Work A Little Longer

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Entitlements: The administration has delayed release of the 2010 Social Security and Medicare Trustees report, possibly to hide its gloomy forecast of U.S. finances. Meanwhile, clear thinkers are offering solutions.

The report, more than three months overdue, was more than a month behind last year. Mere incompetence? Or an effort to cover up, as Peter Ferrara wrote Wednesday in IBD's opinion pages, "sweeping draconian cuts to Medicare resulting from the ObamaCare legislation, which the annual report will document"?

Or maybe, as analysts at the Cato Institute have posed, to obscure potential significant payroll tax hikes on middle-income Americans brought by the Democrats' health care overhaul?

Whatever the case, when the report is released it will show, as it always does, that the entitlement regime is unsustainable.

Last year, the report moved up by one year, to 2016, the date Social Security will begin to drain its trust fund, that mythical place where decades of surplus Social Security payroll tax revenues have supposedly been stored. The trust fund will be exhausted in 2037.

The same report showed that Medicare's hospital insurance trust fund will be depleted by 2017, two years earlier than was projected in 2008.

Overall, Social Security and Medicare have accrued $107 trillion in unfunded liabilities — bills that they cannot pay because expected revenues aren't enough to meet the promised benefits. To pay Social Security, Medicare and Medicaid benefits in 2050, Washington will have to use 67% of the dollars in the general fund. By 2080, it will need 89% of the general fund to finance those entitlements.

The answer is not to increase the payroll tax that funds Social Security (12.4%) and Medicare (2.9% for Part A, the hospital insurance portion). To do so would be to hang a millstone around the public's neck. According to the National Center for Policy Analysis, "When today's college students reach retirement (about 2054), Social Security alone will require a 16.6% tax" to meet its obligations. "When Medicare Part A is included, the payroll tax burden will rise to 25.7% — more than one of every four dollars workers will earn that year."

Roll in Medicare Part B (physician services) and Part D (the drug benefit), and the total tax burden for funding Social Security and Medicare would have to be 37% of payroll by 2054.

Nor would it make sense to hike income taxes. The Congressional Budget Office reckons that to fund the growing entitlements and the government's current level of activity, the bottom tax rate of 10% would have to be moved to 26%, the 25% rate would have to be hiked to 66% and the top rate would be 92% instead of 35%.

Outside of privatization, the best way to deal with the impending financial wreck is to raise the eligibility age. We are, after all, living longer and working (or should be working) deeper into our lives. Most people still have many productive years left after they become eligible for Social Security (65 to 67 for full retirement) and Medicare (65) benefits. Yet for many, our post-retirement years — about 18 — are 40% as long as our working years — roughly 45.

Economist Gary Becker sees a problem with this ratio and suggests raising the "retirement age by an amount that makes the ratio of years spent in retirement to years spent working equal to the ratio that existed at the beginning of the Social Security system," which is roughly 25%.

"If the average retirement age were raised to near 70 to qualify for retirement and elderly health benefits," Becker recently wrote in a blog he shares with U.S. Appeals Court Judge Richard Posner, "retirees would still have more absolute years of retirement than they did 90 years ago."

Retiring at 70, according to Becker, "would add three years to taxable earnings and eventually reduce the number of elderly collecting Social Security benefits by almost 20% compared to what it would be under present retirement ages. It would also significantly reduce spending on Medicare, although by less than 20% since persons over age 75 take the bulk of this spending because they are in worse health than younger retirees."

Washington is hostile to reasonable solutions, particularly when they concern entitlements. It will likely take a new breed of lawmakers to move forward with ideas such as Becker's. Sensible choices made at the ballot box this fall and in 2012 can stop the entitlement drain from sinking the country.