Social Security and Medicare: Examining Proposed “Reforms”  
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Edith Rasell, Minister for Workplace Justice  
Justice & Witness Ministries, UCC  
raselle@ucc.org; toll-free: 866-822-8224, ext. 3709  
blog: "Enough for All if We Share"  http://community.ucc.org/Edith/blog

There are three major federal entitlement programs: Social Security, Medicare, and Medicaid including the State Children’s Health Insurance Program (SCHIP).

Social Security
- Provides income for retirees, disabled workers, and survivors of deceased workers.
- Benefits are guaranteed, not dependent upon the stock market and investment choices
- Paid for through payroll taxes (FICA) of 12.6% split equally between employers and employees, and the self employed.
- In December, 2008, 51 million people received benefits (nearly one in every six people in the U.S.): 35 million retired workers and dependents of retired workers, 6 million survivors of deceased workers, and 9 million disabled workers and dependents of disabled workers.¹

Medicare
- Health insurance for people covered by Social Security: retirees (age 65 and over) and disabled workers
- Government insurance that allows people to receive health care through the private system. (Is this “socialized” medicine?)
- Paid for through payroll taxes (FICA) of 2.9% split between employers and employees and paid by the self employed, premiums paid by beneficiaries, and general federal government revenues.
- In 2008, 45.2 million people were covered by Medicare (slightly more than one in every six people): 37.8 million aged 65 and older, and 7.4 million disabled.²

Medicaid
- Health insurance for low-income people: pregnant women and children below 6 years of age with income up to 133% of the federal poverty line (for example, the poverty line in 2009 is $22,000 for a family of four; 133% of the poverty line would be an income of $29,260 for a family of four), children age 6-19 up to 100% of the federal poverty level; parents and caregivers of eligible children; poor blind and disabled people, and poor people in nursing homes. States may choose to have higher cutoffs for eligibility especially for children through SCHIP.
- During 2007, 62 million people were enrolled at some time (about one in every five people).³
- Paid for with federal (55%) and state (45%) money.⁴

The Costs of these Entitlement Programs
The costs of all three programs has risen substantially over the past decades. The number of beneficiaries in each program has also risen but less rapidly.
Depending on how the costs are portrayed, the increases can appear somewhat worrisome to catastrophic. In dollar terms, even adjusted for inflation, the lines trend ever upward. (See figure on previous page.\textsuperscript{5})

As a share of GDP (a measure of our total national income), Social Security rises gradually from 4.2% in 2007 to high of 6.16% in 2035 with the retirement of the baby boomers, then costs levels off at about 5.8% of GDP out to 2085. (See figure to the right.\textsuperscript{6})

However, even as a share of GDP, the costs of Medicare (and Medicaid/SCHIP) continue to rise rapidly into the future. (See figure to the right.\textsuperscript{7})

\section*{IMPORTANT FACT #1}
The “entitlement” problem is primarily a health care problem involving Medicare and Medicaid/SCHIP, not Social Security.

We also need to keep the costs in perspective. Over time, the country becomes wealthier. As the costs of entitlement programs rise, we have more money to pay for them. (See figures below.\textsuperscript{8})

Entitlements (shown in the lower part of the bars in figure on the left, above) continue to rise as a share of GDP. But the non-entitlement size of the GDP (top part of bars) is also growing rapidly, from $2.9 to 12.5 trillion between 1960 and 2007, adjusted for inflation. The second figure\textsuperscript{9} shows a similar rise between 2000 and 2050, even with no cost reductions in the entitlement programs.
IMPORTANT FACT #2
While change is necessary, these programs are much more affordable than the doomsayers would have us believe.

For a number of reasons, real and self-serving, there is a huge focus on the “problems” with Social Security. One driving force behind this is Wall Street firms’ desire to get their hands on Social Security’s money – our money. Social Security holds over $2.5 trillion in assets, invested in U.S. Treasury bonds. This money, if handled by Wall Street, could bring in annual fees of over $25 billion (fees of 1% or more to manage an investment account is typical).

Funding Social Security
Social Security is funded primarily through payroll taxes (FICA) of 12.6%, split between employees and employers (each pay 6.3%), and the self employed (pay the full 12.6%). The tax is levied on earnings up to a “cap” of $106,800 in 2009. Taxes are not paid on earnings above that cap. Beneficiaries also pay taxes on a portion of Social Security benefits.

In anticipation of the retirement of the baby boomers, in the early 1980s the payroll tax rate was increased in order to build up a surplus. For over 20 years, tax revenues have exceeded benefits paid out, and the surplus is loaned to the federal government in exchange for U.S. Treasury bonds paying interest. This was designed as a way to save money for the baby boomers’ retirement. At that time Social Security will cash in the Treasury bonds and use the money to pay benefits. Currently, the Social Security Trust Fund holds about $2.5 trillion in assets in U.S. Treasury Bonds. These pay interest that averages 5.1% which brought in $116 billion in 2008. Administrative expenses are less than 1% of expenses. (See chart above 10)

Projections of Social Security’s Financial Future
Currently, Social Security receives more in income than it needs to pay out in benefits. The Trust Fund is growing, held in U.S. Treasury bonds that pay interest to Social Security. Starting in 2016 we will need to use some of the interest received to cover the cost of benefits payments. Around 2020, we will need to begin cashing in the Treasury bonds to cover the cost of benefits. In 2037, approximately 30 years from now, all the Treasury bonds will have been redeemed and tax revenues paid will be adequate to pay just 76% of all benefits owed. Social Security will not be “broke” but it will not be able to pay full benefits. If no changes are made in the program, in 2083, the end of the 75-year assessment period, Social Security will be able to pay just 74% of benefits promised. (However, adjusted for inflation, even 74% of the average benefit then will be higher than the average benefit now).

Ways to address the Social Security funding shortfall
• Cut benefits: NO. In 2006, one-third of elderly couples and singles (age 65 and above) relied on Social Security for 90% or more of their income.12 Two-thirds received half or more of their income from Social Security. These people cannot afford any reduction in benefits.
• Strengthen Social Security: YES. Given the decline in traditional company pensions and the risk associated with 401(k) and similar plans, we need to strengthen Social Security and create other

- Find more revenue to fully fund the program: YES. There are a number of ways this could be done. One is to raise the payroll tax. If the current 6.3% paid by both employees and employers were increased to 7.3%, the entire 75-year funding shortfall would be gone.\(^{13}\) In 2008, the nonpartisan Congressional Budget Office estimated that a tax increase of just over half as large (from 6.3% to 6.9%) on both employers and employees would close the 75-year funding gap.\(^{14}\) Alternatively, we could increase the total amount of wages and salaries that are taxed. The current cap on earnings subject to the tax ($106,800) is low by historical standards, especially given the rapid growth of the very highest incomes in recent years. Raising the cap, a proposal supported by Barack Obama during his campaign, could close a sizable portion of the funding gap.\(^{15}\)

- Do nothing immediately while we focus on fixing the real problem, health care: YES.

**Medicare: Good Program, Flawed Health System**

Medicare has many strengths. It also has weaknesses. As we focus on costs, it is important to recognize that Medicare does a better job of containing costs than the private health insurance system does. (See figure to right, just above\(^{16}\) The graph compares the cost growth in Medicare and private insurance for a comparable set of medical services.

The problem of the high cost of health care cannot be solved piecemeal, something we have been trying to do for the past 40 years. It cannot be solved with “more competition,” a fix we have been trying for decades. It cannot be solved by “making people more cost conscious,” by imposing more of the costs on consumers. Already, health costs are a major cause of bankruptcy. But health care costs do need immediate attention. They are truly scary. (See figure at left.\(^{17}\) In addition, 47 million people have no insurance, 25 million have inadequate insurance, and health outcomes in the U.S. are far worse than in the other major industrialized nations. Racial and ethnic minority populations are especially disadvantaged. They are more likely to be un- and under-insured and have worse health outcomes than do Euro-Americans.

We need to follow the lead of every other industrialized nation and not rely on “the market” to solve our problems, that is, not rely on hospitals, pharmaceutical companies, medical supply firms, doctors, and other providers to voluntarily keep their costs under control. We also need a greatly simplified administrative system. While Medicare and Medicaid have administrative costs of 2%,
private insurance can have administrative and overhead costs, including profits, of up to 30 to 40%. (See figure just below.)

Medicare: What We Can Do

- Extend Medicare to everyone or, to use other language, establish a single-payer system: YES. This would dramatically reduce administrative costs and facilitate true cost containment. But cost containment means cuts in profits for the health care industry. Most insurance companies, hospitals, pharmaceutical companies, doctors, and other medical providers strongly oppose this approach. In June 2009, the UCC General Synod is considering a resolution endorsing this system. See the text of the resolution at http://www.ucc.org/synod/resolutions/ gs27/gs27-11.pdf

- At least, demand a public plan be part of any health care reform: YES. If political insiders and lobbyists make the single payer option politically impossible, as seems likely, then as a second choice, we must demand that any health care reform include a public plan that will compete with private insurers. The public plan which could sell insurance to individuals and families or to employers, would serve to contain costs, fix uncompetitive markets, and change the way medicine is practiced. See “Healthcare Bottom Lines” by J. Lester Feder from The Nation, June 8, 2009

Entitlements: Loving One Another

As Christians, the fundamental tenet of our faith is to love God and love our neighbors as we love ourselves. In Matthew 25, Jesus says that if we are to inherit the kingdom of God, this love for our neighbors must be manifest in actions and extend to all, especially to those on the margins of society. We are called to feed the hungry, give drink to the thirsty, cloth the naked, and address the needs of the poor and excluded.

Both the Hebrew Bible and the New Testament repeatedly lift up widows and orphans, two special categories of marginalized people who lack an immediate family to care for them. In the book of Isaiah, God charges the Israelites to live up to their covenant: Remove the evil of your doings from before my eyes; cease to do evil, learn to do good; seek justice, rescue the oppressed, defend the orphan, plead for the widow (Isa 1:16-17). Compassionate and fair treatment of orphans and widows, and all the poor and oppressed, are central to God's call.

In New Testament times and up until the last century, there were few social programs to care for those unable to care for themselves. The economically marginalized relied on charity which may or may not have been available when it was needed. Nonetheless, there was a well-recognized obligation, placed by God on God's people, to care for others who could not care for themselves. In the U.S. today, widows, orphans, and the elderly do not have to depend solely on charity. During the 1930s, Social Security was established to care for people who could no longer work including disabled workers and their families, the families of deceased workers, and retirees. Medicare and Medicaid were established in 1965 to ensure the elderly, disabled, and poor had access to health
care. In a modern nation with millions of people, these public programs that serve our neighbors and ourselves, and are paid for by our neighbors and ourselves, are an important way we live out our call to love.

Check out more resources on Social Security (http://www.ucc.org/justice/social-security/) and economic justice (http://www.ucc.org/justice/economic-justice/) on the Justice and Witness Ministries webpages.

ENDNOTES


6 Ibid., author’s calculations.


11 Ibid.


17 Ibid.

18 Ibid.