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HEADLINE: Medicare Will Go Broke By 2018, Trustees Report

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BODY:

The financial troubles daunting the Medicare system have deepened during the past year, according to a government forecast that says the federal fund that pays for hospital care for older Americans will become unable to cover all its bills a dozen years from now.

The annual report, issued yesterday by the trustees who monitor the fiscal health of the Medicare and Social Security programs, said the trust fund for the health insurance system for the elderly will run out of money in 2018 -- two years sooner than predicted a year ago and 12 years sooner than had been anticipated when President Bush first took office.

The problem, the report says, has accelerated largely because hospital costs last year were greater than expected.

The forecast also said that Social Security's financial condition has weakened, although its problems are not as great or urgent. It said the retirement system will have enough cash to pay the benefits it owes retirees, disabled workers and workers' survivors until 2040 -- one year less than expected in the 2005 forecast.

In releasing the report, the trustees -- including three of Bush's Cabinet secretaries -- slightly altered the message accompanying the forecast the past few years, when the administration sought to use the predictions as leverage to persuade a reluctant Congress to embrace the president's goal of letting Americans divert some of their payroll taxes into personal retirement accounts. That emphasis prompted Democrats and other critics to chastise the administration for dwelling on Social Security while Medicare's problems were more acute.

Yesterday, the president's aides -- and Bush himself -- drew attention equally to the frailty of the two largest benefits programs that form the twin pillars of the government's as-

sistance to the elderly. The solution, they said, is for Congress to approve changes Bush already has proposed.

Treasury Secretary John W. Snow, one of the trustees, said the programs "form the basis of a looming fiscal crisis for our nation as the baby-boom generation moves into retirement."

"The systems are going broke," Bush said in a health-care speech earlier in the day. "And now is the time to do something about it."

Administration officials portrayed the report as containing some bright news, because spending on the new Medicare prescription drug benefits -- paid for from general revenue, not the same trust fund as covers hospital bills -- appears less than expected. Several of Bush's aides said costs will be lower because drug companies are charging less than predicted for medicine. However, two independent trustees had a different explanation: Fewer Medicare patients are signing up for the drug benefits than anticipated last year.

Administration officials did not emphasize yesterday the idea of private retirement accounts, a plan that is relatively inert on Capitol Hill. Instead, they focused on proposals Bush made early this year -- to create a federal commission on the plight of entitlement programs and to slow Medicare spending by \$36 billion during the next five years. Neither has drawn much enthusiasm among lawmakers.

And yesterday's report -- released a month after its due date -- did not produce any surge of momentum. The chairman and the top Democrat on the Senate Finance Committee are griping that the White House has diminished the role of independent experts in preparing the trustees' report, by failing to appoint replacements for the public trustees, economists Thomas R. Saving and John L. Palmer, when their terms expired a year ago.

Instead, the White House renominated them last November and, after lawmakers complained that they preferred to rotate outside trustees, installed them without Senate confirmation as "recess appointments" while Congress took Easter vacation. Saving and Palmer said yesterday they had served as unpaid consultants in preparing the report until they were reappointed.

White House spokesman Ken Lisiaus said that Saving and Palmer were reappointed because they "are true experts in economics" and that the position of public trustee, created in 1984, is too recent "to establish any sort of long-held precedent" that they must serve only one term.

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