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Tanner: Entitlement Tsunami Ahead Unless...

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Published 4/13/2010

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WASHINGTON -- What lies ahead is an "entitlement tsunami," said Michael D. Tanner, a senior fellow at the Cato Institute, in a speech here.

The budget deficit will rise from the current to over 35% by the end of the century, the domestic policy researcher predicted during the opening address of a retirement conference co-sponsored by LIMRA, LOMA, and Society of Actuaries.

But that is not as scary as what lies ahead in the area of entitlements, said Tanner, who was a key organizer and advocate for private accounts in Social Security during the Bush administration.

Roughly 27% of gross domestic product is due to government spending, mostly for Medicaid, Medicare, and Social Security, Tanner said.

But by the end of the century, total government spending—with the new health care legislation factored in--will reach over 80% of GDP, Tanner predicted.

"Clearly, that's not sustainable," he said.

Congressional commissions will come out saying that the country needs to raise taxes to fill the gap, he continued, but he said the big question is, can the country raise enough taxes to pay for what is needed?

"Even if you take all that the wealthy people in this country own, you'd get only one-tenth of what is needed to run everything," he said.

Tanner pointed out the Congressional Budget Office is projecting tax rate increases. For individuals, the rates by the end of the century might range from 25% to 88%.

Research has shown that "countries have big economic growth when government spending is a lower percentage of GDP—not 80%," Tanner said. "It should be obvious that we will be less prosperous as a nation. You will have less money to spend the way you want. You will be less prosperous and less free."

Where Social Security reform is concerned, he said, there are only three choices—raise taxes, reduce benefits or invest privately through private accounts. He predicted that private accounts will be back on the table in the future, due to the huge growth that market returns make possible over time.

As for Medicare, Tanner discussed four options that could remedy problems there, and predicted that the country will need to implement one of them. However, Tanner said he does not see a lot of courage in discussing these ideas in Washington, by either political party.

What's needed, he said, "is the courage to step forward."



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