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More Entitlement Red Flags as Politicians Tout Inaction

Republicans and Democrats have been tripping over each other to tell voters how committed they are to making zero changes to Social Security and Medicare. Meanwhile, the Social Security and Medicare Trustees just confirmed yet again that within 10 years the programs' funds will be insolvent.

It's hard to forget the scene during the most recent State of the Union address, when President Joe Biden accused Republicans of wanting to cut Social Security and Medicare and Republicans — including one who shouted from her seat — called that a lie. The mutual refusal to take responsibility for the nasty fiscal condition of entitlement programs is decades old. Indeed, the findings of the Trustees' report are not surprising to anyone who follows these programs' finances.



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Social Security, readers might remember, has been relying on its trust funds' IOU since 2010 to fully pay for retirees' benefits. Assets are running low and will be gone by 2033. When that happens, it won't be authorized to make the entirety of these payments — only the amount it collects in payroll taxes. That's a 23% cut. You can tell a similar story about the Hospital Insurance Trust Fund for Medicare.

By 2031, the program will be insolvent, and benefits will be cut by 11%. That's an understatement since the solvency calculations exclude Medicare's physician (Part B) and drug (Part D) programs, which face a \$1 trillion shortfall over the next decade.

To pretend that Social Security and Medicare shouldn't be touched is nothing short of political malpractice. Over the next 30 years, the two programs will run a \$116 trillion shortfall. This number accounts for the significant amount of interest payments on the debt the government will ring up in the process. While we might be able to stumble along indefinitely, all that borrowing will slow — perhaps even halt — our economic growth, making funding the programs that much more difficult.

Every generation has the opportunity and obligation to leave the country better than they found it. The Greatest Generation fought and won World War II; the least the boomers and Gen Xers could do is fix this enormous time bomb we call entitlements.

That will require politicians on both sides of the aisle to come together. Past reforms only worked when they were bipartisan. The 1983 Social Security rescue was negotiated between President Ronald Reagan, House Speaker Tip O'Neill, the Greenspan Commission and key Senate members from both parties. This reform held because neither party tried to undo it, since both were invested in it. Perhaps the best example on the Medicare side is the reforms in the 1997 Balanced Budget Act, negotiated between a Republican Congress and a Democratic president.



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In contrast, partisan reform ideas such as lifting the payroll-tax cap or taxing the rich will not work. While each of these ideas might improve solvency a little bit, they aren't nearly sufficient to get the job done.

Besides, solvency isn't the only issue with these programs. First, over 15% of our hard-earned wages from every paycheck for our entire lives goes to paying — half of it technically covered by your employer, but you almost definitely pay in the form of lower wages. And even that's not enough since the programs face shortfalls. That might be palatable if young workers could reasonably expect to get it all back someday, which most won't.

Then, these programs are also unfair to certain groups. Working seniors are so penalized by Social Security that they have only weak incentives to earn other money. As my colleague Chuck Blahous has calculated, for every dollar in payroll tax older workers pay, they will get 2.5 cents in benefits. Meanwhile, younger workers must transfer massive amounts of wealth to older Americans who as a group are better off than they are. Under current projections, future workers will lose net income through Social Security exceeding 3% of their lifetime earnings. And there is a good chance these entitlement programs won't be there for them when they are ready to retire.

For a long time, leaders of both parties recognized that entitlement costs were growing unsustainably fast, even if they disagreed on what to do. Former President Barack Obama talked about stopping the rising cost of health care. When he was a senator, President Joe Biden thought all spending, including Social Security and Medicare, should be on the table for reform. Yet as president, Biden now boasts of his refusal to touch these programs.

Both parties need to return to being honest about what's going on.

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