THE PATH TO PROSPERITY

A RESPONSIBLE, BALANCED BUDGET

FISCAL YEAR 2014 BUDGET RESOLUTION

House Budget Committee
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In the 20th century, the federal government forged a social contract with working families. At the end of their careers, the government would provide health and income security in their retirement. In the 21st century, that contract is in jeopardy. Rising health-care costs and an aging population threaten to bankrupt two crucial programs: Medicare and Social Security.

The failure of politicians in Washington to be honest about Medicare and Social Security is putting the health and retirement security of all Americans at risk. The fact is that Medicare and Social Security are in dire need of reform. With both programs weighed down by tens of trillions of dollars of unfunded liabilities, the federal government is making promises to current workers about their health and retirement security for which it has no means to pay. Without reform, these empty promises will soon become broken promises.

Washington's policy response to the demographic and economic pressures threatening Medicare and Social Security has been a disappointing failure. For too long, politicians of both parties have lacked the political will to deal with the underlying structural issues that are weakening these programs. Instead, they have denied the problem or made the problem worse.

In Medicare, the federal government has tried to address cost pressures by cutting provider payments in ways that hurt quality and restrict access for seniors. Absent reform, current seniors will experience diminished care, while the next generation will inherit a bankrupt Medicare program.

In Social Security, government's refusal to deal with demographic realities has endangered the solvency of this critical program. Absent reform, seniors, those with disabilities, and their families will experience sharp benefit cuts when the trust fund is exhausted, while the next generation will inherit a Social Security program too unstable to permit them to plan for their own retirement with confidence.

Unfortunately, years of neglect by policymakers who were unwilling to confront the structural challenges posed by these programs are pushing Medicare and Social Security into a state of peril. Left unaddressed, the spending pressures in these programs don't just put the solvency of the federal government at risk and future economic growth in doubt—they also threaten the government's ability to protect the promise of health and retirement security for millions of seniors and those with disabilities today, as well as for generations to come.

This budget protects and strengthens Medicare for current and future generations. It also requires the President and Congress to work together to forge a solution for Social Security. This budget recognizes that the federal government must keep its word to current and future seniors. And to do that, it must reform these programs.

Medicare in brief

- **Preserve Medicare for those in or near retirement.**
- **Reform Medicare for younger generations.**
- **Repeal the health-care rationing board.**

Social Security

President Franklin Roosevelt once said the purpose of Social Security was to protect the elderly and the vulnerable from the "dreadful consequence of economic insecurity."[47] Unfortunately, because of demographic changes, that protection is at risk.

The country is getting older, and more workers are becoming beneficiaries. In 1950, there were about 16 working-age Americans for each retiree. The average man could expect to live an additional 11.9 years after they turned 65—for women it was 13.4. Now, however, there are about 3 workers per retiree. Today, the average man can expect to live an additional 17.7 years after they turn 65. Women can expect to live another 20 years.[48]

In addition, the program offers much more generous benefits than it did in the past—and it demands much higher taxes to pay for them. In 1950, there were 2.9 million beneficiaries. Today, there are over 55 million—an 18-fold increase. Initially, the worker and employer each paid a 1 percent payroll tax. Today, they each pay a 6.2 percent tax.

These long-term trends threaten the program, and they're about to get worse. The first members of the baby-boom generation—those born between 1946 and 1964—are already eligible for early retirement. What's more, people retire earlier than they did in the past. In 1945, the average retirement age was 69.6 years for men and 68.5 years for women. In 2011, it was 64.0 years and 63.8 years, respectively.[49]

To maintain these benefits for future retirees, the federal government would have to raise payroll taxes to crushing levels. In 1935, each worker contributed less than 2.5 percent to the benefit of a current retiree. By 2030, each worker will be paying for nearly half of the benefit for a current retiree. That would represent a massive shift of wealth from younger families to Social Security recipients. No economy would grow under such a heavy tax burden.

The deny-and-delay approach to Social Security's looming bankruptcy has been illustrated perfectly by Senate Majority Leader Harry Reid of Nevada. First, Reid claimed that warnings of Social Security's bankruptcy represented "an outright lie." Then, when confronted with the trustees' report showing that Social Security's trust funds will be exhausted in fewer than 30 years, Leader Reid replied, "Two decades from now, I'm willing to take a look at it. But I'm not willing to take a look at it right now."[50]

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[47] Roosevelt, Franklin."Toward Economic Security." 17 January 1935.

[48] Period Life Expectancy. Social Security Administration. Office of the Chief Actuary.

[49] Annual Statistical Supplement 2012. Social Security Administration. February 2013.

[50] O'Brien, Michael. "Reid: Leave Social Security Alone." *The Hill*. 16 March 2011.

Similarly, the top Democrat in the House of Representatives, House Minority Leader Nancy Pelosi of California refuses to acknowledge Social Security's most basic math. When asked in 2006 when she would put forward a plan to fix Social Security, Pelosi responded: "Never. Is never good enough for you?"[51]

If we act now, we can preserve the program for those in or near retirement. If Washington continues to play politics, however, then even current retirees will be at risk. The program's actuary predicts that the trust fund will be exhausted in 2033—so it will be able to pay only about 75 percent of the benefits owed.

- **Require the President to submit a plan to shore up the Social Security Trust Fund.**
- **Require Congress to submit a plan of its own.**

In a shared call for leadership, this budget calls for action on Social Security by requiring both the President and Congress to put forward specific ideas and legislation to ensure the sustainable solvency of this critical program. Both parties must work together to chart a path forward on common-sense reforms, and this budget provides the nation's leaders with the tools to get there.

Previous proposals put forward by leading reformers offer guidance on where bipartisan consensus can be reached on strengthening Social Security. For example, the President's Fiscal Commission advanced solutions to ensure the solvency of Social Security.

The Commission suggested a more progressive benefit structure, with benefits for higher-income workers growing more slowly than those of low-income workers who are more vulnerable to economic shocks in retirement. It also recommended reforms that take account of increases in longevity to arrest the demographic problems that are undermining Social Security's finances.

In addition, there is a bipartisan consensus that Social Security reform should provide more help to those who fall below the poverty line after retirement. As part of a plan to strengthen the safety of the nation's most vulnerable citizens, lower-income seniors should receive more targeted assistance than those who have had ample opportunity to save for retirement.

Although certain details of the Commission's Social Security proposals are of debatable merit, the Commission undoubtedly took several steps forward on bipartisan solutions to strengthen Social Security. This budget builds upon the Commission's work, forcing action to solve this problem by requiring the President and Congress to work together to advance solutions.

People are living longer. The baby boomers have begun to retire. Health-care costs are skyrocketing. These are the facts, and they require a better approach to renew the social contract. This budget fulfills the mission of health and retirement security for all Americans by saving and strengthening existing programs through common-sense reforms. The solutions are clear; what remains in question is whether elected leaders have the resolve to save these programs.

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[51] Bacon, Perry. "Don't Mess with Nancy Pelosi." *Time*. 27 August 2006.

- **Reform civil-service pensions.**

In keeping with a recommendation by the National Commission on Fiscal Responsibility, this option calls for federal employees—including members of Congress and staff—to make greater contributions toward their own retirement. The federal workforce is composed of some of the best educated and most dedicated people in America. This workforce is integral to a well-functioning government. However, taxpayers must also receive an excellent value for their dollars. The Congressional Budget Office recently estimated that, on average, federal employees make 16 percent more in total compensation than their private-sector counterparts. This reform would begin to rectify that imbalance. It would save an estimated $132 billion over ten years.

- **Reform the Pension Benefit Guaranty Corporation.**

Currently, the Pension Benefit Guaranty Corporation faces a $34.3 billion unfunded liability. While this budget does not assume the President's proposal from 2012, it recognizes the need to reform the PBGC to ensure that a future taxpayer-funded bailout does not occur.