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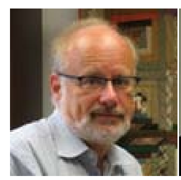
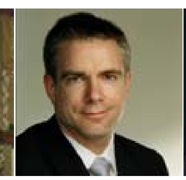
Discussion

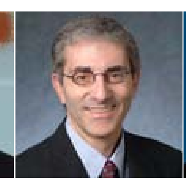
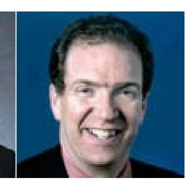
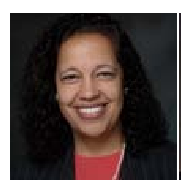
SCOTT BITTLE: Just about every expert who follows the federal budget uses the same word to describe its long-term situation: unsustainable. Right now, there's simply no way the government is going to be able to keep up with its financial obligations over the next several decades, particularly the costs of "entitlement programs" like Medicare, Medicaid and Social Security. The government is already $9 trillion in debt, and there are an estimated $53 trillion in liabilities ahead of us. Unless something changes, this could bust the federal budget and pose a huge economic burden on future generations.

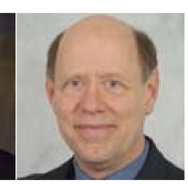
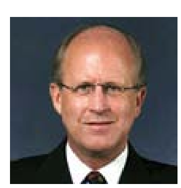
There are two big trends driving this problem. One is demographics. There are 78 million baby boomers, and they're already starting to retire and take benefits out of these programs instead of paying taxes in. The other, even bigger, trend is rising health care costs, which are projected to double over the next 10 years. The costs of Medicare, in particular, are going to be crushing (of those $53 trillion in projected liabilities, fully $35 trillion are Medicare).

But many Americans can't make ends meet without these entitlement programs. Social Security keeps millions out of poverty, and without Medicare and Medicaid, the chances of seniors or the poor getting health care would be pretty bleak. Most political leaders would rather not talk about this problem at all. So my first question to the group is, can our political system actually cope with this problem? How do we build public support for what needs to be done? And in the current partisan atmosphere, does the public truly trust Washington to do it?

DAVID WALKER: Our political system is currently broken and it will take a major public education and engagement effort in order to put us in a position where elected officials will act. It will also take presidential leadership. The next president must be willing to lead and make tough choices in connection with budget controls, entitlement programs, health care and tax reform, among other key

issues. Our collective clock is ticking and time is currently working against us. However, we can, we must, and I believe, that we will ultimately rise to meet the challenge. After all, we're Americans!

GENE STEUERLE: Sustainability is only one symptom of a broader problem. Never in our nation's history have so many promises been made for so many years into the future. Even if those promises were sustainable, there is almost no way they can be fair or well-designed–simply because we do not know the future.

These extraordinary promises also take democracy out of the hands of the people, especially the young, who are expected to live with a government over which they would have little say.
See article, An Issue of Democracy.

AL HUBBARD : Unlike some public policy challenges, in which there are certain inflection points – or "cliffs" – that rally the public and the political process into action, there is no sudden cliff with entitlements. This is one reason that entitlement reform has proven elusive. Our political system can respond to a sudden crisis; it's not adept at dealing with a creeping crisis. There will be no single moment in which our entitlements will reduce our economic growth, lower our wages, and limit our standard of living; instead, it will be a gradual process, and has already begun. Without change soon, our economic standing in the world will deteriorate materially: Standard & Poor's projects that if our entitlement spending explosion is not curtailed, America will lose our AAA debt rating by 2015 (we'll be the equivalent of Greece). By 2020, the United States' debt will be on the verge of a junk rating – the same as Egypt's (and worse than Russia's).

So we face both a substantial economic and political challenge. In order to galvanize sufficient support to tackle these challenges, we first need more candor about our situation. For too long, many have been denying a crisis exists; and others, even now, are promising yet more entitlement benefits that we cannot afford. According to a recent speech by Dallas Federal Reserve President Richard Fisher, in order to pay for the entitlement promises we have currently made we would have to cut discretionary spending – national security, environment, education, etc. – by 97%. (That's not a one time cut – it would have to be cut 97% permanently.) Think about that for a moment: in order to pay for our entitlement promises we would need to nearly eliminate all other spending. To address this challenge we must stop making new promises and start talking about the tough choices we will need to make. We can overcome this challenge, but we first must own up to how big of a challenge it really is.

ROBERT E. LITAN: In the face of a problem of such overwhelming magnitude it is tempting not only for politicians elected to 2, 4 or even 6 year cycles to kick the can down the road, but also for voters to do this. Those already retired or nearing that age figure they will "get theirs" before the entitlements structure collapses or they pass on (whichever comes first), while if the polls are correct, most

Here is another piece of learning from the public engagement efforts of "Facing Up to the Nation's Finances," (www.facingup.org) this one healthcare: Just as the discussants here have moved quickly from a discussion of the ways in which we could reform Medicare to a discussion of larger healthcare system reforms to reduce costs and increase efficiencies, we have found that that is exactly how the public thinks. While Americans are very capable of having full discussions about reforming Social Security, they have a harder time addressing the much larger ballooning costs of Medicare and Medicaid because they jump immediately to their desire to change the whole healthcare system. In some ways, this is good in the sense that it shows Americans want to see wholesale change rather than tinkering at the edges, but it does make some of the somewhat easier "fixes" a bigger challenge to get going in public dialogue. What do the panelists think can be done to get policy makers and the public talking about the whole range of possible reforms associated with the existing medical entitlement programs and larger system reforms?

-- MICHAEL REMALEY

First, This is a great discussion. As one of the young panelists at the Youth Entitlement Summit held last month in DC, I've come to think that while certainly not an end in and of themselves, these types of discussions have value. A few points:

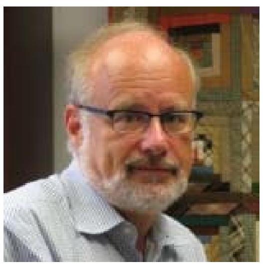
1)Mr. Malpass raised the issue of having "an actual set aside of valuable non-government assets" and the discussion proceeded to individual accounts. Are there other/additional ways the government can invest in things that have a quantifiable return? Two possibilities - a)direct student loans have a 2.1% return on investment over a 10 year span and b) toll roads: Pennsylvania is planning to sell the PA turnpike to a foreign company. Why couldn't current Social Security surpluses be used to purchase assets that would actually return $ to the SS system? These are certainly not a fix for the program, but are they a worthwhile step?

2) Several of you have posted about the bully pulpit of

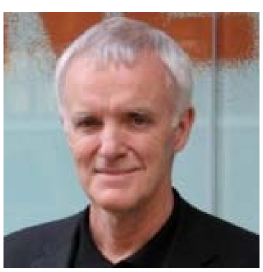
younger voters don't believe they will get much of anything. Voters in the middle of the age spectrum either are not aware of the impending problem, believe that someone will fix it before they retire, or are resigned to lower benefits/higher taxes.

I don't pretend to have the magic answer to how this situation gets rectified, absent a major crisis–i.e. a "run" from the US dollar and/or US bond market by investors when they collectively realize that no solutions are forthcoming, other than printing more money and/or simply issuing more debt (running up unsustainable budget deficits). Such a crisis would make the current economic downturn look like a picnic. And the problem is that when it comes, the time will hardly be propitious for raising taxes and/or cutting benefits at all, let alone of the magnitude required to fix the problem.

In coming posts, I will argue that one key to making the future fiscal problem manageable is reforming health care–or at the very least Medicare/Medicaid–in a way that provides incentives for cost-reduction, or at least a slowdown in the rate of future health care escalation. In addition, as George Schultz and John Shoven have recently argued, measures to promote faster economic growth, while restraining the cost growth of non-entitlement programs, will be essential. In combination, both steps could significantly reduce the need for other politically unviable benefit cuts/tax increases.



ROBERT BERENSON: Numbers like $53 trillion in liabilities surely are scary. And without question current projections implicate the Medicare program as a culprit in contributing to the debt burden. However, there are other numbers that suggest that at least with regard to Medicare the future is not so dire. Simply bending the spending growth curve by 1-2% per year would keep Medicare's share of the economy pretty much where it is today. Respected researchers at Dartmouth believe that as much as 30 percent of Medicare spending serves no useful purpose. We only need to save 1-2% per year. Further, there are lots of ideas for flattening the growth curve in Medicare without engaging in care rationing, or benefit cutbacks, or means testing, or raising the eligibility age or raising payroll taxes–all of which would produce heated and nonproductive political arguments. In short, we don't have to face wrenching policy choices with regard to Medicare spending. We do have a broken political system where any affected provider or supplier can go to Congress to intervene to prevent sensible cost containment initiatives.



BOB KERREY: The key to this debate is public education. We–each of us who vote–need to make the effort needed to get the facts. And once we have the facts we need to demonstrate some restraint when we are in the audience of a political speaker.

Most men and women who are attempting to win their election prefer to have audiences cheer rather than boo them. Thus, they will attempt to get us to applaud statements which tend to correlate with our ideology. Democratic audiences tend to applaud statements like "all Americans are entitled to high quality affordable health care" while Republican audiences prefer "and I promise to do all I can to prevent a big government takeover of health care!". In both cases the audience becomes the problem by encouraging the speaker to continue to mislead us.

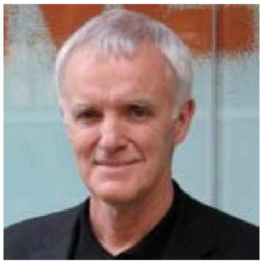
the Presidency and leadership in Washington. What about the collective influence and scope of the experts on this panel and the organizations your represent? Two examples:
a)The AARP has 39 million members and enormous influence. Could it cultivate a 'safe space' for elected officials to discuss these issues - in other words remove the electricity from the 'third rail'?
b) A collective commitment to host a presidential debate or interviews with the candidates on these issues in sufficient length to draw out the substance and size of the problems.

Again, great discussion,

Luke Repici, Association of Young Americans

-- LREPICI

In the case of the promise to give all of us high quality affordable health care, we know that any promise to get something for nothing is merely a promise to get someone else to pay our bills. This is neither possible nor desirable. In the case of the danger of a big government takeover of health care, the facts show that we're already there. Add up the spending on Medicare, Medicaid, the Veterans Administration, Military and Civilian health care at the Federal, State and local level, and the cost of the income and FICA subsidies for employer based health insurance. The total is well beyond half of all health care spending, and the fraction gets larger each year.



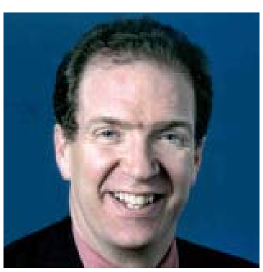
BOB KERREY: Let me offer three facts about Federal entitlements:

First, Congress is not required to vote on them as is the case with appropriations. Most of us are aware of the issue of Congressional earmarks. We pay attention to annual spending increases on items like defense, research, education and the like. We pay little attention to the annual increase in Federal entitlements because Congress doesn't debate the issue. Spending occurs according to the obligation which is spelled out in detail in the law.

Second, the spending on entitlements is a transfer of income from taxpayers to eligible beneficiaries and recipients. The two biggest Federal entitlements–Social Security and Medicare–are not paid up by beneficiaries in advance. They represent a powerful and good intergenerational contract between those whose wages and income are being taxed and those who receive the benefits.

Third, the number of workers per beneficiary is the most important ratio. As long as the number of workers (and their incomes) greatly exceeded the number who receive the benefits, Congress could expand coverage without raising taxes as they did every two years beginning in 1948 until the mid 1970's when it became clear that baby boom generation couples were not having as many children as their parents.

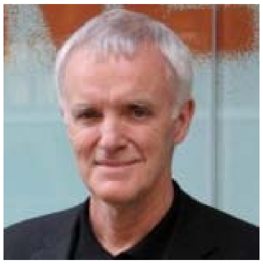
The net effect of this last fact is that beginning this year when the first baby boomers qualified under early eligibility for Social Security payments the ratio of workers to retirees decreases from 3:1 to 2:1. Unfortunately, you don't get to pick the two you want to support you. You must take the average, and as entitlement spending squeezes out investments in education, technology and other items that increase productivity, the average two workers will be unable to earn enough to support one beneficiary.



DAVID MALPASS: One issue is whether a crisis mentality helps Congress or the public understand the problem or make progress on it. Probably not. The crisis forecasts are based on long-term projections that are sensitive to assumptions on demographic variables (like immigration and the average retirement age), medical cost and usage, interest rates and economic growth. People use conservative assumptions to warn of bankruptcy by 2025 or the crowding out of all defense spending, but the likely progression of the problem is less flashy.

I don’t think entitlement programs will collapse or cause the economy to stop growing. They will cause increasingly contentious political problems year-by-year while straining the budget. The problem is that Washington has made expensive promises and doesn't have a process to update these promises for demographic changes, new medical technologies, etc.

Rather than "fixing the problem", it would be useful for Washington to think in terms of making incremental changes in the right direction. First, stop adding new entitlements. Second, grapple with one of the social security problems (perhaps trying to fund it rather than leaving it unfunded). Third, take steps on limiting the growth in Medicare spending.



BOB KERREY: Some other facts that I will assert without further explanation. Social Security is not going bankrupt. Reducing waste, fraud and abuse will not save Medicare. We spend a lot of money in the last few months of life because we value life (I hope this does not change). Baby boomers are not saving enough money to cover the cost of their retirement years. Social security is not a retirement program; it is an old age benefit.

One of the great benefits of our health care research and spending is the expanding horizons of our lives: We are living longer and remaining healthier longer. This is good not bad news. However, this fact does create some new daunting challenges including the growing number of Americans who are being diagnosed with diseases such as Alzheimer's. This has and will continue to increase the cost of Medicare, which is far and away our most difficult entitlement challenge.

LISA MENSAH: I'd like to focus on the themes that have been raised of what works in public education and the theme of incremental changes. It's hard to have an effective public education campaign around a federal budget discussion of entitlements. People are moved by the deeper discussion of their own financial security and programs like Social Security and Medicare have already delivered meaningful additions to financial security in retirement. Public education aimed not around budget projections but rather on what will deliver true security is likely to be more effective. A public education campaign that gets deeper into how we can "fix", 'improve", 'protect" financial security for ourselves, our children and our grandchildren is critical. Robert Berenson makes a useful point that even for the biggest culprit in the debt burden—Medicare—there are modest changes that might yield big results. Bob Ball made similar incremental suggestions for social security reform. Hope is important in public education campaigns not only fear.

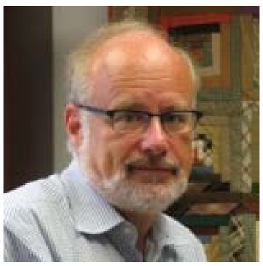
ROBERT E. LITAN: I agree with David Malpass that normally the best way to solve otherwise daunting problems is to break them in little pieces and work on them incrementally. People do this in their daily lives, and I suspect it's a good rule for addressing social problems.

Also, the public and political leaders have a way of discounting predictions of future crises, even if this one is a lot more likely and less contentious than others (such as global warming, where there still is debate even among experts).

I think most of us in this conversation agree that the "fixes" to social security are all incremental in nature, whether on the tax or benefit side.

The key challenge, we all agree, is what to do about health care. This is a large nut, of course, but one incremental change to think about: introducing a system of "progressive" deductibles, which would confront consumers up front with more of the cost of health care, and thus give them more incentive to shop for care, providers to display their prices and measures of quality, and perhaps most importantly, for innovators to have incentives to come up with cost-reducing rather than cost-enhancing advances in health care (think ever more expensive Cat Scans or MRIs). I'd much rather have the market provide incentives for cost savings than the government attempting to mandate it.

Getting incentives more properly aligned can help bring about that 1-2% reduction in the growth of Medicare, which as a previous comment suggested, can cumulatively lead to large savings.



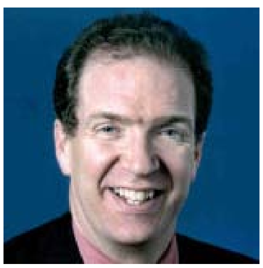
ROBERT BERENSON: Health demographers are engaged in debates over the impact of countervailing demographic trends and the implications for Medicare spending. On the one hand, people live longer and therefore are more likely to get certain diseases of aging, such as Alzheimer's. Further, some health care spending is associated with quality of life spending that longer-lived individuals want to take advantage of, for example, joint replacements. On the other hand, the basic fact that people are living longer without serious illnesses—75 is the new 60—does produce savings from decreased spending. It seems that health deterioration that results in end of life care is compressed and does not lead to sustained health care spending over the many years of Medicare eligibility. In short, the net of countervailing trends is unclear. International comparisons suggest that aging is not an important reason that the US experiences higher health care spending—European countries have much older populations and lower per capita spending.

GENE STEUERLE: The strangest aspect of this entire debate is something Bob Kerrey alluded to earlier and is also in Bob Berenson's recent post: our so-called entitlement problem is generally related to good things happening to us. We are living longer and we are constantly getting better health care. Only the reduction in the birth rate actually ages a population in the sense of having a higher percentage of the population, say, in the last quarter of their lives. So we tie a straightjacket around ourselves in the way that we design retirement and health programs, then complain that these are difficult problems for which only incremental progress can be obtained. That may be true politically, but it is not an economic truth. No economic law requires that programs be designed to avoid occasional discretionary decision-making or be scheduled to grow forever faster than the economy.

Contrast this situation with dealing with actual bad things that might happen: war, a new disease, a rising crime rate, more single parent families. Or with dealing with new opportunities incrementally through a normal budget decision-making process. Government discretionary spending rises as we see new options and revenues grow with an expanding economy. Our family's spending shifts when we earn more or discover new options made possible by science or ingenuity. We don't look at our personal earnings, project that they will double in twenty years, and then sign contracts today for the houses, trips, and boats we will buy 20 years from now.

SCOTT BITTLE: Gene's point is very well taken. As a nation, we certainly should be able to adjust programs to meet different circumstances (and too often, when we talk about entitlements, we behave as if "different" automatically means "bad.") After all, a plane can fly well enough on autopilot, but that doesn't mean the pilot shouldn't make course corrections as needed.

But I think the missing element here is trust. The opinion research Public Agenda has done suggests that people can grasp the problems and are willing to consider a wide range of options to solve them–but only if they're convinced the government will spend their money wisely. The public's cynicism about government is a real barrier to making changes in these programs.



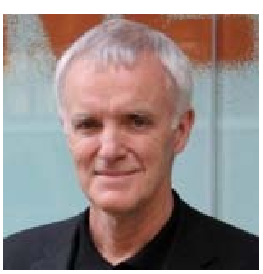
DAVID MALPASS: I'd like to focus on social security. CBO expects spending on Social Security to increase from 4.2% of GDP currently to 6.2% of GDP in 2050, reflecting a growing transfer payment from younger generations to the elderly. The actual amount in 2050 might be well below or somewhat above 6.2%, depending on population growth, GDP growth and other factors.
It seems to me that the planned social security payments are not too large to give older Americans or for the economy to support. If so, the key issue is to fully fund the system. The private sector is actively doing this (private pension funds, General Motors funding of its health plan, etc.) Even states and municipalities are beginning to fund their systems. And the federal government has been fully funding the civil service retirement system through FERS personal accounts. But not social security.
Under the current pay-as-you-go system, none of the 2050 payments has been funded or will be pre-funded – they will simply be paid from 2050 social security receipts with the large expected shortfall paid from other federal tax receipts and borrowing. To be funded would require an actual set-aside of valuable non-government assets, either held by the government or (I think preferably) held by individuals.
Though a dead-letter politically due to the failed 2005 attempt, I think the right direction for social security is to start small optional individual accounts and let the system expand over the decades until it is fully funded.

ROBERT E. LITAN: Scott is right, of course. But the public must first be engaged, and thus needs to be told the truth by our political leaders, beginning with our President. Call me naive, but I have long been convinced that if the President could just get on TV from the oval office and show people what I call the "scary chart"–the one in the CBO and GAO long-term budget reports–that shows entitlement spending as a share of GDP going through the roof while existing tax revenues as a share of GDP staying at about 20%–people and elected official would begin to engage. The President could very simply explain that if this chart represented the revenue and expense trajectory for any business, that business would surely take steps to fix it. Government is no different, notwithstanding the ability to print/borrow money. Eventually, that won't work: either inflation or interest rates will soar.

But in the countless numbers of talks I have given over the years where I have shown the "scary chart" hardly anyone in the audience claims they have seen it before. Which underscores to me that only the President can begin to change people's minds on this. Or, failing that, a large public campaign like the one the Peterson Foundation has begun to undertake (along with efforts of think tanks from across the political spectrum–Brookings, Urban Institute, Heritage) may eventually begin to force a new Administration to acknowledge the problem and then to explain it in roughly the way I have long dreamed.....

I take the point made earlier that hope may sell better than fear. The challenge for future Presidential speech writers is to find language in which the "scary chart" can be presented as an "opportunity" to secure Americans' long-run financial well-being, and not just a warning about what can (or will, in the absence of policy change) go wrong.

AL HUBBARD : I agree with David Malpass about pre-funding our Social Security system. Pre-funding the system not only gives individuals more control over their retirement, but it is also the only way to make sure Social Security's costs are shared equitably across generations.
Robert Litan also makes an important point about confronting the cost of healthcare by creating incentives for consumers to use their healthcare dollars more wisely. This is a vital element of healthcare reform, and I think an analogy is helpful:
Imagine if we organized our grocery stores like we organize our healthcare industry. Consumers would purchase "grocery insurance" by paying monthly premiums and then would pay nothing (or very little) when they went to the grocery store. What would be the result? Consumers would probably start buying more food than before, and instead of looking for discounts, they'd buy the most expensive foods. There would be a lot more caviar in shopping carts and a lot less canned tuna. The grocery store owner might stop listing the prices (since consumers aren't looking at them anyway), and they'd probably increase all the prices since the consumers are insulated from the cost. The grocery insurers would step in at this point–because they would be paying for the expanding grocery bills–and create complicated formulas for how much grocery stores could charge for caviar or what days of the week consumers could purchase it.
As we know from our experience in the grocery store, the consumer knows best about what they want and how to best spend their money. We need to create the right incentives in the healthcare industry so these same forces can improve service and contain cost.

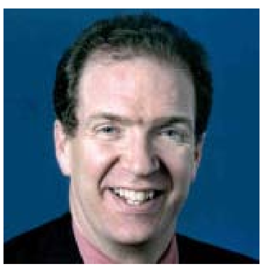


BOB KERREY: Al- Can either you or David define "pre-fund"?

SCOTT BITTLE: It looks like we're all agreed that engaging the public is fundamental to doing anything on this issue. The public needs to hear the truth, and as David and Bob say, they ought to hear it from the top: the president. And they need to hear it in a way that, as Lisa puts it, gives them hope as well as fear.

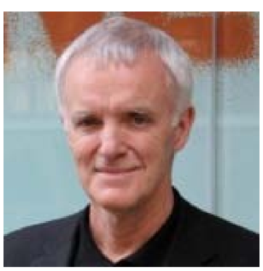
I'd like to suggest two themes going forward. One is on Medicare, which I think we're also all agreed is the toughest part of the problem. Some argue that incremental change in the Medicare program can make a significant difference, others might say we need to overhaul the broader health care system to control costs. It's almost certain health care reform will be on the agenda for the next administration, and our group's already started talking about the broader issue. (Al, you should be careful about that concept of "grocery insurance"–it might catch on!) Which way do we go? How does Medicare fit into the broader health debate? And given the politics involved, is incremental change just as difficult as fundamental reform?

The second theme is more of a wish list. If the decision were up to you, what would be your menu of options for attacking this problem? And what impact do you think those choices would have on the long-term problem?



DAVID MALPASS: I use the term pre-fund in the sense of a pension fund or other obligation where unencumbered assets are set aside to meet future payments.

There's a notable contrast between the 100% unfunded social security system and the fully funded (pre-funded) FERS system (the retirement system for federal government employees which allows individuals to invest in stocks and bonds in order to provide for their own retirement.)



BOB KERREY: With both Social Security and Medicare my answer is the same. What is needed is a President who will say to Congress: "You and I know this is a problem that demands an immediate solution. I propose a commission which you and I will select jointly. I propose to take no solution off the table (President Bush said no tax increases which would have made the 1983 reform impossible) as a precondition for participation."

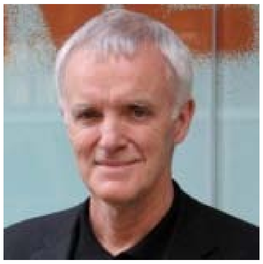
If I was a participant, this is what I would propose at our first meeting:

1. Return to a pay-go system and maintain taxes at a rate that permits a real reserve of 300% of a single year's benefits. That way taxpayers and beneficiaries would understand the relationship between taxes and benefits and that way Americans who get paid by the hour would not have to shoulder a disproportionate share of deficit reduction.

2. Increase the % of income in the first bend point which would life a few hundred thousand current beneficiaries out of poverty.

3. Add a mandatory savings program as a supplement to S/S funded with income taxes at birth with a progressive formula to enable lower middle income participants to contribute $1000 per year.

The President should/must establish an open, honest, results oriented process even for incremental reform. Although I agree incremental reform of Medicare would help, the problem is that time is running out. On January 1, 2011 (which is just 2 fiscal years away) the first of the baby boomers become eligible.



BOB KERREY: That's how I define it, too. I would prefer to stop the current policy of taxing beyond what is needed to fund current benefits plus a 300% reserve, but keep the program as a defined progressive benefit funded with a defined regressive tax. I do like the idea of a FERS option as a supplement.

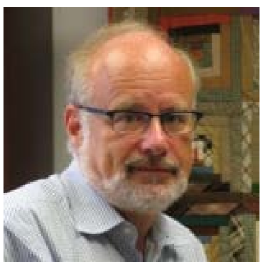
GENE STEUERLE: It seems to me that two separate issues are involved. The first involves setting up processes that face up to the normal budget constraints that we confront in any other part of our lives and that affect discretionary government programs and, to a lesser extent, some entitlements without automatic growth. The second is to examine those items within each program (entitlement or otherwise) that need reform.

In this second category, I would probably go along with many suggestions already made–better information systems in health care, a higher retirement age for Social Security, and enhanced saving in retirement accounts or an add-on Social Security account. But we should want those regardless of whether they bring some long-term budget closer to sustainability. Many health care improvements–I worked on electronic health records for awhile–might or might not save money, but they are likely to improve personal and public health. A higher retirement age would increase national output, increase revenues throughout government, and would allow more of the benefits of old age insurance to be concentrated on old age rather than late middle age. Increasing private saving for retirement–and here there are a number of options–would increase security in old age.

Thus, I am hesitant about prescribing the perfect solution for Social Security, Medicare, or any other program without addressing the first issue. I want the programs to be adaptable over time, not to be fixed in 2040 by some person's vision (even my own!) of the ideal system in 2010, much less 1935 or 1965.

JOHN ROTHER: I'll join the debate one issue at a time. I've just returned from site visits to the Mayo Clinic and the Geisinger health system in central PA, where quality of care and health outcomes are high, and costs low. If the rest of the country followed their examples, we would not be having this discussion. Their

experience shows that there's nothing inevitable about medical cost projections. It seems that we are spending about 30% of our health dollars (both public and private) on things that aren't related to better outcomes–costly administrative paperwork, a dysfunctional medical malpractice system, unnecessary tests and procedures due to our fee-for-service reimbursement system. Surely we should be pursuing this agenda for higher value before we talk about imposing even higher costs on the sick, or other crude and ineffective measures. Next year should bring a real opportunity for health reform. We should look at the spending and the tax expenditure side, and we should also recognize that our total health enterprise will continue to be dysfunctional without serious reform. Other countries have done it–shouldn't we devote our "public education" efforts to getting support for these reforms in both coverage and delivery of care?



ROBERT BERENSON: I am not sure we should discuss Medicare now in the context of the broader health care debate–although that is likely to happen in any case. There seems to me a pretty fundamental ideological divide about whether and how to restructure the health care system–from creating retail, consumer-oriented markets on the one end to largely supply side, regulatory approaches on the other, with plenty in between. (This is one reason Medicare is so much tougher than Social Security.) I doubt we are close to bridging the gap in this divide. And indeed the same divide exists in the Medicare debate–the so-called Bipartisan Commission which Senator Kerrey sat on in the late 90's was divided, and the recent tortured passage, veto and override of Medicare legislation suggests continued lack of consensus over the direction of change.

I think of necessity. We need to find incremental savings in Medicare in the meantime–wasted spending that all responsible people across the political spectrum would agree represents imprudent purchasing–there is plenty there. We should discuss how to impose some discipline on the political process so that these savings, which do not require adoption of any particular vision of major health system reform, can be achieved in the short term, while some president at some point does take on the need to engage the public in discussion of more fundamental change.

ROBERT E. LITAN: Of course, I agree with Senator Kerrey about the need for a President to confront this. I also have long thought that a truly bipartisan commission–a la Greenspan-Moynihan–is probably the only way to get the problem solved.

A couple more principles I would add to the list, with all options on the table.

1. The Social Security problem can and probably should be handled entirely on the benefit side, starting with future beneficiaries below

some age, through a combination of adjustments in benefit formulae, including a move to price indexing for middle to upper income retirees (accomplished in a progressive manner).

2. For Medicare, turn first to market-oriented reforms to provide incentives for cost saving, such as a system of progressive deductibles for Medicare, or a progressive system of vouchers. Ideally, one would also try to reform health care generally (since providers serve populations both under and over 65, as well as those eligible for Medicaid) to introduce more consumer discipline, as Al Hubbard's example makes clear is needed.

3. Increasing taxes should be a last resort. If they are needed, I would turn to a consumption tax rather than raise marginal income tax rates (individual or corporate) further. If we have to tax, better to tax consumption and thus reward saving, than to penalize work and success.

DAVID WALKER: The real issue for entitlement reform is health care. Yes, we need to reform Social Security and we should do it sooner rather than later because it's a "lay-up" compared to health care reform. In my view, Social Security should remain a base "defined benefit" program that encourages people to work longer with a supplemental individual account arrangement achieved on an automatic payroll deduction basis.

We need to take steps now to reduce the rate on increase in health care costs and to better target taxpayer subsidies for Medicare and tax preferences for employer-paid health care. We also need to agree on what comprehensive health care reform should look like and work to achieve it in installments over time. I would suggest four pillars for comprehensive health care reform. First, universal coverage for basic and essential health care that is both affordable and sustainable over time. Second, a budget and control mechanisms for what the federal government will spend on health care. Third, adoption of a national and evidence-based practice standards that avoid heroic measures. Fourth, increased personal responsibility and accountability for health and wellness.

JOHN ROTHER: I'm sympathetic to Bob Kerrey's approach. I think it will require increased revenues to finance, but most Americans would support some modest sacrifices in order to strengthen and preserve the system for their kids and grandkids. Most of us recognize that Social Security is the easier program to address, but it isn't just a matter of solvency. With the savings rate negative and only half of American jobs covered by a pension or retirement savings plan, we face a real crisis in retirement income adequacy. Workers should plan to work longer (most retire today at 62), and all should have access to a payroll deduction mechanism for a 401(k) type plan. Based on the many community meetings and focus groups that AARP has conducted, I am convinced that most Americans would support a serious Presidential and Congressional effort as long as it was 1) bipartisan, 2) preserved the adequacy of the retirement benefit for the middle class, and 3) improved the situation for the elderly poor.

I also think David Walker's comment in support of a two tier system, with SS remaining a defined benefit, is the right direction.

DAVID WALKER: Only the President of the United States has the "bully pulpit" to state the facts and speak the truth to the American people about the need for change, the benefits of acting sooner rather than later and the consequences of inaction. We need a President who has the courage to do so. In my view, we'll suffer serious adverse consequences due to our inaction within five years if we don't get serious soon. In that regard, the recent call by some in Washington for a new debt financed stimulus plan and possible bailouts for FNMA and FreddieMac are just a continuation of Washington's reactive posture. Namely, where politicians and policymakers take steps to pick up the pieces of past failures rather than taking action to create a better future. In my view, it's time for Washington to wake-up and re-join the real world.

LISA MENSAH: I like John's point that the American people would support reform that preserved adequacy of retirement benefits. This elevates the concern that reform produces a system that is fair. One area of reform we have not discussed is the tax expenditures for incentives and subsidies to drive savings that help those who don't need the incentives. My wish list of reform options would include a serious effort to boost the savings rate and the wealth held by low and moderate income Americans. I advocate building a lifetime savings system that begins at birth and continues through the annuitization phase so that people would not outlive their resources. This system would encourage savings for all of life's goals—education, homeownership—not just retirement. One reason many Americans have so little amassed in private savings is that they start saving too late. We could begin with Child Accounts as they do in the UK. I don't think we have to begin with a mandated system of private savings. We should build a first class system of voluntary savings which offers real incentives to all.

JOHN ROTHER: I think both Senators Obama and McCain have put ideas forward about cost savings strategies in healthcare. They have both addressed Social Security, although only in general terms. So I think, despite the failures of the current administration to address these issues constructively, there is some basis for hope next year. To those of you who believe that the public will respond to a budget-based "sky is falling" message, I beg to differ. Given high profile bailouts of other entities, most Americans think that their own personal security is a higher priority than the abstraction of federal accounting. I recognize the urgency of acting, but I think we will be more successful with a public message based on affordability and value for money than we will with one based on general economic concerns.

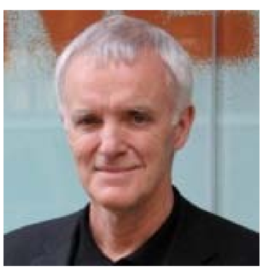
ROBERT E. LITAN: But ultimately John, however it is sugar coated, the reason the public must be engaged is that the current system of

entitlements is not sustainable, period. Politicians can't say with a straight face to voters that they want to preserve their benefits as they currently are mandated, because unless taxes are raised into the stratosphere, that can't be done.

This is not sky-is-falling talk, just hard-nosed reality, which the public has to date not been educated about by any President really (President Bush took on Social Security, but not the big nut, Medicare). I think our electorate is able to understand the basic facts–that the numbers, however you look at it–don't add up, and that something needs to be done, if they are simply told.

Then, if I were President, I would first ask a commission and indeed engage the wider public in a conversation about what they prefer to do about the problem–how much on the revenue side, how much on the benefit side, and when. And what kinds of reforms are available to curtail the growth of health care costs, and which they prefer. As one call from my previous posts, I personally believe, and I think a majority of the voting public, will put revenue increases as a last resort (even though I agree with John Rother that eventually some additional revenues will be needed). That leaves us with a combination of future benefit changes (the word "cuts" I know is a slippery word, depending on what one chooses as the baseline), and reforms to slow cost escalation.

We have not had this discussion, even in this Presidential season. Voters are promised all kinds of things, but not told that hard choices have to be made. I would not sugar coat this. It's simply time for some real "straight talk" ....



BOB KERREY: There is no evidence that voluntary savings will work. We should use income taxes to establish a $2000 account in every one of the 3.5 million babies born each year and establish a matching contribution mechanism. You could make it an earned entitlement by requiring the principle to be repaid when the person entered the work force. Hoping for voluntary savings to rescue us has gotten us nowhere. In 1935 the Senate version of Social Security was a voluntary system. The conferees made it mandatory. Imagine if Social Security were optional; the program would collapse in short order.

And to John Rother: both Senators McCain and Obama continue our employer-based system. Until that is changed I do not believe incremental change–which they both propose–will work.

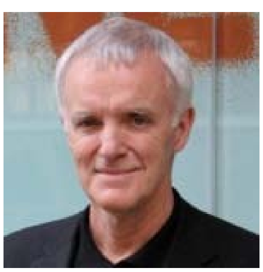
GENE STEUERLE: The simple fact is that the entitlement issue is not an old versus young issue, at least not for today's old. For the most part it is an issue of whether those who are middle aged today want all of future government to go to them, or want some of that growth to go to their children. I think that is salable to the public by a new President.

DAVID WALKER: Between the Fiscal Wake-up Tour and my many other speeches, I've been in 40 or more states in the past two and half years discussing our fiscal challenges and conducting town hall meetings. During these trips we discuss the need for budget controls, entitlement reforms, spending constraint, as well as comprehensive tax and health care reforms. These events have made it clear to me that "the people" are ahead of the politicians. Once they get the facts they get it. What's missing is leadership in Washington. If we don't get some soon, we'll get a real economic crisis in time. All of us need to work to avoid that highly undesirable outcome. This type of dialogue is a good start but we must reach the masses via a public education and engagement effort. I also agree that we need a capable, credible and bipartisan commission to address a number of issues, including the ones that I noted above.

SCOTT BITTLE: Bob Litan and David Walker touch on something that I've been thinking about. A number of people favor creating a commission. First off, I'm wondering if anyone here thinks that's a bad idea.

My second thought is, if we go with the commission strategy, how do we build public engagement into that process? You can certainly get a group of smart people together and hammer out a workable, reasonable, bipartisan plan on entitlements. But no matter how brilliant the plan is, if it doesn't line up with the public's values and priorities, it won't fly.

It seems to me that a key part of the commission's job would be outreach: listening to the public, considering their values, and really laying out the options so the public has a sense of ownership in the solutions. I think David Walker's right. If the people aren't already ahead of the politicians on this issue, they can get up to speed and past the politicos pretty quickly, given the chance.



BOB KERREY: I may have served on more commissions than any living American, and from my experience a commission can be successful if:

1. Congress and the President agree on a definition the problem and give the commission a law that enables them to proceed with enough moneyand statutory authority to get the job done.
2. There are no preconditions about what the commission can recommend.
3. There is a Democratic and Republican co-chair who jointly select the staff director.
4. The recommendations are made after the 2010 election and before the 2011 State of the Union address.
5. Senior members of Congress are on the commission.

DAVID WALKER: The Cooper-Wolf (SAFE Commission) proposal includes a public engagement effort. That bill is based on GAO's work on past commissions and the lessons learned from the Fiscal Wake-up Tour. It may need some amendments but it is a great place to start. Hopefully, all of us and eventually the presidential candidates and Congressional leadership can agree on a commission approach. In my view, it is the only way we are likely to make significant progress on multiple fronts in a reasonably timely manner.

Furthermore, I agree with all of Scott's points. They represent some of the more important ones that GAO reported on when I was Comptroller General. There are others, including the caliber and credibility of the members, especially the co-chairs.

JOHN ROTHER: I support a robust public outreach and education effort, but I don't see the point of a commission. We've had numerous successful examples of Congressional – Administration cooperation on deficit reduction and Social Security reform (in 1983). A common element in these has been the direct involvement of elected leadership – not a commission. It seems to me that the reason we all think a commission is needed is a common frustration with the lack of any meaningful White House leadership on these issues. Hopefully that is about to change, as both candidates seem to at least acknowledge the challenges.

To Bob Litan, I challenge the statement that public pension and healthcare programs are not sustainable. We have plenty of evidence, from state variations to international comparisons, that in fact we can do much better in achieving value for our healthcare dollar. There is nothing inevitable about per capita health costs at current levels. While every society seems to be confronting rising health costs due to technology, Peter Orzag has noted that we appear to have the opportunity to "save" about 4% of GNP costs in moving to a more efficient healthcare system. This is the direction that I think we should move. The public will support us, even if the medical industrial lobby does not.

GENE STEUERLE: There are commissions and there are commissions. Commissions are mechanisms for gathering information and recommendations. At times they are means of reaching compromises, often between two powerful interest groups. As a tool, they succeed only when they are very well set up.

In our recent history, I can think of three significant systemic reforms in the past few decades. By systemic I mean reforms that require significant and explicit trade-offs. One was Social Security reform in 1983, where the commission helped lead reform, but some of the most important actions, such as increasing the retirement age, came out of Congress. If that Commission had merely set up some better targets (e.g., long-term rather than 75-year solvency), we might not even be discussing this issue today. One was tax reform in 1986 (I was the coordinator of the Treasury study that led to its eventual adoption, and much work had to go into how data was presented, what could be administered, and a lot of other details that went beyond the politics). And one was welfare reform in the late 1990s.

Outside of these three, there have been few systemic reforms of vary large federal programs in some time. Whatever one thinks of the Bush Presidency, it succeeded legislatively when it was on the give-away side of the budget (tax cuts, drug benefits) and failed when it attempted systemic reform, which essentially makes trade-offs explicit (Social Security, immigration)–whether it used commissions or not.

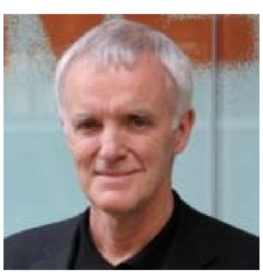
A crucial issue is whether the commission or other approach taken can get into important details that aren't in the public debate but must be addressed if the program is to be modernized. Due to space and time limitations, for instance, our own discussion has been lacking in many respects. Consider in Social Security alone the extraordinary discrimination against single heads of household (often abandoned mothers), the unfair treatment of two- versus one-earner families, the concentration of benefits on the young old rather than the old old who have greater needs, the failure to remove the elderly from poverty with the increased funding that comes available every year, the discrimination against the person working 40 years for $30,000 in favor of the person working 30 years for $40,000, the favorable financing of those (essentially men) who have kids in older age, the zapping of those who divorce with less than 10 years of marriage, and the increase in expected benefits per tax dollar paid for those who have the most marriages, and so on.

Most of these issues can be dealt with only by a process that starts off with principles and sees where these principles lead, rather than simply seeks compromise. They also require much attention to how the data are presented (e.g., just how much will elderly poverty be reduced if we follow Bob Kerrey's adjustment to the bottom bracket or my related suggestion to create a minimum benefit?).

So, bottom line, a commission is a tool. It has to be put in the right hands and supplemented with other tools to make it work.

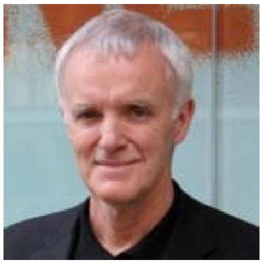
GENE STEUERLE: Query for Bob Kerrey:

A new President often gets one major enactment as part of his honeymoon period. For Reagan and Bush II tax cuts were the main goal. For Clinton it was the 1993 budget deal. What do you recommend the next President seek in 2009 if he is waiting a commission report in 2010, as you suggest? And, if polls are right and Obama wins and the Dems win significant majorities, what should they do up front on domestic policy?



BOB KERREY: John- We have been saying "hopefully that is about to change" before every Presidential election since 1992. You are right about the necessity of Congressional participation on the commission and may be right in being hopeful that things will change in 2009...but I do not think you are.

As to sustainability of Social Security and Medicare, I agree with you: They are sustainable. But sustainability is a very low standard.



BOB KERREY: Gene- good question. First, the 1993 budget wasn't a honeymoon action. It was the President doing something that needed to be done but wasn't something that was a part of his specific promises. Indeed the middle-class tax cut promise had to be abandoned. My hope is that Obama wins and that he does the same: I'd like to see him go much further on health care. Incremental change will not give us what we need: A single system with simplified eligibility decoupled from employment, competition based on quality, and increased attention on good health.

ROBERT E. LITAN: Well, there is actually more agreement here than meets the eye. To John Rother: Senator Kerrey, David and others who are calling for a Commission are insisting that it only be done if it has high level Congressional members, which you rightly point is a prerequisite. Think of the commission then as a temporary Standing Committee of Congress with some other experts and some superstar chairs.

On health care costs, we agree that it is both imperative and possible to control cost escalation. Peter Orszag and CBO have done us much service in documenting the huge inefficiencies in the current system. The critical question that needs to be debated and decided–and which a Commission should also address (if it is not being done in the context of general health care reform)–is whether we should achieve cost-control through the market (i.e. through more consumer choice, accomplished through progressive deductibles, for example) or through government fiat. As a voter and health care consumer, I vastly prefer the former (even though I realize I would pay more out-of-pocket, at least there would be some incentives for cost-saving innovation, price disclosure, etc, as highlighted by Al Hubbard yesterday).

Adding to Gene's question for Senator Kerrey: In particular, should Dems (or McCain) if he wins, tie general health care reform together with the entitlements debate/commission, or proceed separately on health care. I think there has been a difference in views within this group on this subject. In my mind, health care generally and Medicare/Medicaid are logically and realistically very much inter-linked. But politically, it may be too difficult to do them both. The problem, however, in having Congress take up health care reform first while the entitlements commission works away is that whatever is done on health care will very much effect/bind what the Commission does. So, help us out–we're anxious for the answer.

ROBERT E. LITAN: I have one more thing, and then, everyone, I promise to try to be quiet. And I should have mentioned this a long while ago...

So far, our options (and I admit I am at fault for this) have covered: more revenues, changing benefits, and encouraging health care cost control. We've left out one important set of options: ensuring that the overall economy grows as rapidly as is possible (which is one reason why tax increases should be a last resort, and if we need more revenue, consumption-based taxes are better than higher incomes taxes). I know that faster growth alone won't get us out of the entitlement jam (especially given the Social Security benefit structure, which ties benefits to future wage increases, and hence economy-wide growth). But faster growth should help, by generating more tax revenue under the existing tax structure to help pay for future Medicare/Medicaid costs.

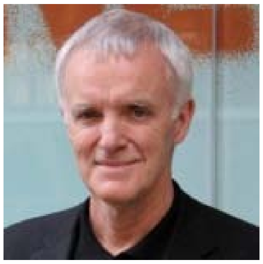
I'm not saying any commission should wade deeply into all of the policies that might be pro-growth. I am sure we each have our favorites. But any commission report, and wider public education effort, must continue to remind the public that we need to be sensitive to the impact on growth of any economic, regulatory, social policies we adopt.

SCOTT BITTLE: One additional question that I don't believe has been taken up yet is means testing. It's an option that often comes up when discussing entitlements, and if we have a process where "everything's on the table," I'm sure it'll come up. But would it be necessary? Do we have better options?

LISA MENSAH: Enjoying today's discussion. Love the careful advice about commissions. Love Bob Kerrey's interest in child accounts with a matching mechanism so that we can start to turn the tide on how Americans save, invest and think about their financial future. We need a few bold ideas that will not just address budgets but also change behavior and start Americans on a virtuous cycle of more saving and investing. If child accounts are pursued I do object to forcing repayment of the initial starter contribution since this would be costly, cumbersome and act like a tax on young people turning the program more into a loan program, rather than a catalyst to lifelong savings.

As to Scott's question on means testing, I think it's a bad idea that would fundamentally alter the whole social insurance structure of Social Security and Medicare. Perversely, with means testing, you give people on the edge an incentive to spend down their assets to qualify for the program. By saying better-off Americans at some point in time can't participate, we would cast aside the unique ability of Social Security and Medicare to be universal programs of insurance where everyone shares responsibility and instead make them into “welfare programs”. This debate of whether Social Security should be a “welfare program” or “social insurance” has been with us since the beginning. Means testing is not just a budgeting issue of what we can afford.

ROBERT E. LITAN: Yes, but we can do something short of means testing, and make the benefits progressive. This is already done for social security, as we all know. I believe the same should be done for Medicare (for example, through progressive deductibles–upper income people have much larger deductibles than lower income retirees–or vouchers).



BOB KERREY: Lisa- I agree with you on the issue of means testing though I do understand why Scott asks the question. The companion question to means testing is "Why do we cap the amount of income subject to the OASDI tax?" The answer is that we want to keep all income groups supportive of Social Security. So we make the benefits progressive and the taxes regressive. It might be helpful to learn a little about how the calculations are done by going to the Social Security Administration's website.

It is also very important to know why the word "retirement" is used to describe the primary benefit. In the beginning a part of the motivation for Social Security was to increase job opportunities for unemployed Americans. Thus, for over half a century you either had to retire to get the benefits or had your benefit reduced as your income went up. When the earnings test was eliminated this requirement ended. This means there are a lot of beneficiaries receiving a social security check who have not retired. For practical purposes the benefit should be called "Normal Eligibility Age". It becomes important because the press always gets this wrong and will talk about proposals to move this age as a proposal that requires Americans to work longer.

SCOTT BITTLE: Philip Howard, our host here at NewTalk, has raised a good point in the Reader's Comments about setting targets for reform. Have a look–I think it's an interesting thought. Would it help focus the public engagement and education efforts we all agree are needed?

AL HUBBARD : I must take issue with a comment from John Rother. It's unfair to say that there has been no meaningful Presidential leadership on Social Security. President Bush invested enormous time, effort, leadership and political capital to deal with it. You are free to disagree with his policy position, but it surely should be out of bounds to allege a lack of leadership effort. The President devoted much of 2005 to urging bipartisan action on Social Security. He offered political cover to legislators on both sides of the aisle by expressing a willingness to consider a broad variety of specific solvency fixes, including everything from price indexing to retirement age changes. When Congress failed to step up to the plate, he came forward with specific proposals of his own that would have solved a majority of the permanent shortfall. And although AARP is free to disagree with the President's support for personal accounts, the President did embrace a type of account (unlike the add-on accounts others have proposed) that would advance-fund currently projected program obligations, an important achievement if enacted. The President's leadership was unfortunately not matched by other public figures, but he cannot be faulted for a lack of it. He certainly exerted more leadership on Social Security than any other President back to Ronald Reagan at least.

Interest groups like AARP could be advancing reform in helpful ways, but unfortunately too often they point accusing fingers at the public officials who earnestly try. In 1983, when the last major Social Security reform was enacted, AARP publicly opposed the bipartisan solution. In 2001, when President Bush appointed a bipartisan commission co-chaired by the venerable Senator Moynihan, AARP criticized the commission on the very day they were appointed. When the Social Security Administration and the NAM had worked to partner with AARP in a joint educational effort, AARP pulled out due to political pressure from Congressional Democrats. AARP expressed unalterable opposition not only to the President's reform proposal, but to every legislative proposal put forward in recent years that would render the program fiscally sustainable.

Social Security is an issue of such importance and political sensitivity that it requires all actors in the political system to work in good faith. It’s tough, but we can do it.

GENE STEUERLE: When it comes to Social Security, it already has a means of inducing progressivity through minimum benefits, progressive benefit formulas, and the like. As long as we operate with a model of social insurance—that all are mandated to participate so they don't become free riders—they need to get something in return, or else the mandated participation is somewhat meaningless.

Most means testing in health care, by the way, does almost nothing about total costs, but is mainly a means of determining who pays what. Randy Bovbjerg and I suggest some alternatives in a recent *Health Affairs* article, but there is not space here to go into detail.

In the case of health care, we have a very strange set of subsidies--a roughly flat-rate Medicare tax that excludes capital income, Medicare benefits that are probably worth a bit more on a lifetime basis for those who live the longest, and among workers a system of tax benefits that are worth a lot more to those well off. There are a lot of ways to make this system more progressive; means testing of some benefits is only one of them.

Pure means testing has a number of problems, including very effective high tax rates on those means tested and usually large marriage penalties. If one is trying to get subsidies to the non-elderly, the earned income credit shows that one simply can't estimate income very well to get out subsidies that are heavily means tested. Means testing also has two additional problems when it comes to the retired. Among those who can choose to work or not, it does not measure well. Technically, taxation should be according to ability to pay. With workers, income approximates ability. For those who decide to retire for, say, 25 years versus 15 years, income does not. Also, capital income can easily be avoided (unrecognized capital gains) or assets transferred to children.

Bottom line: there are lot of ways of introducing more progressivity, but there are practical administrative and incentive constraints.

JOHN ROTHER: As Al says, AARP has had policy disagreements with the Bush Administration on Social Security. But his history is wrong. We did not oppose the 1983 Social Security legislation

(although we did support amendments). In the early 1990's, we worked very hard in partnership with the Concord Coalition and with Pew to bring the public into the debate over Social Security, and anticipated that there would be a successful negotiation between the Clinton Administration and the Congress which we were prepared to support. That didn't pan out, but not due to any expressed opposition from us.

I agree with Gene's comments on means testing retirement programs and the perverse incentives in the current tax code. We should recognize that currently Social Security benefits are subject to the income tax above a modest threshold, and those revenues are credited back to the OASDI and HI trust funds. In addition, Part B premiums are now income-related for higher income beneficiaries. Finally, general revenues that fund major parts of Parts B and D are, of course, progressive, with higher income seniors paying in more than they will ever receive back in benefits.

SCOTT BITTLE: We've been having a great discussion over the past two days over how to address the entitlements question. There seems to be a lot of consensus on the core elements of a solution: public education and engagement, strong leadership from the White House, and incremental changes to the programs. There's also a lot of support for a commission to tackle the problem (although that's not unanimous).

We're asking a fair amount of the public here. We're asking the public to take a lot more responsibility in shaping these programs. And I agree that, as several participants mentioned, one of the keys in getting the public engaged is speaking to their values, not just their fears. Yet too often, as Bob Kerrey pointed out so well in an early post, the public only gets applause lines from its leaders, and becomes complicit by applauding. But on this issue, it's all too easy to end up talking about numbers, not values.

So one of the things I'd like us to address on this last day is, what values would a good, fair, sustainable system of entitlements represent? What is the vision we want to put before the public?

And now that I've raised "the vision thing," we can balance that off with our most ruthlessly pragmatic assessments: What are the chances of meaningful entitlement reform in the next four years? I suspect we're all agreed that the next administration needs to act on this issue. But that doesn't mean they'll succeed. Realistically, what are the odds?

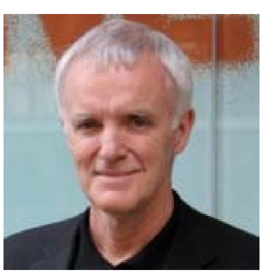
DAVID WALKER: While President Bush (43) does deserve credit for making Social Security reform a priority in 2005, his procedural approach to it was so fundamentally flawed that it had no chance of success. In fact, after over 200 public events paid for by the taxpayers, public support for his policy approach was lower after the events than before them. There are real lessons to be learned from his experience.

In my view, we can and should reform Social Security in one step to make it solvent, sustainable, secure and more savings oriented. We must, however, handle health care reform in installments over time.

The Commission idea is a means to an end and not an end in and of itself. If properly constituted, it could perform education and engagement exercises and make a package of reform proposals to the next President and Congress that will enable us to make progress on multiple fronts simultaneously. In my view, that should include budget process, Social Security, health care and tax reforms at a minimum. We need to make progress on multiple fronts and do so soon. Our clock is ticking and we need to prevent a "super sub-prime crisis".

JOHN ROTHER: I appreciate Scott's challenge to us. He's asking the right questions. First, I believe the category "entitlements" is meaningless to the public. What they understand is healthcare, Medicare, or Social Security. Social Security really should be (and politically must be) addressed separately. We know the public values the program very highly, they aren't saving enough to have much of an alternative, they do not want changes that put the program or more vulnerable seniors at risk, and they are open to gradual changes in both revenues and benefits that maintain the basic structure of the program. Given falling replacement rates already built into future benefits, we need to have a 2nd tier of retirement savings that's much more robust than our current patchwork. Finally, there must be a serious effort directed to employers as well as the public to promote longer work lives. This all seems possible in the next Administration, provided there is real leadership from the President and Congressional buy-in from the start.

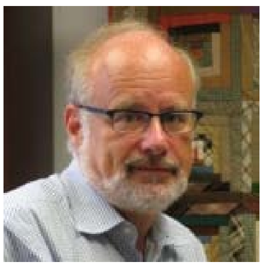
Healthcare is much more difficult, but also more important. It should be tackled first, but not as an "entitlement" or budget issue. System-wide improvements in efficiency and effectiveness are essential for many reasons, one of which is that they will benefit the federal budget. Americans value healthcare so highly they will not agree to budget-based restrictions on their own access or benefits. But they might agree to reforms that address many of the obvious shortcomings of the current fragmented and greatly inefficient insurance and delivery arrangements if they can see lower (or at least stable) costs to themselves, greater fairness in how coverage is extended and financed, and improvements in obvious areas of delivery such as disease prevention, chronic disease coordination, and real efforts to improve quality and safety. These goals are quite achievable, but again we need presidential leadership and Congressional buy-in up front. I'm optimistic that we're up to it. Besides, we can't afford not to.



BOB KERREY: I agree with John Rother: "entitlement" is a budgetary word that is meaningless to most voting citizens. And I agree that Social Security and Medicare/Medicaid/health should be considered separately even though they do get connected in the minds of beneficiaries.

Social Security does not need a major overhaul. What I'd like to see is a declaration that our goal is to make certain that no American 50 years from now will face retirement in poverty. Achieving that goal is both a moral and economic necessity. To do so we should keep Social Security as a guaranteed, progressive defined-benefit program (though again I would like to see us stop the prefunding hoax) and add to it a mandatory and progressive savings program which can only be used as a source of non-employment income and that begins at birth. Changes in tax law could help as well.

In health care, I would support incremental change that increases efficiency and accountability. However, I believe strongly that current federal law which creates at least 6 ways you can become eligible for coverage (get injured in a war, work for the government, work for the right employer, prove that you are poor, prove that you are 65 and have worked enough quarters, or have a malfunctioning kidney) should be changed so that eligibility for coverage is a simple test of citizenship or legal residence. Unless and until we do that I simply do not believe we can have a national system that eliminates the fear of not having coverage, controls costs, promotes competition that focuses on quality and health, and permits our economy to grow.



ROBERT BERENSON: So, I was chairing an all-day meeting yesterday on Medicare reform, of all things, especially focused on what would be needed to make it financially sustainable. So I am catching up and need to say that as a physician who has more recently become a policy wonk, I believe that the issues involved with reducing spending in Medicare (as opposed to considering basic changes to the structure of Medicare as a social insurance program and Medicaid) have much more to do with reform of the health system than about “entitlement reform.” Given that a major impediment to adopting straight-forward approaches to reducing wasted Medicare spending is the lack of will of Congress to support Centers for Medicare & Medicaid Services (CMS) in putting into place these approaches (which often the Congress has authorized but then gets cold feet when self interested providers complain), I get worried about a high level senior entitlement reform commission, which may be reluctant to turn over any decision-making authority to professionals and will want to maintain their prerogatives about micromanaging what should be evidence-based judgments about what gets covered and paid for in Medicare.

So I think the President needs to challenge the medical profession, the hospital industry, etc., to find a consensus on how to get Medicare spending under control. “Entitlement reform” won’t accomplish what needs to happen unless one wants to fundamentally change the social insurance nature of the commitment, e.g. by over-reliance on means testing or moving from a defined benefit to defined contribution structure for the program. There is no consensus for changing the basic nature of the program and a commission is likely to break down over those differences. As I suggested two days ago, I think it easier to find consensus on more straight-forward cost savings approaches to flatten the curve of Medicare spending growth. The providers need to be part of that process – and the public needs to understand that much of the spending is wasted. Putting cost constraints on the system need not represent rationing, queuing, etc that the public rightfully would be concerned about.

ROBERT E. LITAN: To Bob Kerrey: Amen.

On Scott's question of what may happen next: I was a lot more optimistic about the next administration doing the commission thing a couple of years ago than I am now. Neither candidate so far

has taken up this issue, and given all of the campaign promises each has made, it would be difficult for the President to say the equivalent of "oops", there's something more important. Not impossible, but not likely.

I agree with John Rother, however, that there is a good chance the next administration and Congress will take up health care reform generally. But I doubt very much any reform will move in the direction Bob Kerrey has outlined. Both candidates seem wedded to the current employment-based system. And there is a significant risk that whatever reform eventually passes through the Congressional sausage-maker will not have sufficient incentives to control costs that are needed to meet John's goal of cost escalation no more rapid that 1% over GDP growth (or any other number; indeed I doubt there will even be a target).

In short, piecemeal health care reform could very much complicate the task of getting Medicare/Medicaid right.

I have greater hope that progress will made on both Social Security and Medicare in 2013, when the prospect of the Medicare funding shortfall will loom much larger. But so much between now and then depends on the state of the economy. Doing major entitlement reform in a downbeat economy seems to be a non-starter (and while the recent turmoil in the stock market makes it very unlikely in my view that Congress ever would agree to personal accounts as a carve-out of the existing Social Security system, there is a greater chance of it approving an optional personal accounts system, perhaps with a government-match for lower income individuals).

I hope that my current pessimism proves wrong, of course.

DAVID WALKER: [Editor's note: this is in reply to [Philip Howard's question in Reader Comments]]

Most of the public has not been told the truth by the politicians regarding how bad our financial situation is. The politicians are also not going to make tough choices until the people understand the need for them. Many politicians view their position as a job and they don't want to lose it.

I do agree that the education effort has to make a case for change sooner versus later. It should also offer choices with the pros and cons of each to help people understand the trade-offs. One thing is clear, the status quo or "Do Nothing Plan" is not an option.

SCOTT BITTLE: We've talked about this in policy terms, and we've talked about public engagement in the political decisions to be

made. But we've only touched on the "personal responsibility" issues here. How much difference would it make to this problem if Americans worked longer and lived healthier lives? How much could the government and advocacy groups do to encourage this? Are there social trends that are actually working in our favor on this problem?

GENE STEUERLE: When it comes to options already available in Medicare, I sit at Bob Berenson's feet to learn. He has convinced me that we already know a lot and can do a lot.

In this note, I will address mainly Social Security. I think it very important to distinguish between principles and goals. A standard list of principles from decades of public finance includes:

equal justice (equal treatment of equals)
progressivity
efficiency (including issues related to saving, accounts, etc.)
simplicity, and, I would add, non-corruptibility.

What drives me absolutely crazy about the Social Security debate is that one can't get either the right or the left even to adhere to basic principles. Almost no one in the Social Security debate of the past few years spoke out against the injustice done to single heads of household, who have no access to the ¼ of the system that is provided free (no additional tax owed) but only to spouses and survivors.

As for progressivity, I have been on the actuaries' case for years to produce distributional tables, however qualified. We have debates over progressivity, but then no empirical evidence is provided. So during the Bush Commission, the left claimed that increasing the retirement age was regressive (which is essentially wrong because the poor are disproportionately in the disability system which suffers no benefit reduction with increases in the retirement age), and the right claimed that Social Security was regressive because it provide annuitized benefits (ignoring the offset provided by the progressive benefit formula and disability insurance).

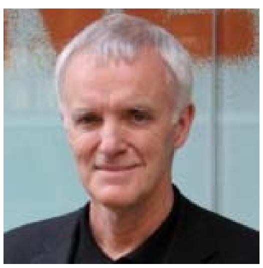
I agree fully with Bob Kerrey's goal under the progressivity principle of removing the elderly from poverty (which we could do today and certainly over time). This must be, however, a wage-indexed measure of poverty. Then and only then should we start debating how much of an add-on benefit should be provided, say, through the rates applied to other benefit brackets.

Efficiency, I believe, leads to some of the suggestions voiced several times by Lisa Mensah about increasing private saving, but we must be honest: right now the system is corruptible, and we can all game it by borrowing against our mortgages while tucking money into retirement accounts (whether optional or mandatory). I don't view child accounts as a Social Security issue per se, but I do favor efforts like these essentially to bank most people in society so they can learn by doing when it comes to having accounts.

GENE STEUERLE: One last item on principles. Open-ended budgets violate the budget principle that societal claims should compete on a level playing field. As long as keeping the education budget even with inflation gets counted as an "increase" in benefits (over and above a fixed nominal amount) and spending 5 percent more on health (Medicare or the tax exclusion provided for health insurance) gets counted as a decrease from an automatic growth path of, say, 6 percent, we will never get the health budget under control. Accepting this budget principle is a sine qua non of long-term reform of our health and retirement systems.

Take especially the issue of health. Certainly we should try various efficiency improvements, including better information systems, as a way to get the health budget under control. They might work and they might not. The health issue will never be solved as long as programs have open-ended budgets, and politicians are forced to talk the language of cuts rather than increases. Moreover, it is probably only by removing open-ended budgets that elected officials will be more willing to try these efficiency improvements, not to mention subscribing to the catalogue of cost saving ideas already noted by Bob Berenson in his writings.

These are the types of process issues that David Walker keeps noting in his list of reforms and, I believe, are implicit in some of what Bob Litan and Bob Kerrey have written.



BOB KERREY: Gene is 100% right. This would be a very constructive incremental change that would have a very large impact.

DAVID WALKER: There is a big personal responsibility element to what needs to be done. Too many Americans are following the bad example of their federal government. They are spending more than they make and mortgaging their future.

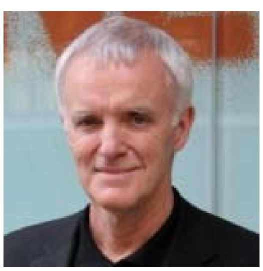
It is clear that most middle and younger aged individuals will need to assume more personal responsibility for their own financial future. It is also clear that government policies and employer practices need to encourage people to work longer for economic growth, fiscal, personal and other reasons.

LISA MENSAH: Good for Gene. A fair discussion of what we can afford, does not only include what we’re spending on Social Security and Medicare but also what we’re spending on open-ended tax expenditures such as tax exclusion for health insurance.

I like how our entitlements discussion has moved away from the word “entitlement” to elevate the language that resonates with the public and resonates with deeper values—a system of healthcare and retirement security we can afford while still being fair, efficient and easy.

Raising the topic of personal responsibility, Scott seems to be putting on the table how much we can “fix” the people rather than “fix” the system. Surely consumer education or social marketing campaigns are important and as the campaigns around seatbelts and smoking has showed—marketing and new laws have made a difference. Some trends are indeed on our side. Nutrition and wellness are higher profile as issues that are good for consumers and good for the economy. As research by the Stanford Center on Longevity shows working longer may be a win-win option for some populations as demographic trends compel us to retain older skilled workers to augment labor supply.

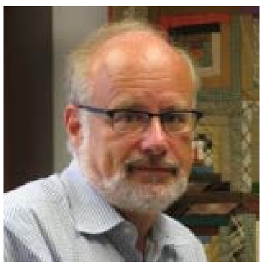
Yet working longer for many lower-income workers—if even possible—will not automatically yield more savings and retirement security. I agree with David that too many Americans owe more than we own, yet building more of a savings society requires building a first-class savings system for all Americans. I think we pursue a “fix the people” strategy with caution—particularly in the savings arena. The system doesn’t always encourage people to save. Some 50% of workers aren’t even offered a retirement account. Financial literacy as a stand-alone solution for increasing retirement security has not demonstrated results. The modest incentives such as the Saver’s Credit that exist for contributing to a retirement account are too modest. And for those who do generate a retirement nest egg, few are encouraged to annuitize some of their hard-won savings so that they won’t outlive their private savings in old age. Hard to get to the goal without both some renewed personal responsibility and some system changes.



BOB KERREY: Lisa is right to focus on the need for public education and change in personal behavior. However, we must be aware of the limitations of voluntary efforts. Note these two things: the voluntary response of the market to retirement and health costs over the past two decades is to slowly but surely reduce the number of workers with pensions or health insurance. Second, the great progress since the 1980's with seat belts and smoking has occurred following enactment of State laws requiring the first, and city ordinances banning the second. If federal law had not banned smoking on commercial aircraft just 12 years ago, secondary smoke would still be high on the list of annoying and unhealthy conditions of air travel. Don't get me wrong: I do not believe the government should become a nanny to us nor am I hostile to the marketplace. It is just that all evidence indicates that some public goods can only be achieved through law. Universal personal savings that becomes a source of non-employment income is, in my opinion, one of these public goods that will not be achieved without a mandate.

LISA MENSAH: Bob Kerrey is right that history looks grim but before we take a drastic step in the direction of savings mandates–

one that I can't imagine will be popular or seem fair to millions–I think we must do all we can do to build a strong voluntary system. We are far from having tried all we could do to build a fair and first-class private-sector, voluntary system that begins at birth and inculcates a lifetime habit of savings and financial security. Gene Steuerle points in a good direction with his Super Simple Savings Plan to replace most of the overly elaborate 401(k) plans. I don't see how you build a savings mentality on mandates alone. Personal savings just feels different than mandatory requirement to participate in our social insurance system. Since I believe we desperately need both insurance and assets, I say we keep the mandate on social insurance participation and make the personal savings system and its incentives strong, adequate, and sensible.

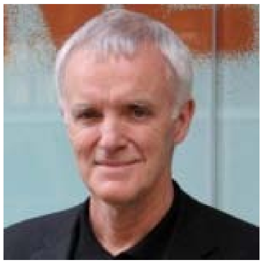


ROBERT BERENSON: In health care, I think it a hard case to make that lack of personal responsibility is primarily the cause of inflationary health care spending growth in general, and Medicare spending in particular. Of course, life style and work habits–diet, sedentary life, Type A personality, too many hours at the desk, etc,–all contribute to development of illnesses, and as a nation we need a public health focus on behavior change and support for that change. I know David was referring to personal financial responsibility–but that often gets conflated with personal responsibility for one's health status. With all of the influences on health, including genetic, socio-economic, as well as personal discipline and attitudes, I do not think we want to go very far in tying health status and one's financial assessment for insurance premiums, etc.

Any fair comparison with other countries would show that the driving inflationary forces in the US relate to higher personal incomes of the health care workforce, horrific waste in the administrative infrastructure that supports our multi-payer health system, provider/supply-induced demand for services of little marginal value, and unfettered and profitable use of new technology and new uses of established technologies. Further, most spending is associated with individuals with chronic health care problems whose spending exceeds any publicly acceptable personal annual out-of-pocket maximum. (The 20-80 rule that is experienced by all public and private insurance programs.) Progressive cost-sharing can surely be a tool in a cost-containment arsenal. But the approaches that offer greatest promise, in my view, involve restructuring how the health care delivery system is organized and paid. No silver bullet solutions here, and none related to reducing moral hazard. We need to get into the weeds to produce the savings–or, more precisely, alter modestly–1-2% decrease in Medicare spending growth rates. So I generally support Gene's suggestion for imposing budgetary discipline to permit those of us would-be weed whackers to be allowed to do our work.

I've enjoyed the discussion.

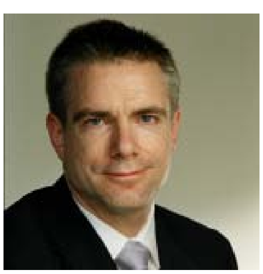
BOB KERREY: Lisa's concern about the popularity of mandates is well placed, but the public cost of supporting dependent Americans who have savings is huge. And–I know this from personal experience–the mandates to wear safety belts and the ban on



smoking were also unpopular until they were enacted. Afterwards, when the benefits were clear, they were accepted and liked. All of us are going to get stuck with having to pay the cost of the tens of millions of non-savers who are "entitled" to support under current law.

JOHN ROTHER: I agree with Lisa, Bob Berenson and Bob Kerrey. I think we have an opportunity to take on some of these challenges in the coming months and years, and I hope that we can be successful. This discussion has been a constructive one, with a progression toward the ideas involving both government policy and program reform, and individual behavior change, to achieve a more secure and sustainable system of health and retirement security. I appreciate the openness and good faith of the participants. After eight years of gridlock that has left us worse off in many respects, there is no debating the need to act. I think the successful formula for action is to combine measures that increase personal security with those that also promote fiscal sustainability. This is difficult but certainly possible, particularly in the case of health reform. For financial security, the key will be combining Social Security reforms with other measures to promote retirement savings and longer working lives.

DAVID WALKER: We need to recognize that savings incentives have not worked. We have the lowest savings rate of any major country and the people who save and get the tax benefits are generally better off than those that don't. We need to move to a modest automatic savings arrangement through payroll deduction that would supplement Social Security, be put in a real trust fund, with pooled investment options, lower administrative expenses and some investment education assistance. Our savings deficit makes us dangerously reliant on foreign lenders and deprives us of much needed investment capital for the future.



SCOTT BITTLE: This has been a substantive and wide-ranging discussion. We've talked about a lot of interesting and practical solutions over the past three days.

The one message that comes out strongly is that any solution to this challenge has to start with the public: speaking to them honestly and truly engaging them in solutions. That is absolutely fundamental to solving this problem–and we're all agreed that it can be solved.

Thanks to all of you for participating in this NewTalk discussion, which is now closed. I've enjoyed it and I hope you have, too.

Social Security = Other countries such as Canada are addressing this issue by gradually increasing retirement ages and the age when full benefits kick in. Life expectancy is increasing at 3-4 months per year. There should be a similar shift to when benefits can be claimed. A Life expectancy adjustment, similar to the COLA adjustment to reflect the actual changing situation. http://en.wikipedia.org/wiki/Social_Security_debate_%28United_States%29#Other_proposals Increase normal retirement age to 70 36% reduction in shortfall PRO:Links retirement more closely to life expectancy and increased worker health since program inception. CON:Reduces benefits. Unfair to those forced to retire early but not otherwise eligible for other Social Security benefits. Retiring retirement paper http://www.nature.com/nature/journal/v453/n7195/full/453588a.html Medicare : the focus should be on reducing the cost of more effective healthcare. Biomarker testing= labs on chip for a few bucks to detect disease markers in the early stage of disease progression. Like pap smears. A test that costs a few bucks can detect and treat cervical cancer and prevent 70-80% of deaths. The transformation is possible to enable cheap and constant early detection and treatment. Lower costs and better health for everyone. New treatments like LIFT. Transferring immune cells from people who have very strong immune systems and have natural cancer resistance to those who are sick or at risk. John Hopkins has clinical trial. Medicare should not be a promise to find more money to pay for old and costly procedures. It should be to develop affordable and effective health procedures to citizens. Enable citizens to be healthy. (this also means developing new procedures to enhance the health of people.) SARMS and myostatin inhibition could safely increase the muscle in people. This would help reduce falls and injuries from falls in the elderly. It would also increase the lean muscle to burn more fat and reduce obesity. DARPA is working on way to activate a cellular switch for people to go into and out of fat burning mode. No need to eat while in fat burning mode. This would eliminate obesity. A DARPA of medicine should be created that is focused on processes and deployable strategies for making people healthy and reducing medical costs and live longer. This would be instead of the possibility of developments that are side effect of makig supersoldiers. So entitlements can be affordable if the effort is made to lower the costs of the promises and to redefine what is being promised.

-- BRIAN WANG NEXTBIGFUTURE.COM

In Public Agenda's work talking with citizens about these issues – as well as our conversations with leaders in Washington – one of the biggest stumbling blocks we encounter is the language of "promises" made to people approaching retirement. For so long, our society has been sold on the concept of "the golden years," and now everyone seems to think they DESERVE a 20-year vacation at the end of their lives – fully supported by government. I am all for keeping promises and also supporting those who are no longer capable of working, but I think our government should be focused on creating programs that help the most vulnerable and support a productive economic system (there is a logic to putting more resources into giving kids a good start in life over the HUGE amount of resources being directed to people at the end of their lives). I'm wondering what the contributors to this conversation think about the semantics of changing government programs, especially as it relates to the language of reform, "adjustments" and breaking promises.

-- MICHAEL REMALEY

Here is another piece of learning from the public engagement efforts of "Facing Up to the Nation's Finances," (www.facingup.org) this one healthcare: Just as the discussants here have moved quickly from a discussion of the ways in which we could reform Medicare to a discussion of larger healthcare system reforms to reduce costs and increase efficiencies, we have found that that is exactly how the public thinks. While Americans are very capable of having full discussions about reforming Social Security, they have a harder time addressing the much larger ballooning costs of Medicare and Medicaid because they jump immediately to their desire to change the whole healthcare system. In some ways, this is good in the sense that it shows Americans want to see wholesale change rather than tinkering at the edges, but it does make some of the somewhat easier "fixes" a bigger challenge to get going in public dialogue. What do the panelists think can be done to get policy makers and the public talking about the whole range of possible reforms associated with the existing medical entitlement programs and larger system reforms?

-- MICHAEL REMALEY

To get public focus, why not set targets–of Medicare savings, of increasing personal saving–, and explain how meeting these targets will avoid a terrible crisis.

Then the debate will turn to how to meet the target. John Rother and I recently participated in a NewTalk discussion on chronic care (75% of healthcare costs), in which many of the experts seemed to land at the same place–replace fee-for-service with the idea of a medical "home" for each patient, where much of the work is done by social workers and other non-physicians who help the chronically ill stay on the program–avoiding costly interventions later. This is one area where consumer-driven care is extremely inefficient.

People who choose to neglect themselves today cost the rest of us staggering sums tomorrow.

As John Rother points out, other reforms, including medical liability reform (Common Good and Harvard have proposed expert health courts) and avoiding unnecessary procedures, also hold promise of significant savings.

But the CONTEXT of reform is what you are discussing. I see a one-two punch. You set the goals, and get buy-in from as many leaders and groups as possible. Then that makes the debate on overhauling healthcare compelling.

-- PHILIP HOWARD

First, This is a great discussion. As one of the young panelists at the Youth Entitlement Summit held last month in DC, I've come to think that while certainly not an end in and of themselves, these types of discussions have value. A few points:

1)Mr. Malpass raised the issue of having "an actual set aside of valuable non-government assets" and the discussion proceeded to individual accounts. Are there other/additional ways the government can invest in things that have a quantifiable return? Two possibilities - a)direct student loans have a 2.1% return on investment over a 10 year span and b) toll roads: Pennsylvania is planning to sell the PA turnpike to a foreign company. Why couldn't current Social Security surpluses be used to purchase assets that would actually return $ to the SS system? These are certainly not a fix for the program, but are they a worthwhile step?

2) Several of you have posted about the bully pulpit of the Presidency and leadership in Washington. What about the collective influence and scope of the experts on this panel and the organizations your represent? Two examples:
a)The AARP has 39 million members and enormous influence. Could it cultivate a 'safe space' for elected officials to discuss these issues - in other words remove the electricity from the 'third rail'?
b) A collective commitment to host a presidential debate or interviews with the candidates on these issues in sufficient length to draw out the substance and size of the problems.

Again, great discussion,

Luke Repici, Association of Young Americans

-- LREPICI

I'm sorry for being a pest (sort of), but this seems awfully abstract to me. What are we educating the public about? Doesn't the idea of a bill coming due need to be packaged with clear financial goals and a menu of possible choices? Then the public can evaluate and deal with the pain associated with responsible choices.

What's interesting, at least to this unwashed member of the public, is the concrete changes needed to be fiscally responsible–not the general notion that we're spending too much.

-- PHILIP HOWARD

The growing difficulties in financing entitlement spending has become very serious and more pressing than many realize, including some of your panelists. While there are "trust funds" established for Social Security and Medicare which aggregate $2.6 trillion, these trust funds are not funded with anything except IOUs from the federal government. As the Office of Management and Budget points out in its 2008 Analytical Perspectives for the Budget of the U.S. (p.345): "The holdings of the trust funds are not assets of the Government as a whole that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury. When trust fund holdings are redeemed to authorize the payment of benefits, the Department of the Treasury will have to finance them as any other Federal expenditure: by using then current receipts, by borrowing from the public, or by reducing benefits or other expenditures." According to the trustees for the Social Security and Medicare trust funds, as the baby boomers begin to retire, expenditures for Social Security and Medicare are expected to increase by over $980 billion by 2017 as compared to the 2007 level. This is less than 10 years from now. Because of the growing dpendence on general tax revenues to finance Medicare spending, the Medicare trustees have issued "Medicare funding warnings" for three consecutive years but Congress has done nothing to fix it. We need to be thinking of ways to cut the growth of

benefit costs, find additional revenue sources or, more likely, do both.
www.bipartisanpath.com

-- BIPARTISAN PATH

A Social Security Fix from a Master Negotiator Lisa Mensah pointed to Bob Ball's plan for Social Security reform. It offers insights from a master communicator, negotiator, and policy thinker. Ball served on the Greenspan Commission and represented House Speaker Tip O'Neil in dealing with the Reagan White House on the 1983 package of reforms. Just three months before he died in January 2008 Ball wrote his views about the wrong way – and a right way – to balance Social Security finances in a letter to the Washington Post. The ideas, as well as his way of presenting them, are important in planning a public education campaign. He wrote on October 29, 2007: "What was right in 1983 – a balanced package of benefit cuts and tax increases – would be wrong today. Social Security benefits are modest by any measure and are already being cut -- by increasing the age of eligibility for full benefits and by deducting ever-rising Medicare premiums from benefit checks. So the benefits provided for under present law will replace, on average, a lower percentage of prior earnings than in the past. To cut them further would undermine all that Social Security has achieved -- exposing millions of vulnerable people, both elderly and disabled, to needless economic hardship. Social Security has never been more important to more Americans than it is now. Private pension plans continue to dwindle, -- currently covering only about 20 percent of private-sector employees – and the national rate of savings hovers around zero. We just can't afford to cut Social Security benefits further. There's no way to make up for the loss. Social Security benefits are vital to nearly all recipients. About a third of the elderly rely on Social Security for 90 percent or more of their income; two thirds count on it to supply at least half of their income. The program lifts 13 million elderly beneficiaries above poverty. Without Social Security, 55 percent of the disabled – and a million children – would live in poverty. The program is particularly important to women and minorities. It provides 90 percent of more of the incomes of almost half of all unmarried women age 65 and older (including those who are widowed, divorce, or never married), and it is the sole source of income for 40 percent of elderly African Americans and Hispanic Americans. Social Security is the nation's most effective anti-poverty program. But it is much more than that. For every worker it provides a solid base on which to try to build an adequate level of retirement income. To weaken that foundation would be grossly irresponsible. The good news is that there is no need to weaken it. We can shore up Social Security for the future without cutting benefits – or raising contribution rates. The program can be brought into close actuarial balance over the long run with just three revenue-enhancing changes that are desirable in any case: · Gradually increase the maximum amount of taxable earnings covered by Social Security so that the tradition goal – covering 90 percent of all earnings – is once again achieved. This change would affect only 6 percent of the earners who make more than the maximum covered amount (now $102,000), and implementing the change gradually over the next 20-30 years would have only a minimal impact on them. · Provide a new source of income by retaining a residual estate tax and dedicating it to Social Security. By 2010, the estate tax will affect only individuals with estates worth more than $3.5 million ($7.0 million for couples). Dedicating the income from the tax to Social Security would improve the progressivity of Social Security financing. · Allow Social Security to improve earnings by investing some of its assets – up to 20 percent, say – in equities, as just about all other public and private pension plans do. Policymakers today should not be held to a 1983 formula. We're in a different time, with different needs – and there are much better options available than benefit cuts," Ball concluded in October 2007. His advice remains timely. Social Security's shortfall is relatively small. To fill the gap by expanding the system's revenue base makes perfect sense. Today, most of national income is not taxed to pay Social Security. Taxable wages make up just 38 percent of the national economy and are slated to fall to 33 percent. Most of national income that is not taxed for Social Security goes to well-off households: earnings above the tax cap; employer paid health insurance, pension, and 401(k) contributions; income from capital (interest, dividends, rents); realized increases in the value of property (capital gains); and gifts and bequests. Ball's incremental changes tap a small part of those untapped resources to keep Social Security sound. Because everyone benefits from Social Security, it is fair to finance it broadly and somewhat progressively. He believed his plan was far more fair and adequate than either alternative of cutting benefits or raising tax rates on workers who earn less than the tax cap. Virginia Reno Friend of Bob Ball

-- VIRGINIA RENO

I suggest we abolish Social Security retirement and Medicare. If people are too stupid to save for their retirement (especially given that 12% of their wages would be freed up for savings once these entitlements were ended), that is really their problem. When Social Security was founded there was not an effective mechanism for long-term savings growth, today everyone can participate in diversified equity markets. Entitlements are welfare, they are not "social insurance". Insurance is something you purchase from a private enterprise in order to mitigate risk, and the insurance company charges you an appropriate rate to remain solvent, unlike the Federal government's long term position on Social Security and Medicare. If we are unable to deal with the possibility that people are too stupid to save, we should instead begin a crash project to genetically engineer our citizens to have a higher IQ (for example, by inserting the proper variations of the CHRM2, DTNBP1, and SNAP-25 genes). It would have a much higher ROI than the War in Iraq.

-- MR ECONOTARIAN

I think we have almost fallen off the cliff. Look today at all of the child behavior problems. We have children who have no respect for authority and are growing up with a false sense of entitlement. They believe everyone owes them something in this world and they are here to collect. I only hope this trend changes.

-- POLAND SPRING