NRLN 2018 GRAND BARGAIN PROPOSAL

There is Hope for our Kids and Grandkids

9/11/2018

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Executive Summary

Seniors must become better informed about Social Security, Medicare, Medicaid and other federal and state programs like CHIP, Supplementary Security Income (SSI) and Unemployment Income and the risks that lie ahead. The goal of the NRLN's paper is to make pertinent financial information about Social Security and Medicare available to seniors and to propose and advocate a nonpartisan view of how we can insure they both remain viable for at least the next 75 years by acting to implement easily understood proposals.

Our country needs a long-term rational path, not the current short-sighted let's get reelected ideological path taken by many policy makers and political party leaders. It is critical to know that in 2015 there were 79 million baby boomers alive and that 48 million people or 14.9% of the population was over age 65. By 2035 all baby boomers will be over age 70 and with a total of 75 million Americans over age 65, 21.4% of our population. By 2055, 88 million will be over age 65 and by 2060, according to 2000 and 2010 US Census data, 98.2 million Americans will be over age 65. These data must become the basis for U.S. long-term social and economic policies.

Today, retirement savings are at very low levels, defined pension plans are waning, health care costs are out of control and health care insurance and pharmaceutical industry's campaign contributions and lobbying control policy making. If Social Security benefits were to be cut and Medicare is privatized, what consequences will our kids and grandkids face? If Medicare were to be privatized as planned by many in Congress, many workers under age 65 and current retirees over age 65 could also be seriously affected.

There's no need to resort to socialism or government-owned bricks and mortar solutions to preserve these programs nor should we tear down what other nations admire and U.S. employees and employers built! Social Security and Medicare are cornerstones of American infrastructure that to a large extent have been funded by payroll tax dollars, not good will. The cement that anchors these cornerstones is the over 80 years of funding derived from our payment of payroll and income taxes and the belief that 100 million Americans, our kids and grandkids soon to be over age 65 are important to us. We have the resources to fix what ails these programs if we get to work fixing them.

Social Security (SS) and Medicare Facts in Common:

14.5% of the U.S. population was over age- 65 in 2015, grows to 21% by 2035, 25% by 2060 (100 million); SS and Medicare reserves will be depleted and benefit cuts are highly probable especially for those under age 65 today.

Congress blocked payroll tax hikes from 1983 to 2018 (35 years), strangling the life out of the Social Security and Medicare programs. Kicking the can down the road, avoiding new taxes, allowed many politicians to be reelected.

Congress is subsidizing and privatizing Medicare and proposing SS benefit cuts and increased eligibility age; covering up for past inaction!

Social Security (SS) Unique Facts:

Workers and companies sustained SS by investing 12.4 % of salaries & wages; 99% of SS income. The over-age 65 population growth will deplete reserves by 2034. At that time 17-21% benefit cuts probable, according to SS Trustees in their 2018 report to Congress.

The SS Trustees 2018 report states that raising the payroll tax by **2.84%** or finding the equivalent cash starting in 2018 would fund SS for 75 years - to 2093.

Medicare, Medicaid and CHIP Unique Facts:

Federal income taxes covered $1.3 billion (0.43%) of Medicare A, 2017 income of $299.4 billion. Employees paid 1.45% in payroll taxes on all earned income and businesses matched it with1.45%, equaling 2.9% of wages and salaries taxed paid or 99.57% of the Medicare A revenue.

Rising healthcare costs, extensive subsidies paid to Medicare Advantage plan insurance companies and rapid growth of the over-age 65 population will deplete HI reserves by 2026. Congress is privatizing Medicare by using Medicare Advantage (MA) HMO plans, which they will stop selling if Medicare A and B plans are privatized; open market regional exchanges will take over.

The Medicare Trustees 2018 report states that raising the payroll tax by .82% or finding the equivalent cash starting in 2018 would fund Medicare for 75 years - to 2093.

In 2017, federal income tax revenue paid in $217.3 billion (71.1%) of Medicare B's $305.6 billion in revenue and $73.2 billion (73.1%) of Medicare D's $100.2 billion in revenue and also paid $375.0 billion (62%) for Medicaid and $14.3 billion for the Children's Health Insurance Program (CHIP).

<u>The NRLN 2018 "Grand Bargain" Proposal</u>: Hope for our Kids and Grandkids!

The NRLN Grand Bargain proposal is to close the Social Security and Medicare HI 75-year combined deficit gaps of 3.66%, and help fund federal Medicare B and D, and possibly Medicaid and CHIP obligations by these actions:

- Apply 12.4% rate on earnings over $250,000 in 2019 and tax all earnings once current tax maximum reaches $250,000. Do not provide benefit credit for earnings taxed over $250,000. **2.19%**

- Safely invest 40% of Old Age, Survivors and Disability Insurance (OASDI) reserves in equites (phased in 2018-2032) expecting 5.2% real-rate yield **.39%**

- Reduce the 2018 $141 billion wrong and improper federal payments, cut pork barreling; stop appropriating funds to unauthorized programs; stop paying billions in subsidies to Medicare Advantage Plan health care insurers but protect Medicare C enrollees from higher open market pricing or loss of benefits if privatization takes effect. Apply the 1st $70 billion of savings to close Medicare HI and Social Security deficits. **<u>1.08%</u>**

3.66%

Savings would be sequestered to protect them from being spent on other federal discretionary programs. Funds would be applied 1st to close the Medicare HI and Social Security combined deficit gaps totaling 3.66% and then be allocated to reduce the Medicare B and then the Medicare D, and then Medicaid and CHIP federal obligations.

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Introduction

The NRLN's "Grand Bargain" is a nonpartisan proposal that could save Social Security and Medicare for 75 years (to 2093) and significantly reduce the federal budget and deficit.

The Grand Bargain (GB) is based on conclusions reached from an analysis of data published in: the 2000 and 2010 U.S Census Bureau Projections of Population by Sex and Age for years 2015 to 2060; the Congressional Budget Office (CBO) April 9, 2018 Budget and Economic Outlook for 2018-2028; the 2018 Social Security Board of Trustees Annual Report for plan year 2017; the 2018 Medicare Board of Trustees Annual Report for plan year 2017; and finally, the House Budget Committee "Budget for a Brighter American Future", June 19, 2018.

The Social Security Trust (including the Disability trust) and the Medicare Trust are both headed for insolvency within 15 years. This section of our paper and those to come are intended to demystify the political spin and misleading rhetoric about terms like "Welfare", "Entitlement" and "Mandatory" spending and who is paying for these lifeline programs.

As we see it, Social Security and Medicare A programs are in fact federal contribution plans and both are similar to defined benefit pension plans in that it was intended that each be funded and managed by Trusts overseen by U.S. Executive Branch Cabinet members. Therefore, payments to those eligible for benefits are not entitlements or welfare payments (negative connotation – as in handouts). These benefits are deemed "Mandatory", not Discretionary expenditures. Paying for federal and state highways and infrastructure, bridges to nowhere, government inefficiency and waste and fraud, all using our income tax revenue, are Discretionary spending programs paid for with income tax revenue and coveted by some conservative members of Congress from both parties. Using income tax revenue to support Mandatory benefits is abhorrent to some politicians who refer to Mandatory benefit compensation as entitlements (negative connotation – as in handouts).

Employers and employees each pay 7.65% or a total of 15.3% to support Social Security and Medicare combined: 12.4% (6.20% each), subject to the 2018 $127,400 maximum taxable earnings limitation, into the Social Security Trust; and 2.9% (1.45% each) into the Medicare Trust. For that, each program pays benefits according to Social Security credits earned and, in the case of Medicare, in accordance with plan benefit schedules[1].

Kicking the Can Down the Road

Politicians, who worry mostly about raising their personal and political party campaign contributions appear biased. If conservative and motivated by the need to be reelected, they call Social Security and Medicare "entitlements" and want to shift money from the Mandatory to Discretionary side of the ledger. If liberal and motivated by the need to be reelected, they call Social Security and Medicare "given rights", they want to increase benefits and to shift Discretionary money to the Mandatory side of the ledger.

The addition of Disability Insurance to Social Security and the additions of Medicaid, Medicare Part D, and the introduction of federal subsidies designed to undermine Medicare Part A & B Plans conflict the original simplicity of Social Security and Medicare and have required billions more payroll tax and federal income tax revenue. Increased benefits, the costly addition of Medicaid, and federal subsidies paid to healthcare insurance companies to create and grow Medicare Advantage (MA) plans (that increase Medicare costs) have lit a political firestorm. A major question politicians must answer is...should payroll or income taxes be used to subsidize insurance company healthcare plans? Today most say no but then turn a deaf ear when health care insurance and pharmaceutical companies offer to fatten their political campaign war chests.

Conservatives want to shift more cost of benefits to retirees and would not raise federal income or payroll taxes; liberals would increase benefits and would raise federal income but not payroll taxes. The fight over who pays and how much never ends. Continued Mandatory versus Discretionary spending debates overrule common sense. There are very few true problems solvers in Washington, D.C., but this is what we need now more than ever!

It has been 35 years (since 1983) since payroll tax rates were raised to account for some of the baby boomer growth. Every year since then, Trustees of both programs have sent annual reports to Congress warning them that added benefits, increases in cost of living and rapid growth in over-age 65 seniors from under 50 million in 2010 to 75 million by 2034 and 100 million (25% of all Americans) by 2060[8] require payroll tax increases or reduced benefit costs or cuts in benefits. Senate and House Republicans and Democrats have ignored Trustees and chose reelection and party control needs over reason, for 35 years!

These events pushed both Trusts toward insolvency. America's age 50+ and their kids and grandkids may pay a huge price for this "kicking of the can down the road". Cutting benefits is not in NRLN's "Grand Bargain" proposal!

It is time for seniors to rally behind a commonsense plan that will work!

Social Security Financial Status and the 75-Year Deficit Liability

The 2018 Social Security (SS) Trustees' Report for year 2017 disclosed that 174 million workers and their companies paid in $911 billion in payroll taxes. The government paid interest of $85 billion, for a total of $996 billion. Benefit payments of $952 billion were made to 45 million retirees, 6 million survivors of deceased participants and 10 million disabled and dependents of disabled workers; a total of 61 million. One million new benefit recipients were offset by 3 million new taxpayers in 2017, resulting in $45 billion net income Vs $35 billion in 2016[1]. So, how could SS be in financial trouble?

Of the 6.2% payroll tax on earned income (up to $127,400 in 2018), 1.185% goes into the Disability Insurance (DI) trust; 5.015% goes into the Old-Age and Survivors Insurance (OASI) trust. Businesses match this 6.2% employee tax, making the total tax 12.4%. Business employee / owners double or pay 12.4%.

Congress may not have stolen SS trust funds but they borrowed surplus cash and interest earned on it until 2010 when payments alone could not be matched by payroll tax income (no surplus). They dug a big hole by spending it on other federal programs. Debt owed to SS mounted and was $2.892 trillion at end of 2017. Treasury pays interest and will have to pay the bills but the debt backed by more paper will remain a part of the U.S. deficit. By 2034, what is called the Social Security program's 75-year deficit must be plugged or SS benefits must be cut by 17% to 21%. Why? House and Senate members ignored Trustees annual reports! They failed to raise the payroll tax rate or find other ways to plug the SS 75-year deficit gap.

Trustees reported every year for 35 years that retirees over age 65 would grow to 75 million by 2035 and 100 million (1 in 4 Americans) by 2060. SS actuaries reported that we must pay in more annually to plug the 75-year deficit. CONGRESS KICKED THE CAN DOWN THE ROAD, 35 TIMES IN A ROW! No tax increases or budget cuts in other programs materialized.

The 75-year deficit is estimated at 2.84% of 2017 taxable salaries and wages. If payroll taxes are not raised, other federal costs must be cut rather than imposing simplistic proposals to cut SS benefits and/or raise the eligibility age.

The NRLN GRAND BARGAIN will challenge Congress and Federal Agencies to fill this SS deficit gap.

Medicare and Medicaid Financial Status and the 75-Year Deficit

Medicare covered 58.4 million enrollees in 2017: 49.5 million were age 65 and older, 8.9 million were disabled. The program is comprised of Medicare A, hospital insurance (HI); Medicare B, Supplemental Medical Insurance (SMI), physicians services; and Medicare C, Medicare Advantage (MA) subsidized plans that include A, B, and usually D coverages; and Medicare D, prescription drug coverage purchased by traditional Medicare A & B enrollees.

In 2017, federal income taxes covered $1.3 billion (0.43%) of Medicare A, 2017 income of $299.4 billion. Employees paid 1.45% in payroll taxes on all earned income and businesses matched it with1.45%, equaling 2.9% of wages and salaries taxed paid or 99.57% of the Medicare A revenue. Federal income tax revenue paid $217.3 billion (71.1%) of Medicare B's $305.6 billion in revenue and $73.2 billion (73.1%) of Medicare D's $100.2 billion.

The Medicare Trustees told Congress 35 years in a row that retirees over age 65 would grow to be 75 million by 2035 and 100 million (1 in 4 Americans) by 2060. Medicare plan actuaries reported how much money must be added annually to fully fund Medicare for the next 75 years. No action was taken, CONGRESS KICKED THE CAN DOWN THE ROAD, 35 TIMES IN A ROW!

The Medicare Trustees reported that the HI trust will be depleted by 2026. The amount needed to plug this Medicare HI trust 75-year deficit in 2018 is estimated at 0.82% of 2017 taxable salaries and wages. If Congress won't raise the employee payroll tax 0.41% (matched by employers), we propose that federal agencies reduce other federal programs costs and use savings to plug the Medicare deficit, not tear it apart with simplistic proposals to cut Medicare benefits, raise the eligibility age, etc.

Medicaid provides nursing home care, personal care and other benefits for 74 million low-income and disabled people. In 2017, the U.S. Treasury paid $375.0 billion (62%) and states paid $233 billion (38%) of the $608 billion total Medicaid costs. The state-run Children's Health Insurance Program (CHIP) cost was another $14.3 billion.

Funding the 75-Year Deficits

Unless the SS 75-year 2.84% deficit gap is plugged the program must cut Disability Insurance and Old Age and Survivors Insurance benefits. Remedies are debatable; raising payroll taxes, raise or eliminate the maximum taxable earnings limit ($127,400 in 2018), lower the yield of the cost of living adjustment formula, extend the eligibility age to 70, use more federal income tax revenue, invest trust funds to earn more interest income, etc.

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- Reduce the 2018 $141 billion Wrong and Improper federal payments[4,5], cut pork barreling[5], stop over appropriating funds to unauthorized programs[6] and stop paying billions in subsidies to Medicare Advantage Plan health care insurers. Apply the 1st $70 billion of savings to close Medicare HI and Social Security deficits* **1.08%**

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***Federal Agency Wrong and Improper Payments Annual Opportunities (2017 basis- $Billions):**

Program	Outlays	Wrong or Improper Payments	%
Medicare A & B	$380.8	$36.2	9.5%
Medicare C	$172.8	$14.4	8.3%
Medicare D	$77.4	$1.3	1.7%
Medicaid (federal)	$363.8	$36.7	10.1%
CHIP	$14.3	$1.2	8.6%
Social Security	$911.2	$2.6	0.3%
Supplemental Sec. Inc.	$56.8	$5.0	8.8%
Unemployment Ins.	$32.5	$4.1	12.6%
***Selected Total**	**$2,009.6**	**$101.5**	**5.1%**

Source: ***Selected social programs from GAO-19-377. House Budget Committee report reflects that GAO reported a total of **$141 billion across all federal agencies.

Research material and whitepaper provided by American Retirees Education Foundation (AREF)

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This whitepaper was researched and written by the American Retirees Education Foundation (AREF) for the sole use of the National Retiree Legislative Network. The AREF expands the research and education reach of the NRLN.