

# What Does It Mean to Reform Federal “Entitlement” Programs like Social Security?

May 2, 2023

**MarketWatch Blog** by Alicia H. Munnell



Alicia H. Munnell is a columnist for *MarketWatch* and director of the Center for Retirement Research at Boston College.

*Social Security, Medicare, and Medicaid do not provide greedy people with special privileges.*

So-called serious people are talking about “entitlement reform.” I know “reform” is a good thing. And “entitlement” sounds bad. Merriam Webster’s online dictionary offers a definition: “belief that one is deserving of or entitled to certain privileges.” Well, if greedy people out there are getting special stuff, we should fix it. A fix would be particularly important given the nation’s long-run fiscal challenges. But what special stuff? And where are they getting it?

Reformers claim that the special stuff comes from three main government programs: Social Security, Medicare, and Medicaid. These are big programs; they account for about 45 percent of total federal budget outlays. So, if these programs entitle people to special privileges, then they should be reformed. Fortunately, I know a lot about Social Security and a bit about Medicare and Medicaid.

Social Security is a terrific program. It makes us do what we would not do on our own – save for retirement. And it provides insurance in the event that we become disabled and for our dependents should we die early. The average worker who retires at 65 in 2023 gets 38 percent of pre-retirement earnings or about \$2,039 per month. Social Security benefits are adjusted for inflation, and they keep coming as long as we live.

Social Security does need attention because projected benefits exceed scheduled taxes over the next 75 years and, more immediately, the reserves in the the program's retirement trust fund will be depleted in 2033, after which Social Security will be able to pay only 77 percent of promised benefits. The good news is that the magnitude of the shortfall is totally manageable. And proposals abound for either reducing benefits or increasing revenues. Yes, those are the options. There is no magic bullet. My view is that we should close the gap by raising revenues, because Social Security is the major source of retirement income for so many Americans.

Medicare is a health insurance program, financed by a combination of payroll taxes, premiums, and general revenues, to ensure that older Americans and the disabled can pay for health care. Medicare is a major contributor to the deficit, and reducing Medicare costs would help the long-run fiscal outlook. The solutions fall into two groups: *shifting* costs to the elderly and disabled or *controlling* costs by eliminating ineffective and inappropriate treatments.

Most proposals would reduce Medicare spending, but – without a reduction in total health care costs – would simply shift the burden from the government to the individual. Some popular suggestions include:

- raising the age of eligibility from 65 to 67;

- raising the Part B premium to 35 percent of program costs; and
- raising co-payments and deductibles.

The real solution is to control health care costs themselves. This goal is difficult to achieve. Only doctors and hospitals can do it. They are more likely to do it if payments are based on the quality of the care provided patients rather than the number of procedures. None of the usual suspects for cutting Medicare are likely to improve the incentives to practice better medicine.

Medicaid is a joint state/federal health program for the poor. It also pays for long-term care for elderly persons who have depleted their resources. Medicaid is both a major contributor to the federal long-term deficit and a huge drain on state budgets. The projected increase in expenditures is driven by rising health care costs and, as in the case of Medicare, by a rising number of older Americans who will need long-term care. These people are typically widows in their 80s who live alone, have little income, and may be suffering from dementia or some other mental impairment. They generally have no alternative.

Social Security, Medicare, and Medicaid do not provide greedy people with special privileges. They provide the elderly and disabled some minimum income and health insurance after a lifetime of contributions and offer health insurance for the poor. These programs do need attention. Social Security should be fixed sooner rather than later. The future of Medicare and Medicaid is inextricably tied to the cost of health care. This country pays more and gets worse health outcomes than most other developed nations. We need to practice better medicine. How does the phrase “entitlement reform” shed any light on these complicated issues?

