997 Annual Trustees' Report, and to talk about a few of our challenges and some options potentially for meeting those challenges in the years ahead.

Based upon the 1997 Annual Trustees' Report, according to the trustees' best estimate, the OASI Trust Fund will be exhausted in the year 2031 if nothing is done; the year 2029 counts the Disability Insurance Program on a combined basis. This projected exhaustion date is significant because, beginning in that year, Social Security would not be able to pay full retirement benefits when they were due.

However, while the trust fund would be exhausted, there still would be significant revenues available to the trust fund. Specifically, for the years 2031 through 2071, Social Security's retirement income program would be estimated to have about 75 cents in revenue for every dollar in benefits.

Therefore if we waited until the year 2031, which I would not recommend by any means—but if one were to wait until the year 2031 and if, in fact, these estimates turned out to be a reality—and that is a long way off, so chances are they may not—then we would have to raise taxes by 33 percent, all at once, or decrease benefits by 25 percent, all at once in order to bring the program in balance. That is an option, but, in my view, not the prudent option.
While the Annual Report noted that it could pay full benefits until 2031, there is an earlier challenge that we must face, as noted by this bottom chart, namely: Beginning in the year 2014, Social Security’s OASI program will be paying out more in benefits than it will be receiving in taxes. Right now, if you look at the red line, the red line is the benefits, and the horizontal line, which is the tax line, represents the tax rate.

Right now, we have more taxes coming in than benefits and expenses going out. But starting in the year 2014, that will flip, and the gap between those two lines, will escalate dramatically starting in the year 2014. Why? Primarily due to demographics, due to the changes in our population.

To me, the most dramatic statistic is the following: In 1950, Social Security had 16 persons paying in taxes for every person receiving benefits; today, Social Security has about 3.3 persons paying in for every person receiving benefits. By the year 2030, Social Security will have less than two persons paying in for every person receiving benefits.

So from 16 to one in 1950—and I was born in 1951, so I am dating myself—down to less than two to one in the year 2030. That is very dramatic, that is very profound and that is why we are here today to talk about the future of Social Security. While the Social Security program is not facing an imminent financial crisis, it does face mid- and long-range financial challenges, primarily due to these demographic trends.

If you look from a broader perspective, as Senator Breaux articulated earlier, Social Security is really a subset of our broader entitlement challenge. Medicare represents another important part of that broader entitlement challenge. If you look at the top chart, the red part of the bar represents mandatory or non-discretionary Federal spending, the yellow part represents interest on the Federal debt and the blue part represents discretionary spending.

If you look at the black line which is relatively flat and somewhat declining, that is projected Federal revenues. The bottom line is this: When John F. Kennedy was president in the early 1960’s, the Federal Government had discretion over 70 percent of its tax revenues; 70 cents of every dollar was discretionary as to how to spend it. Today, it is 30 cents on every dollar.

By the year 2020, if you count mandatory Federal spending, which is the entitlement programs plus interest on the Federal debt, the combined total of those two will exceed all Federal revenues unless something is done. And by the year 2030—forget interest on the Federal debt—expected projected payments for entitlement programs will exceed all Federal revenues. That, obviously, we cannot allow to happen; it places an undue burden on our children and grandchildren, among other things, as well as a very real risk of undercutting economic growth and prosperity for future generations.

As a result, an increasing number of individuals and organizations are calling for fair and timely action to restore the financial integrity of and the public confidence in the OASI program. This includes the Quadrennial Commission of the Advisory Council, the Committee for Economic Development. Now, the Commission that Senator Breaux and I are on is also looking at this area.
These are formidable challenges, but, in summary, I think that several things are important. The OASI program represents the most successful, arguably, domestic program in our nation's history. It serves as the primary element in this nation's fight to reduce poverty among the elderly, and it serves as the foundation of retirement security in this country to assure that people have a reasonable standard of living in retirement.

In that regard, my next chart demonstrates this. On the top chart, you will see that for lower-income Americans, 89 percent of their retirement income—they rely on Social Security for that 89 percent. For middle-income Americans, 75 percent of their retirement income comes from Social Security, and, for upper-income Americans, 21 percent.

Senator Breaux. What would be low, medium and high? What levels is that?

Mr. Walker. Middle income would be about $26,000 a year; low income, about $14,000 a year; and high income, about $65,000 a year, as a ball park, just to give you a perspective.

The bottom line is very important. At the same point in time, we face declining rates of return in OASI program. This bottom chart shows that for individuals born in 1920, they got a great deal; The amount of benefits that they received for the amount of taxes they paid in was very high. This ratio has typically declined over time, and this is one of our challenges. What can we do to increase the rate of return for those individuals?

In summary, we face a challenge. However, I believe that we can successfully meet this challenge in a way that will exceed the expectations of all generations. Why? Because if we engage in timely, fundamental and non-partisan reform, we can, one, phase in changes such that today's elderly and near-retirees will not be affected very much, if at all, and, yet, second, we can make necessary reforms such that Baby Boomers, like myself, and Generation Xers will get considerably more than they expect to get. I call that a win-win scenario.

Senator Breaux, I am looking forward to working with you and others to try to come up with non-partisan options and achieve bipartisan action, and to answering any questions that you might have. Thank you, Senator.

[The prepared statement of Mr. Walker follows:]
Mr. Chairman and members of the Committee, my name is David M. Walker. I am a Partner and Global Managing Director with the international accounting and consulting firm of Arthur Andersen LLP. My background includes serving as one of two Public Trustees of the Social Security and Medicare Trust Funds, as Assistant Secretary of Labor for Pension and Welfare Benefits and as head of the Pension Benefit Guaranty Corporation (PBGC). I am also the author of a book entitled: Retirement Security: Understanding and Planning Your Financial Future (John Wiley and Sons, 1997, New York, NY). In addition, I currently serve as a member of the National Retirement Policy Commission sponsored by the Center for Strategic and International Studies (CSIS) along with Senator Breaux and several other distinguished individuals.

I am appearing before you today at the request of the Committee to address the current and projected financial condition of the Social Security retirement income program (i.e., the Old Age Survivors Insurance (OASI) program). To do so, I will first outline certain information contained in the 1997 Annual Trustees' Report. I will then discuss some of the related implications and the need for action to address the fiscal and other challenges associated with this important national program.

CURRENT AND PROJECTED FINANCIAL CONDITION OF THE OASI PROGRAM:

The Trustees of the Social Security and Medicare programs prepare an annual accounting of these programs for the Congress and the American public. This annual accounting is due by April 1 of each year. The 1997 Annual OASDI Trustees' Report ("the Annual Report") was issued in the spring of 1997 and covers the 1996 fiscal and calendar years. It also included a projection of the financial condition of the OASI program over the 75 year period ending in 2071. This long-range projection is important as a means to advise the Congress and the American people as to the likely condition of these programs in the years in which several generations can be expected to receive OASI program benefits. Specifically, a 75 year projection period is necessary in order to assess the likely financial condition of the OASI program for all individuals currently paying OASI payroll taxes, including new entrants into the workforce.

According to the Annual Report, the OASI Trust fund held approximately $514 billion in U.S. government securities as of December 31, 1996. In addition, the OASI program ran an approximate $56 billion surplus for the year then ended. While the 1998 Annual Report has yet to be issued, it is expected to show that OASI Trust Fund assets totaled approximately $567 billion at December 31, 1997. It is also expected to show that the
surplus for the year then ended amounted to approximately $68 billion. Importantly, under current law, all annual OASI program surpluses must be invested in certain U.S. government or agency securities. The current government bonds held in the OASI Trust Fund bear market rates of interest at their date of issue, carry maturities of up to 15 years and are not readily marketable.

According to the Annual Report, the OASI program met the Trustees short-term (10 year) test of financial solvency. The OASI program did not, however, meet the Trustees' long-range (75 year) test of financial solvency. The Annual Report also disclosed that the estimated 75 year financial imbalance in the OASI program amounted to approximately 1.84% of taxable payroll.

The Annual Report projected that, based on the Trustees' intermediate (best estimate) set of assumptions, the OASI Trust Fund would be exhausted in the year 2031. The projected exhaustion date is significant since, beginning in that year, the government will no longer be able to pay full OASI benefits on a timely basis. However, while the program would not be able to pay full benefits, the OASI program would still have a significant revenue stream for benefits and program expenses. Specifically, the OASI program is expected to have revenues equal to approximately 75% of projected benefit payments and administrative expenses during the period 2031-2071.

Given the above, OASI program revenues would have to be increased by 25% or benefit payments reduced by 20% beginning in 2031 in order to restore the financial integrity of the current program. Alternatively, more timely reforms would serve to lessen the degree of changes necessary to restore the financial integrity of the OASI program.

The projected OASI exhaustion date of 2031 may be a number of years away, however, history shows that it is likely to come sooner than projected. Specifically, after Congress enacted the 1983 Social Security reforms, the Trustees' projected that the OASI program would have adequate assets to pay full program benefits on a timely basis until about 2062. By 1991, the Trustees' projected exhaustion date had accelerated to 2045. As previously noted, the Annual Report projected the OASI Trust Fund will be exhausted in 2031. This is 31 years sooner than predicted in 1983 and 14 years sooner than projected in 1991. All of these projected dates are based on the Trustees' intermediate (best estimate) assumptions for the respective years. Unfortunately, history has generally shown that actual program experience is likely to fall between the Trustees' best estimate and high cost sets of assumptions. As a result, a further acceleration of the projected exhaustion date would not be surprising.

While the Annual Report noted that the OASI Trust Fund would be able to pay full benefits on a timely basis until 2031, there is a much earlier fiscal challenge relating to the OASI program which needs to be addressed. Namely, based on the Annual Report, the OASI program is projected to enter a negative cash flow position in the year 2014, just two years after the first "baby boomer" is eligible for normal retirement. Beginning in that year, annual benefit payments and administrative expenses are expected to exceed payroll taxes and other revenues. In addition, the projected annual OASI deficits
accelerate rapidly each year thereafter. For example, these annual OASI cash flow
deficits are expected to grow to over $358 billion in the year 2025 alone.
Once the program begins to experience a negative cash flow position, the federal
government will generally be required to take one of three steps in order to generate the
necessary cash to pay OASI benefits and expenses on a timely basis. Specifically,
beginning in 2014, the government will either have to increase OASI tax revenues,
decrease OASI benefits/expenses, or revise the current nature of the government bonds
held by the trust fund and sell them to willing third party investors. Obviously, the
government could also take some combination of these actions in order to bring the
OASI program into annual balance if it so chose.

RECENT OASI PROGRAM REFORM RECOMMENDATIONS:
A number of groups have recognized the projected financial imbalance associated with
the OASI program. In fact, a number of groups have called for reform of the existing
OASI program. Many of these organizations have made specific recommendations for
consideration by the Congress and the Administration.

The most notable OASI reform group which has already made related recommendations
is the 1994-1996 Advisory Council on Social Security (the "Council"). This statutorily
mandated group issued their report in December 1996. While the Council agreed on the
need to reform the OASI program, they did not agree on how to do it. In fact, the
Council's report included three separate sets of recommendations for reforming the
OASI program. Importantly, none of the three reform proposals received the support of
a majority of the 15 Council members. This division serves to underscore the degree of
difficulty in reaching agreement on how to reform the OASI program.

While time does not allow me to summarize the three reform proposals submitted by
the Council, a few related comments are appropriate. Seven of the fifteen Council
members voted for a "maintain benefits" option. Under this proposal, the basic defined
benefit oriented structure of the current OASI program would not be changed.
However, some program changes would be enacted and the current investment
restrictions relating to the OASI Trust Fund would be modified to allow for investment
of up to 40% of the Trust Fund balance in equity securities.

The remaining two Council reform options called for more fundamental changes to the
current OASI program. These were called the "individual accounts" and "personal
security accounts" options. Both of these options included recommendations to move
from the current defined benefit only OASI program structure to a "two-tiered" benefit
structure. Under the two tiered structure, a base (but generally lower) defined benefit
element would be retained in order to provide for a foundation of certainty and
security. In addition, both options recommended creating a second defined
contribution oriented individual account tier. The nature, amount, transition and
investment of this second tier benefit varied between the two proposals. Generally, the
"personal security account" option called for a smaller base defined benefit amount, a
larger individual account element and a quicker transition. This results in sizable
"transition obligations" which would need to be addressed.
While none of the three Quadrennial Commission reform proposals received the support of a majority of the fifteen members, nine members voted for one of two “two tiered” reform proposals. While most reform groups have rejected the concept of total privatization of Social Security (“a la Chile”), the “two tiered approach” is receiving increasing attention and tentative support from a variety of groups. In addition, the Council did agree on a number of common elements. For example, the Council agreed that the OASI program should be a compulsory program whose base should be expanded to cover all new state and local government employees. The Council also agreed the any related program reforms should be enacted as soon as possible in order to minimize the degree of change necessary and to provide more program flexibility in the future.

While the Council’s report may be the most official and notable one to be released to date, it is not the only one. Several other organizations have made OASI program reform recommendations and others plan to do so. For example, the Committee for Economic Development (CED) issued a OASI reform proposal in February, 1997. This report called for timely reform of the OASI program to meet three primary objectives. The three primary CED objectives were to: 1) Restore the long-range financial integrity of the OASI program; 2) Improve the rate of return that individuals of various generations will receive on their OASI contributions; and, 3) Increase national savings associated with the OASI program.

The CED report included a number of OASI program reform recommendations and no additional payroll tax increases to fund the existing benefit structure. It did, however, call for a transition to a “two tiered” benefit structure comprised of a revised base defined benefit amount and a mandatory individual retirement savings account element. This new individual account element would be funded through a 1.5% mandatory contribution by workers and their employers. Individuals would have the ability to decide how to invest their individual account funds among a variety of specified passive investment options. This investment approach recommended by the CED is consistent with the general structure of the current Federal Thrift Savings Plan for federal workers.

Most recently, the Center for Strategic and International Studies (CSIS) formed a National Commission on Retirement Policy (the “Commission”) to address a range of OASI, employer/union pension and personal retirement savings issues. This bi-partisan Commission is comprised of four members of Congress and approximately 18 members from the private sector. The Commission has four Congressional and two CEO co-chairs, including Senators Breaux (D-LA) and Gregg (R-NH) and Congressmen Kolbe (R-AZ) and Stenholm (D-TX). The remaining Commission members include a variety of knowledgeable individuals, many of which have prior executive level experience in the federal government, including myself.

The Commission will attempt to make a range of retirement income policy recommendations spanning the Social Security (i.e., OASI), employer and union sponsored pension programs and individual retirement savings arrangements. The Commission recently issued an interim report, a copy of which is being submitted for
the record, and is currently considering various reform options. All Commissions options will be considered from variety of perspectives, including their implications for national retirement policy, individual fairness, fiscal responsibility and economic growth. This will include analyzing the effect of all possible proposals on the fiscal soundness and sustainability of the OASI program, the income replacement rates and rates of return on contributions for different age and income groups, the federal budget and other relevant factors.

The Commission plans to make recommendations later in 1998. Importantly, the Commission is also expected to make a significant contribution towards educating the Congress and the American public on the nature and extent of our retirement income policy challenges and the various options to address them.

**CURRENT PUBLIC OPINION REGARDING THE OASI PROGRAM:**

The OASI program does not face an imminent financial crisis. However, I believe that we are beginning to experience a growing crisis of confidence among the American public in connection with the Social Security and Medicare programs. This crisis of confidence is primarily attributable to the growing concern regarding the financial integrity of these programs and the historical inability of the federal government to communicate candidly and deal effectively with the looming fiscal challenges facing these important federal programs. Many of these looming fiscal challenges are the result of known demographic trends.

Both the legislative and executive branches of the federal government have a responsibility to address this growing crisis of confidence. In addition, the private sector also has a responsibility to take steps to eliminate this emerging crisis of confidence.

**NEED FOR ACTION:**

While the OASI program does not face an imminent financial crisis, it does face a mid-term financial challenge due in large part to known demographic trends. The most notable of these trends relates to the need to finance the significant OASI program obligations associated with the "baby boom generation" in the face of declining worker/retiree ratios. Specifically, we face rapidly accelerating OASI program obligations beginning in 2014 (See attached line graph). In addition, the worker/retiree ratio has declined from 16:1 in 1950 to 3.3:1 today. This ratio is projected to decline to less than 2:1 by 2030. Importantly, these demographic trends are a virtual certainty and the related implications on the financial condition of the OASI program must be addressed.

From a broader perspective, the challenges we face in connection with the OASI program are a sub-set of a much larger fiscal challenge. Specifically, according to estimates by the Concord Coalition, total mandatory federal spending (e.g., entitlements and interest on the federal debt) are expected to exceed projected federal revenues before 2020, if changes are not made (See attached bar graph). In addition, entitlements
alone are expected to consume more than 100% of projected federal revenues by 2030, if reforms are not enacted. Social Security is a major part of these projected entitlement expenditures. Medicare and Medicaid represent other major dimensions of the growing entitlement challenge.

An increasing number of individuals and organizations are calling for fair and timely action to restore the financial integrity of and public confidence in the OASI program. Fairness requires that any related program changes be balanced among different generations and that certain changes be phased-in to allow individuals time to adjust. Timely action is also appropriate since delay will only serve to increase the both the severity and difficulty of achieving the needed OASI program changes.

Achieving the needed OASI program reforms will require the development of non-partisan policy options and the pursuit of bi-partisan legislative action. Any successful reform package will also require a balancing of policy and political considerations. Importantly, Congressional legislative action will have to be preceded by a concerted national campaign to educate the American public as to the nature and extent of our challenges, various options and their implications, and any recommended approaches to reform. After all, Social Security is the third rail of American politics and no politician wants to commit political suicide by getting too far in front of the American people of this important national policy issue.

Finally, in pursuing reform of the OASI program, policymakers must recognize that any modifications of the OASI program will also have a ripple effect on other important retirement income programs. Specifically, OASI program reforms will also necessitate Congressional action designed to strengthen employer and union sponsored retirement income programs and individual retirement savings arrangements. Such actions should include, but not be limited to, efforts designed to rationalize existing retirement vehicles, review current plan sponsorship requirements, facilitate employee savings through payroll deduction, increase current contribution and benefit limits, strengthen existing minimum funding standards, eliminate inappropriate administrative burdens, enhance pension asset portability, improve the fairness of PBGC variable rate premium structure and encourage the preservation of pension savings for retirement income purposes.

**SUMMARY:**

The OASI program is one of the most successful in our nation's history. This program has served as a primary element in our fight to reduce poverty among the elderly. It has also served as the foundation in our nation's effort to assure that all Americans have a reasonable standard of living during their retirement years. Importantly, it is currently the primary form of retirement benefit for lower and middle income Americans (See attached pie charts).

While the OASI program represents one of our most successful national programs, it faces a mid-range financial challenge. This financial challenge when coupled with the
more immediate financial challenge facing the Medicare program is resulting in an emerging crisis of confidence among the American public. This emerging crisis of confidence spans several generations. Many seniors are concerned that their OASI benefits will be slashed and they won't have either the time or the means to compensate for it. Many baby boomers and Generation Xers don't think that the OASI program will be there when they retire. All these generations are incorrect and we can prove that to them through enacting comprehensive, timely and fair reforms that serve to achieve the following key objectives: 1) Restore the long-range financial integrity and sustainability of the OASI program, 2) Maintain a solid defined benefit foundation of retirement security as a key element of any reformed Social Security program, especially for lower and middle income workers; 3) Improve the rates of return on OASI related contributions, especially for younger workers (See attached bar graph); 3) Enhance the level of public understanding and support for the OASI program; 4) Strengthen the employer and union sponsored retirement income system; 5) Encourage personal planning, savings and investment for retirement, and 6) Increase our overall national savings rate.

As stewards of our nation, we have a responsibility to address this emerging crisis of confidence. Doing so will require fair and timely reform actions. It will also require a balancing of policy and political considerations. As a result, Congressional action will also have to be preceded by a major national campaign to educate the American public regarding the nature and extent of our related challenges, options, and any recommended approaches. Determining the key principles to be followed and the appropriate players who will be involved in this process will be critical to success.

While the natural tendency may be to delay action until it is required, this is not in the national interest. While action on OASI reform may be viewed as politically risky, it is an economic necessity. In addition, we need to begin to address this issue in order to restore the confidence of the American people in the OASI program and the Congress' ability to deal with it. Importantly, if we act in an appropriate manner, we can create a "win/win" scenario with legacy potential for those who dare to act. After all, a properly designed and communicated reform proposal should exceed the current expectations of all generations of Americans. Why, because most related reforms will likely be phased-in such that they will have little to no effect on today's retirees and those nearing retirement. At the same time, such reforms should serve to preserve the system for future generations and result in baby boomers and Generation Xers getting much more than they currently expect to receive.

In closing, the time for statesmanship and action is now. I stand ready to assist the Congress in addressing this and other important policy issues in a comprehensive, fair, timely and bi-partisan manner.
Federal Spending and Revenue Figures

Percent of GDP

Year

Discretionary
Net Interest
Mandatory
Revenues

ARThUR AnderSEN
Social Security Income and Expenditures as Percentage of Payroll

Percent of Taxable Payroll

Year

1997 2006 2015 2025 2035 2045 2055 2065

Expenditures
Income
OASDI Benefit /Tax Ratios
Based on Average Wages and Intermediate Assumptions
1995 Annual Report

Year of Birth

<table>
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<td>161</td>
<td>326</td>
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<tr>
<td>2000</td>
<td>169</td>
<td>169</td>
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Benefit/Tax Ratio
Source of Income for Individual Elderly Americans, by Income Level, 1995

Low Income
- Social Security 88.8%
- Pensions 2.3%
- Assets 6.1%
- Earnings 1.7%
- Other 1%

Mid-Income
- Social Security 74.7%
- Pensions 8.3%
- Assets 11.6%
- Earnings 3.7%
- Other 1.7%

High Income
- Social Security 21.1%
- Pensions 24.3%
- Assets 23.3%
- Earnings 28.8%
- Other 2.4%
Senator Breaux. Good. Thank you, very much, David Walker.

Next, Dr. Ken Thorpe. I want to mention to the audience, too—I mean I said earlier if you have questions, please, try and jot them down. Give them to my staff sitting behind me, Sara Lyons and Michelle Prejean. We will get you an answer either from who ever you want to answer it or we will try to respond to you, as well.

Dr. Thorpe.

STATEMENT OF KENNETH E. THORPE, VANSELOW PROFESSOR OF HEALTH POLICY, AND DIRECTOR, INSTITUTE FOR HEALTH SERVICES RESEARCH, TULANE UNIVERSITY SCHOOL OF PUBLIC HEALTH AND TROPICAL MEDICINE

Dr. Thorpe. I thank you, Senator Breaux, for inviting me to appear at this field hearing before the Special Committee on Aging. I want to congratulate you for organizing this hearing, particularly here in Louisiana. The residents, I think, of this state are fortunate to have as their senior Senator someone in Washington—

Senator Breaux. Move a little bit closer. Use that big microphone; I think it works better.

Dr. Thorpe. OK. I was saying that I think the residents of the state are fortunate to have as their senior Senator someone in Washington that will play a key role as the new Chair of the Medicare Commission, as well as his positions in the Senate Finance and Aging Commissions, in shaping solutions to all of these problems that we are dealing with. It is also a privilege for me to share my thoughts with you, as well as, again, to see my former colleagues from the Administration, Mr. Apfel and Ms. DeParle.

I am going to make four points in summary of my testimony, given some of the time that I know that we want to make up here. The first point I think is important in this debate about Medicare is that when we think about Medicare reform, it is important to think about the overall program in the context of the Federal budget, not to have a discussion about Medicare as a hospital insurance program and a Part B program, but to think about Medicare policy overall.

The second point is that the Balanced Budget Act has the potential, I think, for changing some of the nature of the debate about downstream Medicare reforms that you will face in this Commission. I will talk about three illustrative options that build on the Balanced Budget Act as you consider those in the Commission's deliberations.

Third is that there are key implementation issues that the Balanced Budget Act has raised that, if we do not solve over the next couple of years, will jeopardize our ability over time to get recurrent savings in the Medicare program. One of them you have already talked about, dealing with managed care.

Fourth, it is going to be important to consider the interactions as you consider Medicare reforms with the rest of the health care system. Medicare is a big part of health care; it will have ripple effects throughout the delivery system. Thinking those interactions through, I think, is also going to be quite important.

So those would be the four points I want to touch on.

The first point: As you have discussed, Medicare currently is broken into two funds, the Hospital Insurance Trust Fund and a Sup-
plemental Medical Insurance Trust Fund. Those are financed by payroll taxes in the former and general revenues and premiums in the latter.

I think, for several reasons, it is important to think about those trust funds collectively, rather than individually. The first reason is the rapid growth in managed care, which will blur the distinctions between Part A and Part B of the program. As Ms. DeParle has mentioned, currently, about 15 percent of the population is in managed care. But within 10 years, it is estimated that 38 percent of the Medicare people will be in some form of managed care, making the distinction between Part A and Part B less relevant.

Second, it is relatively easy to solve some of the solvency issues with the HI Trust Fund simply by moving some money out into general revenues and moving some money in terms of premium contributions. While that would solve the HI problem, it is not going to solve the Medicare problem and some of the larger issues it faces in the Federal budget.

That sort of leads me to—my first observation is that as you consider some options, you may even want to think about merging those two programs into a single program, HI plus SMI, so you can really focus on Medicare policy without digressing, I think, and going to a separate discussion about the two programs.

The second point I want to talk about is that—the critical importance of the Balanced Budget Act. Mr. Walker showed a chart briefly before that showed the financial implications the Medicare program would have played in the Federal budget before the Balanced Budget Act, and it laid out a very bad set of scenarios: Rising Medicare spending, rising interest on the Federal debt, rising Federal debt. None of those were sustainable options.

The Balanced Budget Act has indeed given us some breathing room in the short term. We balanced the budget at least for this year. We need to make sure that we keep the fiscal pressure on that over the next 5 years.

Indeed, I have given some tables showing that, even with Medicare and Social Security rising as a share of the Federal budget and as a share of gross domestic product over the next 5 years, we are still going to run substantial budget surpluses. That is largely because we are getting savings in the Federal budget by reduced payments on interest and continued savings in discretionary spending.

So my second point there is that this is do-able, but it has got to be done in the overall context of tight fiscal discipline within the Federal budget.

Let us talk about then some options that you will face in all your venues that you will be dealing with these issues. One option is basically to extend the current discipline that the Congress adopted in the Medicare program as part of the Balanced Budget Act and continue to extend that into the future. In essence, have the growth in Medicare spending rise at the same rate on a per-beneficiary basis that it is between now and 2002 really for the next 30 years.

What that would do would be to allow the Medicare program to grow at the same rate, facilitate the demographic changes that are going to happen. But as long as we continue to keep a tight fiscal
discipline on other parts of the Federal budget, as well as interest payments, much of that growth can be accommodated.

Another is that if you are going to enact tax cuts and spend some of the surplus that way, then you are going to have to do something more significant on the Medicare program in terms of getting more money into it or cutting benefits. Those are two basic choices, and that is why I think it is important to think about this program in the context of the budget.

Briefly, on the implementation issues. Much of the savings that are going to happen in the next 5 years depend on programs and approaches that are yet to be developed.

You are right in pointing out that continuing to save in fee-for-service the way we have done is not the wave of the future. Perhaps managed care is. And if that is the case, we had better make managed care work for the Medicare program, as well as work for beneficiaries. It currently does not work for the Medicare program in terms of savings, and I think we need to look at new options there, many of which you have already proposed, that would fix the way that Medicare contracts with managed care plans.

Now my final point that I want to talk about is that as you consider changes in the Medicare program, whether it is to make the benefit structure a little bit different or to cut back on the growth rate, I think it is important to remember that it will have implications for states in their Medicaid spending, because of the close link there. It could have implications to the number of uninsured in this country, particularly if we simply increase the eligibility age, which, I think, is a good option to look at, without some method to make sure that those seniors have a way of buying into Medicare or buying into private health insurance. But I think those need to be looked at in tandem.

I see that my time is up, and I certainly do not want the ejector seat to spring into action. So I certainly look forward to working with you and the Commission as you continue to formulate and think through these options, and would be happy to answer any questions you may have.

[The prepared statement of Dr. Thorpe follows:]
Statement of Kenneth E. Thorpe

Vanselow Professor of Health Policy and Director,
Institute for Health Services Research

Tulane University School of Public Health and Tropical Medicine

Before the Special Committee on Aging

Baton Rouge, Louisiana

February 18th, 1998
Senator Breaux, thank you for inviting me to testify today before this important field hearing for the Senate Special Committee on Aging. The critically important issues concerning our options for financing changes in Medicare and social security expenditures that will accompany the retirement of the baby-boomers is among our most important public policy issues. As the issues concerning entitlement reform are broad, I will limit my observations today to three areas concerning the future of Medicare. These general topics include the following:

1. The nature of the Medicare fiscal crisis and the options for financing it.

2. The critical importance of assuring the successful implementation of the Medicare reforms included in the Balanced Budget Act of 1997, and

3. The implications of Medicare reform for the private sector and the health care delivery system.

1. The Nature of the Medicare Fiscal Crisis

The most fundamental issue concerning the future of Medicare is the demographic change that will occur over the next thirty years. Today, Medicare enrolls approximately 38 million persons. By the year 2030, over 76 million seniors will receive Medicare benefits. During this period, our total population will rise at less than 1 percent per year, whereas those aged 65 and above will increase by 2.2 percent per year. By 2030, there will be 2.3 workers per Medicare beneficiary compared to nearly 4 workers per beneficiary today.

Before offering proposals for addressing these major demographic changes, it is important to understand how changes in Medicare expenditures will, under current law, affect the federal budget. Many analysts and policymakers also examine the financial status of Medicare’s two component trust funds, the Hospital Insurance (HI) fund and the Supplemental Medical Insurance (SMI) fund. The most recent analysis by the Congressional Budget Office estimates that the HI trust fund will remain solvent until the year 2010. However, the growth in managed care as well as other approaches included in the 1997 Balanced Budget Act (BBA) make the distinction between the HI and SMI funds less useful from a policy standpoint. Indeed, by 2008, 38 percent of Medicare beneficiaries will be enrolled in managed care plans. Moreover, it is relatively easy to develop policies to make the HI trust fund solvent. For instance, policymakers could continue the trend started in the Balanced Budget Act of 1997 and shift spending (for instance spending for graduate medical education and disproportionate share which arguably should be financed by general revenues) from the HI fund to general revenues. At the same time, a portion of premium receipts currently collected by Medicare under the SMI program could be deposited into the HI fund. These two changes would make the HI trust fund solvent in perpetuity! However, these policies would have no impact on total Medicare spending, or its future impact on the federal budget. Thus, I focus my attention on total Medicare spending and its impact on the federal budget, and the budget deficit.
I want to highlight four key points in my summary of the demographic challenges facing the Medicare program.

1. The reductions in federal spending overall, and Medicare in particular, have changed substantially Medicare's impact on the federal budget.

2. The budgetary savings from discretionary spending and interest payments on the debt adopted during the BBA have created room in the federal budget for growth in both social security and Medicare.

3. Absent additional revenues, or reductions in Medicare spending, growth in the Medicare program can only be accommodated if federal spending and revenue policies similar to those adopted in the BBA are extended through the retirement of the baby-boomers.

4. Congressional proposals to "spend" the expected budget surpluses for tax cuts, or additional federal spending will require even further reductions in Medicare spending or additional revenue to support the growth in the program.

Each of these points is illustrated in Tables 1 through 3.

Table 1 presents changes in the federal budget prior to the BBA. It reveals substantial growth in federal spending for Medicare, interest payments, and other forms of federal spending over time. It paints a dim picture; substantial growth in Medicare and social security, rising federal deficits and with it compounding increases in federal interest payments. The analysis presented in this table is not a sustainable picture of our economy.

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<td>Revenues</td>
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<td>Net Deficit</td>
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Source: Derived from Congressional Budget Office projections (1997)
Tables 2 and 3 highlight the critically important role the BBA has assumed in reshaping the fiscal landscape. For instance, according to the CBO, we are (under current law) expecting a $138 Billion budget surplus—amounting to a full 1 percent of gross domestic product by 2008. This surplus occurs even with social security and Medicare rising as a share of the federal budget (from 35 percent in 1998 to 44 percent by 2008) and by a full 1 percent of GDP. Under current law, we can “afford” the growth in Medicare and social security through 2008 due to savings in interest payments and discretionary spending agreed upon in the BBA.


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<tbody>
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<td>Revenues</td>
<td>20.9%</td>
<td>20.4%</td>
<td>20.3%</td>
</tr>
<tr>
<td>Spending</td>
<td>21.2%</td>
<td>19.7%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Social Security</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Medicare</td>
<td>2.6%</td>
<td>2.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Discretionary and Other</td>
<td>9.8%</td>
<td>8.8%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Net Interest</td>
<td>3.1%</td>
<td>2.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Net Deficit</td>
<td>-0.3%</td>
<td>0.7%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

*Source: CBO*

Of course, Table 2 presents an incomplete picture, one, which stops before the retirement of the baby-boomers. Table 3 moves these same set of assumptions forward through the year 2030. Table 3 assumes the growth in Medicare spending per beneficiary rises at precisely the same rate already agreed upon between 1998 and 2002 in the BBA. It also assumes discretionary spending and other forms of mandatory spending rise at their current policy baseline rates. These results reveal a dramatically different picture of the interaction between Medicare and the budget between today and 2030.

### TABLE 3. PROJECTED CURRENT POLICY FEDERAL SPENDING AND REVENUES AS PERCENT OF GDP, MEDICARE GROWTH AT BALANCED BUDGET ACT PER CAPITA RATES.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Total Spending</td>
<td>20%</td>
<td>19%</td>
<td>19%</td>
<td>19%</td>
<td>21%</td>
</tr>
<tr>
<td>-Discretionary and other Mandatory*</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>-Social Security</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>-Medicare</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>-Medicaid</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>-Net Interest</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Net Deficit</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

*Source: Derived from CBO includes other mandatory spending other than Medicare, Medicaid, Social Security and interest.*
The longer-term results indicate that most of the growth in Medicare can, over time, be sustained if we continue tight fiscal discipline on the federal budget. This discipline creates substantial reductions in interest payments over time. Even with the growth in Medicare spending from 3 to 6 percent of GDP by 2030, these increases are largely offset by reductions in spending elsewhere in the budget.

Of course, policymakers may not want to devote the expected budget surpluses to Medicare and social security. Some may want to cut taxes, increase other forms of federal spending, or both. If this occurs, Medicare spending would have to fall below the levels agreed upon in the BBA or other forms of new revenue would be required.

II. Implementation Issues in the BBA.

The BBA reduces Medicare spending by nearly $100 Billion during the next five years. Several important changes in the Medicare program were developed to generate these savings, including several new approaches for paying providers (particular for post-acute care benefits) and expanding the choices of health plans available to seniors. The Medicare+Choice program is perhaps the most important change in the Medicare program. Seniors can now choose from several types of health plans, including medical savings accounts, preferred provider organizations, provider-sponsored organizations, and private fee-for-service plans.

The federal government faces several challenges in assuring the successful implementation of these changes. Several new prospective payment systems will be developed and implemented. New methods for adjusting payments to managed care plans are also scheduled for completion.

The big picture analysis presented above highlights the critical importance of developing the tools necessary to achieve the BBA spending goals. Without these tools, the ability of policymakers to sustain these savings will be undermined. Perhaps the most important challenge facing policymakers is the development of new approaches for paying managed care plans under the Medicare program. Managed care enrollment is expected to rise sharply over the next ten years. Though the private sector appears to generate savings from managed care, Medicare appears to spend more. To date, several features of the Medicare program limit any potential savings from managed care. First, unlike the private sector, Medicare’s managed care payments are linked to the fee-for-service sector. Though Medicare can save money by increasing managed care payments slower than the growth in fee-for-service Medicare (such as the BBA approach) this approach provides few opportunities to promote efficiency or quality. Second, Medicare’s approach for risk adjustment results in higher payments to health plans compared to what would have been paid in the fee-for-service sector. For instance, several researchers have found that Medicare pays plans 5 percent more than they would have paid had the beneficiaries remained in the fee-for-service sector. The proliferation of new plan choices is likely to exacerbate this problem. For instance, the CBO has recently estimated that, due to favorable risk selection, the introduction of medical savings accounts as a new plan option will increase Medicare spending by $3.9 Billion over the next ten years.
Several changes in how Medicare structures the managed care market will be required to create sustainable savings. These changes will also be required to generate the on-going savings assumed in the Tables presented above. First, to generate on-going savings, Medicare should delink payments to managed care plans from the fee-for-service sector. Several approaches are available; ranging from the use of managed care data to establish the rates to rates based on some form of competitive bidding.

Nearly all observers agree that Medicare also needs to improve how it adjusts for risk as beneficiaries enroll in managed care plans. This will require an improvement in the Average Adjusted Per Capita Cost (AAPCC) methodology. It will also require changes in how comparative information is provided for Medicare beneficiaries on plan generosity, plan performance and costs. The BBA directs the Department of Health and Human Services to establish an annual open enrollment period for Medicare+Choice plans and provide beneficiaries with comparative information about each plan. Though not perfect, the scope of information available to federal employees when they select plans seems a logical place to start.

### III. Implications of Medicare Reform for the Private Sector

The discussion concerning the future of Medicare should not operate in a vacuum. Medicare accounts for 20 percent of national health care spending. As a result, structural changes in the Medicare program will affect both the private sector and those without insurance. For instance, proposals that would reduce Medicare’s rate of growth below the private sector (which is estimated to grow at about 5 percent per year) could jeopardize both access to and the quality of health care provided seniors. Other proposals, such as those increasing the age of Medicare eligibility may be desirable for entitlement reform, but such proposals will also increase the number of uninsured. For instance, if Medicare and social security conformed their age of eligibility, by the year 2009, 2.6 million persons aged 65 would no longer be eligible for Medicare. In this case, other policies would have to be advanced to assure the continuity of coverage among these seniors.

### IV. Conclusions

The Congress faces several critical financing issues associated with the demographic shifts accompanying the baby-boomers. These financing issues will involve difficult trade-offs concerning how to accommodate the growth in social security and Medicare in the federal budget. The growth in Medicare could be accommodated at the same rates of growth per beneficiary already agreed upon in the BBA for at least the next twenty years. However, this would require all the savings from lower federal interest spending and discretionary spending to offset the rising costs of social security and Medicare. The overall level of tax collections, and spending for discretionary program would have remain at the levels agreed upon in the BBA.
Should policymakers seek to cut taxes, for instance, Medicare spending would have to fall below its BBA levels, payroll taxes would have to rise, or both.

Senator Breaux, I congratulate you for holding this hearing, and highlighting the substantial change you and your colleagues face in addressing these central issues of policy policy. I thank you for inviting me to testify, and would be pleased to address any questions you may have.
Senator Breaux. Thank you, Dr. Thorpe.
Mr. Al From.

STATEMENT OF AL FROM, PRESIDENT, DEMOCRATIC LEADERSHIP COUNCIL

Mr. From. Thank you, very much, Senator Breaux. It is an honor to be here testifying before you.

Senator Breaux is a national leader in the drive to restore the center of American politics, and I have been honored to have the opportunity to work with him in that effort. He is also a leader without peer when it comes to taking on the tough issues that most people in Washington like to avoid, and one of those issues is the one we are talking about today, which is entitlement reform.

I just want to make three very brief points. The first is that Social Security and Medicare, the two major entitlement programs, are spectacularly successful, and we need to preserve them. The senior poverty rate in America today is 13 percent. But without Social Security and Medicare, more than half of American seniors would be poor. So it is important that we reform those programs so that they can work for my generation and future generations of Americans as we retire.

The second point I want to make is that reform of entitlements is politically achievable. You know, there has been this long myth starting with Senator Goldwater's 1964 campaign, that Social Security and Medicare are sort of the third rail of American politics; you touch it, and you face political electrocution. That is no longer true. The politics is changing, and it is changing fast.

In November of last year, Mark Penn, who is President Clinton's pollster and the Democratic Leadership Council pollster, as well, did a national survey of Americans. And what he found is that the American people understand that Social Security and Medicare face fiscal crisis and they are willing to see fundamental reforms.

About three-fourths of Americans believe that Social Security and Medicare face a serious fiscal crisis, and they want to see entitlement reform. So the idea that the American people are unwilling to face up to the realities, the demographic realities that we have talked about this morning, is just not true.

The other thing that our poll found is that Americans are open to reforms that people in Washington say are just too controversial to even talk about. We found, for example, that 76 percent of Americans would prefer a Medicare program that gave them a choice of health plans and charged different premiums based on actual cost, a model that is closer to the Federal Employees Health Benefit Plan than Medicare as we know it today.

Fifty-seven percent favored a virtual privatization of Medicare with the market, rather than the government, setting the prices and the level of care. And 75 percent favor raising premiums on the wealthiest retirees, a reform that Senator Breaux and others in the Senate pushed through last year even though it was dropped in conference.

For Social Security, these findings are even more dramatic. Seventy-two percent would support a two-tiered system that would provide a basic retirement plan for low- and middle-income Ameri-
cans supplemented by individually controlled private savings. Seventy-five percent would support a more specific proposal of taking about a-third of the current payroll tax and letting employees place this money in private retirement funds.

In terms of financing Social Security, 68 percent of Americans would favor lifting the cap on the earnings subject to the payroll tax.

Now, we have got to be careful because the fact is that the initial responses to complicated reform ideas are sometimes a little bit deceiving. But what these numbers show is people are willing to examine real reform of Medicare.

The other point I want to make about the politics of Social Security and Medicare is that there is this generation that I am part of which is called the sandwich generation; we have to worry about sending our kids to college and taking care of our parents. It is important to us right now to get reform in Medicare and Social Security.

I believe that if you can develop a reform, this also gives you an opportunity because, I think, a two-tiered step that protects the benefits of people now in the system and close to retirement but reforms them for people like me and people who are coming up into the system has real possibilities.

Now let me just talk very briefly about some suggestions that we at the PPI and the DLC have made on Medicare reform. If you want to get into these in some more detail, there are two chapters in this book, "Building the Bridge," which go into them.

We believe the key to Medicare reform is to view the program in the context of overall health care reform. We recommend a modernization of Medicare along the lines of the Federal Employee Health Benefit Plan. Instead of a one-size-fits-all fee-for-service insurance plan, Medicare beneficiaries could choose from a menu of private health plans that compete on the basis of cost and quality. Information on quality could be expanded by health plan report cards that clearly and simply explain the plan's performance. A simple government subsidy could be set by Congress to cover basic insurance, and beneficiaries could then select more expensive plans, including traditional fee-for-service plans, by paying a higher premium if they desire.

Competition among the plans would both hold the costs down and, hopefully, it would also be competition among qualities. If we did the same kind of thing on Medicare, then you would have the basis of a real national, universal health system.

As far as Social Security, we think, one, we have to be honest about the trust fund borrowing—and I think President Clinton’s idea of not spending the surplus until we deal with Social Security is absolutely right because that will begin to lessen the drain on the trust fund and pay for other government services.

Second, it is time to be equally honest about the cost/benefit relationship of people in the system, particularly people who have been the best or the well-off people in the system. And I think some sort of a means test on benefits probably makes some sense to prevent wealthy retirees from getting real windfalls.

Third, I think we need to explore ways to make the payroll tax more progressive, including lifting the cap. Fourth, I think we need
to explore some sort of a two-tiered system that would take a small percentage of the payroll tax now and allow people to put it in private investment and savings plans.

These are bold reforms, but I am convinced that they honor the true purpose of Social Security and Medicare, which is to give retirees insurance against ruinous health care costs and an income floor to prevent poverty.

Senator Breaux, I think that bold reforms are the only way we can secure Medicare and Social Security for your generation and our kids' generation.

[The prepared statement of Mr. From follows:]

**PREPARED STATEMENT OF AL FROM, PRESIDENT, DEMOCRATIC LEADERSHIP COUNCIL**

Mr. Chairman—Senator Breaux—Members of the Special Committee on Aging—I appreciate this opportunity to testify on behalf of the Democratic Leadership Council on preparing Social Security and Medicare for the retirement of the baby boom generation.

As an organization dedicated to developing new ideas based on the enduring values of the progressive political tradition, the DLC thinks of entitlement reform as one of the great challenges facing this generation of policymakers. Social Security and Medicare are among the most successful social initiatives of the twentieth century. Today only 13 percent of elderly Americans are living in poverty, a lower percentage than for the population at large. Without Social Security and Medicare, more than half of our seniors would fall below the poverty line. Preserving income and health security for retirees is essential if we are to maintain our standard of living and our sense of mutual responsibility between generations of Americans.

But as this Committee knows, and as the American people now increasingly realize, we no longer have the option of preserving the guarantee of security in retirement without reforming the programs created to provide it. Due to rapid demographic changes, the current Social Security and Medicare programs are fiscally unsustainable without major cuts in benefits, major increases in already high and regressive payroll taxes, or—the third and best option—basic structural changes that modernize these entitlements for a new century. We believe the day is fast approaching when those who oppose fundamental reform of Social Security and Medicare will be widely seen as the worst enemies, not the best friends, of current and future retirees. Entitlement reform has long been considered the "third rail" of American politics—if you touch it, you die. But in the immediate future, the "third rail" will switch tracks, and those who oppose entitlement reform will become an endangered species politically.

To illustrate this point, and to offer a specific course of action, I will divide my brief testimony into two parts. First, I will draw on a recent survey conducted by presidential pollster Mark Penn for the DLC to illustrate how rapidly public attitudes towards Social Security and Medicare are changing. Second, I will summarize suggestions for reform of these programs developed by our affiliated think tank, the Progressive Policy Institute.

In his November 1997 survey entitled "The New Democratic Electorate," Mark Penn conducted a battery of questions on entitlements, and also analyzed the results by age group.

His findings show dramatically that the American people understand the fiscal crisis facing the entitlements, and are far more open to fundamental reform than most observers have realized.

Fifty-six percent of Americans have little or no confidence in the long-term financial stability of the Medicare program; and 55 percent have little or no confidence in the long-term financial stability of Social Security. This vote of "no confidence" rises to about two-thirds of respondents in the 25-49 year old age group of Medicare, and 73 percent on Social Security.

Putting the question in another way, Penn found that 73 percent of Americans think Medicare is facing a crisis requiring serious reform, with 72 percent holding the same opinion about Social Security. These huge margins suggest that you must "touch" Medicare and Social Security, and that the demand for entitlement reform will increase each year as the solvency problems become more severe, and as the population groups with the least confidence in the entitlements make up a larger portion of the population.
Penn also asked his survey sample a series of questions about proposed reforms of Medicare and Social Security, and again, support for reforms considered "too controversial" by many in Washington was surprisingly strong.

We all know that Medicare is the one major health insurance program in America that is still based on the old model of "fee-for-service" medicine, with beneficiaries choosing providers and the government picking up the tab. That's the single most important reason that Medicare's costs are so high. Penn found that 76 percent of Americans would prefer a Medicare program that gave them a choice of health plans and charged them different premiums based on the actual cost—a model closer to the Federal Employee Health Benefit Plan rather than Medicare as we know it today. Fifty-seven percent favored a virtual privatization of Medicare, with the market rather than the government setting prices and the level of care. And 69 percent favor raising premiums on the wealthiest retirees—a reform passed by the U.S. Senate last year but dropped in conference.

For Social Security, the findings are even more dramatic. Seventy-two percent of Americans would support a two-tiered system which would provide a basic retirement plan for low and middle-income Americans supplemented by individually controlled private savings. Seventy-five percent would support the more specific proposal of taking about a third of the current payroll tax and letting employees place this money in private retirement funds. In terms of financing Social Security, 68 percent of Americans would support elimination of the "cap" on earnings subject to the payroll tax.

Even if you doubt the absolute accuracy of these findings, their sheer magnitude exploded the myth of an American public that misunderstands the fiscal status of Medicare and Social Security, and mistrusts any "tampering" with the programs as they currently exist. Americans want to keep the promise of income and health security in retirement, and they want fundamental reforms as a means to that end.

I will add one note about the intergenerational politics of Medicare and Social Security, because it complicates the usual picture we have of Americans becoming concerned about entitlement programs only when they are at or near retirement age. Many baby boomers are entering a stage of life where they are simultaneously caring for their children and their parents. They are immediately affected by changes in Social Security, and especially Medicare benefits, even as they begin to think about their own retirements, and as the financial pressure on high payroll taxes reaches its peak. These "sandwich generation" Americans are the key to entitlement reform, because they look at these programs from the point of view of current and future beneficiaries as well as current and future taxpayers. Sell them on a reform package, and you will more than likely sell the country.

Time permits only a brief discussion of the Progressive Policy Institute's proposed reforms of Medicare and Social Security. For a fuller analysis, I recommend that the Committee and its staff read the two relevant chapters, written by Dr. Robert Shapiro and David Kendell, in PPI's 1997 book, Building the Bridge: 10 Big Ideas to Transform America.

For Medicare, the key to reform is to view this program in the broader context of the U.S. health care system as a whole. If reformed in a way that is consistent with where the entire system needs to go, Medicare can serve as a way station to an information age health care system that delivers maximum quality at minimum cost for every American. But if Medicare is left in its current condition as an archaic government program where prices and services are set by bureaucratic fiat, with no choice for recipients to market incentives to hold down cost or increase quality, it will become a huge fiscal, political and structural obstacle to comprehensive health care reform.

PPI recommends a modernization of Medicare along the lines of the Federal Employee Health Benefit Plan. Instead of a one-size-fits-all fee-for-service insurance plan, Medicare beneficiaries would choose from a menu of private health plans that compete on the basis of cost and quality. Information on quality would be vastly expanded by health plan report cards that clearly and simply explain plan performance in terms of services and health outcomes. A simple government subsidy would be set by Congress to cover basic insurance, and beneficiaries would then select more expensive health plans—by paying a higher premium if they wished. Competition among plans would help hold down costs both for the government and for beneficiaries, and would make quality as well as price a competitive factor.

If similar reforms were made in the Medicare program by Congress and the states, you would have the basis—competing packages, a limited government subsidy for those who need it, and an infrastructure for purchasing and evaluating plans—for a universal system of privately offered health insurance.
I know Senator Breaux is interested in this market-based, information-age approach to Medicare reform, and will ensure that it is considered by the bipartisan Medicare reform commission that he was recently asked to chair by the President and the Congressional leadership.

PPI recommends four basic reforms to preserve Social Security while making it fairer and more responsive to the needs of current workers and future retirees.

First, it is time to come clean with the American people about the solvency of the Social Security Trust Fund, which is endangered by the current practice of borrowing today's surpluses to cover other Federal operations, thus creating enormous unfunded obligations that could prove disastrous when baby boomers begin to retire. The President's recent proposal to reserve budget surpluses until such time as Congress has taken up Social Security reform is a step in the right direction. It reduces borrowing from the Social Security Trust Fund immediately. By effectively reducing the national debt, it reduces future borrowing as well. And by linking today's balanced budget accomplishment with the new fiscal challenge of entitlement reform, it reminds Congress and all Americans that crossing the foothills of the deficits created during the 1980's is important, but there are mountains just ahead.

Second, it's time to become equally honest about the tax/benefit ratio of current retirees, which creates enormous windfalls in benefits far beyond what many beneficiaries have paid into the system adjusted for inflation. PPI recommends a reduction in benefits for very wealthy retirees so that windfalls are at least limited to those retirees who actually need the income.

Third, it's time to make the payroll tax more progressive. One way is to lift the cap on income subject to the tax while reducing rates for everyone. Another is to raise the cap while exempting some income, so that the poorest of workers—and their employers—would pay much lower payroll taxes. This step could actually help create new entry-level jobs at a time when we most need them, with millions of former welfare recipients entering the work force.

Fourth, it's time to understand that the American people are smart enough to invest some of their own money. While total privatization of Social Security would be a mistake for reasons both of equity and of security, PPI favors an experiment in which a portion of payroll taxes are rebated to current workers for investment in private retirement funds. This step would give the financial markets the time and opportunity to develop new investments instruments that combine safe and relatively high returns, and would also lead to a two-tiered system in which a basic “floor” of retirement income is supplemented by universal personal savings.

These reforms, Mr. Chairman, are bold, but are entirely consistent with the original intent of the Medicare and Social Security programs; to give retirees insurance against ruinous health costs, and an income floor to prevent poverty.

Indeed, bold reforms are the only way to preserve the original intent of these programs. The American people understand it. The opportunity is there for Congress to lead as well as to follow. This Congress has the unique historical opportunity to leave a dual legacy of fiscal responsibility; to balance the Federal budget after three decades of deficits, and to keep it balanced in the future by addressing the entitlement programs that hold the key to the budgets of the future.

Senator Breaux. Well, thank you, Mr. From and thank you to this panel.

I think they have made some good points. I know that those of us who sit on the various committees, we hear people saying, “You must fix the program, but do not do this; Do not do that and do not do this, but, please, fix it.” But I think that when you get outside of Washington and into Louisiana—and I have had meetings with people on the programs, and I had honest discussions with them about the extent of the problem and, also, suggestions on how we can fix both Social Security and Medicare. I find that there is a great deal of support, because people who are on the programs know that it is not them who are going to be adversely affected, but their children and their grandchildren, if the program is allowed to collapse.

So, Mr. From, I guess, now, what you are saying is that the polling information indicates that people are willing to look at changes, even though they may be difficult; at least, changes that preserve
the program for future generations are accepted by a lot of people who have been polled. Is that correct?

Mr. FROM. That is right. It is bipartisan. You know, there is this belief that Democrats are unwilling to touch Social Security and Medicare. What we are finding is that it is margin-of-error differences between the parties.

The other point that I think is really interesting in the polling is there is a cut-off at about 50 years old. If you are over 50, you think that Social Security and Medicare probably are going to pay out for you. But if you are under 50, as you indicated, people think—more people believe in UFOs than they do in the fiscal stability of Social Security and Medicare.

If you are under 50, you really think that the Social Security and Medicare are in big trouble and you probably will not get full benefits. The interesting thing is that I do not think that is going to change as the under-50 crowd gets older, because the people under 50 also have a very different attitude toward the viability of government to solve problems. So they are not likely to all of a sudden decide Social Security and Medicare are sound.

Senator BREAUX. We are getting a lot of questions from the audience that we are going to respond to. Everybody who has a question, you will get a personal response from this Committee. But I was going to ask this next question, but I just want to let this lady ask it because it is the same question that I wanted to ask.

Melissa Ashurs. How is that last name pronounced? Ms. Ashurs, your question was the next question that I was going to ask, so why do you not ask the panel? You go ahead and ask the question that I was going to ask.

Ms. ASHIRS. Thank you, sir.

Since Social Security and Medicare are already progressively [indiscernible], what are some thoughts about the question of means testing?

Senator BREAUX. The question is about means testing. I mean that is a great question because—if I could just set it up here, I want to thank Melissa for—Ms. Ashurs for her question.

But right now, a person driving a truck in Louisiana who makes $25,000 a year trying to support two children is paying to subsidize a Rockefeller who is on Medicare for his medical insurance under Part B for his doctors’ bills. It is financed out of general revenues from the Treasury. And her question is: Should we say that some people, maybe like a Rockefeller who is on Medicare, be paying a little bit more for his benefits?

Now, Mr. From, have you all polled the question of means testing?

Mr. FROM. On Medicare, 75 percent of the voters and 74 percent of the Democrats—

VOICE. We cannot hear you, sir.

Mr. FROM. I am sorry. In Medicare, 75 percent of the voters and 74 percent of the Democrats—so it is bipartisan—support raising Medicare premiums for the wealthy. Their support for this is across all income groups.

Obviously, the payroll tax is an aggressive tax. Many people, particularly working people, now pay much higher payroll taxes than they do income taxes because of the income tax reforms. So I think
some sort of means testing, whether it—probably is in the future, and it probably makes sense.

Senator Breaux. Dr. Thorpe, how would that affect Medicare if we did means testing?

Dr. Thorpe. Well, I think it is certainly a good suggestion to start looking at opportunities to means test a program. I am presuming you are talking about, for the Part B premium, having how much people pay for that related to their income. People right now will pay about $45 or so a month for the Part B premium. That—

Senator Breaux. Regardless of their income?

Dr. Thorpe. Regardless of their income. That is about 25 percent of the cost of the program. So if you are paying full cost, that would be about $180 a month. I guess the only issue there is that—I think it is a good idea to consider it.

I think the only issue is sort of how do you structure it and at what income level do you look at to start having people pay most of the costs or full costs. But, certainly, as we look at options for increasing revenue coming into the program, I would say that that very much should be part of the mix.

Senator Breaux. Mr. Walker, do you have a comment?

Mr. Walker. Senator, there are two sides. First, on the Medicare side, of course, on Part A, which is Hospital Insurance, there is no cap on the payroll tax. Therefore, to the extent—no matter how much you make, you pay payroll tax on your full income.

Second, with regard to SMI premiums, Part B, clearly, I think, you know, today, beneficiaries are only paying for 25 percent of the cost. When Medicare was enacted, beneficiaries were paying for 50 percent of the cost. Clearly, one of the things that has to be looked at is what is an appropriate percentage and should that percentage be higher for individuals with greater means.

On the other hand, with regard to Social Security, we do provide for higher replacement rates for lower-income individuals. The replacement rate could be as high as 80 percent for certain people and as low as 22 percent for people at the cap. So there is a benefit structure factor there.

We could look at possibly adjusting the replacement rates further. My personal concern would be—that—some have talked about eliminating the wage base cap on Social Security or fully means testing Social Security such that people who pay in all their lives might get nothing. My concern with that fully means testing Social Security could result in it being perceived to be welfare program and could significantly undercut public support for this important program, and I think that would be counter-productive.

Senator Breaux. Mr. Walker, let me ask you to comment on this. The country of Chile has recently privatized their Social Security pension retirement plan for the people of their country. Their country is much smaller, obviously, and it is easier to do in a smaller country.

But could you give me some discussion of what would be the potential benefits and problems of considering to either partially or totally privatize Social Security investments of the trust fund monies?

Mr. Walker. First, Chile, as you know, went totally from a defined benefit system, which is what we currently have, to a defined
contribution individual account system. I might note that at the
time they did that, they—

Senator BREAUX. What is the difference in those two, basically?

Mr. WALKER. Well, the difference being—is, right now, we have
a defined benefit system where you get paid so much per month
based upon your average wages during the period of time they are
calculated under the program. The contributions all go into a trust
fund, and, basically, the government bears the investment risk;
since Social Security has to pay the promised benefit. Individuals
get the benefit that you are promised they do not bear the invest-
ment risk on that.

In the case of the individual account, it is fundamentally dif-
ferent. It is what many employers are doing now for their workers,
the so-called—like 401-K, defined contribution plans, where so
much money would go into an account in your name, you might
have an opportunity to decide how that account was going to be in-
vested and you would get what that account is worth, the dif-
ference being—is you may get more or less depending upon how
well you invest it. You do not have a certain benefit that you auto-
matically will get.

The bottom line is this—I think there are two things one has to
consider in Social Security reform: One, it has got to make policy
sense; Second, it has got to be politically feasible. Personally, I op-
pose total privatization of Social Security along the lines of Chile.
I think that, number one, it does not make sense for our country
for a variety of reasons, including the fact that I believe very
strongly that we need a solid, defined benefit base, especially for
lower- and middle-income workers. We can see how they count on
it; they need certainty and security.

I think to go to a total defined contribution system would not
make sense. However, that being said, two of the three sets of So-
cial Security Quadrennial Commission recommendations rec-
ommended considering going to a two-tiered program. The Commit-
tee for Economic Development also recommended that.

Under a two-tiered system there would be a base defined benefit
program, but there might be a supplemental individual account ele-
ment on top of the base defined benefit where a portion of the cur-
rent payroll tax might be ear-marked for an individual account ele-
ment.

Senator BREAUX. The person would have the right to pick and
choose where it would be invested?

Mr. WALKER. Logically, that would be the case, such as the Fed-
eral Thrift Savings Plan. In the Federal Thrift Savings Plan, that
is what one has: You can decide among several different invest-
ment options as to how to invest those monies, and your retirement
benefit will be based upon what those accounts are worth at the
time that you retire or when you start pulling monies out.

Personally, I think that serious consideration has to be given to
some type of a two-tiered approach. Realistically, people that are
in retirement or near retirement probably would not be affected by
such a change; we are really talking about people below a certain
age, whether it be 55, 50 or whatever it might be. There also has
to be a transition to whatever we do because, frankly, from a fair-
ness standpoint, if we are going to make changes, it is not fair to
have significant implications on people that are already retired or near retirement; we have got to give time for people to adjust.

Senator BREAUX. Dr. Thorpe, on Medicare, it would seem to me that there is very little competition among providers in providing the services for the Medicare recipients in this country. With regard to Federal employees, companies compete to get the right to insure Federal employees for their health benefits.

Is this a possible way of trying to improve the Medicare program through competition? I say that without diminishing the quality of benefits that the people already receive. I mean, legitimately—there is a legitimate concern among Medicare recipients, when you talk about competition, that it means that people are going to be trying to do your health care service on the cheap in the sense of cutting your benefits and making it cheaper, but giving you less benefits.

Can competition be used to improve the services?

Dr. THORPE. Oh, I think very much so, if it is appropriately structured. I think, as you pointed out, with respect to how we pay for managed care, there are a couple of major problems.

One is that we link managed care payments to what we pay in the fee-for-service market, and we take about a 5-percent discount. The problem there is that, one, as Ms. DeParle has already pointed out, we probably as of yet do not have an adequate way of adjusting for the risk of people enrolling in the program. And secondly is that unlike the private sector, we do not get savings in managed care over time, because it is linked to the fee-for-service program.

So I think that we need to look at a couple of options here. One is to change the way we pay managed care plans. Do not link it to the fee-for-service market, and come up with a different process for how those payment rates are set. One approach for looking at that is a competitively bid process or a competitively negotiated process along the lines that the Federal employees have.

The Federal employee program uses both. There is a competitive bid that the major fee-for-service plans go through, and then the Office of Personnel and Management negotiates with each managed care plan in each locality. That seems to be a model there that might be worth looking at.

Senator BREAUX. I want to interject at this point. I think that the Federal employees—maybe because the plans were started later, the Federal retirement plan and the Federal health plan for Federal employees—are better in both cases than what is available to non-Federal employees. This is not just Congress; it is the entire Federal—10 million people—work force.

The plan was started later. So on health care, the way it works is that every year, every Federal employee gets a booklet which has a whole range of options in it as to which health plan you want to be part of. They compete to give the best amount of services to the employees.

These plans generally offer more than Medicare offers. They offer prescription drugs, they offer eyeglasses, they offer a lot more information about what you can get than under the current Medicare plan, and, generally, at a better price, because all of these companies are competing for the right to insure the Federal employee for
his health insurance. Every year, you can pick the one that is best for your family.

I think if we move to that type of system with Medicare, it would give Medicare recipients better benefits, more coverage and a lot more information about what you are getting and what is covered.

Then, for the retirement plan, I think, the Federal retirement plan is better than the Social Security in the sense of ensuring that there is enough money available. I say that because we have an option of putting our retirement money into a high-risk plan or a low-risk plan or a medium plan. We generate a lot more money in the plan than we do with Social Security because, as you heard, we only get about a 2.3 percent return on the trust funds that we invest for Social Security.

So, I mean, I have tried to say, Let us try and do some of these things for Medicare and Social Security that we do for Federal employees. There is no reason why we should not.

A lot of people are fearful of that. A lot of people are saying, We do not want to make those kinds of radical changes; Do not do it, Congress; Keep it just like it is; Do not change my plan.

I have a great story I have told so many times about this lady who—when we were considering health care reform a couple of years ago, who came up to me and said, You are working on health reform? I said, Yes, ma'am. She said, Well, no matter what you do, just do not let the Federal Government take over my Medicare. [Laughter.]

Of course, I did not have enough time to explain that it was a Federal program passed by Congress and signed into law by President Johnson. She loved it, but she did not want the Federal Government to have anything to do with it. So I just said, Do not worry; We are not going to let that happen. She was happy. [Laughter.]

So, I mean, instead of reinventing the wheel, I mean, is there a Federal model that can perhaps be utilized in Social Security and in Medicare, David Walker.

Mr. WALKER. I think there are potentially some Federal models out there. The Federal Thrift Savings Plan, as an element potentially of Social Security reform, is one element, is a piece, possibly. The Federal Health Plan is also something which needs to be looked at. There are also models in the private sector which we need to examine.

In health care, I think one of the things that we have to recognize is there are really two issues: There is access to health care at group rates and guaranteed insurability in that regard, and then, second, who pays for it. One of the answers may be that individuals be given more choices.

Maybe we should look at providing more options, providing a defined amount of resources available, guarantee access to health care at group rates, provide a number of choices and provide a certain amount of money that people can have to pay for coverage. If they want more coverage, that may have to come out of pocket; if they do not, then they would not have to come out of pocket. So that is a concept, I think, not only that exists in the Federal employees' plans, but, also, in the private sector.

Senator BREAUX. Yes.
Dr. Thorpe, any thoughts on whether we can use the Federal models?

Dr. THORPE. Yes, sure. I was just going to add that—the two things that are necessary to go in this direction. The first we have just talked about was that we have to change the process of how we set the payment rates in managed care plans. But, at the same time, a second big part of this has got to be changes in the way that the Federal Government provides information to seniors. I know that HCFA is currently working on that right now.

But if we are going to have 38 percent of the population in managed care plans, each of which offer different benefits, each of which charge different prices and each of which may have a different quality of care and performance, it is essential that that information is provided in a very standardized, easy-to-access way to senior citizens so they know exactly what they are going to pay, what they are getting, what their expected out-of-pocket costs are going to be and what the quality of care in those plans are.

That is really the same type of model that the Office of Personnel Management uses right now for Federal employees. Private employers do the same thing, where they are collecting detailed information on the performance of health care plans and giving it to their employers—employees—I am sorry—when they choose health care plans.

So there are good models out there. It is going to be, however, incumbent that HCFA look at ways of changing that payment methodology and, at the same time, collecting and disseminating the information, perhaps using the FEHBP as a model.

Senator BREAUX. Of course, Nancy DeParle talked about a continuing crack-down on the waste, fraud and abuse. It is not enough to solve the problem, but, I mean, I think that it is absolutely critical that we as a government do everything we possibly can to ensure that every dollar in a program is a dollar spent in delivering services and is not a dollar that is being wasted by some scam artist that is abusing the seniors by mis-spending Medicare dollars. And that has got to be a very high priority.

Mr. From, a final point. From your polling, is the American public willing to honestly consider changes in these two programs that will bring about the solvency of the programs?

Mr. FROM. I think the American public is not only willing, but, over time, the American public is going to demand that we reform these programs to make them solvent. But I think the key to that is the kind of thing that you are going to be undertaking in the Medicare Commission and the kind of dialog the President wants to have on Social Security.

It is making sure the American people understand what is happening. If they understand what is happening, I think, they are going to be willing to see and, in fact, eager to see these programs reformed because they want these programs to work for them and for their kids.

Senator BREAUX. Yes. I think, in talking to seniors—I mean they know that they are in the program now—they are very honestly and legitimately concerned about whether it is going to be there for their children and their granddaughter or grandson that they have. That is what is going to drive a solution to this problem.
Let me just say that, you know, in concluding that we had this hearing today to try and provide information to our Louisiana media who are here and covering this through television and the printed media who are covering this hearing. We thank them for being here.

It is very important that we take these hearings out of Washington as often as we can to meet with people who are in the programs and who are concerned about the programs, and not just speak Washingtonese back and forth to each other in our nation’s capital. I am absolutely convinced that as serious as these two problems are, Medicare and Social Security, as great a nation as America is, there is no doubt that we will be smart enough and courageous enough, working with the citizens of this country, to solve these problems.

There is no greater challenge, no more important mission, that we in Congress have than ensuring the sanctity and the solvency of both the health care system for senior citizens under Medicare and the Social Security retirement pension benefits for seniors in this country that this country has been noted for for so many generations. That is a commitment that this Committee will make and that is a commitment that this senator makes.

I want all of you to know that I am going to need your help and your involvement, your suggestions, your criticism and your participation in helping us move to a solution that is going to work for everyone.

I want to say some thank-yous to some people who have helped us: Steven Green, who is a volunteer coordinator for the East Baton Rouge Council on Aging, the Retired and Senior Volunteer Program, RSVP, and four of his volunteers who are here today, Bud and Shirley Clark and Bob Ardoin and Cecelia Gardner, who have helped staff the tables on the outside. We thank them for their help.

Professor Charles Tolbert from LSU, who provided these charts on the demographics. The other two people who have been really key, and that is: Mary Louise Prudhomme of the Old State Capitol, who runs this wonderful facility; and Fox McKeithen, our Secretary of State, who—it is under his jurisdiction that this facility operates; and Ms. Nancy Chesson, who is the Administrator for the Old State Capitol, and Gary Allen of Louisiana Public Television, who handled all of our technical details and got us up here so that you could hear what we are talking about.

This is not the end of the process; this is really just the beginning. We will be back in Louisiana. We welcome you to attend anything and everything that we do in order to help us solve this problem.

Thank you, all, for being with us. And our Committee is adjourned.

[Whereupon, at 11:30 a.m., the committee was adjourned.]
APPENDIX

DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF THE SECRETARY,
ADMINISTRATION ON AGING,
Washington, DC.

Hon. JOHN BREAUX,
U.S. Senate, Washington, DC.

DEAR SENATOR BREAUX: Thank you for the opportunity to respond to a question regarding telemarketing fraud, raised at the Senate Aging Committee field hearings convened last month. Fraud and exploitation of older Americans is of great concern to the Administration on Aging (AoA). The AoA plays a critical role in protecting the rights of older Americans through its mandated advocacy responsibilities and programs authorized by the Older Americans Act, and as a part of the Administration's Operation Restore Trust effort to combat fraud, waste and abuse in the Medicare and Medicaid programs.

The AoA has been pleased to join with the American Association of Retired Persons (AARP), the Federal Bureau of Investigation, the National Consumers League (NCL), the National Fraud Information Center, the U.S. Postal Inspections Service, and others in implementing a national education campaign on telemarketing fraud. In December 1996, the AoA participated with AARP, Attorneys General from 30 states, staff from the Florida Department of Elder Affairs, as well as from other participating Federal and corporate agencies, in "Operation Unload" named after the boiler room operations commonly used by fraudulent telemarketers. Together, we warned more than 2100 victims and potential victims that their names appear on telephone lists targeted by fraudulent telemarketers.

In addition, we are aware of the Elder Fraud Project designed by the NCL to protect older consumers from telemarketing fraud. They have developed special materials, including a video and brochure, to educate seniors, law enforcement agencies, and others who are concerned about telemarketing fraud.

In Congress, we are aware of H.R. 3134, introduced recently by Representative Robert Weygand, which might assist AoA in launching its own telemarketing outreach efforts.

Thank you again for the opportunity to respond to this most important issue. It is believed that telemarketing fraud costs Americans $40 billion per year. Similar letters have been sent to Senators Grassley and Reid.

Sincerely,

JEANETTE C. TAKAMURA,
Assistant Secretary for Aging.