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## SOCIAL SECURITY APT TO STALL, HEALTH LOCUS MOVES TO STATES

By **ROBERT A. ROSENBLATT**

Preserving Social Security and expanding health insurance coverage—two of the pundit community's favorite issues—are sure to generate lots of commentary in Washington for 2007. All this talking won't turn into any significant action, but for reasons that aren't obvious to most people.

On Social Security, the president says he is willing and eager to talk to Democrats about assuring the financial long-range solvency of the vast program that brings retirement, disability and survivors' benefits to more than 40 million Americans. But the Democrats aren't interested in dealing with him on what they regard as their signature issue. Rather, they are focused on the 2008 election and setting a climate in Congress that they hope will win them back the White House.

### RHETORIC VS. REALITY

"I have an interest to get things done," the president said in December. "Democrat leaders have an interest to get something done to show that they're worthy of their leadership roles. And it is that common ground that I'm confident we can get—we can make positive progress, without either of us compromising principles," he said.

However hopeful the rhetoric might be, in reality the two sides can't do a deal because Mr. Bush wants something the Democrats will never give him: private investment accounts carved out of Social Security. Democrats say these accounts would make the financing gap even worse and are too risky for individuals.

Rep. Charles Rangel, D-N.Y., now the powerful chairman of the House Ways and Means Committee, which handles Social Security legislation, won't talk until private accounts are off the negotiating table. That's something the president could never agree to, because he expended lots of time, energy and political capital during 2005 in a futile effort to sell the idea of private accounts across the nation.

On health insurance, nothing will happen federally because the nation's capital has become irrelevant. Currently, all the action on health insurance issues is in the states, with many trying to craft their own models for covering their share of the 46 million Americans lacking health insurance. If one of the states succeeds in creating a viable approach, it could offer the blueprint for national action.

### MASSACHUSETTS

The Massachusetts model of healthcare reform is drawing the most attention because its author, former Gov. Mitt Romney, is running hard for the Republican Presidential nomination in 2008.

Romney's plan, passed by the state legislature last spring, focuses on the individual. Starting next July, everyone in Massachusetts will be required to buy health insurance, just as every driver is supposed to have automobile insurance. The poorest would get free care as they do now under Medicaid, the federal-state program for low-income people. The federal government has given Massachusetts a waiver from having to adhere to Medicaid's strict regulations, so the state can keep getting \$385 million a year in federal Medicaid revenues and apply the money to its new program. Low-income people who make

too much money to qualify for Medicaid would get a financial subsidy from the state to help them purchase a special insurance policy. Employers who don't offer health insurance to their workers would be required to make a contribution to the state fund that will subsidize the coverage.

New Jersey and Iowa, among a long list of other states, have many legislators thinking about enacting their own versions of the Massachusetts plan. "Because Massachusetts took the initiative and said everyone is going to be insured, it is now the model that other states are going to follow and should follow," said state Sen. Jack Hatch, a Democrat from Des Moines, who chairs the health and human services budget committee in the Iowa Senate.

Sen. Edward M. Kennedy, D-Mass., noted that his state has been a national role model before. "If you look at [mandatory] auto insurance, the first state to have it was Massachusetts," said Kennedy, who plans to hold hearings this year on the Massachusetts health insurance blueprint.

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#### **NO LONGER ONLY A POOR-PEOPLE'S ISSUE**

In Pennsylvania, Gov. Edward G. Rendell, a Democrat, promised to offer a proposal at the beginning of 2007 to bring insurance to more than 1.7 million residents who now lack coverage. "It used to be that healthcare was a poor-people's issue," Rendell said. "But now, retirees who thought they had healthcare that was guaranteed for life are seeing that healthcare vanish and disappear. Workers, each time their contract is up, having to co-pay more and more for their own healthcare." He added, "So, even if I am a worker who has healthcare coverage, I'm worried." Rendell stated his proposal "will make everyone tighten their belts; it will make everyone have to do things more effectively and efficiently."

State insurance regulators in Maryland are talking about their own version of the Massachusetts idea. A central health insurance exchange would set a standard for policies. Workers would have to choose from among the plans, which they could take with them when they switch to a new job. Low-income workers would receive subsidies to buy the policies.

An Illinois state task force is talking about a plan to require every resident to get health insurance coverage. The plan would cost the state government and businesses more than \$5 billion a year. It would expand insurance to include 1.5 million people who now lack coverage. Public programs in healthcare would be expanded. Residents would have to be covered in one of several ways: at work, through a public program for low-income people, or through the purchase of an individual policy for themselves and members of their family. The subsidy from the state to help people afford the policy would be available to those with an income up to 400% of the federal poverty line. This equals \$80,000 a year for a family of four.

In San Francisco, the local board of supervisors voted to require all businesses, large and small, to provide insurance for their workers, beginning in July. This mandate follows the approach that former President Clinton couldn't get a Democratic-controlled Congress to approve in 1993 and 1994. The powerful Golden Gate Restaurant Association is suing, arguing that federal law prohibits local government from forcing employers to offer health insurance coverage.

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#### **SOCIAL SECURITY—BEYOND 2018**

Social Security is in good shape now, even though it has both short-term and long-term problems. The short-term concern is that in 2018, the program's outgoing benefits will be less than taxes coming in, and the program will have to start drawing on its large surplus to pay retirees. That will be more a problem for Congress and budget officials rather than for the Social Security system itself. Nothing changes about the program except it no longer runs an annual surplus, which helps to boost the rest of the federal budget. Starting in 2018, the yearly Social Security deficit will make the overall federal deficit appear worse, not better.

Because the U.S. government has been able to borrow money against the Social Security's special treasury bonds at far below international market rates to finance other spending, a reluctant Congress will have to think hard about how to borrow money to cover the huge federal deficits or raise taxes to deal with them. Reduce spending? That seems impossible for either Democratic or Republican Congresses and presidents.

The crunch hits in 2040, when the Social Security surplus is gone, and the program's payroll taxes collected from workers will be sufficient to pay only 72% of the benefits promised under current law. Between now and 2040, future Congresses and presidents will have to figure out how to close that 28% gap—or else make millions of beneficiaries, the most active of all voters, very angry.

The solution, as always with complex political issues, will be forged as a compromise, involving some combination of benefits cuts or revenue enhancements—or in plain English, tax increases. Here's a prediction for what might happen: The wage base on which Social Security payroll taxes are levied,

\$97,000 for 2007, will be increased. The formula for calculating benefits will be tinkered with, so more affluent beneficiaries in the future will collect a relatively smaller benefit. Some state and local workers now exempt from Social Security might be brought into the system to increase revenues. And the age for collecting full retirement benefits, now increasing to 67 for those born after 1960, may be increased again. But you won't hear any politician acknowledging these difficult choices until 2009, when a new president takes office.

Meanwhile, let the verbiage flow. ❖

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