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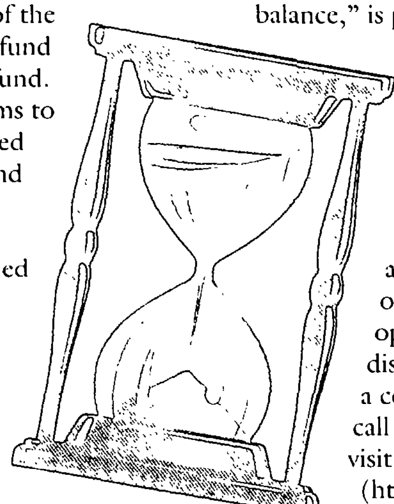
EDITORIAL

Social Security and Medicare reform: Timing is everything

by Marc M. Twinney

Social Security and Medicare reform are necessary in the near future. The conventional wisdom is that Congress will tackle Medicare first because its insolvency will occur first. Social Security's problem is a decade-and-a-half away. Each problem, however, is substantial.

A couple of points about the interface between the two programs. In 1994, legislation increased the percentage of benefits on which high income recipients must pay federal income taxes from 50% to 85%. The first 50% of these tax revenues continue to flow into the Social Security fund as before. Few people are aware that the revenue from the next 35% of taxes from the highest-level recipients — some $25 billion in annual tax revenue over the next five years — is earmarked for Medicare. Some actuaries fear that the Social Security revenue might be redirected to shore up Medicare finances or, worse, that a rationale will be created to move some of the existing Social Security fund assets to the Medicare fund. Medicare financing seems to be quite arcane compared with Social Security's, and one puzzle is how the media and public can possibly develop informed opinions on Medicare without more time and education.



At press time in mid-October, the presidential campaigns were relatively silent on the financial problems facing Social Security. This does not mean that either party is being irresponsible. Given the complexity of the problem and the proposed solutions and the political sensitivity to Social Security, the public will need considerable preparation to become informed. There is time for this to happen.

Many proposals for reforming Social Security include one major and novel change: investing in private sector bonds and stocks. This is also known as "privatization." Most of these proposals would substitute an investment account with its opportunity for individual gain — and its risk of individual loss — for part of the traditional defined benefit. The goal is to improve the system's real revenue growth from the current rate of about 1% from wages to the higher real returns from financial instruments.

A key step in the education process was recently initiated by the Society of Actuaries Foundation. Its new brochure, "On the edge of change: Putting Social Security back in balance," is part of a larger Foundation effort to provide accurate, timely, and unbiased information to the public. This pamphlet deserves wide dissemination, and I encourage actuaries to make optimum use of this opportunity to help distribute it. To obtain a copy of the brochure, call 1-800-932-3094 or visit the SOA Web site (http://www.soa.org/foundation). A short article on this consumer education program appears in this issue.