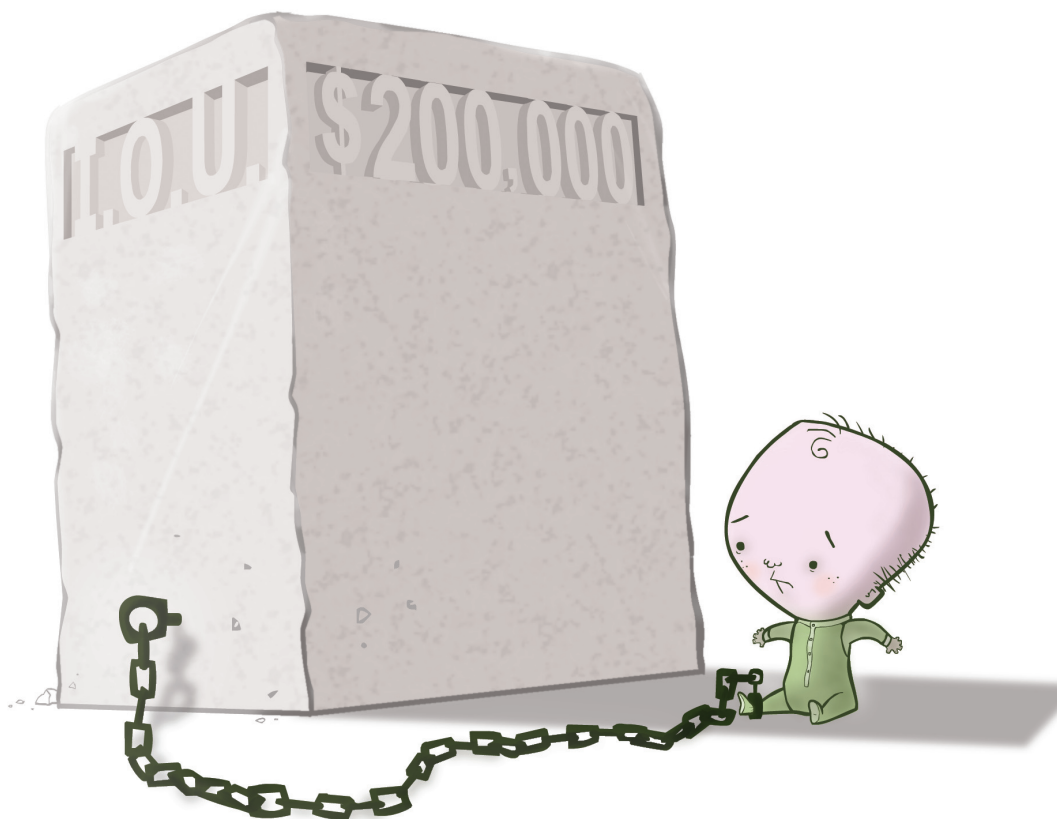


The Economy Hits Home: Entitlements

Why every American born today owes \$200,000 and what to do about it



What Do You Know About Entitlements?

1. What is the most serious fiscal problem that Americans face?

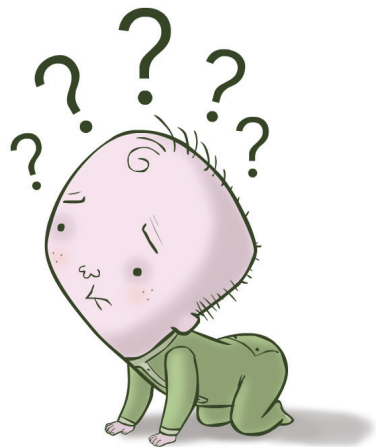
- A. The cost of oil and gas
- B. Paying for ever-expanding bailouts and stimulus packages
- C. Affording the next iPhone
- D. Paying for entitlements

2. What is an entitlement?

- A. The right of all free citizens to retirement help and health care
- B. A federal program that provides guaranteed benefits to eligible recipients
- C. Acquiring the deed to a plot of land
- D. Eating chocolate because “you deserve it”

3. How does the government budget for the cost of entitlements?

- A. The cost of entitlements are clearly listed in the budget and compared to other spending priorities.
- B. The money comes from the budget of the Department of Health and Human Services.
- C. Entitlements are entirely and exclusively funded by payroll taxes.
- D. The government doesn't budget for the cost of entitlements.



4. What are the big three entitlements?

- A. GM, Chrysler, and the Bank of America
- B. Life, Liberty, and the Pursuit of Happiness
- C. Social Security, Medicare, and Medicaid
- D. Eat, Drink, and Be Merry

5. How much does the bill from entitlements and the national debt amount to for each American? (hint: check the front cover)

- A. \$50,000
- B. \$200,000
- C. \$2,000
- D. A shrubbery

Bonus Question:

If your budgeting relied on the same accounting methods used by the government to tabulate entitlement debt, where would you end up?

- A. Jail
- B. Bankruptcy court
- C. The streets, shuffling along in your bathrobe
- D. Fleeing the country
- E. Some combination of the above

Answers:

- 1. D
- 2. B
- 3. D
- 4. C
- 5. B

Bonus Question: E

The Economy Hits Home: Entitlements

Why every American born today owes \$200,000 and what to do about it

Stealing from Our Children

If you've noticed the trillions of borrowed dollars sent out from Washington in the recent bailout and stimulus packages, you already know that the federal government has a spending problem. But when it comes to "entitlements" like Social Security, Medicare, and Medicaid, this recent spending binge is a drop in the bucket. We're talking about a difference of \$2 trillion that went out the door in the recent spending spree compared to \$45 trillion (that's in today's dollars, so it will amount to even more down the road in, say, 2050) that we're committed to spending in coming years.

How in the world did we let our debts get so unmanageable? We'll explain....

Every year, Washington is spending money that will have to be repaid with interest by our children and grandchildren. In addition, Washington has promised future benefits for which there is no money. Their excess costs (along with other

obligations like the national debt) are \$200,000 per person today, an amount that is poised to crush younger generations.

We're not simply spending their inheritance. If we don't fix entitlement spending, massive debt and a crippled economy will *be* their inheritance. This is more like theft.

Members of Congress know about this problem, but the way Congress budgets for its spending makes it easier for them to do nothing about it. Worse, Members of Congress serve their own interests in preserving the arrangement: Entitlement benefits appeal to voters. Much of the *cost* of the benefits, however, is punted to the future, long after current Members of Congress are gone.

As a result, Congress probably will never agree on real solutions until millions of ordinary Americans see the dangers ahead and demand real action. To do that, we first need to understand how Washington spends your money and how entitlements threaten to steal the nation's future.

Editor: Jay Richards, Ph.D., author, *Money, Greed and God: Why Capitalism Is the Solution and Not the Problem* (HarperOne, May 2009) and visiting fellow at The Heritage Foundation.

Illustrations: Mike Owens

The Maynard Family's Creative Accounting

To understand how wrong Washington's approach to budgeting really is, let's consider how a family should budget. You probably prepare a monthly or annual budget to make sure that you're not spending more money than you're bringing in, right? It's basic arithmetic. You add up the cost of your mortgage payments, food, utilities, clothes, insurance, Blockbuster fees, and so forth. You may borrow money for some things, like a home or college tuition, but not so much that you can't pay off your debt or get buried in unaffordable payments over the long run. If you're overspending, a realistic budget gives you advanced warning so that you can adjust your habits.

Unfortunately, not everyone is this responsible. We all know people who don't budget at all or who write out a budget but don't stick to it. Still others exercise such creativity in budgeting that the results are both unrealistic and reckless.

Imagine a family, the Maynards, who develop a budget with two categories: "regular" and "off-budget" spending. They put many of the ordinary things families budget for, like food, utilities, and entertainment, in the visible column. This seems to be a reasonable approach. But the

Maynards have another part of their budget that they exempt from the normal budgetary restraints—they're "off-budget." They include things like cars, house payments, kids' college funds, a second home for use in retirement, and other things that may be added from time to time. Mom and Dad Maynard both have good jobs. Even so, they can't manage to stay within their means because of this off-budget spending. They always spend more than they make, in the process racking up big credit card bills, car loans, mortgages, and the like. And every year, the interest costs keep getting bigger.

The off-budget spending items are important to the Maynards, so they get *automatic* increases every year. This allows the Maynards to do things like buy a new car every year that's more expensive than the previous one or take money out of the house for a fancy vacation.

They really like the off-budget spending items, so they pay for them before they pay the bills for the rest of the budget. If they run out of money, they simply put the rest on the credit cards. They never compare off-budget spending to other priorities. Still, the policy *seems* to work for a while, since the Maynards bring home fat paychecks and can pay the minimum payments on the credit

cards. Besides, it's really popular with their kids.

There's one problem: Off-budget means out-of-sight and out-of-mind when it comes to budgeting restraint and priority setting. The Maynards don't have a short-term plan to make sure their income covers *all* their spending. Nor do they have a long-term plan to pay for the ballooning costs from their debt and the interest it's accumulating. Anyone doing a realistic budget would have noticed that the automatic off-budget increases were outpacing the Maynards' annual rises in income. They could also see that those minimum payments would never fully pay off the credit cards either.

Put simply, the Maynards' budget is a lot like a credit card bill that shows the minimum amount due but hides the total balance or the finance charge. In fact, their budget scheme is so bad that if they don't mend their ways, the off-budget costs will eventually consume the Maynards' *entire* budget, with nothing left over for utilities or food. If the parents do not make major changes in their spending, they will have nothing to pass along to their kids when they are gone.

If you see the problems with the Maynards' reckless finances, you'll soon understand the problems with entitlement spending in the U.S.

Congress. Congress, unlike a responsible family, doesn't use common-sense budgeting. Not even close.

Entitlements

Entitlement spending is the most serious fiscal problem that Americans face, but few of us really understand it. In the federal budget, *an entitlement is a program that provides guaranteed benefits to eligible recipients, such as retirees*. The “big three” entitlements are Social Security, Medicare, and Medicaid.

Like the Maynards, Congress treats entitlements one way and other parts of the federal budget—called “discretionary” spending—very differently. Discretionary spending includes the majority of those limited functions outlined by the U.S. Constitution, like national defense and a judicial system, but also numerous other functions.

These discretionary programs are budgeted annually and have to be balanced against each other to stay

“What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom.”

— Adam Smith

within the budget limit. A dollar spent on defense can't also be spent on education. That reality helps to restrain discretionary spending, since the federal government rightly brings in only so much money from taxpayers every year.

The Problem with Entitlements

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Unlike discretionary spending, entitlements are *mandatory* spending. They run on autopilot, getting first crack at whatever revenues the government collects. They even have mandatory *increases* every year. In fact, they're often described as if they were "rights."¹

Individual rights are one of the foundations of American society. As the Declaration of Independence puts it, we are endowed by our Creator "with certain unalienable rights, that among these are life, liberty, and the pursuit of happiness." You are a being with intrinsic dignity, and that dignity gives you rights that limit what the government and other people can do to you.

But using rights language where it doesn't apply dilutes our real rights. That's the problem with claiming a right that other people have to pay for, regardless of the consequences. It's a major distortion of the Founders' view of "unalienable rights"

What's an entitlement?

The "big three" entitlements are Social Security, Medicare, and Medicaid. In the federal budget, an entitlement is a program that provides guaranteed benefits to eligible recipients, such as retirees.

to say that I have a right for you to pay for my retirement—regardless of how much money I make and regardless of whether future taxpayers can actually sustain the benefits I'm claiming.

Unfortunately, when policymakers treat entitlements as if they were rights, many of us start to believe it, and that wrong idea about rights has dramatically harmful long-term consequences. Entitlement spending grows automatically each year without ever going through the regular budget process.

With such irresponsible budgeting, is it any wonder we're facing a fiscal crisis in entitlement spending? Congress doesn't have to debate this swelling chunk of the annual budget. Nor do Members of Congress have to account for the long-term costs of Social Security, Medicare, or Medicaid when they put together the federal budget to ensure that these programs are affordable and sustainable.

Remember the credit card bill that shows the minimum amount due but never shows the total balance or the finance charge? Could you plan the rest of your finances correctly if you got a bill like that? Of course not, and neither can Congress. And the reality is worse than this: Congress gets the short-term benefits from funding these programs, but the generations who follow will have to pay off these huge costs.

How Bad Is It?

Because entitlement programs are on autopilot, their spending is about to explode as the baby boomers retire and health care costs continue to rise. Economists say that spending will go from 10.3 percent of the economy to 19.6 percent over the next two generations. While most of us do not think in these terms, one crucial benchmark is that this level of spending for these three programs alone is higher than the historical level of taxes.

Looking at the problem from a different angle, Social Security will soon run massive deficits when spending exceeds taxes collected, and Medicare is already in deficit. Over the long term, they owe over \$45 trillion more in benefits than they collect in taxes. That's on top of other liabilities

such as the debt held by the public, which is projected to top \$10 trillion in 2011. Together, this adds up to a financial burden of \$200,000 for every American.

And remember: That's just the *unfunded* part. Every year that we fail to reform these programs, our children and grandchildren will be out another \$1 trillion or more. Delay only makes the necessary reforms more painful.

This all sounds so bad that it can be hard to grasp the size of these ever-expanding programs. So consider this: Together, they already exceed the *entire* Canadian economy.

That's bad enough, but in the future, it gets worse—a *lot* worse. In 1965, these three were about one-seventh of the federal budget. Today, they're more than half of it. If we don't fix them, in less than two generations they will take 100 percent of all federal revenues, leaving no money for national defense, education, the judiciary, homeland security, or anything else.

You might think that we could simply raise taxes to cover these ballooning costs, but the unprecedented tax levels needed to accomplish this would devastate us economically. Borrowing to pay for the programs, on the other hand, would lead to

unsustainable deficits—in other words, national bankruptcy.

Unless we do something fast, we will leave our children and grandchildren to deal with a disaster that we created.

Social Security

Let's start with what Social Security does. Social Security's retirement program provides a monthly income for qualified retired workers, spouses, and surviving children.

Two questions immediately come to mind: Don't we have a right to Social Security payments? Aren't we funding them with our payroll taxes? These are reasonable questions.

First, workers have no rights to their benefits. Two Supreme Court cases dealing with Social Security confirm this lack of property rights. The decisions in both cases explicitly state that workers have no ownership of their Social Security benefits.

Second, you might think of your Social Security benefits as coming


A Nation of Entitlements


Social Security, Medicare, and Medicaid cost more than \$1 trillion a year—about the entire economic output of Canada. Here are comparisons of spending on each entitlement program to other countries' economies.




Big Three Entitlements

\$1.35 trillion in spending adds up to the gross domestic product of Canada (\$1.28 trillion).

Social Security
 \$677.7 billion in spending — the GDP of The Netherlands (\$660 billion).

Medicare
 \$425.1 billion in spending — the GDP of Pakistan (\$433.1 billion).

Medicaid
 \$250.9 billion in spending — the GDP of Peru (\$251.4 billion).

Sources: World Factbook, CIA, Office of Management and Budget.

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from an actual account, in your name, that contains cash or investments—like a government-run pension fund. Social Security and Medicare are taxed separately from ordinary income tax on our paychecks, after

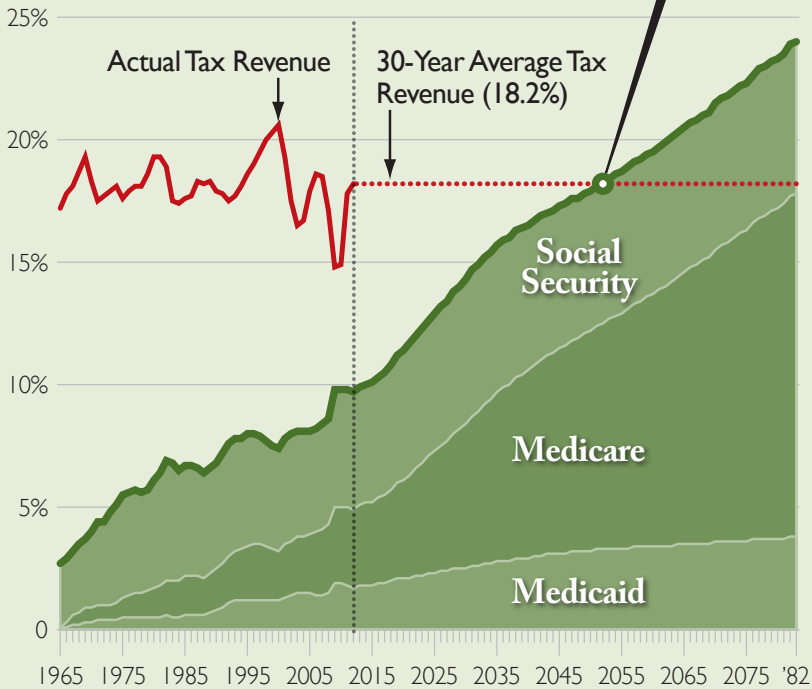
all. But that would be wrong.

Many believe that the amount we receive upon retirement is somehow related to how much we put in. So it's only fair that we get back what we paid in, right?

Economic Reality Imperils American Dream

Spending on the three major entitlements, Medicare, Medicaid, and Social Security, will more than double in the next 40 years. Without major reforms, entitlement spending will consume all federal tax revenues by 2052.

Major Entitlements and Tax Revenues as a Percentage of GDP



Source: Congressional Budget Office.

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This story is easy to believe, but it's also an illusion. There is no such right and no such fund. Social Security has no individual accounts at all, other than a bookkeeping record of an individual's yearly earnings and payroll taxes paid.

Sure, Social Security has a “trust fund,” but in name only. Ordinary trust funds are assets invested to give sustained support to recipients over a period of years. A father, for example, may set up trust funds for his children, from which they will receive regular payments after he has died.

But the Social Security “trust fund” isn't like that. It doesn't have cash or assets that could be sold like the assets of a normal trust fund. It represents only the amount of Social Security taxes collected beyond what the program needs to pay current benefits. These tax revenues are then spent on other government programs, leaving just IOUs that have no value beyond a promise to impose higher taxes or more debt on future workers.

In reality, the system taxes current workers to pay current retirees. This worked out pretty well when people didn't live as long as they do now and were having lots of kids. When Franklin Delano Roosevelt created Social Security as part of his New Deal in 1935, the average life expectancy at birth was a bit less than 62.

Now it's almost 78, which means that Social Security payments go on much longer today than they did in the past.

Also, early on there were almost 42 workers for every retiree but over time the ratio of workers to retirees has shrunk. Now, as baby boomers are starting to retire in droves—eventually at a rate of about 10,000 a day—we're nearing only *two* workers for every retiree.

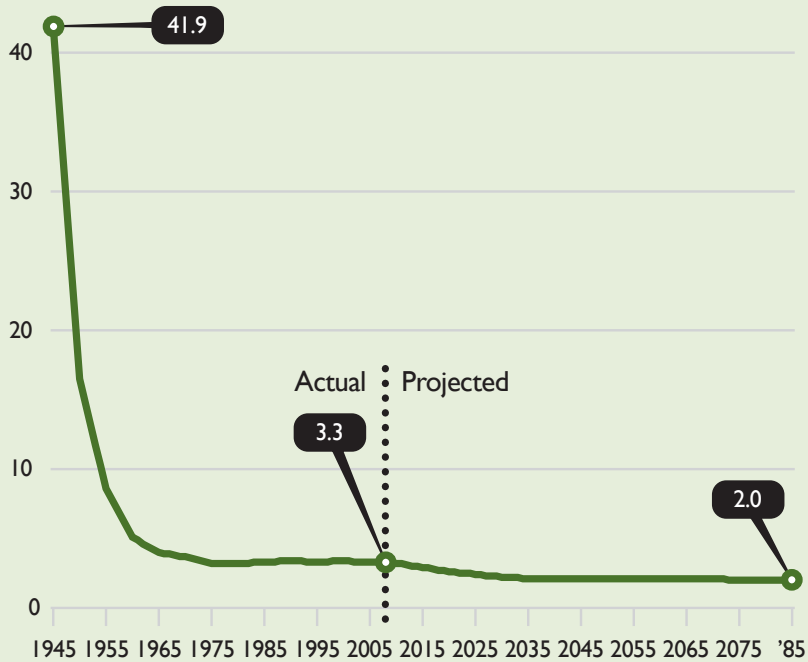
The Social Security system operates like a pyramid scheme: We have more and more people getting paid for longer and longer periods of time with fewer and fewer people paying into the system.

You could think of the Social Security system as resembling a pyramid scheme—a comparison that explains why pyramid schemes have been outlawed and why the need to reform Social Security is so serious. Let's say a guy from the gym offers to let you in on a new investment. He promises you a \$500 return in two weeks for an initial “investment” of \$100. All you have to do is recruit 10 more people to pay into the program, which is easy to do since you promise each of them \$500 for the same \$100 investment. The scheme can work forever—as long as you

The Ratio of Workers to Social Security Beneficiaries is Declining

As the baby boomers age, the nation's demographic makeup will change greatly. Currently, there are approximately two workers for every Social Security beneficiary, while in 1945 the ratio was approximately 42 workers per retiree. This declining ratio means that fewer and fewer workers will be left to support more and more beneficiaries.

Covered Workers Per Social Security Beneficiary, Intermediate Scenario



Source: Social Security Administration.

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keep adding more participants. But that can happen only if you have an infinite number of them. Otherwise, the whole thing will collapse.

Guess what happens in the real world?

Social Security in its current form suffers from the same basic flaw:

More and more people are getting benefit payments while fewer people are paying. To make this problem worse, people are living longer, which means they are getting paid longer too. You don't need a Ph.D. in accounting or economics to see that Social Security will crumble in the long run—or the not-so-long run.

12 Medicare

Medicare was created in 1965 to help America's seniors pay for the costs of hospital and health insurance. Congress added a drug benefit in 2004.

Seniors pay a small portion of Medicare's total costs through their premiums, workers pay a portion of Medicare's costs through the payroll tax, and a large and growing subsidy is drawn from the pool of all other taxes paid. Many people mistakenly think that their payroll tax contributions go to a general Medicare fund and that they are thus entitled to all of its benefits. But the payroll tax that workers pay funds only one small part of Medicare—hospital insurance (Medicare Part A). Payroll taxes do not fund supplemental medical insurance (Part B) or the drug benefit (Part D). Instead, these programs are funded through general tax revenues and retiree premiums.

Medicare's problems are even bigger than Social Security's. There are two reasons for this: Fewer people are paying in while more people are drawing out for longer periods of time (like Social Security), and health care costs have been rising faster than the economy for decades. Medicare is now the third largest federal program after defense spending and Social Security. It will soon become the largest program, absorbing an ever-increasing share of the budget.

Medicare's problems are even bigger than Social Security's.

Over the years, Congress, like the Maynards, has added benefits without adding long-term plans to pay for them. When it created the Medicare drug entitlement in 2003–2004, for instance, Congress had no plan to pay for it. In fact, Members didn't know the full price tag of the plan until after they voted on it! Congress approved the plan based on a short-term budget outlook without having the full picture of what it would actually cost future generations. Over the next 75 years, just this one part of Medicare commits taxpayers (that is, our children and grandchildren) to an unfunded liability of \$7.2 trillion.

Medicare's main funding problem is the large and growing subsidy

given to America's seniors through Medicare benefits. This subsidy is available to seniors at all income levels, not just the poor, and is financed by general revenues and government debt, which imposes further costs on future generations.

This has serious long-term consequences: Either working Americans will face much higher taxes, or less tax revenue will be available to finance other spending priorities. Calling them “rights” does nothing to solve this problem. In fact, it perpetuates it.

Medicaid

Medicaid is a publicly funded health care program that is targeted at the poor and funded jointly by the states and the federal government. The biggest part of Medicaid's budget comes from rapidly growing costs for seniors, especially long-term care of the sort provided in nursing homes, which is not covered by Medicare. Because it is jointly funded, Medicaid coverage varies from state to state, although the federal government mandates certain kinds of coverage.

Like those of Social Security and Medicare, if left to pursue their present course, Medicaid costs will spiral out of control. Increasing costs have already led to shrinking services and rationing of health care. By 2050, federal Medicaid spending is also



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projected to more than double. Most of this spending growth will come from senior citizens.

If left to pursue their present course, Medicaid costs will spiral out of control.

How Not to Fix the Entitlements Problem

Almost everyone familiar with entitlements admits that they need to be fixed, but too many offer phony “solutions.” They claim that the problems will fix themselves with a little tweak here and a little one there. When examined, however, these easy “solutions” turn out to be little more than myths—excuses for delaying real action.

Your Turn:

- Why do you suppose programs like Social Security and Medicare were made universal rather than targeting those in dire need?
- Is it just to borrow money to fund government programs for ourselves that must be repaid with interest by future generations?
- What are the dangers of loosening the traditional definition of rights to include things like a taxpayer-subsidized retirement plan for everyone?



MYTH #1: Economic growth will generate enough revenue to pay for entitlement programs without changing any policies.

FACT: While economic growth may delay the disaster slightly, it won't solve the problem.

The Government Accountability Office, the federal government's chief accountant, calculates that we'd need decades of double-digit growth to pay for entitlements, but history says that this is not going to happen. Over the past 20 years, the U.S. economy has grown by an average of only 2.5 percent annually, and we're expected to stay at that rate for the next decade: hardly double-digit growth. Growing our way out of the problem

isn't a realistic solution. It's a myth.

MYTH #2: If we just eliminate pork-barrel spending and waste, we can pay for the out-of-control entitlements problem.

FACT: We should get rid of pork and waste, but compared to the cost of entitlements, pork is peanuts.

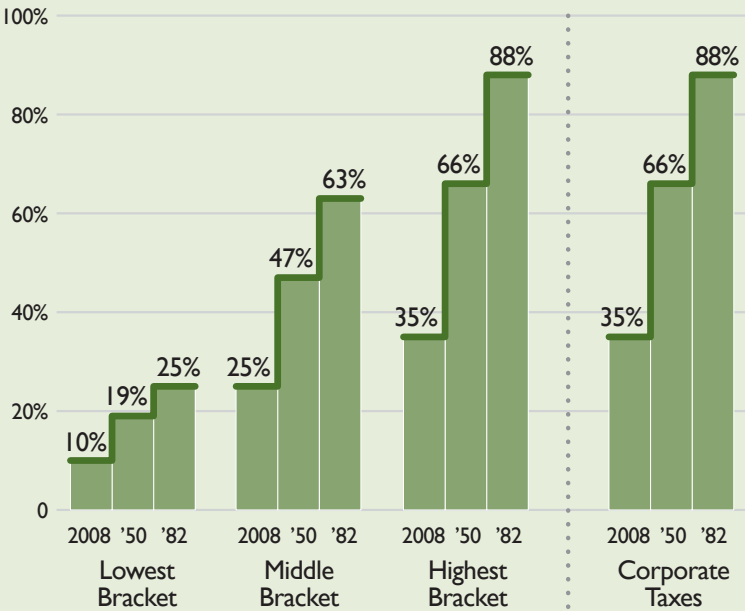
In 2010, government spent about \$15.9 billion on pork-barrel projects but more than \$1 trillion on entitlements. That's 60 times more for just three programs than Congress spent on all pork projects.

Even if we eliminated all of the waste along with programs like NASA and foreign aid, it wouldn't balance

Tax Rates Would Need to More Than Double If Entitlements Are Not Reformed

Under current law, the costs of Medicare, Medicaid, and Social Security will rise substantially. If this spending were funded solely through federal income tax increases, tax rates would more than double, even for the lowest tax bracket.

Increased Tax Rates Necessary to Pay for Entitlement Spending



Source: Congressional Budget Office.

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the budget. Even eliminating a vital constitutional function like the Department of Defense couldn't pay for the problems of Social Security, Medicare, and Medicaid.

MYTH #3: We can tax our way out of the runaway entitlement spending problem.

FACT: This isn't a revenue problem. It's a spending problem. Raising taxes on families and businesses to pay for entitlements can only make matters worse.

To pay for this runaway entitlement spending through taxes, tax rates would need to be raised

to shocking levels. According to the Congressional Budget Office, Congress’s nonpartisan official “scorekeeper”:

[The] tax rate for the lowest bracket would have to be increased from 10 percent to 25 percent; the tax rate on incomes in the current 25 percent bracket would have to be increased to 63 percent; and the tax rate of the highest bracket would have to be raised from 35 percent to 88 percent. The top corporate income tax rate would also increase from 35 percent to 88 percent.²

In addition to raising individual taxes, corporate tax rates would have to be hiked from 35 percent to 88 percent, but America already has one of the world’s highest corporate tax rates. Double it, and our companies wouldn’t be able to compete in a globalized economy, and jobs, wages, and opportunity would all suffer.

Besides, who says that Congress would actually use the revenue from the new taxes to pay for entitlements? Unless Congress first reforms how it treats entitlements in the federal budget, it would almost surely do what it has done with the Social Security “trust fund”: Spend it.

Myths and Facts About Entitlements

MYTH #1

Economic growth will generate enough revenue to pay for entitlement programs without changing any policies.

FACT: While economic growth may delay the disaster slightly, it won’t solve the problem.

MYTH #2

If we just eliminate pork-barrel spending and waste, we can pay for the out-of-control entitlements problem.

FACT: We should get rid of pork and waste, but compared to the cost of entitlements, pork is peanuts.

MYTH #3

We can tax our way out of the runaway entitlement spending problem.

FACT: This isn’t a revenue problem. It’s a spending problem. Raising taxes on families and businesses to pay for entitlements can only make matters worse.

How to Fix the Problem: Targeted Benefits and Personal Responsibility

At their best, these federal entitlement programs provide a safety net of last resort for those who cannot afford private insurance. At their worst, they replace traditional sources of support like family, charity, and private insurance while creating an unquenchable thirst for ever more entitlements and generational theft.

Probably the greatest improvement in federal entitlements would involve individuals assuming more personal responsibility for their retirement needs. That will require some sweeping changes, which means that we need to build more consensus among Americans about the magnitude of the problem and the solutions that can actually fix it.

In the meantime, we can take steps right now to make these programs work better for the neediest Americans without ultimately consuming the whole federal budget and racking up huge levels of debt. It may take time to move toward an ideal policy, but we can take steps right now for a smarter policy.

The good news is that a growing number of experts across the political spectrum agree that we need serious reform to keep entitlement programs

affordable without shackling future generations with our bills. While Congress and the President should consider the details of reform along with the American people, there are some basic steps that they can and should take now.

STEP #1: Raise the retirement age for receiving Social Security and Medicare payments.

This is a commonsense reform. A federally funded retirement age with medical benefits isn't an inalienable right carved into the fabric of the universe. We now live much longer on average than Americans did when Social Security was created.

Currently, the retirement age is set to rise to 67 by 2030. If the retirement age were raised two months each year until it reached 70, it would help to preserve the solvency of these programs. This would still allow future seniors an average retirement of 17 years.

STEP #2: Target Medicare and Social Security to the neediest Americans.

Much of the runaway cost results from the nature of Medicare and Social Security as entitlements: Both are *universal* by design. That is, nearly all American retirees collect benefits. This makes these benefits popular, but it also means that resources are directed to the affluent and middle

class, leaving less than adequate support for those in need. Bill Gates will qualify for subsidized benefits under Medicare, while other future retirees won't be able to afford the program's deductibles and copayments.

This is crazy. Even if Medicare were not devouring an ever-larger share of the federal budget, it's foolish to tax workers and families to subsidize the health insurance of higher-income seniors. Instead of being maintained as a universal right for everyone, these programs need to be redesigned to provide a stable but limited safety net—like a real insurance policy—for lower-income seniors.

To start with, reform should target the massive outpatient care and drug benefit (Part B and Part D) subsidies for upper-income families. These programs are not insurance. Enrollees did not “earn” their benefits with payroll taxes. Rather, they are large subsidies for medical insurance and drugs that are funded by taxpayers. They also have unintended consequences. Because they go to seniors of all incomes, they “crowd out” competition from private insurance: Taxpayer dollars are simply substituted for private dollars.

Phasing out these subsidies to upper-income seniors should be one of the first steps in reforming Medicare.

STEP #3: Encourage savings for retirement and private insurance.

Americans have come to expect a certain level of health care and income in retirement *as if it were a right* without giving much thought to how the bill is going to be paid and who is going to pay it. This entitlement mentality is eroding the American commitment to personal responsibility, and we can't afford it.

Even if we could afford it, this isn't just a fiscal issue. It's a moral issue. It's simply wrong to spend money on ourselves today that others must repay tomorrow—which is exactly what many of us are doing even though we can afford to pay for it ourselves.

We should expect individuals to take greater responsibility for their basic, routine health care costs and to save for retirement rather than assuming that these are inalienable rights with the costs to be paid out regardless of the consequences to others. The federal government could still provide insurance for the needy—but as a last resort for catastrophic events rather than as the first resort for routine health care.

STEP #4: Give block grants to states for Medicaid.

Medicaid funding to states should be reformed so that states are not

STEP #5: Change entitlements into 30-year budgeted programs, balanced against other needs.

No reform is more important than this one. For entitlements to be fair, affordable, and transparent, they should not preempt other budget items.

Social Security, Medicare, and Medicaid must be taken off of budgetary autopilot. Instead, they should get rigorous budgetary treatment alongside programs such as defense and education. This would require Congress and the President to measure them against competing priorities, many of which have at least as great a claim on our tax dollars.

Retirement programs need to offer some level of certainty because individuals are planning their futures around them. That's where the need for 30-year budgeting comes in. Congress and the President should have to review the long-term budgets of these programs every five years. Instead of automatic increases, Congress would have to take action to keep the costs within the budget. If it did not do this, automatic adjustments would kick in.

STEP #6: Show the long-term costs of the programs.

The long-run costs of the big three entitlements should be made visible

Steps to Fix the Entitlements Problem

STEP #1: Raise the retirement age for receiving Social Security and Medicare payments.

STEP #2: Target Medicare and Social Security to the neediest Americans.

STEP #3: Encourage savings for retirement and private insurance.

STEP #4: Give block grants to states for Medicaid.

STEP #5: Change entitlements into 30-year budgeted programs, balanced against other needs.

STEP #6: Show the long-term costs of the programs.

in the budget at all times.

Congress and the President should see the full costs of these programs in the annual budget, not just one year's minimum payment, just as a credit card statement shows the minimum payment and the total balance owed. Likewise, any legislation adding benefits or creating a new program should also reflect the long-term costs. If Congress wants to increase the current \$200,000-per-person burden on younger generations, it

To read more on these topics, see:

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Endnotes

1. Here’s how the Social Security Administration explains it: “Social Security Benefits are Paid as a Legal Right and not According to Need.” Social Security Administration, “Frequently Asked Questions: How Does It Work?” Social Security Online, at <http://www.ssa.gov/kids/workfacts.htm>. Capitalization as in original.
2. Peter R. Orszag, Director, Congressional Budget Office, letter to Representative Paul Ryan (R-WI), May 19, 2008, at http://www.cbo.gov/ftpdocs/92xx/doc9216/05-19-LongtermBudget_Letter-to-Ryan.pdf (June 24, 2008), p. 8.



What Can You Do?

- Take charge of your retirement. Federally funded retirement programs are on an unsustainable course, so it's important that we each take steps as individuals to ensure our own retirement security, such as purchasing long-term care insurance or saving in an IRA or 401(k).
- Make sure all the generations of your family know about the unsustainable debt being handed down to future generations of Americans. Is this the legacy that grandparents want to leave—or that young people want to inherit?
- Order the Heritage short film *A Legacy of Debt: Why We Must Fix Social Security, Medicare, and Medicaid*, complete with DVD and workbook to facilitate a discussion. Host a discussion of the entitlement crisis at your home or community group and watch the DVD.
- In a book club? Take a change of pace to read and discuss this booklet together with your group.
- Keep Congress accountable. Congress works for you, so be sure to ask your representatives what they are doing to address the entitlements problem. The Heritage *A Legacy of Debt* kit contains ideas you can include in a letter to your Congressman.





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