

Social Security and Medicare Are Already Welfare

✘ We have a basic problem in this country that we are not willing to face. Over time our retirement programs of Social Security and Medicare have changed from insurance type of programs into Welfare programs. We have overpromised and underfunded retirement benefits that we cannot afford. Even these current “fiscal cliff” negotiations, which were supposed to force some tough decisions on the main drivers of our debt, appear to be headed toward postponing hard decisions. The continual avoidance of dealing with these issues is partly due to the false notion that people paid into these programs, and are entitled to the benefits they are receiving. They did pay in, but not nearly at the rate they are collecting. The US government is either the worst insurance company ever, or these are welfare programs.

Any fair analysis must combine the pay in, and benefits of both Social Security and Medicare. To analyze only the one that is reasonable (Social Security), without the other (Medicare) is completely dishonest, since nearly all seniors are on both programs. This would be like getting a great deal on your cable and ignoring your lousy internet rates when both are supplied by the same company. There have been many different studies that look at the pay in and pay out of both programs. Generally each senior will get back \$100,000 – \$200,000 more in benefits than they paid in. The older you are the better your deal, since the current rates of pay into Social Security (12.4%) have only been in place since 1990. A transfer of wealth like this from taxpayers to beneficiaries is usually defined as welfare.

Medicare benefits are going to be roughly the same throughout the income range once the changes are in place to the drug benefit next year. There is, however, a skew in Social

Security benefits for low end workers. Namely, those at the low end of the pay scale receive 4x their yearly pay in amount, while those the top end receive 2.6x their yearly pay in amount. In addition, the program which was originally designed to distribute benefits tax free, now subjects nearly all benefits to income taxes. This also lessens the benefits for those with higher incomes. There is no private insurance plan that is set up to discriminate based on income, but this is an element in most welfare programs.

If we want to have a serious discussion about solutions, we need to start speaking the truth about these programs. During everyone's working life, they receive a document from the Social Security Administration which shows how much he/she has contributed, and what payout they can anticipate. This document should add Medicare, and continue to be sent to people after retirement. Perhaps if the numbers start going negative on retirees yearly forms, they will have a better understanding of the problem. There may even be some humility on the part of seniors, particularly if they fear they are burdening their grandchildren. This could be a good start toward appreciating our predicament.

Once people have a proper understanding of the problem, solutions are much easier to discuss. When Social Security began, average life expectancy was about 65, it is now 78 (<http://www.cdc.gov/nchs/data/hus/hus11.pdf#022>). The annual cost of living increase was in 1974. There are some simple solutions to the problem once the mindset is corrected. There was a proposal to raise the retirement age by 1 month per year for the next 48 years. Perhaps add to this raising the eligibility of Medicare by 2 months per year until it catches up to Social Security. Still allow people to still start on SS at 62, but at an even lower payout. Even add Medicare at 62, but with higher copays. Reduce the cost of living increase by 1%. Even implementing just some of these will extend the solvency of these programs.

People receiving the Social Security and Medicare Bundle are always willing to talk about reductions in Welfare programs, and not the programs they benefit from. It is not their fault, because they have been told for decades that they are collecting on an insurance type of program that they paid into. Until we change the understanding of how our retirement programs have morphed into welfare programs, we will not be able to deal with solving these problems.