

The Crisis in Social Security and Medicare*

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Only by insulating the Social Security System and the Medicare financing structure from the problem of unemployment can we ensure the continuity and predictability of the flow of income into these systems.

THE purpose of this paper is to see what can be learned from the recent "rescue" of the Social Security System in order to develop a basis for positions to be taken in dealing with the next major crisis in social policy: the portending bankruptcy of the Medicare system. Medicare is slated to begin moving into ever enlarging deficits starting in 1987. If organizations in the American Jewish community are to exercise influence on the policy directions to be taken in dealing with these projected deficits, preparation for these influence attempts must begin now.

What is at stake is the future of a health care system which helps pay hospital and doctor bills for nearly 30 million retired and disabled Americans. This year's payout of the Medicare system will be 57 billion dollars. Just about every Jewish family has one of its members who is currently drawing benefits from this system or who will do so within the next few years. The Jewish community has developed many first-class institutions serving the disabled and the elderly in providing for their health care needs and these organizations could not function without the dollars flowing from the Medicare system. Thus our self-interest as a community is clear and, linked with the values governing the provision of such health care in the Jewish community, will form the foundation of our positions.

Actions which contribute to the saving of a life are among the most important altruistic actions which can be taken by a Jew. And health care is, ultimately, the saving of a life.¹ This value is closely linked to the concept of social justice. We are enjoined to honor the elderly, to make provision for them in their hour of need, to honor and care for parents, to provide family supports for the widow and orphan and to welcome the stranger in our midst.

We are to provide for the poor through communal responsibility undertaken as an obligation, rather than on the basis of pity. The gleanings of the field are not to be harvested but are to be left for the needy together with a portion of the harvest. Those who require support because of their condition of dependency are to be aided as members of the community. . . . not pariahs.

We begin our inquiry by acknowledging the dialectical unity of values and self interest which will serve as the foundation for our views. In thinking about Medicare, we must learn also from our recent history in dealing with a similar problem in the Social Security system. I believe it was Santayana who said that those who could not learn from history would be condemned to relive its mistakes!

¹ For a discussion of this issue, see Rabbi David Nussbaum, Ph.D., "Tsedakah, Social Justice, and Human Rights," *Journal of Jewish Communal Service*, Volume 59, Spring 1983, No. 3, pp. 228-236.

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What Do We Mean by "Social Security?"

The essence of social security lies in "some redistribution in command-over-resources between individuals and groups in society."² The redistribution scheme—both in the way it obtains its resources (how much, when, from whom) and in the way these resources are distributed in the form of benefits (how much, when, to whom)—involves a basic conception of what is right—what is just—what is fair. All arguments about social security, including the debates recently concluded, involve judgments and convictions about the extent of *social adequacy* necessary and feasible for undergirding the assurance of a basic level of income for dependent individuals and families.

In Richard Titmuss' essential definition, "social security systems relate to transactions by government which increase individual money incomes in certain specific circumstances of income loss or need for income protection, e.g., old age, widowhood, sickness, disability, unemployment, the dependent needs of children, and so forth."³ Among other nations which have enacted such measures, Israel has an income supports benefits scheme whose "primary function is to guarantee a cash benefit that will ensure the necessary resources to meet basic requirements for all persons. . . . whenever they are unable to support themselves independently."⁴ One national government office administers all income assistance programs, a more rational approach than

the crazy quilt of offices and programs in the United States.

The Social Security Rescue Plan: Who Rescued Whom?

Has the American Social Security System been "rescued? Is it now safe? Has "the dark cloud" been lifted from the system as President Reagan de-claimed?⁵ Have recently enacted changes dealt with fundamental problems or are they essentially short-term repair jobs similar to other such fix-up attempts in the past? Were the changes right, just—fair?⁶

Those who are already retired and those who will retire over the next few years now know that they will continue to receive their Social Security payments. Representatives of this group contributed significantly to the fiscal rescue of the System by accepting a cut in the cost-of-living increase in the monthly payments which was accomplished by delaying this increase by six months. The effective date of the increase was postponed from July 1983 to January 1984. From that point on, the cost of living increase will be scheduled just once a year in January. The cost of this delay for the retiree has been estimated to be \$20 per month.⁷ The net effect of the delay continues to ricochet in all later payments so that the cumulative total of the delay in the entire System is quite considerable. Of the \$168.7 billion dollars estimated by

⁵ President Ronald Reagan, as reported in the *New York Times*, March 26, 1983, p. 10.

⁶ For a summary of the provisions of the "rescue plan" voted by Congress, see *Legislative Bulletin*, Office of Legislative and Regulatory Policy, Social Security Administration, Number 98-15, March 28, 1983. The plan was approved by both Houses of Congress on March 25, 1983.

⁷ "Action Memo for Older Adults," published by the Joint Public Affairs Committee of JASA, 2/9/83, p. 2.

² Richard M. Titmuss, *Commitment to Welfare*, New York: Pantheon Books, First American Edition, 1968, p. 173.

³ *Ibid.*

⁴ Abraham Doron and Tzippi Suessking, *Income Supports Benefits: A Program Proposal*. Jerusalem: National Insurance Institute, Bureau of Research and Planning, June, 1979, p. 9.

the National Commission on Social Security to be made available through the enactment of all of its proposals, 40 billion dollars will be generated by this reduction in benefits, about one quarter of the total expected savings.⁸

It cannot be emphasized enough that current Social Security recipients and newly retired recipients will be responsible for much of the "rescue" themselves. This group will also contribute another 30 billion dollars during the six-year period following enactment of the "rescue plan." This will happen through an increase in income taxes to be paid by many in this group, whose tax base will now include 50 percent of Social Security payments received.

True, only those individuals whose income exceeds \$25,000 adjusted gross amount, or \$32,000 in the case of couples, would pay the new taxes. But for the first time for any group of American citizens, interest income from heretofore tax free municipal bonds would be included in these calculations of taxable income.

Those of us not now retired or contemplating retirement in the near future would contribute, in addition, through an increase in Social Security payroll taxes paid by both employers and their employees. These tax increases will net another forty billion dollars for the System. Those whose retirements will occur in the next century will experience greater penalties for early retirement than those which currently exist. They will find the age of ordinary retirement shifted upwards to 67 by the year 2027. Private pensions plans will also follow suit in raising the retirement age.

Thus, all of us will be contributing to the increased resources to be made available for the "rescue" of the Social Security System, through a reduction of benefits or an increase in taxes or both. The increase in taxes will be felt by American workers and retirees as the crisis in Medicare financing will become a critical issue.

Why Was the "Rescue" Necessary?

Like the impending crisis in Medicare financing, the Social Security System's finances were threatened by an excess of benefit outflow as compared to the intake of revenues from payroll taxes. The Social Security System was forced to borrow from the Medicare Trust Fund in order to continue making its required monthly payments to beneficiaries.

Benefit outflow increased because of the number of years being added to life expectancy and the retention of mandatory retirement policy. Mandatory retirement, after remaining at the time period first established in the U.S. in 1935 as 65, now is 70, thanks to the efforts of Rep. Claude Pepper and the senior citizens movement. Many people elected to retire early or were forced by their health or other life circumstances to do so. In addition to these age related factors, *inflation* increased benefit outflow due to the indexing of Social Security benefits to the cost-of-living measurements. Every one percent increase in inflation cost the Social Security Trust Fund approximately \$1.4 billion in added benefit costs.⁹

At the same time as Social Security

⁸ Estimates of the costs or reductions in cost contained in each provision of the "rescue plan" were made available by the National Commission on Social Security Reform and were published in the New York Times on January 17, 1983.

⁹ "Papers and Data: The United States Social Security System," Prepared by the Technical Group of the Ad Hoc Committee on Social Security, 1982, Community Council of Greater New York, p. 7.

experienced acceleration in its outflow of benefits, its revenue base deteriorated. Reduction of population growth through lower birth rates is one reason. A second is the increase in unemployment and the slowness with which these figures are expected to decline. As of June 1983, the general unemployment rate hovers at about ten percent, a figure which does not account for the many thousands of workers who are so discouraged that they are no longer looking for work. The payroll taxes which would have been paid by these workers and their employers are not coming into the Social System even though many of these workers are already eligible to receive Social Security benefits when they retire or are disabled.

As of 1982, it is estimated that each one percent increase in unemployment costs the Social Security System an estimated four to four and a half billion dollars per year.¹⁰ Included in this estimate is the factor of lower general wage levels which occurs whenever labor supply far exceeds demand as it does during periods of high unemployment.

Thus, it may be concluded that the Social Security System was so designed as to allow it to be vulnerable to the economy. In particular, during a period in which its revenues are cut by unemployment and its outflow of benefits is increased by inflation and worker retirement, its viability is endangered.

Did the "Rescue Plan" Ensure the Integrity of the Social Security System?

Amid the welter of statistics and economic facts, the essential principle to grasp is the direct relationship which exists between the level of activity in the

labor market and the revenues of the Social Security System.

The fundamental question we must ask about the "rescue plan" is: how did it affect that relationship? A close reading reveals that the plan did not affect that relationship in any way. We must conclude that the integrity of the Social Security System remains a function of the general health of the American economy. The future holds a major threat to the Social Security System which can only be resolved through a change in retirement policies, related tax policies and labor market policies.

At present, there are "31 persons receiving a social security benefit for every 100 workers contributing payroll taxes. This beneficiary/worker ratio is projected to increase to 76/100. . . . at the turn of the 21st century."¹¹

As we contemplate what must be done about Medicare financing, several conclusions can already be drawn from the data presented above:

1. Nothing should be done which would discourage employment or act as a brake to activity in the labor market. Since both Medicare and Social Security rely on payroll taxes drawn against labor market activity, policies which slow this activity are counterproductive.

2. Payroll tax increases to pay for the gap in Social Security revenues are now coming on stream. Further increases in such taxes to pay for Medicare deficits will arouse considerable resistance.

3. With these constraints in mind, three policy options remain:

- a) Provide other sources of revenue
- b) Change the operational premises of the American health care system.
- c) Encourage increases in employment, including workers at or near retirement age.

¹⁰ *Ibid.*

¹¹ *Ibid.*, p. 8.

What Policy Options Can Be Chosen Which Will Ensure the Integrity of the Social Security System?

Only by *insulating* the Social Security System and the Medicare financing structure from the problem of unemployment can we ensure the continuity and predictability of the flow of income into these systems. The problem of structural unemployment built into the American economy remains quite serious. Even as the recession fades, it is clear that many workers who have lost their jobs will not be returning to industries which have fundamentally changed. Many industries will not regain the huge employment they had in the past.

To insulate the Social Security and Medicare Systems against the threats posed to their integrity by the high continuing levels of unemployment, the Federal government should be asked to pay into these systems a sum of money equivalent to the taxes which would have been paid by workers and employers if the level of full employment had been achieved. These new Federal outlays would rise as unemployment rises and would decrease as labor market activity increases.

This necessity to use tax revenues in a countercyclical direction might very well cause a future American President to hesitate to use increases in unemployment as a weapon to control inflation. Since the Treasury will have to spend much more to safeguard Social Security and Medicare, throwing millions of workers off their jobs might be ruled out in the future as a viable economic nostrum for the ills of inflation.

Should Federal general tax revenue be used to provide income support for the elderly, for the handicapped and others unable to work? In fact, since the Social Security Act of 1935, we have been doing exactly that in the United States!

Instead of referring to this assistance as social security income, we called it by other names: Old Age Assistance, Aid to the Blind and Aid to the Disabled. Now, we refer to these programs as SSI which stands for Supplementary Security Income. With assumption of almost complete Federal responsibility for funding SSI, we now have Federal administration by the self-same Social Security System which has been in charge of Old Age and Survivors Insurance all along.

Thus the question of Federal intervention to provide additional support for Social Security payments from general tax revenues emerges as a false issue. The question was answered decisively in the increased assumption of Federal responsibility since 1935. Raising that *foregone* policy option as a new question serves as a smokescreen to avoid grappling with the real policy question: how much Federal aid for income support for the elderly and the handicapped should be provided under what circumstances and in what form?

We have had more dust thrown into our eyes, obscuring the essential policy issues, by our tendency to keep referring to the Social Security program as an *insurance* program. This concept was used by President Roosevelt as a way of helping the American people to fit the concept of social security into their accustomed conceptual framework, as a way of facilitating acceptance of the idea. It is far from an accurate understanding of the realities of Social Security, reflected in this pithy question: Would you purchase an insurance policy from an agent who promised you increasing premiums, decreasing benefits and an uncertain future?

Giving up the myth of an insurance program whose revenues are invested until the day comes when payout must begin is a critical conceptual step. When we take the step, we see that Social Security is essentially a social contract be-

tween those who are employed and those who are retired. It is really a pay-as-you-go system whose income centers on a limit of about five percent over or under its real costs rather than an insurance program which pays its benefits from a long accumulation of reserve funds. Since what we have is a *social contract*, it is then quite understandable that we admit the silent partner of the Federal government to a more active status with the entry of Federal general tax revenues.

Why not raise payroll taxes even higher to pay for future Social Security deficits and to pay for the anticipated deficits of Medicare? This suggestion must be rejected since it will introduce serious counter-productive pressures in labor market activity. Any further increase in payroll taxes will raise the cost of employing workers and will cause businesses to consider replacing workers with machines. Increased utilization of machines will reduce the taxes paid by businesses since tax depreciation write offs can be obtained. Machines do not talk back . . . do not get sick . . . and do not organize into unions to demand higher wages.

Two other reasons must be suggested to emphasize the counterproductive nature of further increases in payroll taxes. Such taxes tend to be retrogressive in that the lowest paid workers pay a higher proportion of their income in taxes than those taxpayers whose income base contains non-wage related components. In addition, the Social Security System itself will suffer since any damper on labor market activity will also serve as a brake on the growth of revenue from payroll taxes.

The tax base of the Federal government is much broader than the payroll tax alone. Evidently, many others in and out of government believe it is adequate enough for development of the MX missile, exploration of outer space, ad-

visors in Honduras and El Salvador and similar matters. It is legitimate to argue as to the rank and importance which should be given to Medicare and to Social Security as compared to these programs. Indeed, what is our national commitment to the value: "to save a life?"

This entire discussion, in the final analysis, becomes an argument about the proper role of government. We will have an opportunity, through the presidential elections, to raise that question sharply. As Jewish communal servants who are witness to myriad patterns of social hurt, we will have an opportunity to insist that the proper role of government is in fact what was stated in the Preamble to the U.S. Constitution: *to provide for the general welfare*. It is no accident that the Supreme Court, in upholding the constitutionality of the Social Security Act of 1935, rested much of its argument on that philosophical premise.¹²

Changing the Framework for the Debate on Medicare

Unless the framework for the debate can be changed, we will be back in the impossible box of the Social Security rescue plan as can be seen in the following statement of the problem by the Congressional Budget Office:

Projections of outlays and income for the hospital insurance trust fund indicate serious financing problems later in the decade. Continued solvency of this program through 1995 will require either (spending) reductions that are much larger than any program options currently under discussion, or very substantial increases in revenues.¹³

The debate must be changed by asking first not what the financing scheme ought to be but rather what is it that

¹² *Helvering vs. Davis*, 301 U.S. 619.

¹³ Congressional Budget Office Statement, as quoted in *USA Today*, May, 1983.

should be financed? Only when we are sure about the object of financing can we logically turn to the financing mechanisms themselves. When we face this first and fundamental question we have to conclude the following:

a) The U.S. health care structure of which Medicare is a vital part is an irrational and inefficient non-system of health care.

b) The combination of Medicare and Medicaid together with elements of private plans results in particular hurts for the elderly and disabled which come about due to the poor articulation of elements necessary for long-term care. Specifically, there is a counter-productive emphasis on hospital and other institutional care and not enough of an emphasis on community-based foundations of care, many of which are lower in cost and higher in social and psychological dividends.

c) Irrational and unfair labor market policies tend to force older workers out of productive engagement in the labor market into wrenching changes in life patterns which negatively affect their income, health and life chances.

d) The problems are so severe that cost containment measures will be insufficient to stop the drift towards deficit and may very well exacerbate the basic inequities and inefficiencies of the non-system.

We can begin *now* by examining the worst aspects of the chaotic interaction of Medicaid and Medicare which many experts feel is centered in the problems of long-term care.¹⁴ A coalition of inter-

ests is possible consisting of the senior citizens movement, the movement centering on the rights of the handicapped, local and state governments, and the staffs, boards and families associated with services to the elderly and the handicapped.

Eventually we will have to face the need to create *one* national health care system capable of providing an adequate quality of health care in every part of this nation. We will need to end mandatory retirement and substitute incentives for older workers to reduce their working hours slowly rather than radically. Such involvement in the labor force will have many quality of life benefits but it will also mean a reliance by those workers on an employment-related health care system rather than one based on retirement.

We need to question the very high costs of tuition for preparation for professional careers in health care. Such costs eliminate students from many groups which require health services under difficult life circumstances. The debts that students contract will be reflected in the costs they must charge as professionals in providing services. Enactment of a federally financed scheme for significant tuition assistance in all health professions including social work would be reflected in lower charges to the health care system. In addition, those students who received substantial aid from the federal government could be asked to provide services in specific parts of the country, thus enabling us to have a more rational distribution of professional manpower.

As we provide for the elderly, we need to consider the problems faced by young workers in entry into the labor market which will become more severe as older workers remain on the job. We will need tuition assistance for undergraduate students and technical school students in order to produce the techni-

¹⁴ This concept was developed in an article by Anne R. Somers, *New England Journal of Medicine*, "Long-Term Care for the Elderly and Disabled: A New Health Priority," vol. 307, July 22, 1982, pp. 221-226. Prof. Somers again commented on this issue in a paper before the Symposium on Long-term Care, Mt. Sinai Medical Center, Institute for Studies of Health and Aging, New York, April 21, 1983.

cally able manpower required for 21st century industries. Such extension of the time for education will have the effect of drying up the labor market at the lower age levels.

As we progress further towards a more rational system of health care, we will need to evolve a national commission on bio-medical advances to ensure that the new system does not swing in an undisciplined way into faddistic technology which is not cost-effective.¹⁵

The crisis in Medicare is assured. The advent of that crisis presents us with new opportunities to raise questions of rationality, of cost effectiveness,

of humaneness and justice. We will not find ourselves alone in raising such questions. Based upon the knowledge and wisdom which is present in the Jewish community by virtue of our long experience and great investment in institutions of health care of the first quality, we can be a force for effective and constructive change.

The crisis therefore presents us with opportunities to work with others to turn the *uhmglik* into a *glik*. Change will occur. Our only choice is *whether* we will use the opportunities which will be made available by the crisis and *how* we will use these opportunities to enhance the quality of health care for our clients and the effectiveness of our provision of services.

¹⁵ *Ibid.*

