TheDC Analysis: AARP, Dems undermine younger workers' retirement

By John Rossomando - The Daily Caller 12:56 AM 08/31/2010

Workers under age 45 will pay the price for AARP's lobbying against Medicare and Social Security reforms over the past two decades in the form of reduced benefits, critics say.

AARP has been described as the "800-pound gorilla" in the Medicare and Social Security debates and has played a key role in blocking many pieces of major legislation aimed at restructuring Medicare and Social Security to prolong their lifespans for the past 20 years.

According to a 2003 Los Angeles Times op-ed by Dale Van Atta, former President George H.W. Bush described the 36-million member lobby as being extremely formidable and "like ugly on an ape" when he opposed the group's positions.

The group similarly demonstrated its power when it forced Bill Clinton to shelve his plan to cut $58 billion from Medicare to pay for his ill-fated 1994 health care package.

"They're major role seems to be that of obstruction," said Ryan Ellis, director of tax policy with Americans for Tax Reform. "The people being affected are not current AARP members, and for some reason they feel they need to obstruct and demagogue to curry favor with their membership."

The Baby Boom generation's retirement over the next decade will significantly increase Social Security and Medicare costs while simultaneously reducing the payroll taxes that will be needed to cover benefits.

"If you look at the big three entitlement programs, which are Medicaid, Medicare, and Social Security, they will eventually consume every penny in taxes by themselves, assuming we don't increase taxes from the current 18 to 19 percent of the economy that taxes normally take," Cato Institute scholar Michael Tanner said. "Those three programs alone will cost more than that. We could abolish all of the rest of the government and still not have enough money."

The looming insolvency of the Medicare and Social Security trust funds has been well known since at least the mid-1990s when officials began warning the Boomers' looming retirement threatened to bankrupt both systems, but politicians in Washington have lacked the resolve to fix the problems.

Ellis primarily blames Congress for the problems in both systems, but says AARP has been an accessory.

Former Fed chairman Alan Greenspan correctly warned as far back as 1996 that Social Security would not remain viable starting around 2010 because of pressures posed by an increasing number of beneficiaries being supported by a declining number of active workers.

Beginning “in the year 2012, the annual expected costs of Social Security are projected to exceed annual earmarked tax receipts, and the consequent deficits are projected to deplete the trust funds by the year 2029,” Greenspan said in a Dec. 6, 1996 speech at Philadelphia’s Union League.

“Medicare currently is in an even more precarious position than Social Security,” he continued.

Nonetheless, AARP and similar groups such as the National Committee to Preserve Social Security and Medicare have worked with congressional Democrats to preserve the status quo.

At the time of Greenspan’s speech, the Medicare trustees predicted the program’s Part A trust fund, which covers hospitalization for the elderly would be depleted by 2001.

AARP fought hard against bipartisan temporary Medicare fixes such as those found in 1997’s Balanced Budget Act (BBA), which successfully kept Medicare from collapsing in 2001 by cutting the rate of Medicare spending.

But the BBA did not address the looming problem of Medicare funding, which Republicans initially hoped to address in 2003 with their initial Medicare prescription drug package, which sought to reform the entire system.

The House version of the Medicare prescription drug bill contained a provision backed by conservatives like former Pennsylvania Republican Rep. Pat Toomey – who is now the Republican nominee for Senate in Pennsylvania — that would have encouraged price competition between the traditional Medicare program and private plans starting in 2010.
But Republican leaders backed away from the House provision in order to win AARP’s backing and outmaneuver Democrats in the 2004 elections.

According to a March 2008 Congressional Research Service report, the 2003 Medicare reform hastened Medicare’s projected insolvency by making it happen in 2019 rather than 2026 under the then-current projections.

Had the House GOP’s reforms made into the final law some of the subsequent cost problems could have been avoided, Tanner said.

“You can’t just go in and solve Medicare because Medicare is part of the whole health system,” said David Certner, AARP’s legislative counsel and legislative policy director.

“You have to control costs throughout the whole system because you can’t hold down costs very effectively in one part of the system.

Certner credits President Obama’s health care reform bill for delaying Medicare’s insolvency by imposing cost controls that will push back the date when it can’t pay its bills from 2017 to 2029.

House Republican Study Committee chairman Rep. Tom Price of Georgia dismisses the 2029 projection as “smoke and mirrors” and says AARP’s support for the health care bill puts it at odds with its members’ values.

“It’s an absolute shell game,” he said. “Even if you believe the 2029 figure … they get it by slashing Medicare services by $500 billion.”

He continued, “Clearly, the AARP’s goal is to have much greater influence by the federal government because they believe they can then be the favored program that the federal government picks, and the AARP stands to reap from a financial standpoint.”

Similarly, the Social Security trust fund will be depleted to the point of only being able to pay 78 percent of all owed benefits in 2037 — when those now in their mid-30s reach retirement age.

The current rough economic times have caused the Social Security trust fund to run its first deficit this year since 1984. It will start running a permanent deficit in 2015 – three years later than the 1996 prediction – according to the latest trustees report.

Once 2015 comes around, Social Security will be forced to fund its obligations to the nation’s seniors by redeeming billions worth of Treasury bonds to cover the gap between revenues.

The Social Security trustees anticipate the system faces a $5.4 trillion in unfunded obligation over the next 75 years. Democrats and Republicans are bitterly divided over the solution.

This became especially clear in 2005 when former President George W. Bush began unsuccessfully floating the idea of allowing younger workers to invest a portion of their Social Security wages in private accounts.

AARP spent at least $10 million on newspaper advertisements, print advertising, and mailings to its members to kill Bush’s plan. According to the Wall Street Journal, AARP’s gamble paid off and Congress refused to take action.

The group charged the accounts would accelerate Social Security’s bankruptcy and lead to massive federal debt because it would siphon resources away from current beneficiaries.
“If you decided you wanted to go to a system of individual savings accounts where

people under a certain age can put their money into private accounts, that wouldn't relieve you of the need to take care of current beneficiaries," Certner said. "You simply would be paying taxes for Social Security benefits twice – once for yourself and once for current beneficiaries."

Heritage Foundation Social Security analyst David C. John believes it is hard to tell whether Bush's plan could have staved off the inevitable due to its preliminary status at the time it was shelved. But, he said, payroll tax hikes could be down the road because Congress likely will be backed against the wall in an effort to plug the Social Security budget gap.

AARP advocates doing just that by raising the maximum amount of earnings subject to the FICA tax above the current $107,000 cap, which would result in 90 percent of all wages in the economy supporting Social Security.

"The wage growth has been a lot more on the high end than on the low end, so there are a lot of wages that just aren't taxed," Certner said.

But Tanner warns doing so would harm economic growth and give the U.S. a higher marginal tax rate than Sweden.