NCSC LEGISLATIVE
FACT SHEET
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ENTITLEMENTS
(OUTLOOK FOR THE 104TH CONGRESS)
1995-1996

Congress is poised to make substantial changes in the many entitlement programs and possibly our tax structure as early as 1995. The President appointed the 32-member **Bipartisan Commission on Entitlement and Tax Reform** last February and charged it with recommending potential long-term budget saving measures involving "entitlement" programs and alternative tax reform proposals. This Commission is scheduled to make its recommendations on or before December 15 with its recommendations designed to serve as a guideline for entitlement debate and policy in the 104th Congress. However, the Congress is not obliged to heed these recommendations.

Though no concrete recommendations have been made, Commission discussions have centered around several topics which have alarmed the National Council of Senior Citizens. Some of these proposals include means-testing Social Security and Medicare; raising the retirement age; slashing benefits for Social Security, Medicare, Medicaid, Unemployment Insurance and other key programs and imposing spending caps on entitlement programs. Though many of these proposals have been recommended in the past—and failed—the 104th Congress is expected to be considerably more conservative and seniors must be prepared to oppose attempts to harm social insurance programs.

WHAT ARE ENTITLEMENTS

Entitlement programs are government-funded programs for which Congress has set eligibility criteria that may include age, income or occupation. If a person meets the eligibility requirements, he or she is "entitled" to participate in the program. In some cases, companies such as agribusiness organizations are eligible for cash entitlements.

Entitlement programs fall into two groups—those that are funded by special set-asides or trust funds, and those that are funded out of the general revenue. Social Security, Medicare Part A, Federal civilian retirement, unemployment compensation, and Federal military retirement are funded by special taxes or set-asides, and account for more than 70 percent of all Federal entitlements. Entitlement programs funded out of the general revenue include AFDC, Child Nutrition programs and food stamps, and these account for the remaining 30 percent.

KEY COMMITTEES

SENATE:

Finance Committee — Chair, Daniel Moynihan (D-NY)
Veterans' Affairs Committee — Chair, Jay Rockefeller (D-WV)
Agriculture, Nutrition and Forestry Committee — Chair, Patrick Leahy (D-VT)

HOUSE:

Ways and Means Committee — Chair, Sam Gibbons (D-FL)
Agriculture Committee — Chair, Kika de la Garza (D-TX)
Veterans' Affairs Committee — Chair, G. V. Montgomery (D-MS)

FACTORS DRIVING THE ENTITLEMENT DEBATE

- Unless changes are made, the deficit will rise from about $200 billion in 1994 to almost $400 billion in 2004. Entitlement growth will contribute to this rise in the Federal deficit.

Over, please...

- Federal health care spending for Medicare and Medicaid is projected to increase from 3.3 percent of the economy today to 11 percent by 2030.
- Entitlement spending represents 12 percent of the gross domestic product and 53 percent of all Federal budget outlays in 1993.
- The Social Security trust fund will go into debt by the year 2029, as retirement of the baby-boom generation reaches its peak.
- The aging of the population will affect major entitlement programs making it difficult to provide health and income security to seniors and disabled citizens.

KEY FACTS

- Social Security, Medicare, Medicaid, and Federal Retirement programs account for 75 percent of all entitlement spending and are most at risk in entitlement reform.
- The primary reasons for the quadrupling of the national debt between 1980 to 1992 was the $1.4 trillion increase in national defense expenditures, coupled with a $1.3 trillion decrease in Federal tax revenues and a $1.1 ~~trillion increase in~~ servicing the national debt.
- With the exception of health care spending, entitlements have not grown faster than the economy as a whole over the past decade.
- Without Social Security benefits, half of all Americans over the age of 65 would live in poverty.
- The long-term financing problems of the Social Security system are largely due to the extraordinary size of the baby-boom generation, not to any large increase in benefits.
- Social Security and Medicare are "earned benefits" paid by workers through tax deductions—they are not "gifts" of the Federal government.
- The Social Security Trust Fund could be made solvent for sixty or more years through an increase of one percent in the FICA tax for employers and workers, according to the Social Security Trustees.

NCSC'S POSITION

The National Council of Senior Citizens recognizes the need for modest adjustments to deal with the long-term actuarial balance of the Social Security Trust Fund, rising health care costs, and the Federal deficit. However, the Council does not support solutions which would deny or reduce benefits to the old and the poor or to citizens who have earned these benefits. Further:

* Congress has the moral obligation to preserve the social insurance basis of Social Security, Medicare and other key programs, and to pass them on, in a healthy condition, to our children and grandchildren.
* Americans who did not benefit from tax cuts made in the 1980s should not be penalized now for deficits produced by such tax cuts.
* The revenues raised on a contributory and earmarked basis for such self-financed programs such as Social Security, Medicare, Federal retirement and Unemployment Insurance should not be diverted to some other ends such as deficit reduction.
* Comprehensive health care reform is needed to curb rising health care costs and ensure that, as the overall population ages, health care needs are provided for all Americans.
* Changes are needed in our current tax structure to ensure that corporations and the well-off share in reducing the deficit.
* The large size of the "baby-boomer" generation is not a proper reason to cut their benefits in the future.

October 25, 1994

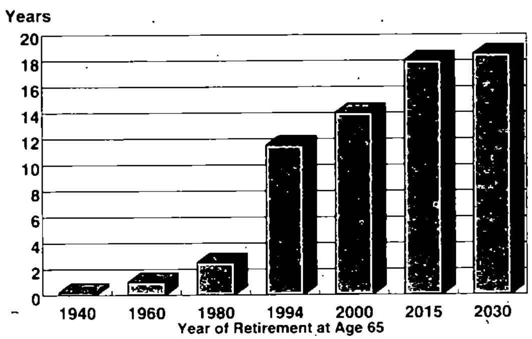
Isn't Social Security affecting the deficit?

Although Social Security is the largest program operated by the federal government —about 20% of total spending — it is self-financed, taking in more payroll taxes than are needed to pay benefits. In 1994, Social Security income will exceed annual spending on benefits by about $53 billion. Social Security was officially removed from the deficit calculation in 1990.

Is it true that most people recover their Social Security contributions within three years?

No, not for people retiring today, although it was true for those who retired in the earlier years of the program. Today, workers who earn the average wage during their working lives and retire at age 65 will take about 12 years to recover their Social Security contributions. For the baby boom generation, it will take about 18 years.

Number of Years to Recover Social Security Contributions Plus Interest for Average Wage Workers Retiring at Age 65



Source: Congressional Research Service.

How safe is Social Security?

Under current projections, Social Security is solvent for the next 35 years. Social Security will continue to accumulate tax revenues in excess of annual benefit payments until about 2018. After that, its tax revenue, interest income, and accumulated assets will keep it fiscally sound for another 11 years, even if no changes are made.

Will Social Security still be there when today's younger workers retire?

Social Security's solvency can be guaranteed by making modest changes to the program (such as payroll tax increases or raising the age of retirement at which full benefits can be received), depending on the needs of future retirees and the strength of the economy in future years.

Take action! Call or write your Senators and Representative and tell them:

1. Social Security is not the cause of our deficit problem — it is financially sound and will remain so for generations to come.

2. The real deficit problem is caused by health care costs. To solve this problem, we need health care reform with tough cost containment for both private insurance and Medicare.

AARP

American Association of Retired Persons
601 E Street, N.W.
Washington, DC 20049

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The TRUTH *About* ENTITLEMENTS

Separating FACT *from* FICTION

AARP

What are entitlements?

Entitlement programs provide benefits to people who are legally eligible to receive aid and choose to participate. These benefits cannot legally be denied to those who qualify.

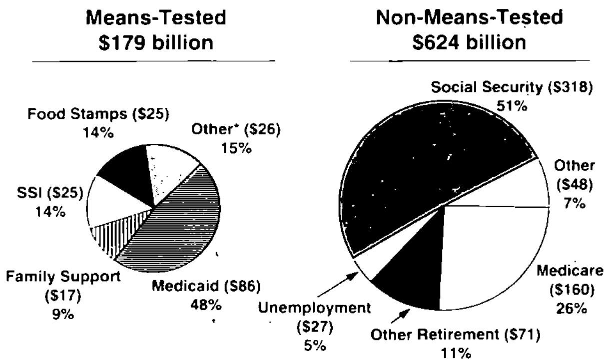
Are entitlements the same as welfare?

No. Entitlements include Social Security and Medicare, both of which are <u>earned</u> benefits based on contributions people make during their working years. But there are other entitlements which are based on need and not on previous contributions, such as Aid to Families with Dependent Children, food stamps, and Medicaid.

What are the largest entitlements?

The chart below shows the different entitlement programs, divided between those that are based on need (means-tested) and those that are based on contributions (non-means-tested).

Entitlement Spending, FY 1994



*Other means-tested entitlements include the Earned Income Tax Credit and Child Nutrition.
Source: CBO, 1994

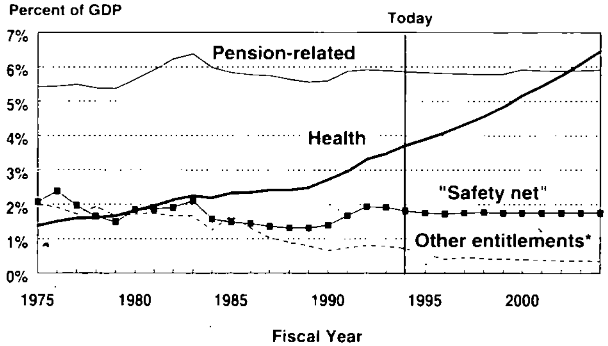
*Other non-means-tested entitlements includes agricultural subsidies and Veterans benefits.

Is entitlement spending out of control?

No. It is true that entitlements are more than half of the budget, but this has been true for almost two decades. Entitlements equalled 51% of total federal spending in 1976 — and 52% in 1993.

If entitlements are not out of control, what is causing the deficit problem?

Types of Entitlements as a Percent of GNP, 1975-2004

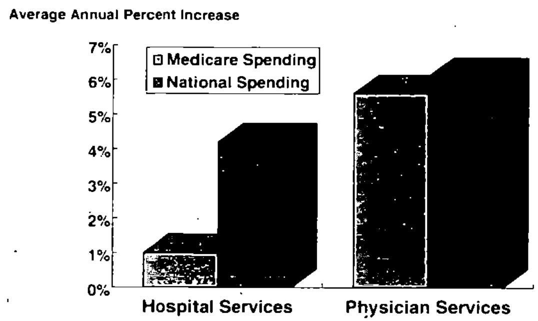


Source: CBO, The Economic and Budget Outlook, FY 1995-99.

*Other entitlements include agricultural subsidies and Veterans benefits.

While the deficit averaged 4.7% of Gross Domestic Product (the total economy) in the 1990s compared with 2.4% in the 1970s, most entitlements did not grow during that period (see chart above). Pension-related programs (such as Social Security and federal retirement), "safety net" programs such as food stamps and unemployment, and other entitlements such as veterans' benefits, all remained stable or declined. Only the two largest federal health programs — Medicare and Medicaid — have increased relative to the economy since the mid-1970s.

Growth in Medicare and National Health Spending per Person, 1985-1991



Source: CBO, Trends in Health Spending, An Update, June 1993.

Doesn't that mean that federal health costs need to be contained?

In fact, the costs of Medicare have been contained more successfully than private sector costs since effective cost containment provisions were enacted in the mid-1980s. Medicare costs per enrollee actually increased more slowly than private sector costs since 1985, as the chart above shows, but systemwide health costs continue to rise at about twice the rate of inflation.

Then how can the health costs that are driving the deficit be controlled?

It is not enough to try to contain the costs of Medicare and Medicaid alone, because reducing public health spending alone merely shifts costs to the private sector. The only answer is comprehensive health care reform that includes systemwide cost containment in both private and public sectors.

AARP

Bringing lifetimes of experience and leadership to serve all generations.

THE ENTITLEMENT COMMISSION: KEY POINTS TO ADDRESS

The Bipartisan Commission on Entitlement and Tax Reform can serve a valuable role in educating the American people about the dangers of continued federal deficits and the options for deficit reduction. In addition, the Commission can further the budget debate by discussing entitlement and tax reform issues.

Older Americans recognize that the federal deficit must be reduced in order to help ensure their children's and grandchildren's future. They are prepared to sacrifice for that goal provided the burden is spread across the population and according to an individual's ability to bear the pain.

However, AARP believes that any proposed options the Commission considers should recognize the valuable role entitlement programs play in our society. In addition, the Commission should:

- **IDENTIFY THE CAUSES OF THE DEFICIT BEFORE PROPOSING SOLUTIONS.** The federal deficit accelerated rapidly during the 1980s for several reasons. The Economic Recovery Tax Act reduced revenues from 1982 through 1991 by $2.1 trillion. Subsequent legislation from 1982 to 1990 recouped about $800 billion. Thus, overall federal receipts were $1.3 trillion lower over the 1982-1991 period. In addition, defense spending rose from 1980 through 1986. At the same time, a sharp increase in interest rates drove up the cost of servicing the debt. Finally, skyrocketing medical costs increased the level of federal spending. Efforts to contain health care costs only through the federal budget simply shift costs to the private sector and to individual beneficiaries without addressing the root causes of the growth in medical costs. Options for deficit reduction should reflect the real causes of the deficit.

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- **RECOGNIZE THAT ENTITLEMENT SPENDING, EXCEPT FOR HEALTH CARE, HAS NOT INCREASED DRAMATICALLY AS A PERCENT OF GROSS DOMESTIC PRODUCT.** The real increases in entitlement spending as a percentage of GDP occurred from 1965 through 1975 due to the expansion of existing programs and the creation of new programs such as Medicare, Food Stamps and Supplemental Security Income. Since 1975, inflation adjusted dollars spent on non-health care entitlement programs have remained <u>below</u> the general level of federal spending. (see Entitlement Spending charts)

- **ACKNOWLEDGE THAT SOCIAL SECURITY IS A SELF FINANCED PROGRAM THAT IS NOT CONTRIBUTING TO THE DEFICIT.** The Social Security program continues to be the most popular federal program largely because it is financed out of earmarked contributions that establish a worker's entitlement to a benefit. Social insurance programs such as Social Security, with near universal participation and a benefit related to contributions, protect everyone against risks such as lost income and provide a retirement income stream that most would otherwise not have on their own.

  Social Security will celebrate its 60th birthday in 1995. During its history, changes have been made to the program to help ensure its long-term solvency. Today, the program is taking in more revenue than is needed to pay current benefits. Rather than contributing to the deficit, Social Security is building a reserve that unfortunately has been used to mask the federal operating deficit. Since Social Security more than pays its own way, it should not be reduced in order to solve a deficit it did not create.

  Current projections do show that absent any change in the program, Social Security will continue to build a substantial reserve, then begin to draw down the reserve and face ultimate insolvency in 2029. Thus, as in the past, some adjustments will be necessary in order to ensure benefits for future generations. Social Security long-term solvency discussions should begin now in order to allow for a comprehensive analysis of the options and to enable the public to voice their views. Diverting Social Security revenue to deficit reduction, rather than Social Security reform, threatens the program's long-term solvency and the public support the program enjoys.

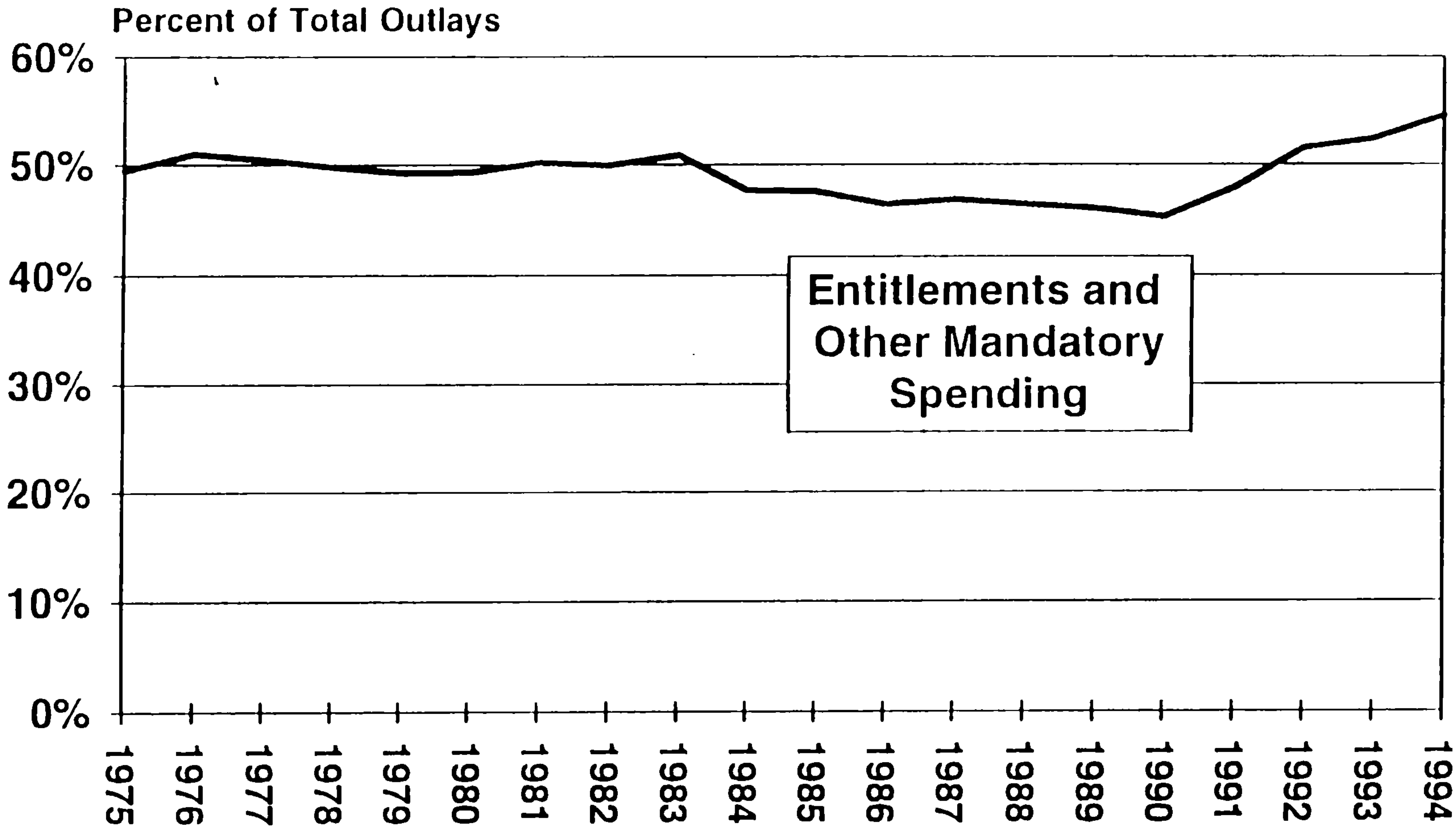
- **ACKNOWLEDGE THAT TAX EXPENDITURES, ANOTHER FORM OF SPENDING DONE THROUGH THE TAX CODE, SHOULD RECEIVE AT LEAST THE SAME LEVEL OF SCRUTINY AS DIRECT SPENDING PROGRAMS.**

  Tax expenditures, which are revenues foregone due to various tax exemptions, deductions, credits, and preferences, cost the Treasury that is, taxpayers, about $400 billion in 1993. Tax expenditures, once written into the tax code, automatically provide hundreds of billions of dollars in annual benefits to both individuals and corporations. Currently, there is no formal mechanism for review of tax expenditures, which had an estimated 4 percent average annual increase in real terms for the period 1974-1993. These foregone revenues have a direct impact on the deficit.

  While much attention has been focused on entitlement programs, tax entitlements continue to enjoy little scrutiny. This is particularly problematic given that tax entitlements generally have their greatest value for highest income individuals. Efforts to control the federal deficit must include greater scrutiny of tax expenditure items.

AARP believes that Congress and the President must work together with the American people to achieve both responsible deficit reduction and to ensure the continuation of critical programs such as Social Security and Medicare. While the deficit must be brought under control, entitlement programs must be able to continue to provide important benefits to future generations. The Bipartisan Commission on Entitlement and Tax Reform, by educating the public and examining various options and alternatives, can facilitate that debate and move us towards consensus.

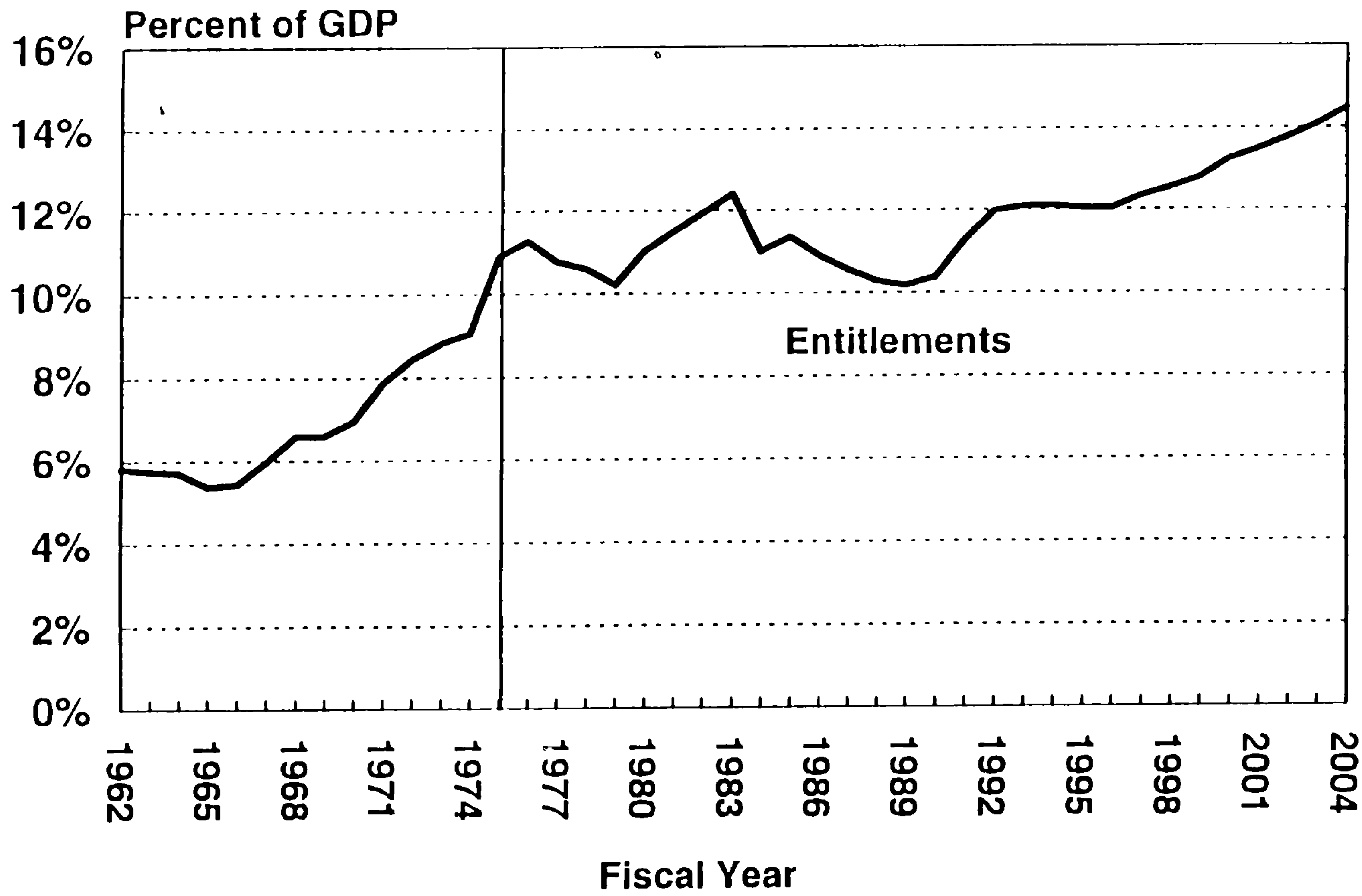
Entitlement Spending has Remained Stable as a Share of Total Outlays Since 1975



Source: CBO, The Economic and Budget Outlook FY1995-1999.

Prepared by AARP Public Policy Institute.

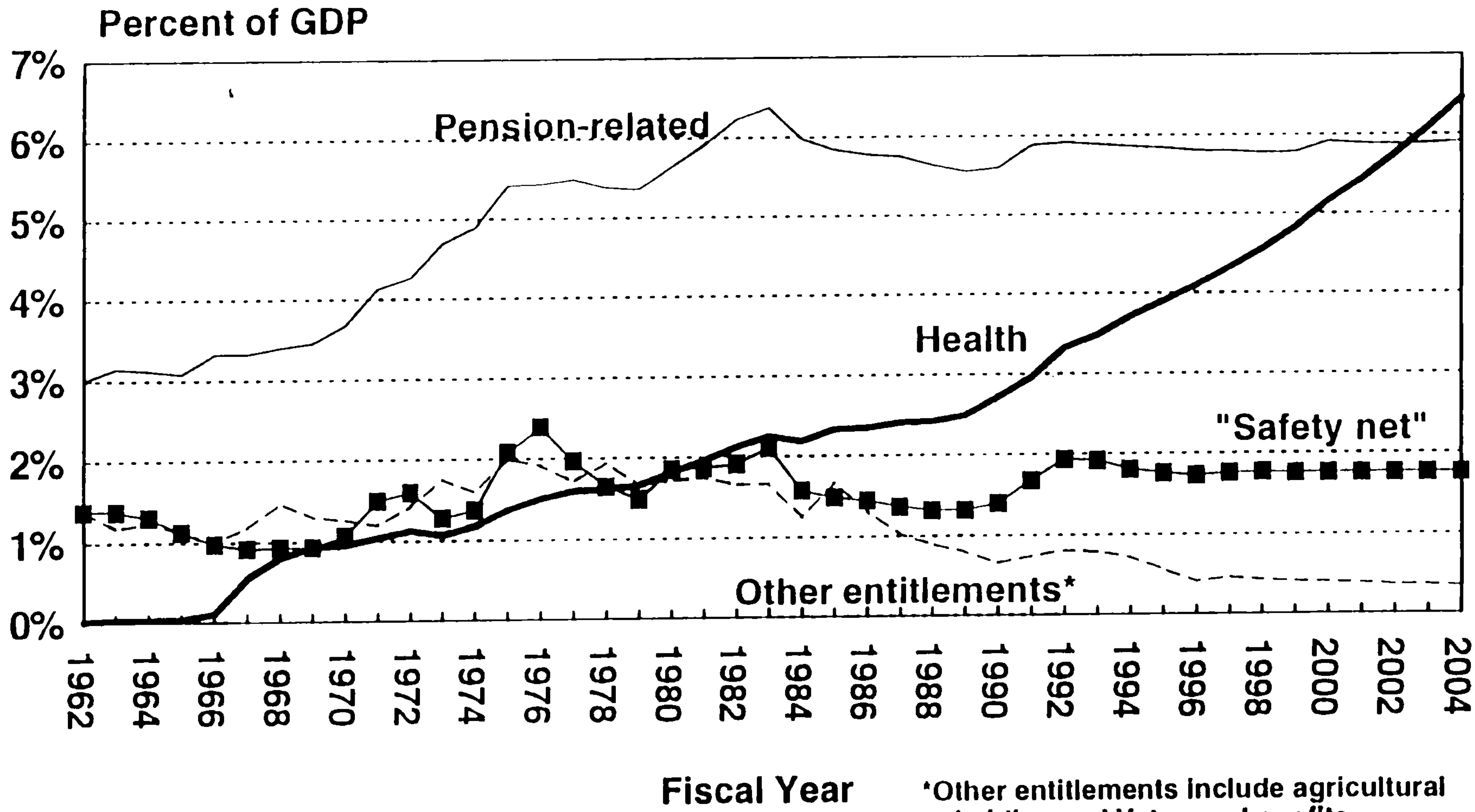
Entitlements as a Percent of GDP, 1962-2004



Source: CBO, The Economic and Budget Outlook, FY 1995-1999.

Prepared by AARP Public Policy Institute

Types of Entitlements as a Percent of GDP, 1962-2004

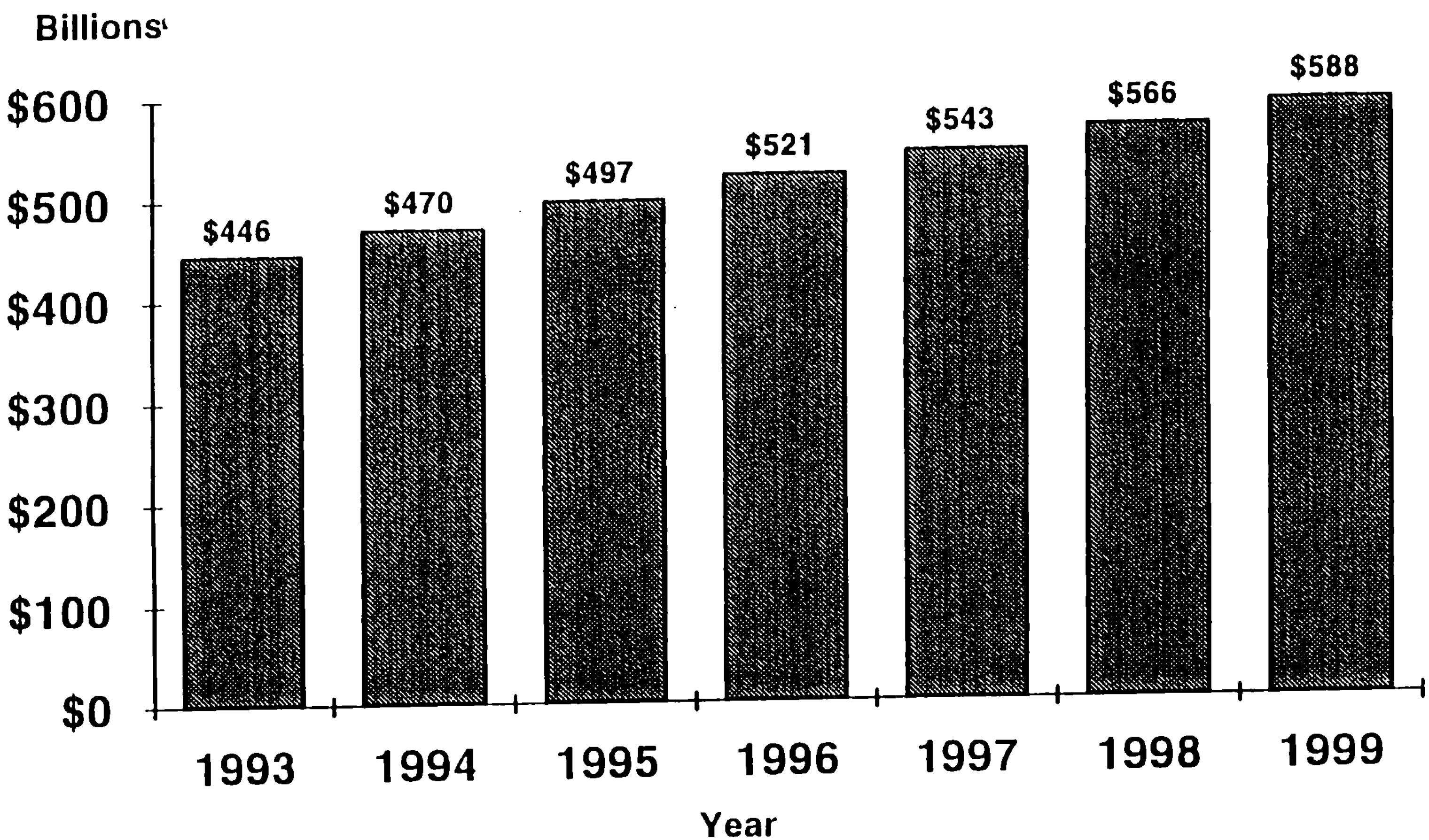


*Other entitlements include agricultural subsidies and Veterans benefits.

Source: CBO, The Economic and Budget Outlook, FY 1995-99.

Prepared by AARP Public Policy Institute

Total Revenue Loss Estimates for Tax Expenditures in the Income Tax, 1993-1999



Source: Budget of the United States Analytic Perspectives FY 1995.

BIPARTISAN COMMISSION ON ENTITLEMENT AND TAX REFORM

INTERIM REPORT TO THE PRESIDENT

AUGUST 1994