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Introduction

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THE ELEVENTH ANNUAL conference of the National Academy of Social Insurance focused on the concept of choice in the Medicare and Social Security programs. Following up on an examination of Medicare in 1997 and an exploration of Social Security in 1998, the January 28–29, 1999, event brought the two programs together under one theme: Individual vs. Collective Risk and Responsibility. The conference probed whether choice should be introduced to the programs, how it would be defined and structured, and (if greater choice were adopted) what sorts of safeguards would be needed to protect vulnerable program participants.

Starting two days after President Bill Clinton, in his State of the Union address, had proposed infusing budget surplus funds into both the Medicare and Social Security retirement programs, the conference had a deliberate rather than an urgent tone. In part due to the healthy economy, the Hospital Insurance (HI) Trust Fund was projected to see a shortfall in 2008 (rather than 2001, as earlier predicted) and the Old Age Survivors and Disability Insurance (OASDI) Trust Fund was expected to last until 2032 before experiencing a funding gap. "We are, for the first time in a very long time, driven by long-term, rather than short-term, crisis," said Sheila Burke, executive dean of the John F. Kennedy School of Government at Harvard University. She cochaired the conference with Eric Kingson, professor of social work at Syracuse University, and Uwe Reinhardt, James Madison Professor of Political Economy at Princeton University.

For conference panelists and attendees, looking at Medicare and Social Security in terms of long-term fixes seemed a welcome change. The work of the National Bipartisan Commission on the Future of Medicare, which was featured at the conference, reinforced this view. The rhetoric of reform ranged from "tinkering" to "overhauling," as representatives from both the private and public sectors examined ways, some of them under consideration

by the commission, of making the programs more responsive and cost-effective.

The reform debate inspired participants to reflect on the history of both social insurance programs. Some looked back to 1935, when Social Security was created, and others to 1965, when Medicare was added to the Social Security Act. Discussion of the relevancy of the bipartisan reform process of 1983 to current efforts to "save" the programs became particularly lively. Participants at the 1999 conference had strong views about the present applicability of the policies and politics of 1983 in establishing the prospective payment system for Medicare and in transferring trust fund dollars from Medicare to Social Security. Moreover, looking for models (both good and bad), several speakers mentioned programs in other countries, such as Chile, England, and Germany.

But choice—and the risks it brings—dominated the discussion. Experts from academia, think tanks, corporate organizations, trade associations, and government probed the nature and value of choice, the public's attitudes toward it, the tradeoffs it entails, the precautions it musters, and other topics. Even as they displayed new terminology, such as that of behavioral economics, they tended to come back to the values of the programs. They highlighted the moral commitment and sense of obligation—both to the individual and to the public as a whole—that Social Security and Medicare evoke.

In his keynote address, Robert Reischauer of the Brookings Institution bridged past and present as he explored the notion of "one size fits all" as opposed to multiple choice. He suggested that the growing interest in choice is based on four factors. The first is an increasing concern about the solvency of both Medicare and Social Security, necessitating structural change. The second consists of changes occurring in the economic and institutional environments in which Medicare and Social Security operate (for example, managed care arrangements in the health arena and investment opportunities in the pension field). The third is the state of the economy, the prosperity that the country has experienced in the 1990s. The final factor is the country's social transformation, characterized by increasing diversity.

Within this context, Reischauer offered the advantages and disadvantages of restructuring Medicare and Social Security to provide greater choice. He placed increased participant satisfaction, greater efficiency, and more flexibility on the plus side. On the minus side he put greater disparity of outcomes, increased complexity of program structure (for participants and administrators), higher administrative costs, and the risk of even more fragmentation as interests are pitted against each other. Injecting a phrase—"on balance"—that

became a refrain during the conference, he asked attendees to consider all the policy ramifications of change.

Fundamental Values of Social Insurance

Retracing old ground—the history of social insurance—was necessary before staking out new ground on choice, risk, and responsibility. According to Reinhardt, who opened the session, examining why the United States has social insurance is comparable to looking at the "shovel brigade behind the private insurance sector." That is because social insurance "takes care of risks that the private sector, for some reason or other, cannot."

The session featured Edward Berkowitz, professor in the Department of History at George Washington University, who compared the creation of Social Security in 1935 with that of Medicare in 1965. Berkowitz looked first at the differences between the two times. Most prominent was the economic climate: the depression in 1935 and prosperity in 1965. Second was the locus of control of social policy: the state in 1935, as originally reflected in Social Security, and the federal government in 1965. Third was the primary objective of each new program: regulation of employment relations in 1935 and relief of distress in 1965. Last was the status of the two fields: a limited private pension system in 1935 and a well-established private health care industry in 1965. He also examined the similarities: leadership from presidents who had won by large margins (Franklin D. Roosevelt in 1935 and Lyndon Johnson in 1965) and inclusion of the social insurance provisions in omnibus bills. Putting these factors into context, Berkowitz probed the funding of both programs, particularly in terms of the debate over self- and contributory financing versus government subsidization through general revenues.

Most significantly, he focused on the fundamental values that underlie the two programs. He contended that "the United States grew into social insurance." After Social Security's enactment, "it took at least 15 years for fundamental values associated with Social Security—such as universal coverage and benefits payable as a right without a means test—to emerge as accurate descriptions of the program and as positive program characteristics." Once those values had emerged in the 1950s, Social Security became this country's most successful social welfare program, Berkowitz claimed. "The goal of universal, compulsory coverage in a wage-related program that paid benefits as a matter of right and that blended adequacy and equity in a socially acceptable manner appeared to be well in sight."

Indicating that Medicare was more difficult to negotiate than Social Security, Berkowitz said that its founders did not challenge the existing health care system because they were more interested in assuring access to care for people sixty-five and older. Rather than using the development of a new program to advance different forms of health care delivery and financing, they fashioned it according to the prevailing acute inpatient medical model.

Alicia H. Munnell, professor in the Boston College School of Management, presented the response of Robert M. Ball, former commissioner of Social Security, who was unable to participate because of illness. She conveyed Ball's general approval of Berkowitz's presentation of the social insurance programs' history, but indicated that Ball wanted to clarify one major theme: the United States did not grow into social insurance; from the start, the founders of the Social Security program were aware of the program's value-laden principles and characteristics. They were confident that the public and politicians would eventually catch on. And, Ball concluded, the public and the politicians did.

Ball included a list of the nine major principles identified with the current OASDI program: universal, earned right, wage-related, contributory and self-financed, redistributive, not means-tested, wage-indexed, inflation-protected, and compulsory. He indicated that all but one—self-financing—applied to the retirement program in 1935 and subsequent amendments of 1939 and 1950. Ball noted that Social Security "paid much higher benefits to the first generation of Social Security recipients than their contributions justified," thereby creating a permanent accrued liability, in order to gain support for the program. That accrued liability has been the focus of debate with respect to putting general revenues into the system, as is now the case with President Clinton's proposal to use surplus funds.

For Ball, the lesson of history is that "everything comes around again." As one of the founders of Social Security, he has witnessed the cycling and recycling of proposals for more than sixty years. For Munnell, accrued liability, as traced by Ball, offered a clear rationale for the administration's proposal to reach into general revenues. Speaking two days after President Clinton had unveiled the proposal, she acknowledged that there was considerable mystery about its details.

Janice Gregory, director of legislative affairs for the ERISA Industry Committee, gave an employer response to the Berkowitz paper. Referring to his Social Security chronology, she added an element, "Social insurance and employee plans grew up together." In fact, she implied that they were Siamese twins: "Social Security and employer-sponsored retirement plans are joined at

the hip. When you change Social Security, pension plans will not sit still. They will change."

Gregory said that only about 15 percent of the civilian work force were enrolled in employer-sponsored plans in 1940. She reported, "In the near future, by the time the baby boom is swinging into full retirement, about 80 percent of retiring workers will have received benefits from one or more employer plans at some point during their lifetimes." She added: "In the aggregate, employer-sponsored plans today pay out more retiree and survivor benefits each year than does Social Security: $379 billion in 1997 compared to $316 billion for the OASDI program." However, given the size of the Social Security program, any changes in the program would have a dramatic impact on employer plans. For example, if Social Security were to move to individual investment accounts, participation in 401(k) and other kinds of employer plans would likely decline. If the age of initial eligibility for Social Security retirement benefits were to increase, the need for "bridge plans" to tide people over between retirement and onset of eligibility would increase.

Defending employer plans, Gregory indicated that "group savings is more effective." It is automatic, relies on professional investment management, involves painless decisionmaking, and gets immediate returns, especially if the employer matches employee contributions. However, such plans are vulnerable to regulatory burdens and administrative costs, which have caused a number of employers to drop defined-benefit pension plans. In this vein, she expressed concern about privatization of Social Security, because "most employers don't have any experience whatsoever in collecting individual employee contributions and putting them in a plan."

Individual Choices and Shared Responsibilities

With the ground staked out for a discussion of potential changes in this country's social insurance programs, Stuart Butler and Theodore Marmor debated the best reform routes to take. Butler is vice president and director of domestic and economic policy studies at the Heritage Foundation and Marmor is professor of public policy and management at Yale University. While both expressed support for social insurance, they provided divergent views on how it should be structured. Butler spoke for more individual choice; Marmor for more collective responsibility.

Butler recalled the social contracts that respectively underpin Medicare and Social Security. Contending that the contract for each program is one "that we cannot deliver," he presented three options: squeeze and trim, infuse general

revenue dollars, or change and limit the contract. He supported the third option for both programs. For Medicare, Butler recommended moving from a defined benefit to a defined contribution, so participants could use a voucher or premium support to obtain health services. He also pointed to the Federal Employees Health Benefit Program (FEHBP) as a possible model for Medicare beneficiaries. For Social Security, he suggested "allowing people to put some of their contributions into savings accounts." In his view, "people being able to make choices in a competitive world is the process by which you get innovation in the future."

Marmor reframed the topic to be "the extent of economic security that is collectively provided" and the choices that are permitted and the risks that are contained because of that, rather than "putting more risk on individuals and cutting back on the collective provision of economic security." In other words, he cast the debate in terms of distribution of risk rather than individual choice versus collective decisionmaking. He contended that social insurance is a mechanism for collectively or cooperatively pooling the risk of a source of economic insecurity, such as medical expenses or loss of income from retirement. For him, entitlement means "sharing a common burden" and "pooling resources"; expansion of choice in the Medicare and Social Security programs would take away the economic security that they provide.

While both speakers saw the necessity of protecting vulnerable persons, Butler spoke for a safety net that would ensure that "nobody in this country, no matter their circumstances, should have less than this level, which will depend on the affluence, the wealth of the country, social views, and so on." Marmor advocated a platform on which people would be similarly treated regardless of cost. Whether on the issue of vulnerability or other concerns, both men agreed that this nation has to address who takes responsibility, who takes risk, to what extent risk can be managed, and what kinds of protections need to be established.

The Decisionmaking Process—A Critique of the Consumer Choice Model

Because some of the reforms being considered for Medicare and Social Security would entail greater individual decisionmaking, the academy turned to George Loewenstein, professor of economics and psychology at Carnegie Mellon University, to address psychological assumptions about the consumer-choice model. Loewenstein, a behavioral economist, began by confronting the prevailing attitude that "choice is good—the more options the better." Indicat-

ing that there are different types of choices (for example, those in the private market that are constrained by consumer taste and those brought about by government), he looked at some of the concept's benefits and costs.

Turning to the benefits, Loewenstein said that expanded choice allows people "to satisfy idiosyncratic needs and tastes." It also can "promote competition between providers and lower price or improve quality." But the latter requires well-informed, knowledgeable consumers—it is the basis of the informed-consumer model. He indicated significant costs: the time that expanded choice takes; the errors that can result; and the psychic penalty—in the form of anxiety—it may bring about if the wrong path is taken.

Loewenstein's conclusion was that expanded choice is beneficial when it satisfies "heterogeneous wants and needs" but is ill-advised when it requires "expertise that people don't possess." Applying this to Medicare and Social Security, he seemed dubious about expansion of choice in each, because of the complexity of the two programs. He also seemed doubtful of the role of experts in helping people choose, because experts require time, as well as money, and may respond to different incentives (such as the investment broker who benefits from churning stock purchases).

In responding to Loewenstein, James Lubalin, senior health services and policy researcher at the Research Triangle Institute gave a negative view of the informed-consumer model. "For consumers to use information, they have to see it, they have to understand it, and they have to recognize the larger context in which it fits," he said. He added that, in the case of Medicare, consumers have little understanding, particularly of the rudimentary concepts of managed care. "Another lesson is that providing more information won't necessarily improve the quality of decisions. In fact, people can absorb only a limited amount of information." Hence, they tend to reduce the factors. In choosing a health plan, for example, they look for a seal of approval or decide based only on cost. While he indicated that people are potentially educable about some of the issues, he expressed concern that they might be easily manipulated.

Mark Warshawsky, speaking from his experience as director of research for the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), was much more sanguine about the consumer-choice model. He agreed with Loewenstein that offering choices "should entail a balancing of benefits and costs, that framing alternatives and designing defaults is critical to the success of a choice-based health or retirement program," and that the process is more natural in some areas than others. But he charged Loewenstein with underemphasizing the benefits, particularly over time. Using examples from TIAA-CREF, he described successful use of and an increased receptivity to a wide variety of investment and retirement income

options by annuitants. At the same time, he underlined pension plan sponsors' responsibility to place reasonable limits on choice.

Fredda Vladeck, senior health policy consultant to the National Council of Senior Citizens, drew on her experience with International Brotherhood of Teamsters retirees in addressing individual consumers' choices and the consequences of their decisions. A social worker who believes that it is important "to start where the client is," she said that the union found that its retirees did not understand the Medicare and Social Security programs and their own union plans. In designing education initiatives for health and retirement, she discovered the most frequent—and the most difficult-to-answer—question to be "how much money do I need?"

During this segment, presenters and attendees raised various questions that invited further research. Examples include the effects of greater choice on participant satisfaction with the Medicare and Social Security programs; the extent of interest of members of the public in exercising control over their health plans and retirement accounts; and the differences in returns—in quality, services, and volume—from the social insurance programs for different groups of the population, such as minorities, women, and low-income people. Another was the efficacy of consumer education approaches—for instance, the 800 number, printed information, and the one-on-one counselor.

Regulation to Ensure the Markets Deliver on Their Promise

Turning to what type of regulation is needed to help the markets deliver, a panel consisting of current and former regulators explored the types of mechanisms that would protect consumers if Medicare reform continues in the direction of market-based options and Social Security moves to mandatory retirement accounts. A federal regulator, Paul Carey, drew on his work as commissioner of the Securities and Exchange Commission (SEC) in focusing on investor protection in the Social Security program if it moves to private accounts. "While Social Security reform has not been a traditional area of expertise for the SEC, many of the issues that arise, such as investor education, financial literacy, corporate governance, disclosure of material information (including expense information), and sales practices, have long been concerns for us." He saw the need for regulation of two kinds of plans: those in which part of an individual's payroll tax or contribution would be invested in a private account and those in which the government would invest some or all of the Social Security trust fund in the market.

Carey also focused on investor education. He urged that consumers be educated about the relationship between risk and return, the administrative

costs of investing, the managers of the accounts, the investment choices permitted, and the types of investment switches allowed. At the same time, he admitted that there are various unknowns that require research: how government shares would be voted, who would vote them, what type of impact a huge influx of capital would have on the market, and what effects market fluctuations would have.

William Niskanen, a former federal official who is now chairman of the Cato Institute, indicated that no regulation is necessary, other than the provisions of commercial law, "when people are informed, when they face a range of choices, and when they bear the marginal benefits and costs of their own choices." He agreed, however, that, in the absence of a working consumer-choice model, certain rules become essential.

In terms of Medicare, he contended that "the customers are poorly informed, have few choices, and pay very little for the services they receive." He viewed this as an invitation to "futile, ineffective regulation" and called for changes in the program to "increase the information, the choice, and the incentives of both the suppliers and the consumers." He suggested a three-part plan to transform Medicare from a comprehensive to a catastrophic insurance plan in which the consumer's deductible would be proportional to income.

In terms of Social Security private investment accounts, Niskanen saw a rationale for regulation to "provide some safety net for those who, for whatever reason, do not accumulate a socially adequate retirement annuity." He would like to see the federal government approve a number of broad-based stock and bond funds, according to certain risk criteria. Once a consumer had met a certain investment standard, there would be no further regulation of that person's incremental investments. Consumers who had not qualified would be subject to safety-net protections.

Kansas insurance commissioner Kathleen Sebelius, responsible for regulating more than 2,000 companies and 32,000 agents in the state, responded that Niskanen's scenario sounded good but was unrealistic, because it was based on an imaginary marketplace. Commenting on Medicare+Choice, she said that beneficiaries lacked options—that in parts of Kansas health maintenance organizations were not offered. While stating that nationally some health plans had reduced their service areas or had withdrawn entirely from the program, she added that money drives the system—"market players won't play in a system where they can't make money." Sebelius advocated that the Medicare program take steps to educate consumers by utilizing counselors in local communities. She also commented on problems in the implementation of provider-sponsored organizations, which were authorized under the same legislation—the Balanced Budget Act of 1997—as Medicare+Choice.

The Policy Environment—Views from Capitol Hill and the Administration

Senator John Breaux (D-La.), ranking member of the Senate Special Committee on Aging; Senator Edward Kennedy (D-Mass.), ranking member of the Senate Committee on Health, Education, Labor and Pensions; and Representative Bill Thomas (R-Calif.), chairman of the House Ways and Means Committee Health Subcommittee, addressed the likelihood of Medicare and Social Security reforms. Breaux was the statutory chairman and Thomas the administrative chairman of the National Bipartisan Commission on the Future of Medicare. (The panel was scheduled to give its recommendations on Medicare reform a month after the conference but was unable to reach consensus.)

Breaux referred to a package of reform proposals that he had offered the commission. He said that adoption of the proposals would require eleven votes in the commission to pave the way for consideration in the House and Senate. Among the proposals was a plan to model Medicare after the FEHBP. He reviewed the Medicare board, the minimum benefit package, and the consumer education program that would be created under the plan. He contended that the new configuration would address the four Medicare problems that Reischauer had posed earlier: insolvency, inadequacy, inefficiency, and inequity.

As to the financing, Breaux said that he had worked that out, too. In determining the premium, the board "would calculate the national weighted average of all of the plans" that submitted bids to cover the core basic benefit package. In most cases, the federal government would pay 88 percent and the Medicare beneficiary 12 percent. For higher income beneficiaries, the ratio would be 75 percent and 25 percent, respectively. Age of eligibility would be the same as for full Social Security retirement. Mechanisms would have to be explored to fund the prescription drug provision. "So the board would not be regulating prices," Breaux added, "but certainly regulating what is being offered to the beneficiaries to ensure that what they are being offered across the board meets the needs of the Medicare beneficiaries in this country. And then the marketplace would be able to compete to see who can do it the best."

Kennedy emphasized the social underpinnings of Social Security and Medicare. "It is said that the measure of a society is how well it takes care of its most vulnerable citizens, the very young and the very old." Saying that Social Security benefits keep more than a million children out of poverty and fund more than half the income of two-thirds of senior citizens, he accused opponents of exaggerating the Social Security program's long-term financial problems. He backed President Clinton's proposal to use surplus funds for Social Security, which he said would close most of the shortfall.

Contending that a shift from public assumption of risk and responsibility toward a system of individual accounts "would put the risk on each individual instead of spreading the risk across the work force," Kennedy expressed concern about altering the progressive benefit structure that had been the mainstay of the program for so long. The only role he saw for such accounts was supplementary to the current system.

Turning to Medicare, Kennedy outlined three problems: an outdated, inadequate benefit package; insufficiency in providing the highest quality care; and a precarious trust fund. He singled out Medicare's lack of coverage of prescription drugs as its biggest gap, a problem he hoped to see addressed in the current Congress. Other problems that he identified were misuse of prescription drugs, the rare use of clot-dissolving drugs for stroke patients, inadequate vaccination for influenza and pneumonia, and the need for more prevalent screening for cervical and breast cancer. He also expressed concern about long-term financing to preserve benefits for the baby boom generation.

Thomas reflected on the political environment with respect to Medicare, which he characterized as being, just five years ago, "the third rail of American politics—touch it and you die." Today, he said, it is essential "to figure out how to fairly balance those individual and collective resources to provide an adequate health care policy for our seniors that not only incorporates today's technology in health care delivery changes, but also creates a mechanism in which tomorrow's technology and health care delivery structures can be integrated in a cost-effective manner." He singled out one of the proposals: coverage of outpatient prescription drugs. Indicating that "65 percent of all seniors had some form of supplemental drug payment in 1995" and that coverage provided under managed care had increased that percentage, he said it was important to focus on those seniors without any drug benefit.

In reviewing the proposals that were before the commission, Thomas joined Breaux in stressing the importance of a public-private partnership. "We're not saying that the private sector's going to solve the problem," Thomas insisted. "We think a healthy competition between the private and the public monitored by the public sector is the best chance of integrating technological and health delivery changes in a timely and efficient fashion."

White House and Department of Health and Human Services officials, joined by trade association and union representatives, also provided perspectives on the reforms. Kenneth Apfel, commissioner of the Social Security Administration, discussed President Clinton's Social Security reform proposals and emphasized the opportunity provided by the federal budget surplus to "partially advance more of the Social Security system." Advocating that 62 percent of the federal budget surplus be transferred to Social Security over the

next fifteen years, Apfel contended that "there could be no better use for this historic surplus than ensuring retirement security for future generations." He urged diversification of the Social Security trust fund portfolio to include "a modest portion of stocks" and said that the choice was between that and a lower benefit structure, which to him was no choice at all. Calling President Clinton's proposal "a solid framework for ensuring retirement security through the first half of the next century," Apfel also underlined the importance of Americans' increasing their own retirement savings "above and beyond Social Security."

Nancy Ann DeParle, administrator of the Health Care Financing Administration (HCFA), reviewed some of the agency's activities, especially the programs it is implementing as a result of Balanced Budget Act mandates. She mentioned the Child Health Insurance Program, expansion of the Medicare prospective payment system, program integrity safeguards, and Medicare+Choice. Admitting that HCFA needs more administrative resources and greater management flexibility, she insisted, "We shouldn't do anything that erodes the government's role here in overseeing such a massive program that is funded by the taxpayers and provides important protections for beneficiaries."

DeParle urged that the program be strengthened: by ensuring a guaranteed benefit package that includes prescription drug coverage, modernizing fee-for-service Medicare, providing clear and adequate support for low-income beneficiaries, and maintaining a stable and adequate level of financial support. In terms of the latter, she mentioned the portion of the budget surplus that President Clinton proposed go to the HI Trust Fund. "The president's framework would reserve 15 percent of the projected surpluses, so around $650 billion to $700 billion over the next 15 years would go to the Medicare trust fund. Because the funds could not be used for other purposes, they will ensure that the money goes to help meet the health care needs of older and disabled Americans, and extend the solvency of this trust fund," she concluded.

"The stars must be in alignment," Sharon Canner began, noting the budget surplus, bipartisan leadership, and public support for both Medicare and Social Security. Vice president for entitlement policy at the National Association of Manufacturers (NAM), she noted that contributing 15 percent of the budget surplus to the HI Trust Fund would be a "good start." She expressed caution, however, on raising the age for Medicare eligibility in line with the phasing of eligibility for full Social Security retirement benefits. She indicated that it might force employers out of the retiree health care market.

Referring to her eighteen years with NAM and the program reforms she had seen over the years, Canner praised the Clinton administration for its plan to use the budget surplus for Social Security, but wondered if the funds would materialize. On Social Security trust fund investment, she advocated letting

"individuals invest rather than collective investment." She stressed that "we at NAM would keep a safety net, a basic benefit. And when we talk about privatizing, the government is not going to get out of the system. No politician worth his salt would let a system go unregulated, so there will still be government regulation." For her, "the word privatization really is a misnomer."

John Rother, director of legislation and public policy at the American Association of Retired Persons (AARP), praised President Clinton for transforming the Social Security debate. Indicating that the president was not just looking at solvency, he commented: "He's really looking at how Social Security fits in a total scheme to strengthen the economy so that when we get to 2020 or 2030, we have a stronger base from which to finance our own retirement." Rother also drew attention to Republicans' attempt to focus on the proverbial three-legged stool: the importance of Americans' having pensions and savings along with Social Security retirement payments. "I think that whether it's called a USA account or something else, a mechanism that would let more ordinary Americans, particularly those of moderate low income, start to put together real retirement savings on top of Social Security is a very important step that we should not let slip from our grasp this year." Rother expressed concern about stock market investment, however, because of difficulties he saw in insulating it from political manipulation.

Regarding Medicare reform, Rother was hesitant about premium support but indicated that it was premature to offer judgment on it. He said that in the past Medicare had been framed as a budget issue. He thought the president had reframed the debate to focus on the program's inadequacy and inefficiency and the need to fix it. He then centered on what reform would mean for beneficiaries, which is key to the AARP. He talked about the services beneficiaries receive (or he thinks they should receive, such as coverage of prescription drugs) and the out-of-pocket costs they pay. Ultimately, the question is: "How can we move this whole system to take more seriously the challenge of delivering health care and keeping the population healthy into the 21st century?"

Dismissing outright the idea of premium support for the Medicare program, David Smith, director of public policy at the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO), concentrated instead on Social Security. He said that President Clinton had framed two issues: replacing the social insurance system with an individual account system, and finding new revenue or cutting benefits. Reflecting the suspicion of the AFL-CIO and other unions toward what he called the substitution of an individual investment account for a defined benefit in the Social Security program, he contended:

"They want to transform a defined benefit system into a defined contribution system. They want to shift the risk from all of us to each of us." Calling Social Security "the bedrock of retirement security for American working people," he recommended that reformers start by considering "the earnings cap and possible adjustment."

An International Perspective on the Issues

Uwe Reinhardt offered an international view of health care. Making global comparisons at a conference at which panelists and attendees had brought up Chile's experience with investment accounts and various European countries' pension systems, he compared U.S. and European cultural values regarding health care. "No European would ever finance health care the way we do, because European social ethics are based in health care practice (not in the health professions themselves)—quite different from ours. I think social ethics have less to do with how you deliver care than how you finance it—whether the provider is for-profit or nonprofit, privately owned or public." He implied that social ethics are imbedded in the financing of health care—whether health care is a social good or, as in Germany, a mix of a public utility and a "private consumption good."

Reinhardt categorized the health systems of other countries as being government-financed, government-run, or statutory social insurance systems. He described the United States as having "a private insurance system with public fallbacks." Whatever the system, it involves trade-offs; in the United States, the trade-offs seem to operate to the detriment of the needy, he contended.

An ongoing critic of greed in the U.S. system, he was especially critical of providers. "A health system has two objectives: to enhance the quality of life of the patient and to enhance the quality of the provider's life." In this respect, he contended that U.S. health care costs are 40 percent higher than those of Germany. Having just come from an international conference, Reinhardt commented on almost universal dissatisfaction across the globe with health care. Why? "Health care is economically illegitimate." "It is simply illegitimate because . . . people who receive the care don't pay for it and the benefit-cost calculus isn't right." While most of his comments were tongue in cheek, he had a clear message: "It is really imperative to shift the supply curve down so that kindness is once again affordable in America and we don't blanch every time we say, 'Let's give some children health insurance or let's help the elderly not have to trade off drugs against food.'"

Public Readiness for Medicare and Social Security Reform

Whether the public is ready for choice—whether it knows the advantages and disadvantages of social insurance programs that incorporate choice and is prepared to move forward—is a key question. Benjamin Page, professor in the political science and communications studies departments at Northwestern University, addressed this question, casting it in terms of the political feasibility of entitlement reform. He contended that collective policy preferences tend to be stable over time. Since 1984, for example, "more than 90 percent of Americans have regularly indicated a desire to keep the [Social Security] program the same or expand it." He also indicated that collective public opinion tends to have coherence, reflecting basic underlying values and beliefs. At the same time, he discounted the media, which he characterized as being interested in dramatic stories that tend to be misleading or wrong about public opinion. In this vein, he advocated paying close attention to the media's interpretation of statistics and responses to survey questions, including the wording of the questions themselves.

Addressing public opinion on Social Security, Page explained that it "shows higher information levels than other programs" and "enjoys extremely high support among the American public." In terms of specific changes, he cited public resistance to benefit reductions, both in existing payments and in future increases to account for inflation. He also indicated opposition to extending the retirement age and increasing the payroll tax, although "large majorities of the public say they prefer tax increases to benefit cuts." However, he reported that "a large majority of Americans favor cutting benefits for the well-to-do." He was less certain of public opinion on some other changes, such as using general revenues to bolster the Social Security trust fund and removing the "cap" on earnings subject to the payroll tax. Finally, he said that privatization—moving to private investment accounts—is "an area in which opinions are much less well formed," with more time and more data needed.

Three experts responded to Page: Willis Gradison of the law firm Patton Boggs LLP; Beth Kobliner, journalist and author; and William Spriggs, director of research and public policy at the National Urban League. Gradison, bringing to bear his long tenure as a member of Congress and president of the Health Insurance Association of America, contested Page's confidence in public readiness and even the importance of public opinion on the details of Medicare and Social Security reform. As ranking minority member of the House Ways and Means Committee Health Subcommittee when the Social Security Amendments of 1983 were passed, he suggested the bipartisan

process that occurred then as a model for current reform. He said that it was based more on coalescing political and interest groups than on marshaling public support. Gradison also said he backed "a modest carve-out for private accounts" as a means of increasing support for the Social Security system, especially among young people.

Carrying the standard for Generation X (persons born between 1965 and 1976), Kobliner went against the common wisdom that its members are "leading the charge for stock market investments and individual accounts." She contended that the actual opinions of the generation "may be closer to those of the general public than we think." Citing the wording of questions in two polls, she also agreed with Page's views on the presentation of public opinion. "The way questions are framed can lead to results which are presented as being representative of a generation's opinion and subtle word differences can make a huge difference." She depicted Generation X as being similar to other generations in its support for "some sort of minimum, guaranteed benefit."

Spriggs also endorsed Page's comments on the importance of public opinion, the extent to which the public is informed on the present Social Security program and changes proposed to it, and the depth of public support for the program. He challenged how much experts know about the program and how readily opinion leaders point to intergenerational conflict. Indicating that only minor changes are needed, he stressed the Social Security system's moral underpinnings for people of all ages.

Whether from the panelists and respondents or attendees who posed questions, this part of the conference raised numerous topics for further research. Many of the topics focused on the extent of public knowledge of Medicare and Social Security, awareness of the status of the HI and OASDI Trust Funds, exposure to proposed changes, and receptivity to those changes. Others centered on consumer education, particularly in terms of the structuring of choice and the efficacy of different approaches.

Conclusion

As the National Academy of Social Insurance's eleventh annual conference unfolded, there was point-counterpoint among presenters and attendees alike on the topic of individual risk and responsibility versus collective risk and responsibility. The major themes of introducing, defining, and structuring choice and of providing consumer safeguards were presented, dissected, questioned, and challenged.

Underlying this activity, which was the main purpose of the conference, was the reaction, pro and con, to President Clinton's dramatic proposal earlier in the week to infuse both the HI and the OASDI Trust Funds with budget surplus dollars. Even as the National Bipartisan Commission on the Future of Medicare was struggling to reach some sort of consensus on its proposals (an effort that failed), the idea of putting general revenue dollars into the contributory Medicare hospital and Social Security programs meant that all bets were off. Some welcomed the proposal as an easy way out of a dilemma. Others saw it as pulling the rug out from under meaningful Medicare and Social Security reforms. Still others decided to wait and see.

As the Clinton administration and Congress address the program and fiscal problems of Medicare and Social Security, the contributions in this volume give parameters to the debate. In the final year of the twentieth century, they reflect the range and diversity of views from which agreement may emerge to shape these two hallmark social insurance programs for the decades to come.