

HEALTH, OR SHARE THE WEALTH?

By Steve Murphy

With the passage of the Obama healthcare bill, the United States can be divided into three distinct health-insurance groups. Group 1 consists of retirees on Medicare. Group 2 consists of working people with private health insurance to cover them until they retire. Group 3 consists of the 32 million people who previously did not have health insurance. The first group includes people who, in addition to paying income taxes, have paid into Medicare during their working lives for the benefits they are now receiving. The second group includes people who, also in addition to paying income taxes, pay for their current health insurance as well as payroll deductions for their future Medicare benefits. Most people in the third group pay little or no income taxes and will now receive health insurance at little or no cost.

To the proponents of ObamaCare this is social justice, and its principal achievement. But the greater achievement, by far, is the financing. As Margaret Thatcher once pointed out, socialists eventually run out of other people's money. The problem is that "eventually" is now.

The money that Group 1 people have put into the Medicare Trust Fund has been spent – long since. Congress has been spending Medicare surpluses for many years. Consequently, Group 2 payments (which are supposed to be invested to pay the Medicare benefits of Group 2 people when they retire) are being used to pay Group 1 benefits now. Under ObamaCare, Group 2 people will be paying more – evidently paying for themselves after they finish paying for Group 1 people. That Group 1 people will be getting less (via \$500 billion in Medicare "savings") is the only solace of the Group 2 people.

CBO projections have been used to claim that we can afford ObamaCare – that it will fix Medicare and reduce the deficit to boot. How credible are government estimates?

Medicare was enacted in 1966 at a cost of \$3 billion. The House Ways and Means Committee projected that it would cost \$12 billion a year by 1990, a conservative, inflation-adjusted estimate. The actual 1990 Medicare cost was \$107 billion. It reached \$244 billion by 2003. Today it is up to \$500 billion and rising fast. This is why Congress has spent decades trying to control Medicare costs. The result of its diligent efforts: according to the latest Medicare Trustees Report, Medicare is expected to run out of money in 2017. The celebration of ObamaCare's social justice and the delusion that it will bend the cost curve down is likely to be short-lived.

The Trustees Report went on to say that the "Trust Fund could be brought into actuarial balance over the next 75 years by changes equivalent to an immediate 134% increase in the payroll tax (from a rate of 2.9% to 6.78%), or an immediate 53% reduction in program outlays, or some combination of the two." That is, Medicare can be fixed over a 75-year period by increasing payroll deductions of Group 2 people by 134% or decreasing the benefits of Group 1 people by 53%.

ObamaCare was sold, in no small part, by blaming capitalism for the healthcare crisis and praising government regulation as the remedy. In particular, private insurance companies were demonized for making ever-increasing profits while charging customers ever-increasing premiums. It turns out that their profits have been quite meager – an industry average of 2.2% annually.

Furthermore, if they operated like the government, all of them would be out of business and their CEOs would be in jail. Medicare charges its enrollees too little and uses the payments of working nonbeneficiaries to make up the difference. It is a Ponzi scheme that has created an enormous liability (\$38 trillion at last count). If Medicare had to operate as a legitimate private insurance company, it would have to come up with an extra \$1 trillion annually just to pay the interest on this debt.

Not only does the Obama healthcare bill fail to deal with this fraudulent practice, but it continues to ignore the well-known payer-to-beneficiary demographic that perpetuates and exacerbates the liability. I refer to the fact that the size of Group 1 is increasing at a much higher rate than the size of Group 2 (e.g., 116% and only 22% by 2040, respectively). It is doomed to failure because, as economist Walter Williams has pointed out, it doesn't satisfy "the first order condition of a Ponzi scheme, namely expanding the pool of suckers."

Yet the Obama administration focus is locked on Group 3, apparently hoping the Medicare bomb set to go off in 2017 will be replaced by a giant wad of cash – for, incredibly, it plans to pay for Group 3 costs (insurance subsidies, premiums, and benefits) with \$500 billion in Medicare savings (a.k.a., \$500 billion in Medicare cuts). To finance ObamaCare, Group 2 people will continue to pay the benefits, at higher and higher rates, of Group 1 people, while \$500 billion that Group 1 people were expecting will be used to finance Group 3 people. That is, Group 1 people who have paid income taxes and both health insurance and Medicare premiums during their entire working lives will have their Medicare benefits cut in order to finance Group 3 people who have paid little or no income taxes, health insurance, or Medicare premiums. That Group 2 people will be paying even more is the only solace of the Group 1 people.

Medicare was a \$3 billion experiment designed for all working Americans and their families. But thanks to incompetent, deceitful politicians and government accountants who failed miserably to estimate the true cost, it will be unable to meet its obligations in 2017, only seven years from now. And when I say "out of money," I have already figured in the money from both Group 1 and Group 2.



ObamaCare, however, is a \$2.6 trillion (full ten-year cost) experiment designed to share the healthcare wealth of Groups 1 and 2 with Group 3. And its cost estimates are even shakier than those of Medicare. For example, Congress and the administration blatantly omitted from their calculations the \$290 billion cost of the so-called Doctor Fix bill. If the Obama administration moves on to immigration reform, we could quickly see 12 million formerly illegal aliens added to Group 3.

When it comes to estimating costs, government has a long and consistent record of stupendous inaccuracy. Add to this the unintended and mysterious, but probably very expensive consequences of an indecipherable 2,700-page bill, and Group 2 and 3 ObamaCare could go broke before Medicare. Alas, irony isn't covered in the bill – not even in the special deals sections.

To many, social justice is the crowning achievement of ObamaCare. My own money is on the financing. Medicare financing has been abysmal, even criminal, but its goal was not to transfer wealth from one class to another. Its incompetent management has led to a staggering \$38 trillion in unfunded liabilities over the next 75 years – although, to be fair, some experts believe that the \$500 billion in “savings” prophesied by the administration over the first ten years of ObamaCare can be used to extend Medicare's solvency.

In contrast, ObamaCare will reconfigure one-sixth of our economy, and will do so in the midst of war and recession. Its feasibility depends on taking \$500 billion in mythical savings from Group 1 (thereby snuffing out the possibility

of salvaging Medicare) and \$500 billion from Group 2 (in higher taxes and insurance costs) to pay for Group 3 (and bigger government). The healthcare adventure is so immense and intrusive that if the estimates are off – just by a small percentage – the economy could be ruined for decades.

But even if, by some miracle, the estimates are accurate and the \$2.6 trillion program turns out to be an efficient, well-run entitlement for Group 3, the real achievement lies in the concoction of a financial scheme that would please both Karl Marx and Bernie Madoff. HFN

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“The way to prevent accumulations of wealth via the political means, however, is not taxation but elimination of privilege - that is, all competition-stifling interventions, including barriers to self-employment. The answer to government power can never be more government power. All that gets you is bigger government.”

– Sheldon Richman, “A Boost for the Managed Economy”

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