WebMemo
Published by The Heritage Foundation
No. 1958
June 17, 2008

Courageous Reforms in Ryan's Entitlements Road Map: Where Is the Democratic Response?

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For years, political deadlock has stymied pressing reforms from health care to taxes to entitlements. Congressman Paul Ryan (R–WI), ranking member of the House Budget Committee, has attempted to break the deadlock, challenging members of both parties to take these serious issues seriously. Leading by example, Ryan has released a collection of bold, comprehensive, and sweeping reforms covering a broad spectrum of issues.[1]

The centerpiece of Ryan's proposal is major reforms in Social Security, Medicare, and Medicaid. The details of these proposals are important, and some are presented briefly below. Far more important, however, is that the nation now has before it substantive proposals that address its most pressing fiscal policy issues.

Members of the majority party in Congress, in leadership and out, including the chairmen of all the major committees of jurisdiction, have expressed deep concerns over these important yet unsustainable entitlement programs. The majority should respond constructively to Congressman Ryan's proposals and engage on the issues. It is long past time for them to act, either by moving the Ryan proposals through their respective committees toward ultimate passage or by putting forward their own ideas in concrete terms. To quote Walter Mondale's famous query to Senator Gary Hart, Ladies and gentlemen of the majority, "Where's the beef?"

The Need for Reform and Roads Not Taken. The big three federal entitlement programs of Social Security, Medicare, and Medicaid are vital to seniors and the poor, but they are also unsustainable in their current forms. If left unchecked, growth in these programs means that federal spending, excluding interest, would increase from 18 percent of gross domestic product (GDP) today to 28 percent in 2050 and continue to increase from there. While growth in all three programs would be transformational, Medicare grows particularly rapidly. In fact, by 2050, Medicare spending alone as a percent of GDP would be far greater than spending on all three entitlements is today.

The projected growth of federal entitlements dictates that something fundamental in America is about to change. Allowing these programs to continue on their current course would necessitate a change elsewhere: specifically, a vast shift of the nation's resources from working families to seniors. Yet such an "autopilot" scenario still demands that entitlement spending be financed either by issuing debt or raising taxes. Recent correspondence from Congressional Budget Office (CBO) Director Peter Orszag to Congressman Ryan speaks to this issue.[2]

According to the CBO, if the growth in entitlements were funded by issuing debt, then the debt-

This paper, in its entirety, can be found at:
www.heritage.org/Research/SocialSecurity/wm1958.cfm

Produced by the Thomas A. Roe Institute for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

to-GDP ratio would rise from about 37 percent today to more than 290 percent in 2050. As Orszag's letter notes, that would be "a large figure by any standard." The consequence of such an increase, according to CBO analysis using a textbook growth model, is that per capita income[3] would stop growing before contracting in the late 2040s. The letter goes on to note that "beyond 2060, projected deficits would become so large and unsustainable that the model cannot calculate their effects." Additionally, the CBO believes that "such estimates greatly understate the potential loss to economic growth under this scenario."

In short, issuing debt to cover the explosion in entitlement spending would be economically catastrophic.

Rather than issuing debt, the growth in entitlements could be funded entirely with higher taxes. According to the CBO, tax rates would then nearly double from current levels. For example, the 10 percent rate would have to increase to 19 percent, and the top current rates on individuals and corporations of 35 percent would have to increase to 66 percent. And those rates apply only if there is no consequent change in the path of economic growth from higher taxes.

In contrast, the CBO estimates that per capita income would drop between 5 percent and 20 percent if those rates applied. Such a decrease in income would mean that tax rates would have to be significantly higher still, further shrinking the economy. The inevitable conclusion is that raising taxes to pay for the growth in entitlements is also out of the question.

If debt finance would be catastrophic and raising taxes to cover entitlements is also out of the question, then slowing the growth in entitlement spending is the only viable option for reforming Social Security, Medicare, and Medicaid.

The Ryan Entitlements Road Map. The Ryan road map includes comprehensive reforms in Social Security, Medicare, and Medicaid that would bring each of these programs back under control. The key elements of each are listed below.

Social Security

1. **Eligibility Age:** Under current law, the eligibility age for Social Security benefits increases gradually, reaching age 67 by 2026. Congressman Ryan proposes to accelerate that process by one year and to index the eligibility age thereafter according to changes in life expectancy.
2. **Progressive Price Indexing of Initial Benefits (PPI):** Under current law, initial benefits are determined by an individual worker's wage history, with wages earned in a given year indexed for nominal wage growth, a rate that traditionally has far exceeded the growth in the price level. For those now under 54 years of age, progressive indexing indexes worker history for higher-income earners according to the rate of price inflation.
3. **Personal Accounts:** Beginning in 2011, workers would have the option of dedicating portions of their Social Security payroll taxes to personal accounts, phasing in the portion that may be directed to these accounts up to 5.1 percent.

Medicare

Medicare reform is inextricably linked to reforms in the health care system generally. The Ryan plan includes important health care reforms such as a new $2,500 single ($5,000 for couples) refundable tax credit available after purchase of a private health insurance plan. This and other reforms in the private health care system would ultimately make reforming Medicare easier and provide a seamless transition to Medicare for newly eligible seniors.

1. See Representative Paul Ryan, "A Roadmap for America's Future," May 17, 2008, at *http://www.house.gov/budget_republicans/americanroadmap_home.shtml.*
2. See letter from CBO Director Peter Orszag to Representative Paul Ryan, May 19, 2008, at *http://www.cbo.gov/ftpdocs/92xx/doc9216/05-19-LongtermBudget_Letter-to-Ryan.pdf*
3. The letter refers specifically to per capita gross national product, a concept related to the more common gross domestic product. The mirror image of GNP is gross national income, which is the total income earned by U.S. residents through productive activities.

1. **Standard Medicare Payment:** Beginning January 1, 2019, Medicare beneficiaries would participate in an entirely new program. Under the new program, beneficiaries enrolled in a private health care plan would receive $9,500 annually in premium support payments, to be applied to the cost of their individually purchased health care plan.
   - The payment amount would be indexed to reflect health care inflation, and
   - The payment would be made directly to the Medicare-approved insurance company, with any remaining balance returning to the beneficiary as a refund.
2. **Income Relating:** Premium support payments for beneficiaries with incomes above $80,000 ($160,000 for couples) would decline as their incomes rise, but even couples with incomes above $400,000 would receive $2,850 to help cover insurance premiums.
3. **Low-Income Beneficiaries:** Low-income beneficiaries would receive the additional benefit of medical savings accounts (MSAs) funded by Medicare. The amount of funding each year would be set equal to the average deductible of a high-deductible health plan.

Medicaid

Congressman Ryan's planned Medicaid proposal focuses on three fundamental reforms.

1. **Allow** states to choose whether to continue their current Medicaid programs under a block grant program or allow their respective Medicaid populations to participate in the health insurance tax credit program;
2. **Retain** current Medicaid for states' long-term and disabled populations; and
3. **Make** the SCHIP population eligible for the health insurance tax credit.

Conclusion. The Ryan road map for America is a comprehensive blueprint for fundamental reforms in a wide spectrum of federal programs. For all the details, of which there are many, two aspects of this program stand out:

First, these proposals represent genuine reform deserving of serious consideration.

Second, the nation now awaits and deserves to hear from the congressional majority party about its ideas. Talk of problems is not enough. Promising proposals is not enough. It's time for all sides to join with Congressman Ryan and get serious about entitlement reform.

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