



Entitlements

Summary and Key Talking Points

Policy Proposals

1. Make entitlements more targeted and sustainable by giving Americans greater control of their health and financial well-being.
2. Preserve Social Security for the most vulnerable, modernize the program's structure, restore to workers more control of their own money, and improve Social Security's Disability Insurance program so that it can serve individuals with disabilities more effectively while ensuring efficiency for taxpayers.
3. Modernize Medicare to adapt to changing demographics, restore Medicaid to a true safety net, and replace Obamacare with a patient-centered approach that expands choices, improves access, and lowers costs.

Quick Facts

1. America has four major entitlement programs—Social Security, Medicare, Medicaid, and Obamacare—and nearly 90 other means tested programs. Congress recently attempted to establish but has not yet passed two new entitlement programs for government-provided paid family and medical leave and childcare.
2. The Social Security payroll tax has grown from 2 percent in 1935 to 12.4 percent today and would have to increase to 16.53 percent in 2035 for the program to remain solvent.
3. Medicare enrollment is expected to increase from 60 million in 2018 to over 77 million by 2030, at which point it will cost \$1.67 trillion annually.
4. Medicaid enrollment is expected to increase from 74 million to 82 million by 2027 at a cost of over \$1 trillion annually to federal and state taxpayers, and Obamacare subsidies are expected to reach 8 million by 2030 at a cost of \$87 billion.

Power Phrases

High-Cost, Low-Control Entitlement Programs

- Each of our country's major entitlement programs has proven to be inefficient, costly, and restrictive.
- These programs take money and personal health and financial decisions away from Americans and put it into one-size-fits-all benefit programs that are controlled by politicians.
- Entitlement programs also strip Americans of opportunity and autonomy, cost more and provide less than options that offer personal control and ownership, and unfairly burden younger generations and future workers with crippling costs.

Refocus and Reform

- America's entitlement programs have grown far beyond their purpose, and their financial instability threatens their ability to protect even the most vulnerable.
- Entitlement programs should refocus on protecting the most vulnerable while giving the people they serve greater control and ownership of their health care and financial well-being.

The Issue

America's major entitlement programs—Social Security, Medicare, Medicaid, and Obamacare—provide income and health care benefits to older Americans as well as health care benefits to lower-income and middle-income individuals and families. But those benefits come at an extreme cost to current and future Americans and their families because these programs strip people of opportunity and autonomy, cost more than is necessary or prudent, and shift current costs onto younger and future workers.

Entitlements take money from taxpayers—money that they could otherwise use or save according to what works best for them and their families—and use that money to support programs that provide restricted, government-prescribed benefits. On average, for example, Social Security's Disability Insurance program requires workers to spend more than a year navigating a burdensome application process before receiving final approval or denial of benefits. Because of the heavy regulation and top-down government mandates in Medicaid and Obamacare, Americans now have fewer choices and less access. Meanwhile, because the number of workers who support each Medicare beneficiary is declining, those workers will have to pay more and more in taxes to pay for seniors' health care. And Social Security's taxes prevent workers from maximizing their savings over their lifetimes for purposes like buying a home, saving for a child's college education, or paying for living expenses during a period of unemployment.

In addition to limiting choices, entitlement programs drive up costs. Pay-as-you-go entitlement programs like Social Security that use current workers' payroll taxes to fund retirees' benefits strip workers of the opportunity to earn a positive return on their savings. Consequently, average retirees could receive two to three times as much by saving on their own as they can by having their money go into Social Security. And Obamacare rewards insurance companies for raising prices—matching their increases dollar for dollar, which incentivizes higher health care costs for everyone.

Social Security and Medicare are so popular partly because recipients receive far more from them than they pay in—about 2.5 times as much on average. If workers had to pay the true cost of the benefits they receive, few would be willing to sacrifice nearly 40 cents—roughly 2.5 times as much as they pay in current payroll taxes—of every dollar they earn. Instead, all of those extra costs have been piling up, creating a \$422,000 debt (including just Social Security and Medicare) to be unloaded on every worker when America's day of debt reckoning comes.

America's entitlement programs have value as social safety nets, but they have grown far beyond that purpose and discourage some individuals who are able to provide for their own health care and retirement needs from doing so. America's entitlement systems should return to their original intent of protecting America's most vulnerable while giving individuals greater control and ownership of their health care and financial well-being.

Recommendations

Preserve Social Security for the most vulnerable while restoring to workers more control of their own money. Social Security started out as an old-age social insurance program intended to protect a relatively

small number of elderly individuals from living in poverty. Over the decades, however, it has expanded massively in size, scope, and cost to the point that two out of every three Americans pay more in Social Security taxes than they do in income taxes and 42 percent of Americans rely on Social Security for at least half of their retirement income. Social Security's more than fivefold increase in taxes and its dominant role in Americans' plans for retirement income leave workers with less control and lower incomes than they otherwise would have. Moreover, the program's insolvency—which will result in benefit cuts of approximately 25 percent beginning in 2033—threatens workers' retirement security.

To ensure that Social Security is there for workers who need it and to increase workers' incomes both before and during retirement, the program's eligibility age should reflect rising life expectancies and increased work capabilities. Benefits should better target workers' needs by shifting to a predictable, poverty-prevention, and modernized benefit structure. Social Security should apply a more accurate inflation measure to annual benefit increases, and workers should have an option to save for retirement outside of Social Security. These changes would make the program solvent over the long run and would allow for a significant reduction in workers' payroll taxes, enabling workers to spend, save, and invest more of their own money.

Improve Social Security's Disability Insurance (SSDI) program so that it better serves individuals with disabilities while ensuring efficiency and integrity for taxpayers. The SSDI program has served as a lifeline for certain individuals with disabilities, but its more than tenfold expansion in size and scope since 1970 has produced inefficiencies and inadequacies that prevent it from meeting workers' basic needs on a timely basis. Because of inefficient and flawed government policies, individuals who receive SSDI benefits must wait an average of well over a year to learn whether they qualify to receive SSDI benefits and during that time receive no support to help them remain at work or get back to work. Those who do receive SSDI benefits face a lifetime of inactivity and government dependence that leads to lower physical, mental, and financial well-being than if they had pursued meaningful work, and nearly a third of SSDI beneficiaries receive benefits that are lower than the poverty level.

A rehabilitated and modernized SSDI system would promote independence and physical and mental well-being by helping individuals with disabilities to receive the assistance they need when they need it and with less stigma and cynicism than are currently associated with the receipt of SSDI benefits. Such a system could be achieved by implementing a predictable, poverty-prevention benefit; providing a needs-based benefit period; eliminating non-medical vocational grid factors; providing an optional private disability insurance component; ending direct payment of SSDI representatives; correcting unintended payments; and improving program integrity and efficiency. These changes would improve the SSDI program for individuals with disabilities and would save taxpayer costs by significantly reducing the payroll tax rate, enabling workers to buy more generous private insurance to meet their needs and to spend, save, and invest more of their own earnings.

Improve Medicare's quality of care for a rapidly aging senior population while retargeting taxpayer subsidies to those who are most in need. Medicare, created in 1965, provides a guaranteed health care benefit to seniors and some people with disabilities. Over the past 50 years, although it has delivered hospital and physician services and some financial security, Medicare spending routinely has outpaced inflation, growth in the general economy, and growth in the federal budget. Meanwhile, the addition of new benefits and services has been accompanied by progressively tougher price controls and increasingly detailed conditions of reimbursement that have led to more intrusive bureaucracy and costly red tape for doctors, hospitals, and other medical professionals. These changing dynamics leave seniors, health care providers, and taxpayers at risk.

Reforms to improve the delivery of care in Medicare should both ensure that seniors have access to quality care and protect taxpayers from bankrupting costs. Such reforms include simplifying the traditional Medicare program, harmonizing eligibility with Social Security, updating premiums and cost-sharing arrangements, building on the success of the competitive and integrated Medicare Advantage plans, and transitioning to a defined-contribution, premium-support model for long-term sustainability.

Restore Medicaid’s strong health care safety net to the most vulnerable while ensuring financial sustainability. Enacted alongside Medicare in 1965, the Medicaid program began as a safety net to provide health care to certain vulnerable low-income populations. Like Medicare, the program has expanded beyond its original core functions, providing additional benefits to larger populations at a significant cost to federal and state taxpayers. The program’s joint federal–state design further complicates administration and oversight, creating new and disparate sets of incentives and outcomes. Changing demographic, structural, and fiscal challenges undermine this critical safety net program.

Restoring Medicaid to its original purpose as a functioning safety net would require a major overhaul of its financing structure to realign and reset priorities and incentives for those who need the program the most. Specifically, the financing of Medicaid should be sustainable and realistic, and it should be aligned with the needs of the most vulnerable, which can be accomplished by giving states greater flexibility in managing the delivery of care to those who are in need.

Rein in Obamacare to expand health care choices and access while lowering costs. The 2010 Affordable Care Act put in place two new federal health care entitlements and a massive federal regulatory infrastructure, all financed by an unrealistic set of new taxes and cuts in payments to providers in other health care programs. Since its enactment, premiums have climbed, coverage options have dropped, provider networks have narrowed, and many people are left with higher costs, less access, and fewer choices. Moreover, the open-ended ACA subsidies scheme and the ACA Medicaid expansion encourage more spending instead of delivering higher-quality care at lower costs. Fundamental changes are needed to restore choice, improve access, and lower costs. The way to begin is by reining in Obamacare federal spending and mandates, restoring state authority over health care, and making available a wider range of private coverage options that best meet individual needs.

Facts + Figures

FACT: Social Security is a bad deal.

- The Social Security payroll tax has grown from 2 percent in 1935 to 12.4 percent today (including the 1.8 percent disability insurance tax) and would have to increase by one-third to 16.5 percent in 2035 for the program to remain solvent.
- For every \$1 spent on the core constitutional function of defense, the federal government spends \$1.34 on Social Security’s retirement benefits.
- Life expectancy is 17 years higher today than when Social Security began (up from 61 to 78), yet Social Security’s normal retirement age has risen by only two years from the original 65 to 67 (and an early retirement age of 62 has been added).
- In 1960, the average retired worker received \$758 per month (in 2021 dollars) compared to more than twice that at \$1,560 per month today; the highest-income earners receive \$3,240 per month.
- Every dollar that workers pay in Social Security taxes goes directly to pay current retirees’ benefits. A worker who is 26 today and has average earnings throughout his lifetime can expect to receive \$29,100 in Social Security benefits per year. If he instead were able to invest his payroll taxes, he would receive three times as much—an estimated \$83,900 per year—by purchasing an annuity with his accumulated savings.
- Social Security is on track to become insolvent around 2033, at which point incoming revenues will only be enough to pay about 75 percent of scheduled benefits, thereby threatening automatic benefit reductions or sudden, steep tax increases.

FACT: Disability insurance fails individuals and taxpayers because of its inefficiencies, lack of integrity, and poorly targeted benefit structure.

- At a minimum, individuals who become disabled wait at least eight months before receiving benefits, and many wait for two to three years as they go through three different determination stages.
- Private disability insurance provides higher benefits at roughly half the cost of SSDI.
- Recently, up to half of all SSDI beneficiaries qualified for benefits based at least in part on the non-medical grid factors of age, education, and experience, which neither cause nor exacerbate disability but nevertheless facilitate entry into the program for those with marginal conditions that would not otherwise qualify them for benefits.
- Fewer than 3 percent of SSDI beneficiaries ever exit the program to return to work.

FACT: A rapidly aging senior population and growing costs threaten Medicare's future.

- Medicare enrollment is expected to increase from 60 million in 2018 to over 77 million by 2030 as the baby boomer generation moves fully into retirement.
- Total Medicare spending is expected to double over the next 10 years from \$862.1 billion (the equivalent of a \$5,300 annual tax on every worker) in 2021 to \$1.673 trillion (the equivalent of a \$10,400 annual tax on every worker) in 2030.
- Medicare's 75-year unfunded obligation (long-term debt) is \$48.3 trillion— over \$147,000 for every man, woman, and child in America.
- Medicare Part A, the Hospital Trust Fund, will be insolvent in 2026, leaving the program without the authority to pay all of its scheduled hospital benefits.
- Medicare Part B, part of the Supplemental Medical Insurance program, will require a dramatic increase in general fund revenue transfers, rising from 1.8 percent of gross domestic product (GDP) in 2020 to a projected 3.3 percent of GDP in 2040.

FACT: Medicaid faces demographic, structural, and fiscal challenges that threaten its future sustainability.

- It is estimated that one in four Americans (77 million) were enrolled in Medicaid in 2020, a significant increase from the one in 15 Americans (14 million) who were enrolled in 1970.
- By 2027, total spending on Medicaid is expected to reach more than \$1 trillion (including \$624.8 billion in federal costs and \$383 billion in state costs).
- In 2017, people with disabilities and the aged accounted for 23 percent of enrollment but 53 percent of program costs, while children and adults accounted for 78 percent of enrollment and 46 percent of spending.
- Less than half (47.4 percent) of Medicaid benefit spending was for mandatory populations receiving mandatory services, 21.1 percent was for mandatory populations receiving optional services, and 31.5 percent was for optional populations receiving mandatory or optional services.
- Despite spending increases, Medicaid recipients continue to have difficulty finding doctors who will accept Medicaid.

FACT: Obamacare has led to higher health care costs and fewer health care choices.

- Obamacare subsidies and associated Medicaid expansions will cost federal taxpayers approximately \$1.8 trillion from 2021 to 2030.

- By 2030, 8 million Americans are expected to receive a subsidy for the purchase of coverage through the Obamacare exchanges at a cost of \$87 billion—the equivalent of \$8,710 per person.
- By 2030, 14 million able-bodied adults are expected to be enrolled in Medicaid because of Obamacare, adding \$144 billion to the program's federal costs.
- After Obamacare's enactment, premiums in the individual market more than doubled (an increase of 129 percent) between 2013 and 2019.
- In 2021, more than half (53 percent) of all counties in the country had two or fewer insurers selling coverage through the Obamacare exchanges.

Additional Resources

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