



New Social Security and Medicare Report: Tax Increases Are Avoidable, But Only with Personal Savings Accounts

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The [2009 Social Security and Medicare Trustees Report](#) was released today, and the message (as usual) is not good. Here are some quick highlights:

When do these entitlements start paying out more than they bring in? In the case of Social Security, 2016 (only seven years from now). In the case of Medicare, we're already there. Medicare is losing money by the armful.

What happens when the programs start running a deficit? At that point, general fund taxes will start paying for a bigger and bigger share of the benefits. On Medicare, it's already there.

How big is Social Security and Medicare? Social Security is currently 4.4% of GDP, and will hit 6.2% of GDP in 2034. Medicare is currently 3.2% of GDP and will hit 11.4% in 2083. By the end of the window, these two programs alone should equal or exceed total federal spending in a typical year today. That's before counting interest on the national debt, and all of the other functions of government.

How much might taxes go up to "pay for" these programs? According to the report, the Social Security tax would have to rise from 12.4% today to 14.4% permanently. The Medicare payroll tax rate would have to rise from 2.9% today to 6.78% permanently.

That would raise the FICA tax rate from 15.3% today to 21.2% going forward. This rate of tax would be especially harsh on the self-employed, who have to pay both halves of FICA themselves.

What about benefit cuts? Sure, Congress *might* cut benefits, but that's a stretch. Social Security would return to balance with a 16 percent cut in benefits today. Medicare would be balanced with a whopping 53 percent cut in benefits

Congress might also opt for a lethal combination of tax increases and benefit cuts. The most likely short-term outcome is to float more debt, but that only postpones the decision on how to finance the shortfall.

So are we stuck? That's the good news. The answer is "no." If Congress allowed younger workers the choice to save their Social Security and Medicare taxes in a personal account they own and control, these programs would be pre-funded (as opposed to the current underfunded "pay as you go" tax and spend mechanism). The prefunding would be good forever, benefits would almost certainly be higher, and the programs themselves would not be in such dire straits.

Pro-younger worker solutions like pre-funded personal savings accounts are a far better solution (for the workers and the economy) than tax increases, benefit cuts, or more debt.