

A College Students Guide to Social Security and Medicare: Why You Should Care and What It's Going to Cost You

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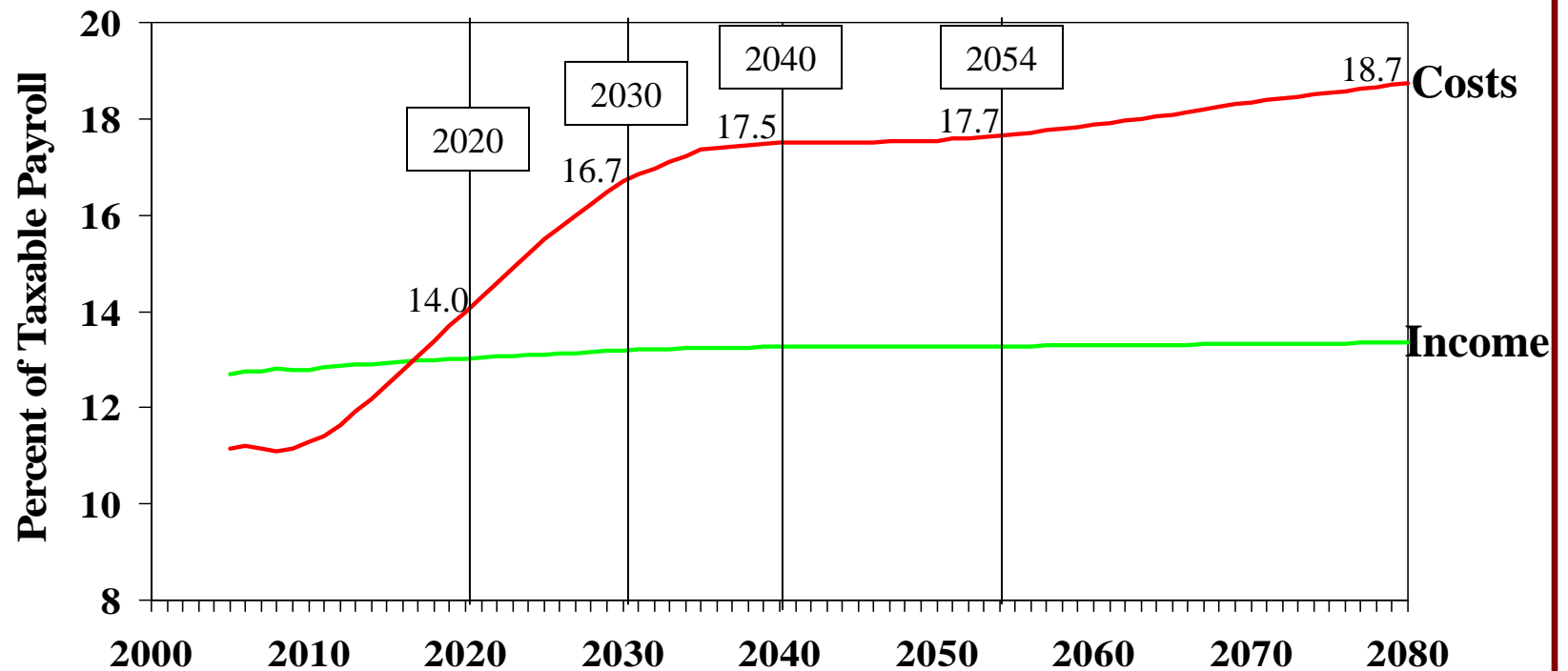


Your Social Security Future Payroll Taxes or Benefit Cuts



Projected Social Security Costs and Revenues (OASDI)

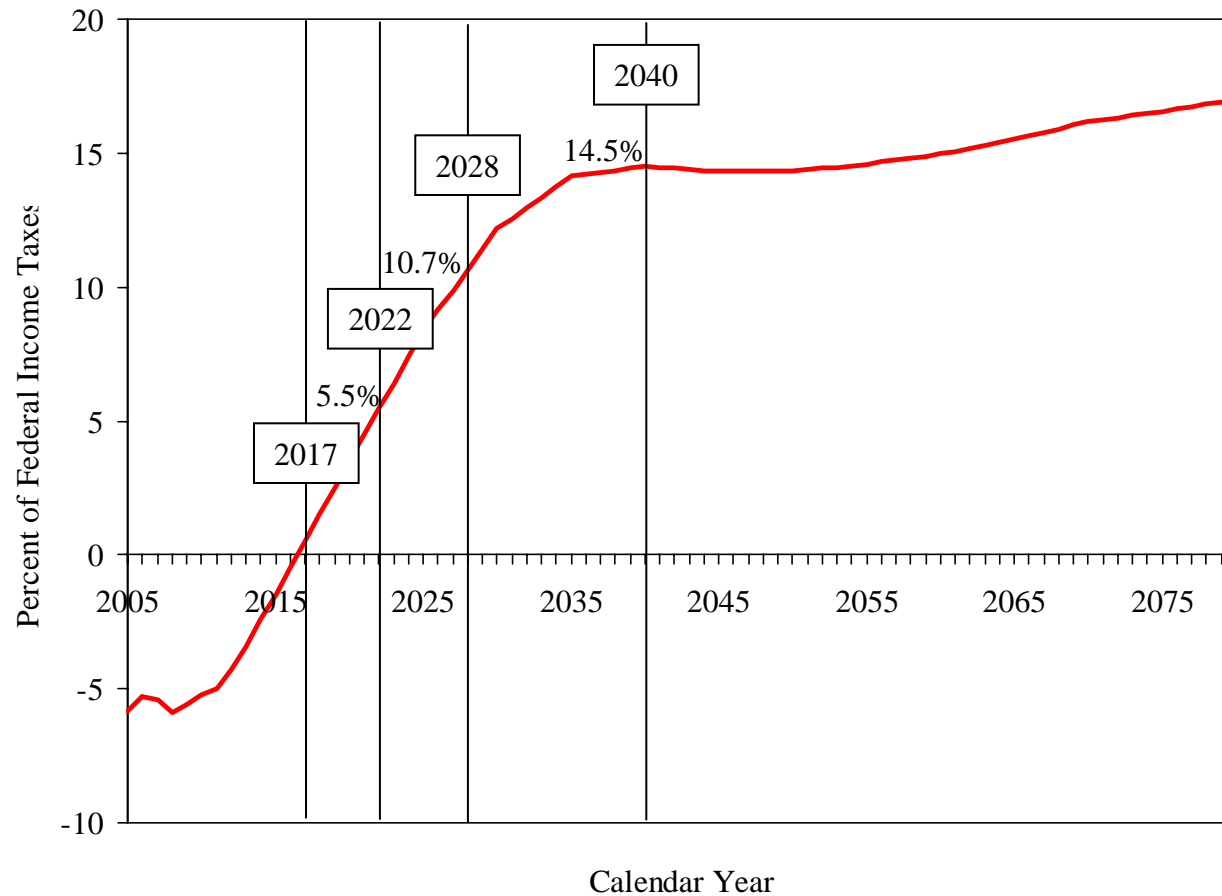
Taxable Payroll



Source: 2006 Trustees Report (OASDI), Table IV. B1.



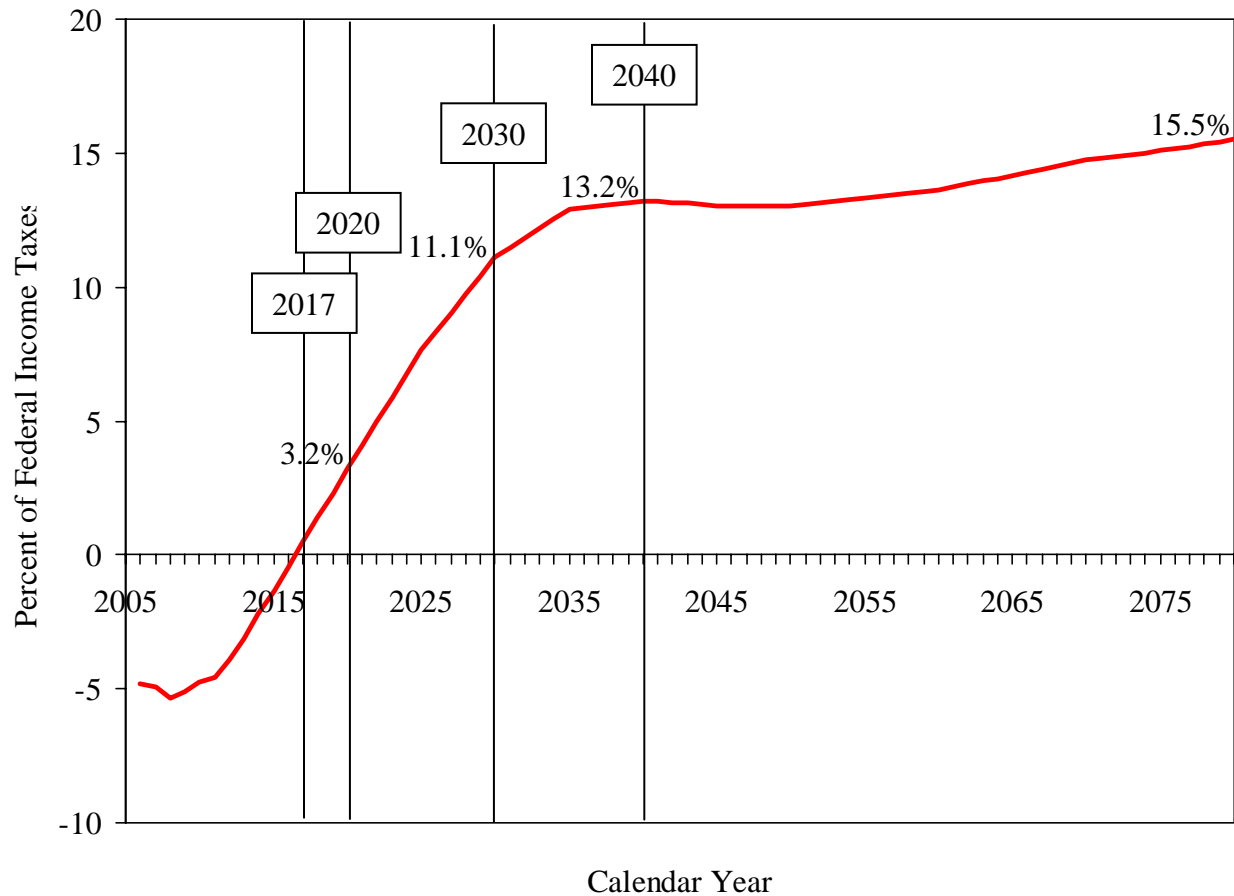
Social Security Shortfalls as a Percent of Federal Income Taxes



Source: 2006 Social Security and Medicare Trustees Reports and author's estimates. Federal Income Taxes are estimated to be 10.76% of GDP, the 50-year average.



Social Security Shortfalls as a Percent of Non-Entitlement Federal Revenues



Source: 2006 Social Security and Medicare Trustees Reports and author's estimates. Federal Income Taxes are estimated to be 10.76% of GDP, the 50-year average.



Social Security's Unfunded Obligations

	Present Value	% Taxable Payroll	% GDP	% Income Taxes
Infinite Horizon Unfunded Obligations	\$13.4	3.7	1.3	13.0
75-Year Unfunded Obligations	\$4.6	1.9	0.7	6.4

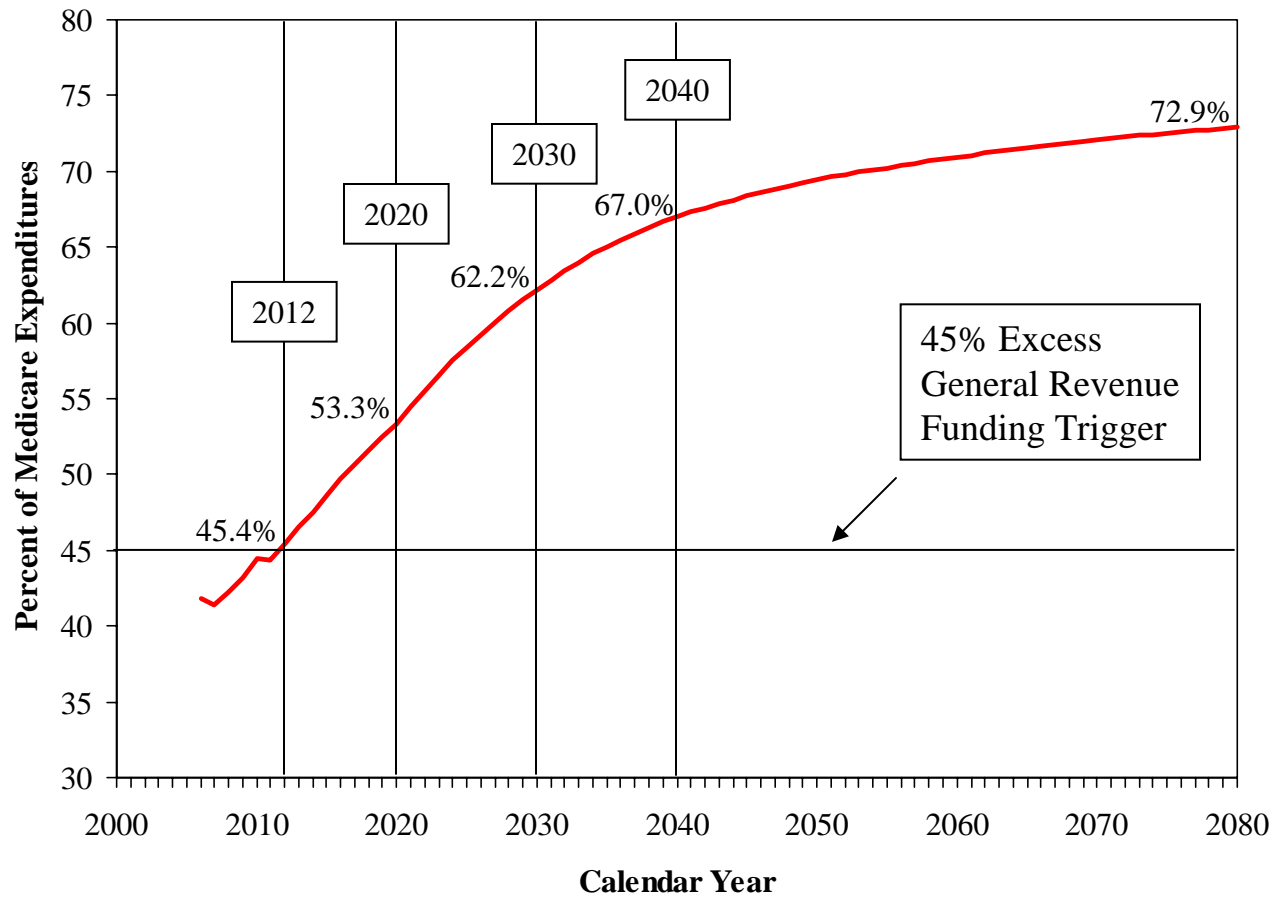
Source: Table IV.B6, 2006 Social Security Trustees Report for first three columns. % income taxes calculated assuming that income taxes remain at the 50-year average.



Adding Medicare to the Mix: Taxes, Taxes and More Taxes



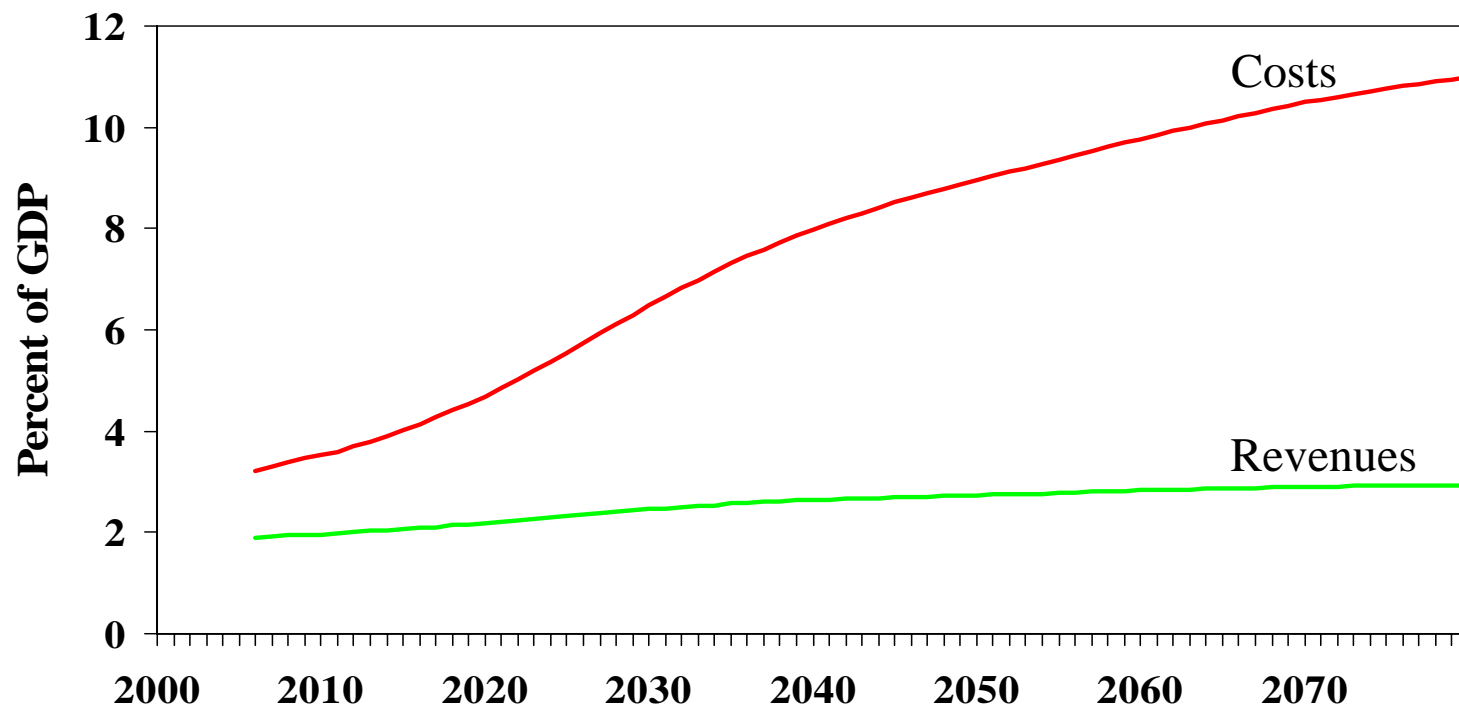
Medicare's General Revenue Burden



Source: 2006 Medicare Trustees Report



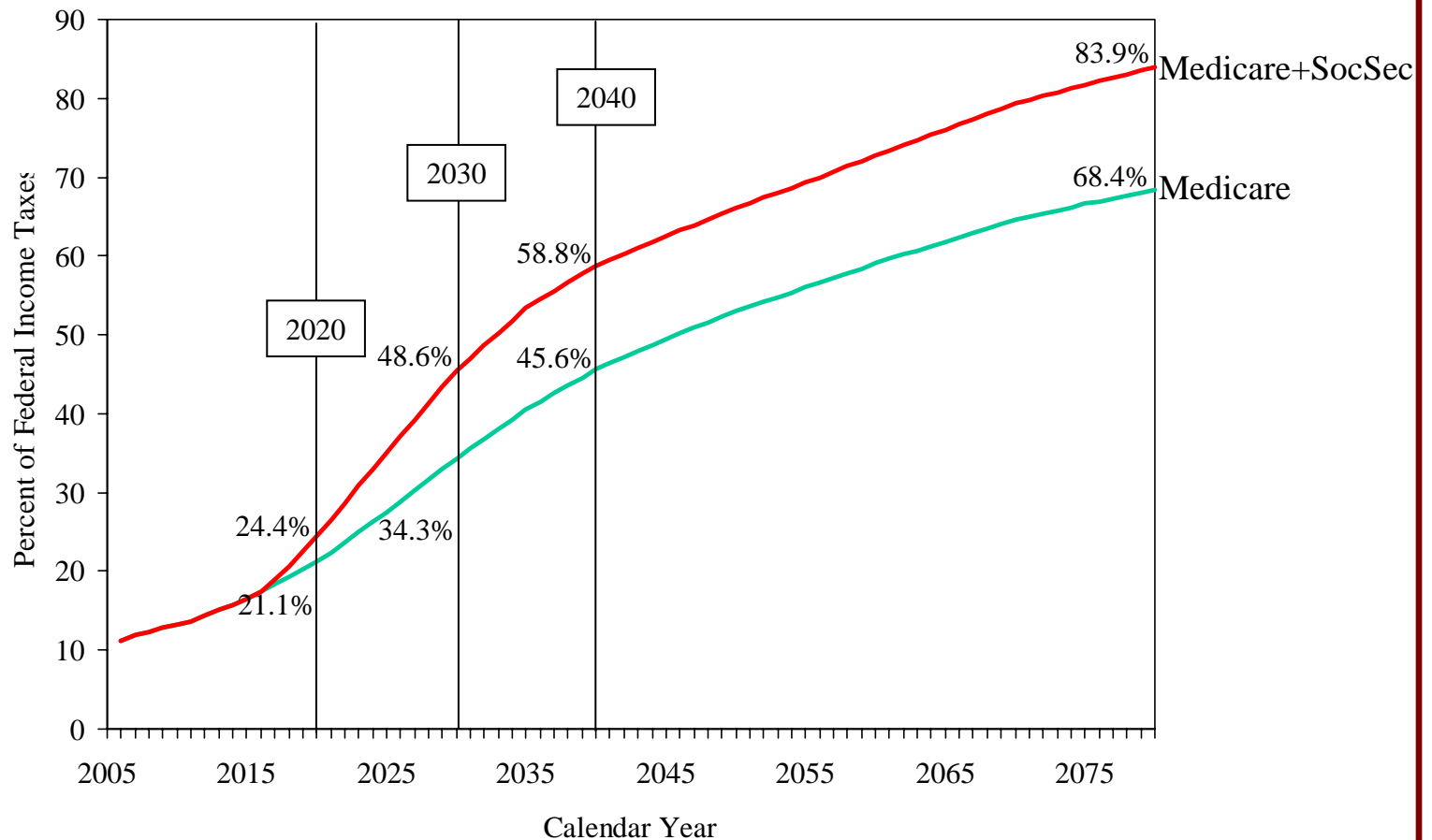
Projected Medicare Costs and Revenues



Source: 2006 Medicare Trustees Report Table III.A2, III.C15, III.C21, Social Security Trustees Report Table VI.F4, and author's estimates. Revenues include payroll taxes, taxes paid on Social Security benefits, premium income, and state transfers.



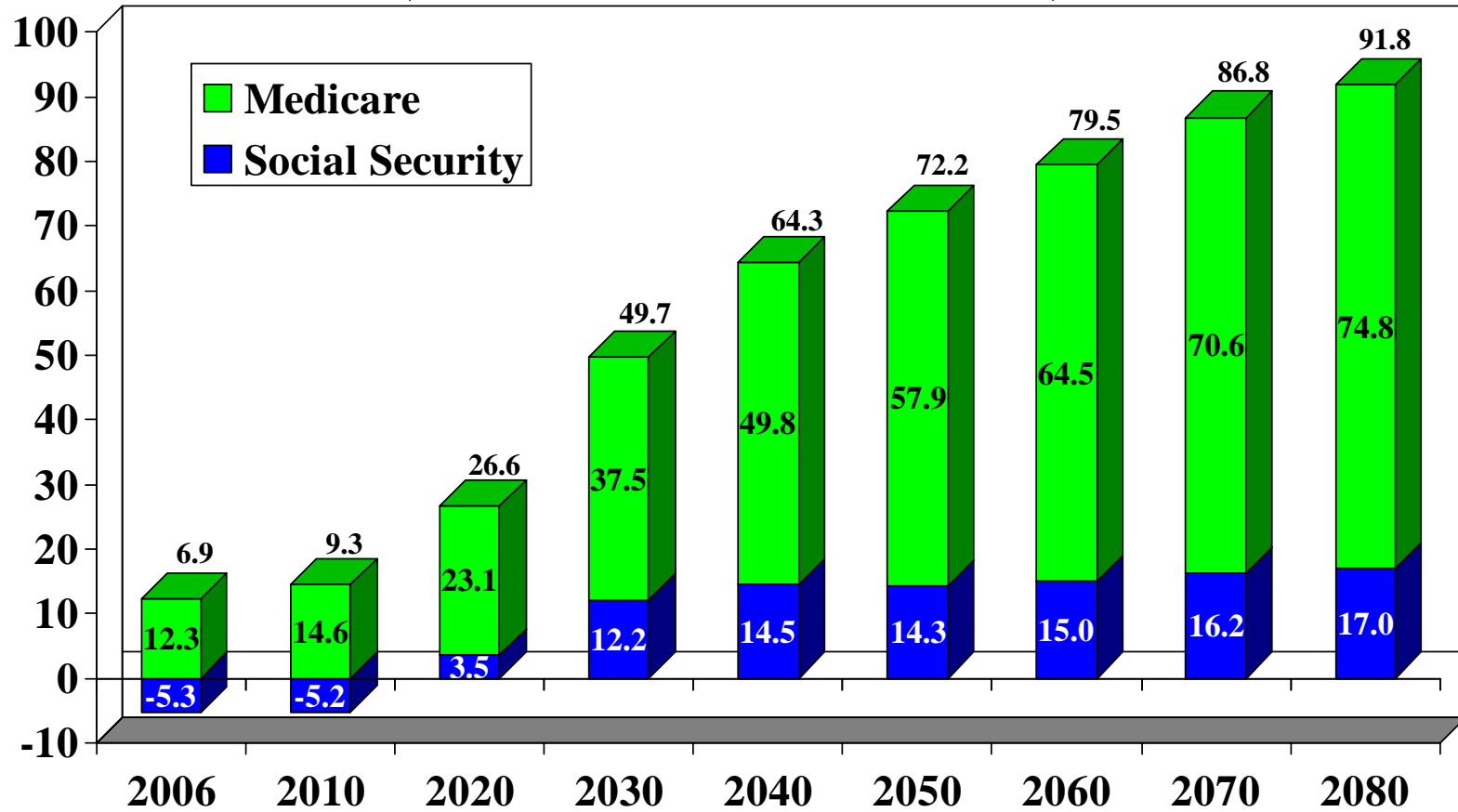
Social Security and Medicare Funding Shortfalls as a Percent of Non-Entitlement Federal Revenues



Source: 2006 Social Security and Medicare Trustees Reports and author's estimates. Non-Entitlement Federal Revenues are estimated to be 11.80% of GDP, the 25 year average.



General Revenue Transfers to Social Security and Medicare (as a % of income taxes)



Source: 2006 Social Security and Medicare Trustees Reports and author's estimates. Federal Income Taxes are estimated to be 10.76% of GDP, the 50-year average.



Composition of Social Security's and Medicare's Unfunded Obligations

Trillions 2006\$

Group	Unfunded Obligations		
	Medicare	Social Security	Combined
Current participants	27.2	15.1	42.3
Future participants	43.6	0.1	43.7
Current and future participants	70.8	15.2	86.0

Sources: Table IV.B7, 2006 Social Security Trustees Report and Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report.



Composition of Social Security's and Medicare's Unfunded Obligations

% of GDP

Group	Unfunded Obligations		
	Medicare	Social Security	Combined
Current participants	2.4	1.4	3.8
Future participants	3.9	0.0	3.9
Current and future participants	6.2	1.4	7.6

Sources: Table IV.B7, 2006 Social Security Trustees Report and Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report.



Composition of Social Security's and Medicare's Unfunded Obligations

% of Federal Income Taxes

Group	Unfunded Obligations		
	Medicare	Social Security	Combined
Current participants	22.3	13.0	35.3
Future participants	36.3	0.0	36.3
Current and future participants	57.6	13.0	70.6

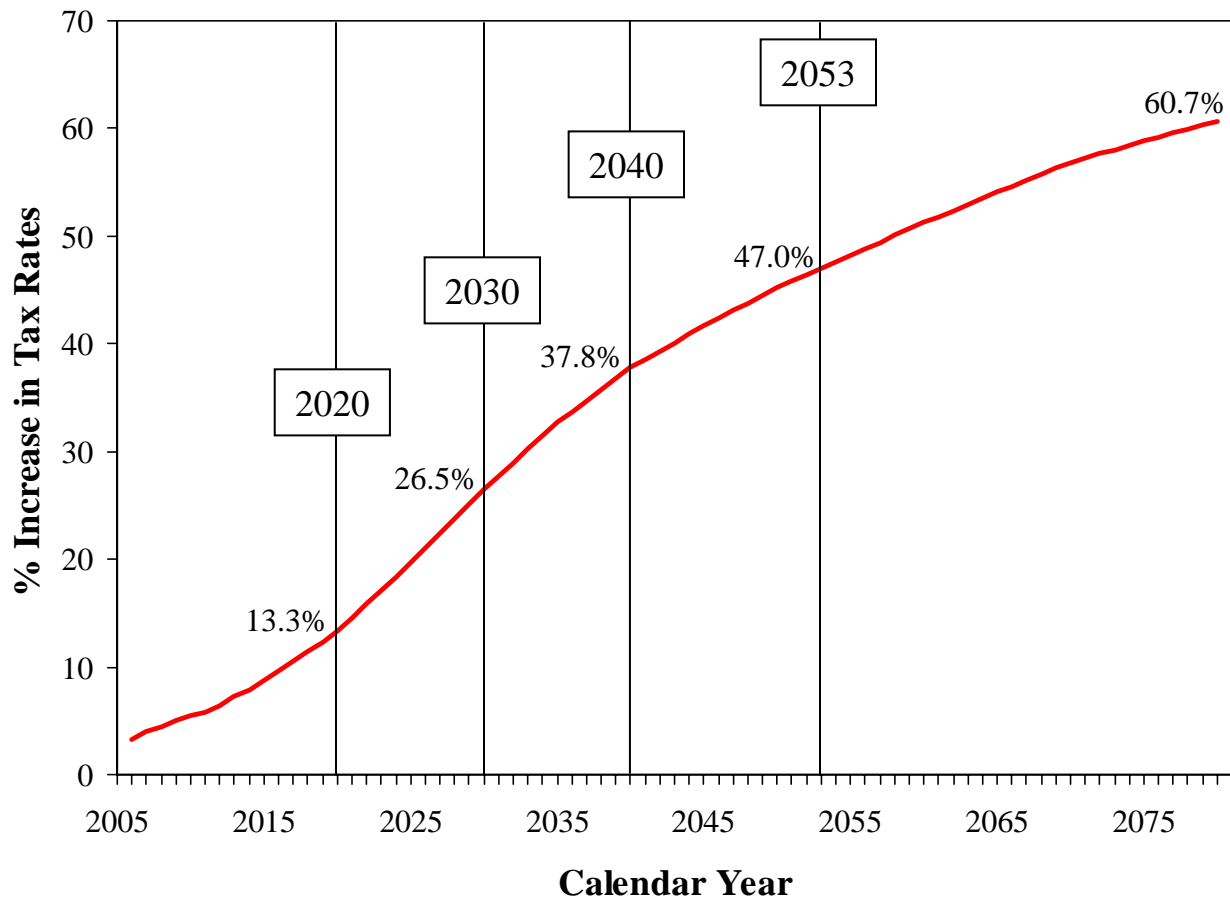
Sources: Table IV.B7, 2006 Social Security Trustees Report and Tables III.B11, III.C16 and III.C22, 2006 Medicare Trustees Report. Federal Income Taxes are estimated to be 10.76% of GDP, the 50-year average.



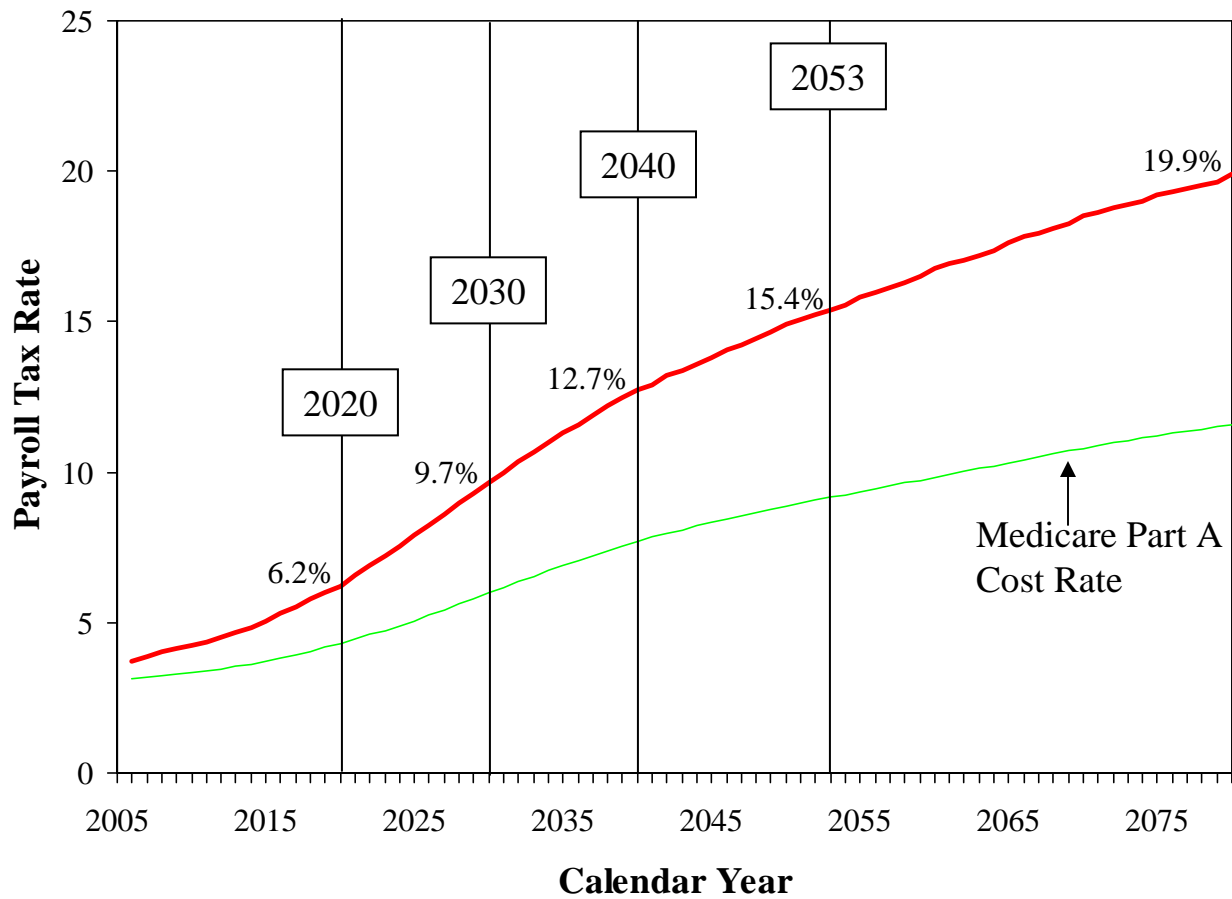
Your Future Tax Bite: Watch Your Wallet



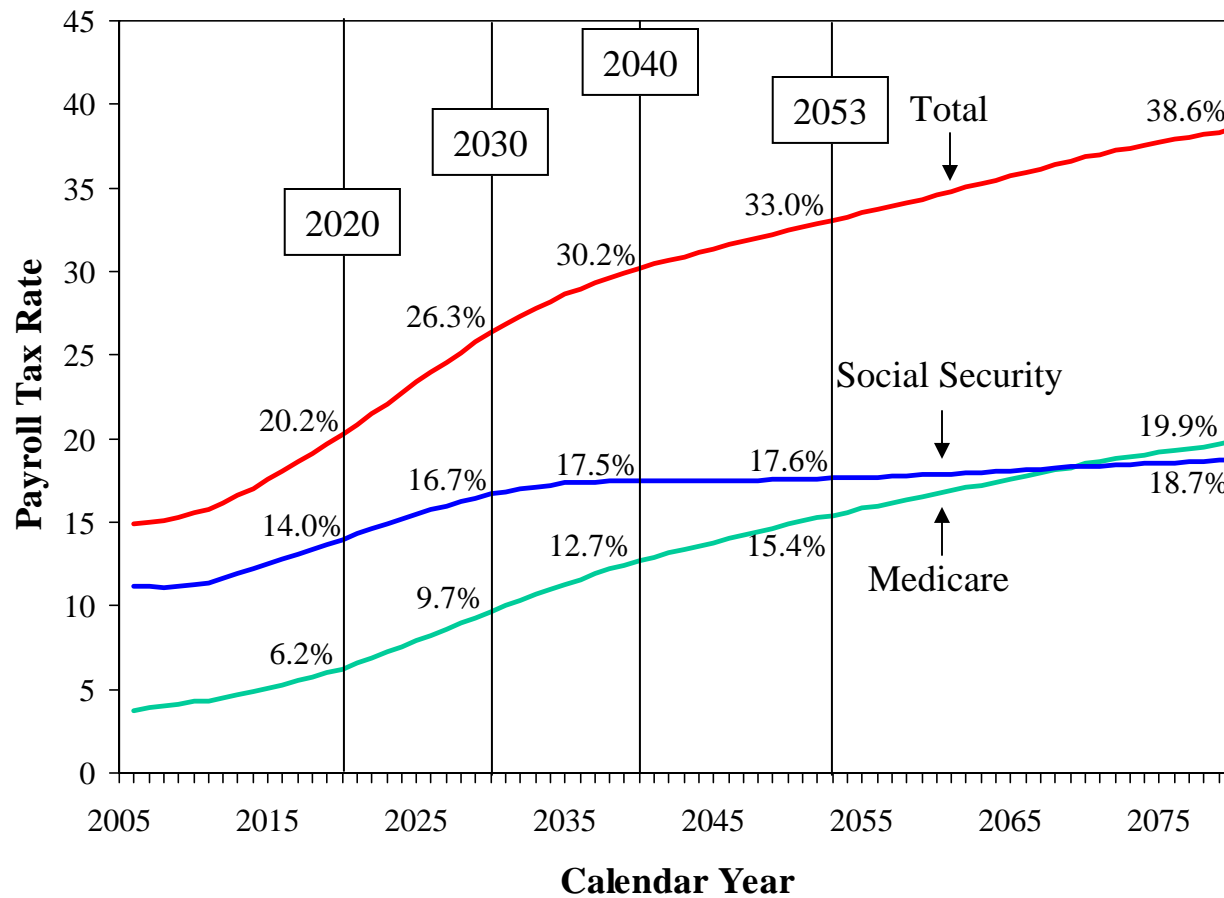
**Average Tax Rate Increase Required to Pay for
all Projected Medicare Deficits and Maintain Non-Entitlement Expenditures**
Part A Payroll Tax Rate Remains at 2.9%



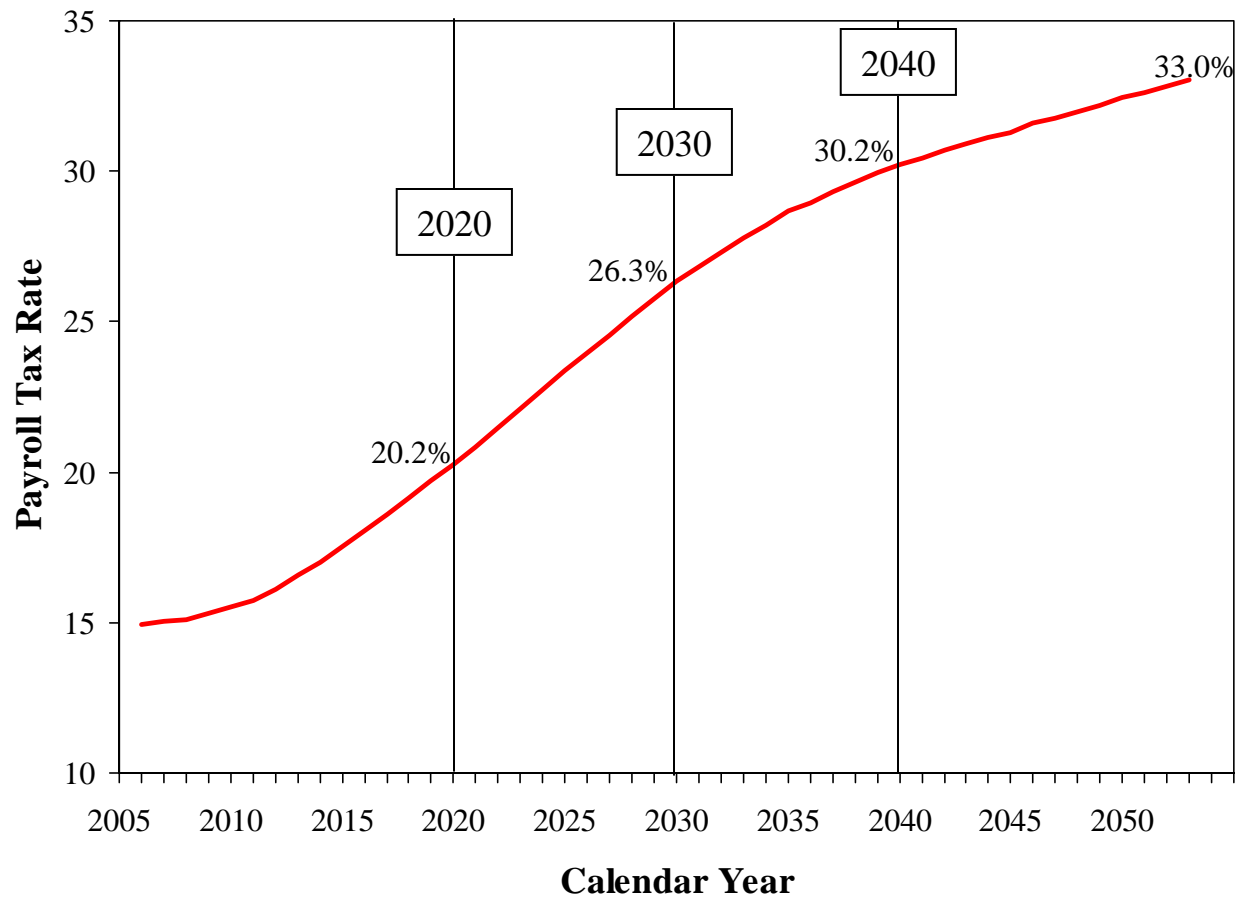
The Payroll Tax Required to Pay for Projected Current Medicare Deficits and Maintain Non-Entitlement Expenditure Share of GDP



The Payroll Tax Required to Pay for Projected Medicare and Social Security Deficits While Maintaining Non-Entitlement Expenditure Share of GDP



Your Payroll Tax Rates From Next Year to Full Retirement Age If You Are Now 20 Years Old

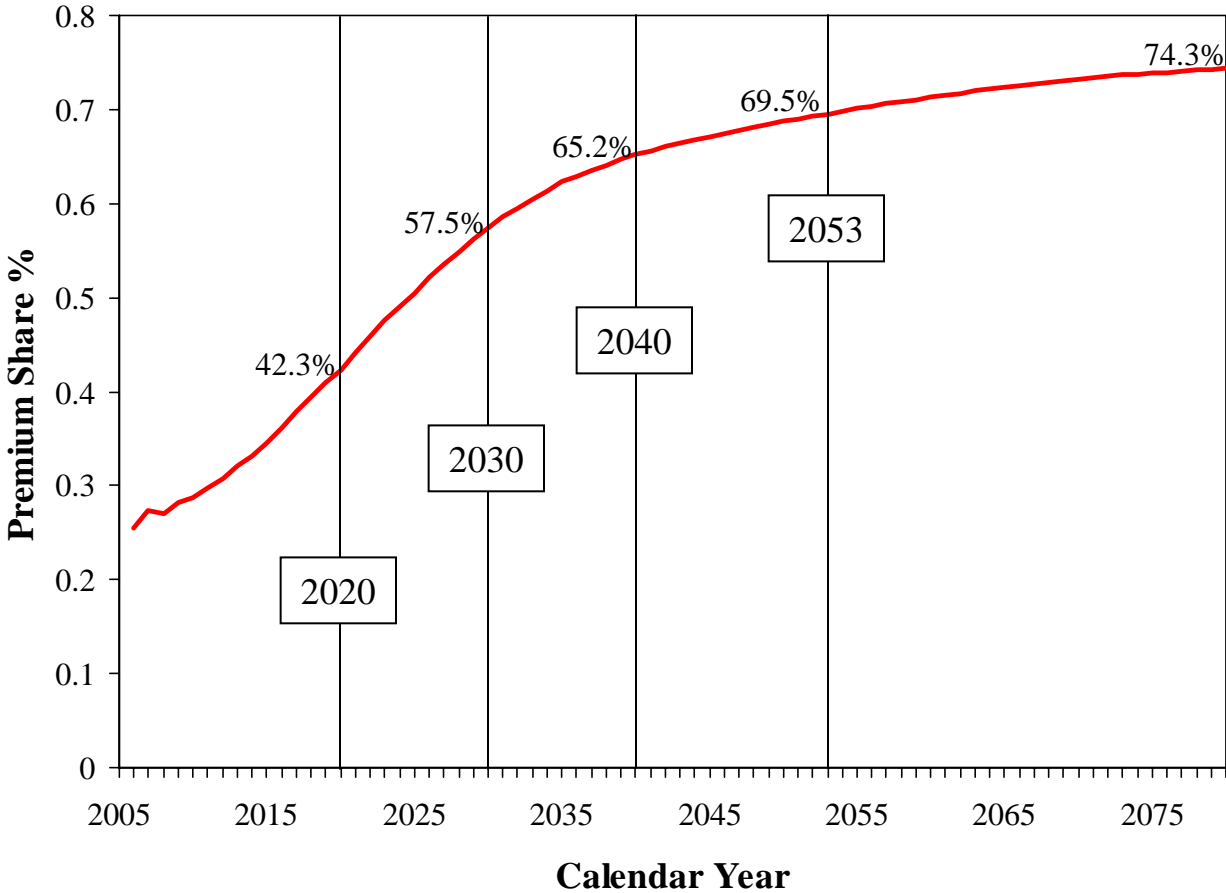


Why Not Stick It To the Elderly?



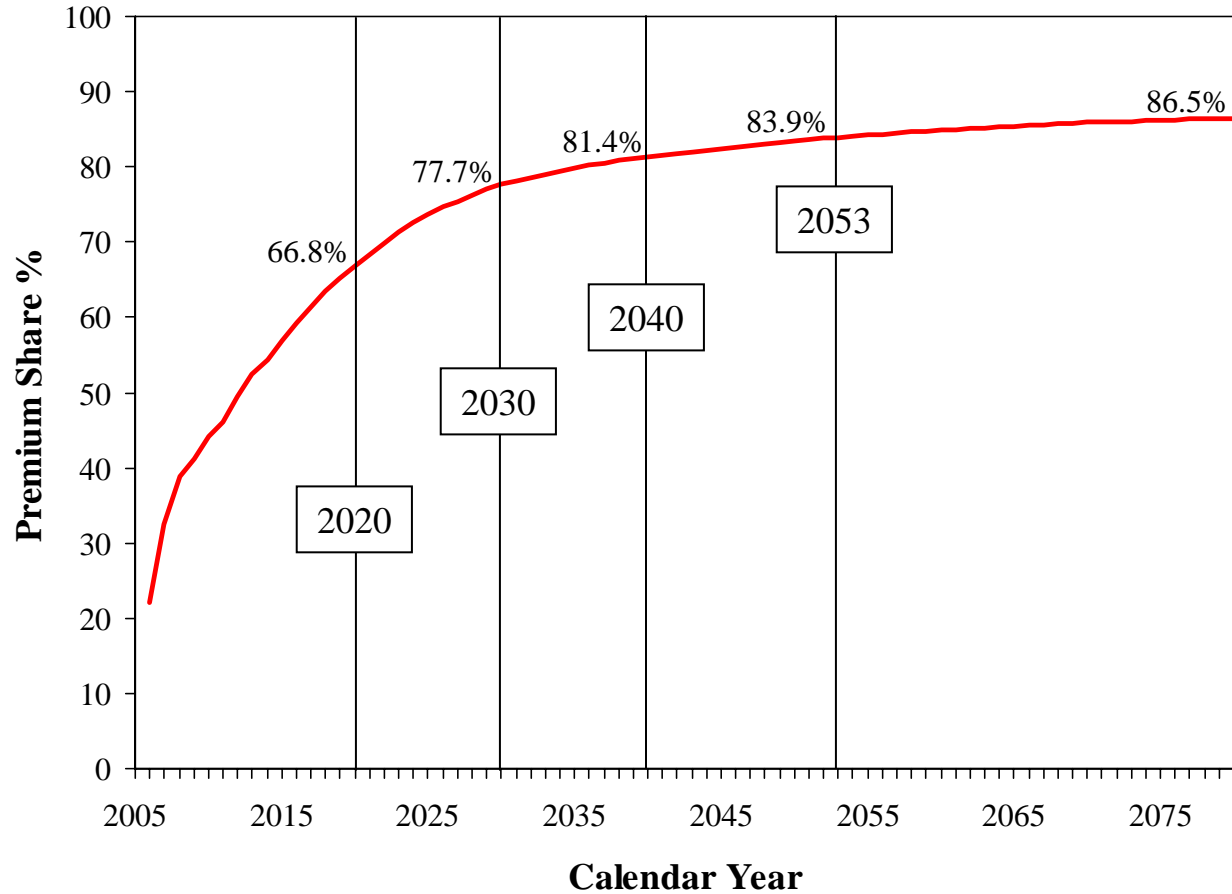
Premiums as a Share of Total Medicare Part B Expenditures

Part B Transfer Share Non-Entitlement Federal Revenues Fixed



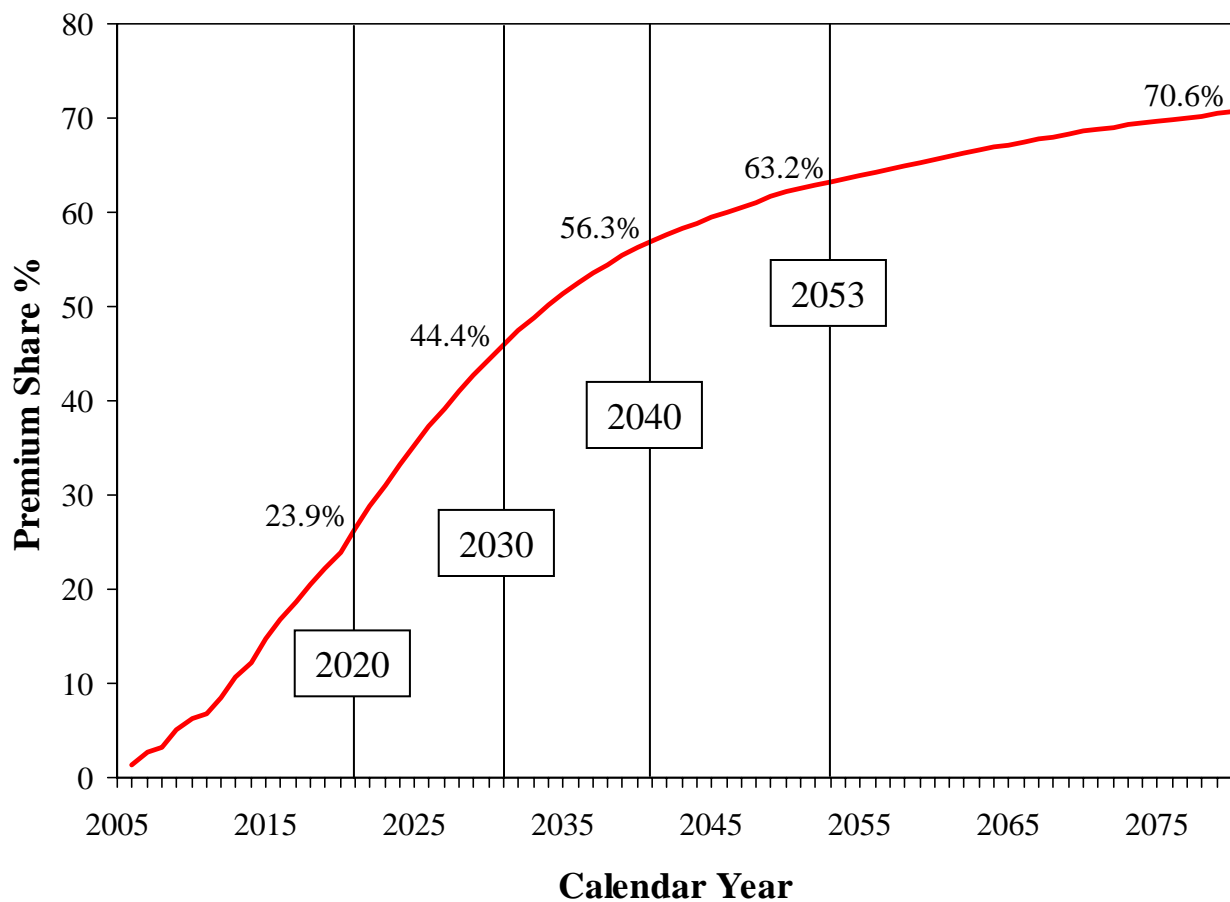
Premiums as a Share of Medicare Part D Expenditures

Part D Transfer Share of Non-Entitlement Federal Revenues Fixed



Premiums as a Share of Medicare Part A Expenditures

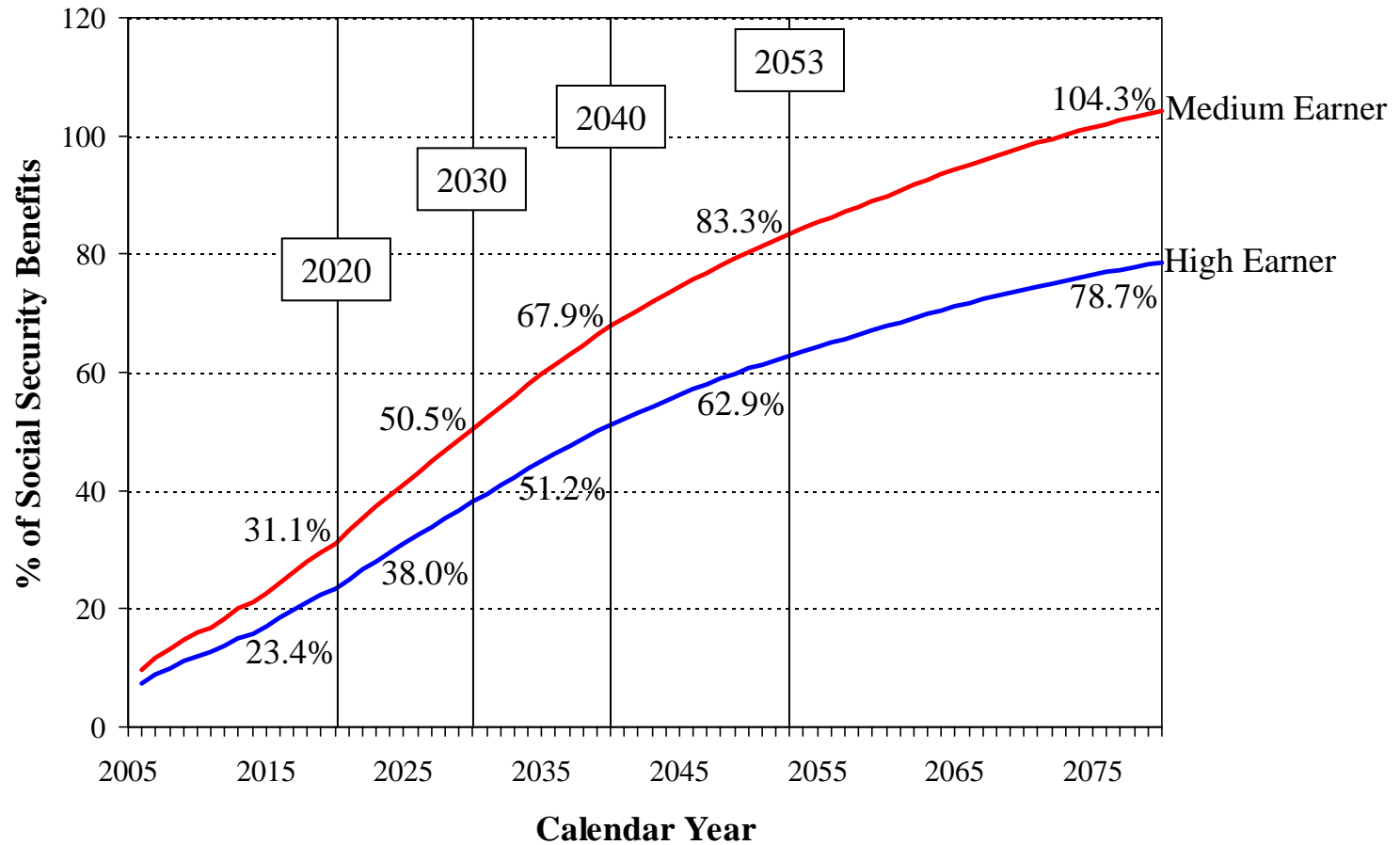
Beneficiaries Pay For All Deficits



Parts A, B, D Premiums as a Share of Projected Social Security Benefits

Medicare Transfer is a Constant Share of Federal Non-Entitlement Revenues

Part A Payroll Taxes Remain at Current Level



Transfer fixed 2006 share of GDP from Table III.A2 2006 Medicare Trustees Report.

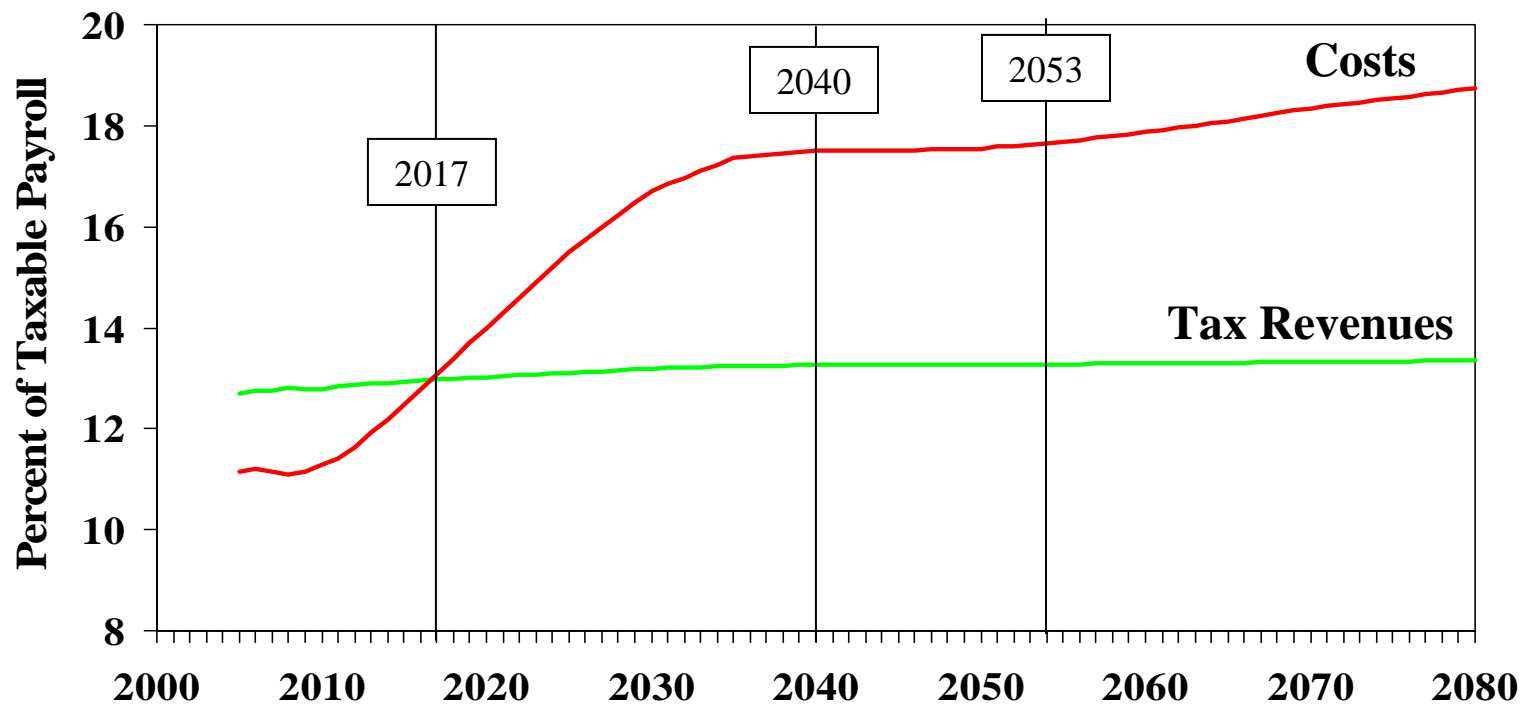


But, to Get the Social Security Benefits
Projected You Had to Pay the Projected
Taxes During Your Worklife



Projected Social Security Costs and Revenues (OASDI)

Taxable Payroll



Source: 2006 Trustees Report (OASDI), Table IV. B1.



What Can We Do About The Future?



We Must Set Aside Funds While We
Are Working For Retirement
Consumption
of Both Goods and Health Care



But How and How Much?



Setting Aside Funds Now Versus Paying Taxes Until Retirement

Program	Lifetime Contribution Rate	Lifetime Tax Rate
Social Security	5.4%	15.2%
Medicare	4.4%	10.3%
Total	9.8%	25.7%



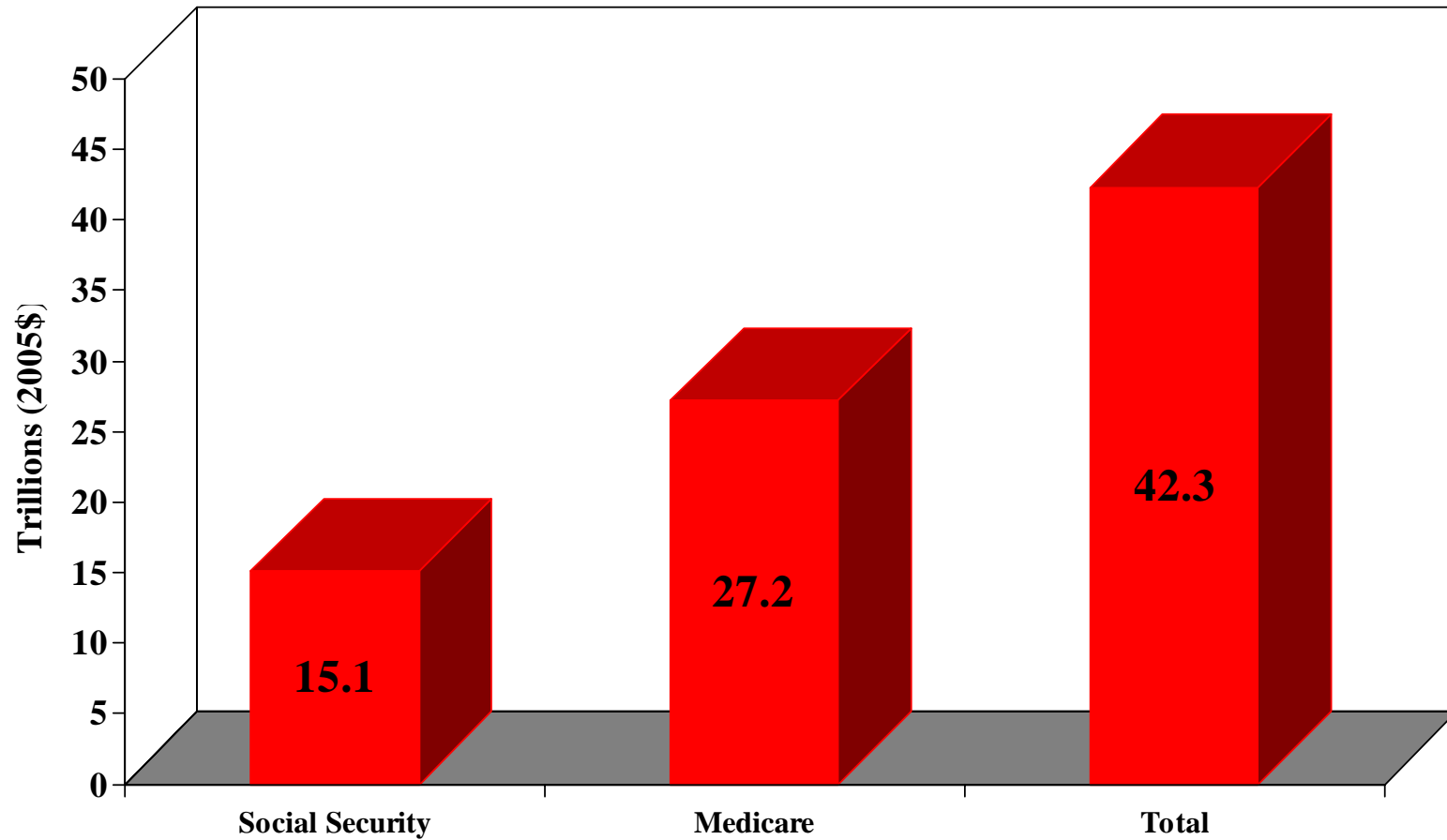
Since Its So Much Cheaper To Pay
Now, Why Not Switch Now?



What Do We Do With Everyone Older Than You? Just Cancel Their Benefits?



Total Closed Group Debt



Source: Table IV.B7, 2005 Trustees Report



Even If It's Better to PrePay, How
Should We Do It?
Centrally Held Versus Private
Accounts



Why Private Accounts?



The Employee Retirement Income Security Act (ERISA) and Social Security: The Current System is Exempt



Your Contract With Congress: They Can Change the Terms Whenever They Want

“The Proceeds of both the employee and employer [Social Security] taxes are to be paid into the Treasury like any other internal revenue generally, and are not earmarked in any way.”

Helvering v. Davis, U.S. Supreme Court, 1937.



Some Fundamentals of Reform

- Who participates in the reformed system?
- Is participation voluntary?
- Are participants compensated for accrued benefits?
- How does the benefit structure compare to current Social Security and Medicare?
- Are there any guarantees, and if so, what do they cost?
- How much of the current Social Security and Medicare debt does the reform pay off?



The Bottom Line

- Fundamental reform with prepayment can revitalize Social Security and Medicare while reducing government debt.
- Over the short term, reform is not free.
- Over the long term, reform reduces taxes and restores Social Security and Medicare to a sound fiscal position.
- Reform will eventually benefit recipients and workers alike.



What Can You Do?

- Don't let your representatives in Washington get away with telling you there is no problem.
- Don't let your representatives in Washington get away with telling you that the problem is in the distant future.
- Don't let your representatives in Washington get away with telling you that there is a painless solution.
- Make certain that suggested solutions contain guarantees of the rights of participants.
- How much of the current Social Security and Medicare debt does the suggested solution pay off?

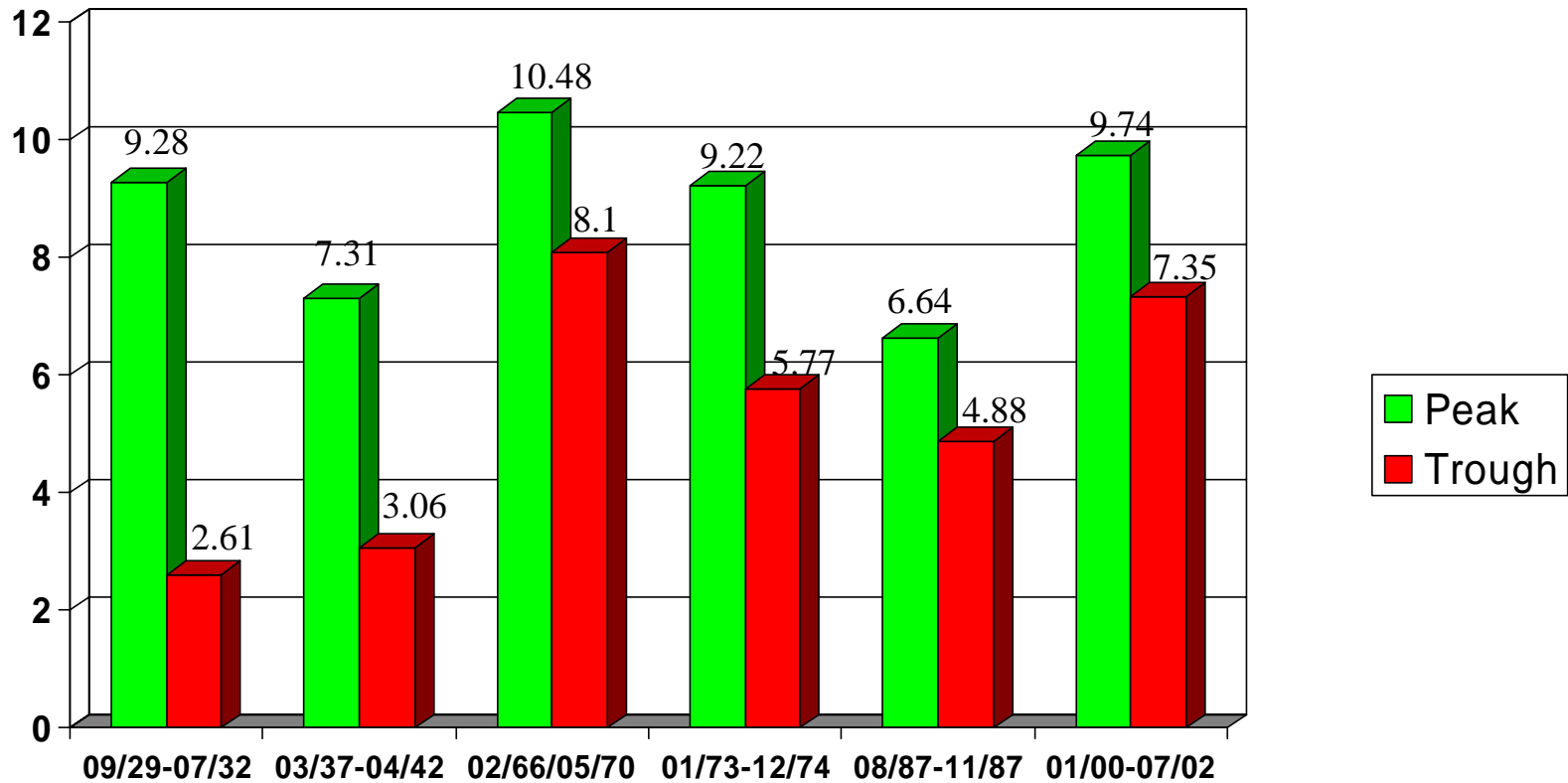


Aren't Private Accounts Too Risky?



Stock Market Peaks and Troughs

Annual Rates of Return on 35-year Portfolios



Peaks - Troughs

Peaks and troughs as defined by E.S. Browning (WSJ, 08/05/02) based on Dow Jones Industrial Average



Rate of Return on 35-Year Investment Annuitized at Retirement by retirement year

