

10 TRUTHS

ABOUT AMERICA'S ENTITLEMENT PROGRAMS

INSIDE

Ten Truths About Entitlements

Myths Vs. Facts

Speech by R. Bruce Josten to the U.S. Chamber Board of Directors

The Growth in Mandatory Spending in Four Simple Charts



U.S. CHAMBER OF COMMERCE



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Truth No. 1 Entitlement programs are huge, expensive, and reach into every corner of American life.

- Social Security, Medicare, and Medicaid already cost \$1.6 trillion per year.
- In 2010, an estimated 49% of households received benefits from these three entitlement programs or other federal and state government assistance.

Truth No. 2 Entitlement programs are not self-funding and are a main driver of deficits.

- Medicare's annual cash shortfall in 2011 was \$288 billion. The program is responsible for more than 25% of all federal debt since 2000.
- Social Security had a cash flow deficit of \$58 billion in 2012.
- Without reform, the typical 3rd grader will receive only about 75% of the benefits provided to today's seniors.

Truth No. 3 Entitlement costs are growing at an alarming rate.

- In 10 years' time, the total price for these programs will soar to an astounding \$3 trillion a year.

Truth No. 4 Longer life expectancies, changing demographics, and soaring costs explain why entitlements as we know them today are unsustainable.

- It won't be long before one-third of Americans will be retired and will spend one-third of their lives in retirement.
- During the next 17 years, 77 million workers will retire—that's 10,000 people a day. Thirty-six million Americans are already retired.
- Social Security and Medicare as currently structured and financed can't come close to meeting the demand.

Truth No. 5 Not a single major entitlement program is projected to be financially solvent 20 years from now.

- The trust fund for the Social Security Disability Insurance program will be exhausted in just three years.
- The trust fund for Medicare Part A, which pays for hospital services, will go bankrupt in 13 years.
- Social Security will be unable to pay full benefits beginning in 2033, at which time recipients will see a 23% cut in benefits.

Truth No. 6 The cost to make these programs financially solvent for the next 75 years is almost \$40 trillion.

- Paying such a price would bankrupt the country, cripple our economy, and rob new generations of young people of the promise of the American Dream.
- Absent reform, the situation will soon require either economy-crushing new taxes or painful benefit cuts in the programs—or both.

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Truth No. 7 **Mandatory spending—entitlement programs and interest on the debt—are already squeezing out important investments in other essential programs.**

- Mandatory spending already exceeds all federal income tax revenues collected. We have to borrow money and increase debt to pay for everything else.
- Robbing from other parts of the budget to fill the hole is hurting other priorities. It leaves little left over to provide for defense, infrastructure, education, science and research, and other investments needed for the future prosperity of our country.

Truth No. 8 **We have nothing to fear from carefully crafted, phased-in adjustments to our entitlement programs.**

- Strengthening and improving entitlements in the face of compelling financial and demographic realities are reasonable and achievable. We've done it before.

Truth No. 9 **We can reform entitlements without baseline cuts and without breaking our commitment to the nation's seniors, people with disabilities, and poor.**

- No one in our mainstream political system today is talking about actually cutting the amount of money spent on entitlement programs. What's being discussed are ways to restrain the increases and make the programs sustainable.
- The good news is that there are many reform options available for consideration—relatively small adjustments in payments, benefits, eligibility, administration and overhead, coverage options, and program efficiencies.

Truth No. 10 **The biggest threat imaginable to Medicare and Social Security as we know them will be if we do nothing at all.**

- To do nothing will set into motion the most harsh, extreme, and burdensome entitlement changes of them all—the massive benefit cuts and tax hikes that would have to be imposed when the programs' funding just flat runs out.
- The challenge for political leaders, stakeholders, and citizens is to settle on the right menu of options and to find the right mix of adjustments on payouts and pay-ins.



MYTHS VERSUS FACTS ON ENTITLEMENTS



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Myth: Making any changes to our entitlement programs will undermine our commitment to care for the elderly, people with disabilities, and less fortunate.

Fact: Reform and modernization are the best ways to ensure that these programs survive for the long term. As currently structured, they will not be able to withstand rising medical costs and the huge influx of retirees who are living longer than ever. Failure to address this problem will guarantee that we can't uphold our responsibility to seniors and low income Americans.

Myth: Entitlement reform requires deep cuts to Medicare, Medicaid, and Social Security, resulting in drastically reduced benefits.

Fact: No one in the mainstream political system is proposing actual spending cuts. But to sustain these programs, we must slow their explosive growth. It can be done through relatively small adjustments in payments, benefits, eligibility, administration, coverage options, and program efficiencies with minimal effect on beneficiaries. And the sooner we act, the smaller the impacts will be.

Myth: Beneficiaries are merely receiving back what they paid into the system as workers.

Fact: Many retirees are collecting far more in benefits than they contributed. For example, for every dollar that current retirees paid into Medicare, they are receiving \$3 in benefits. By contrast, for Social Security, when today's 3rd graders reach retirement age, without reform to the system, they will only receive about 75% of the benefits provided to today's seniors.

Myth: These programs pay for themselves and are not drivers of deficit spending.

Fact: Since their inception, entitlement programs have almost never been self-funding. Medicare has had a cash shortfall every year except in 1966 and 1974. Its annual shortfall in 2011 was \$288 billion. Social Security had a cash flow deficit of \$58 billion in 2012. Money must be borrowed to make up these shortfalls, thus contributing to the deficit.

Myth: Entitlement spending at its current rate is manageable.

Fact: Mandatory spending (entitlement programs and interest on the debt) already exceeds all federal income tax revenues that the government collects. This means we have to borrow money and increase the debt to pay for everything else, including education, defense, transportation, and other essential investments.

MYTHS VERSUS FACTS ON ENTITLEMENTS



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Myth: We can solve the problem by raising taxes.

Fact: The cost to make entitlement programs solvent for the next 75 years is almost \$40 trillion. Raising taxes to the tune of \$40 trillion would cripple our economy and stifle the growth we need to support our nation's social safety net.

Myth: We've got a problem, but we have plenty of time to fix it.

Fact: As currently structured, all major entitlement programs are projected to be insolvent in the next 20 years. The trust fund for Social Security Disability Insurance will be exhausted in three years. The trust fund for Medicare Part A, which pays for hospital services, will go bankrupt in 13 years. Social Security will be unable to pay full benefits beginning in 2033, hitting all beneficiaries with a 23% cut.

Myth: Entitlement reform is the third rail in politics. No one is willing to lead on reform because it's too politically risky and threatens support among key constituencies.

Fact: A number of lawmakers and prominent think tanks have been sounding the alarm bells on the entitlement crisis, but their warnings have fallen largely on deaf ears. It will take a concerted, coordinated effort to get a national conversation started and educate the public on the urgent need to reform and modernize entitlement programs.

10 Truths About America's Entitlement Programs

Address by

R. Bruce Josten

Executive Vice President of Government Affairs
U.S. Chamber of Commerce

U.S. Chamber of Commerce Board of Directors Meeting
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Introduction

Thank you, Tom, and good morning everyone.

Today I want to discuss a challenge that impacts every single citizen, the health of our economy, and our country's ability to maintain its leadership role in the world.

That challenge is the urgent need to reform and modernize our entitlement programs—primarily Social Security, Medicare, and Medicaid. These are safety net programs that we have enacted as a compassionate society to care for the elderly in retirement, for people with disabilities, and for those who cannot afford health insurance on their own.

We need to fix these programs so that no seniors, now or in the future, will ever have to question whether they can get the health care they need or the Social Security benefits they have earned.

We need to fix these programs because otherwise they will consume every dollar the government collects. There will be no money left over to improve our schools, defend our country from its enemies, clean our environment, or repair our roads and bridges.

We need to fix them so that we don't have to keep adding trillions to our national debt or pay ever-increasing amounts of interest on that debt.

Without federal spending reform—driven primarily by entitlement costs—interest payments on our national debt will reach almost \$1 trillion per year by 2023 and explode well beyond that—not if, but when, interest rates get back to normal levels.

Why do these programs need fixing in the first place?

Because Americans are thankfully living much longer than they used to, which means they are drawing more total benefits over their lifetimes than the systems were ever designed to pay for.

Because longer life spans are being driven by health care innovation, which contributes significantly to the increased cost of both health care and entitlement programs. And because Americans are having fewer children, which means relatively speaking, there are fewer workers paying into the system compared with the number of beneficiaries.

We must have a vigorous debate on how to fix these programs, but before we can do that, Americans must first recognize that there is a problem.

The evidence clearly shows that the programs as we know them today cannot survive without reform and modernization. Yet according to public opinion polls, most Americans are not yet prepared to accept this reality.

So what we hope to accomplish is to get the truth out. To start the debate in earnest. To pave the way for action sooner rather than later.

10 Truths

Let me share with you 10 truths about entitlements that we all must recognize and then act upon.

Truth No. 1: Entitlement programs are huge, expensive, and reach into every corner of American life.

Social Security, Medicare, and Medicaid already cost \$1.6 trillion per year. Social Security sends checks to 58 million retired Americans as well as widowed spouses and minor children of deceased workers. It costs \$809 billion per year. Medicare now covers nearly 51 million people at a cost of \$586 billion. Medicaid provides health care for 62 million poorer Americans. It costs \$265 billion. And there is the Social Security Disability program that provides aid to 8.8 million people classified with disabilities. Two years after being classified, these recipients can qualify for Medicare regardless of age.

In 2010, an estimated 49% of households received benefits from these three entitlement programs or other federal and state government assistance.

These programs also reach into every corner of American life by the way they are financed—direct payroll taxes, borrowing from income tax revenues, and using federal debt.

Truth No. 2: Entitlement programs are not self-funding and are a main driver of deficits.

This has been true since their inception and remains true today.

Medicare, for example, has had a cash shortfall every year since its creation except two: 1966 and 1974. Medicare's annual cash shortfall in 2011 was \$288 billion. The program is responsible for more than 25% of all federal debt since 2000. Social Security had a cash flow deficit of \$58 billion in 2012.

Without reform, the typical 3rd grader will receive only about 75% of the benefits provided to today's seniors.

By the same token, many retirees are collecting far more in benefits than they contributed. For example, for each dollar that Americans pay for Medicare, they ultimately draw about \$3 in benefits.

It is important for citizens to understand this. Many oppose changes in entitlement programs because they believe they are just getting out what they put in. In fact, many of us have had conversations with our own parents and in-laws who simply don't want to believe that they are taking out more than what they paid in.

But it's true—and when they get back more than they put in, that contributes to the deficit.

Truth No. 3: Entitlement costs are growing at an alarming rate.

In 10 years' time, the total price for these programs will soar to an astounding \$3 trillion a year.

As Social Security provides benefits to millions of retiring baby boomers, its costs will balloon to \$1.4 trillion. That includes a rapidly increasing number of Social Security disability recipients. Their scheduled benefits will increase by more than \$60 billion in the next decade. This program is rife with abuse and fraud. We must reform it to ensure that a strong safety net exists for beneficiaries in need and to prevent individuals from gaming the system.

Clearly, the criteria by which workers can receive lifetime Social Security and Medicare benefits long before retirement age must be examined.

As for Medicare, its costs will double from \$586 billion to \$1.1 trillion. Medicaid—which could receive an influx of 17 million new beneficiaries due to Obamacare—will see its costs more than double from \$265 billion to \$554 billion.

Truth No. 4: Longer life expectancies, changing demographics, and soaring costs explain why entitlements as we know them today are unsustainable.

It's simple arithmetic.

There will be more Americans living in retirement—and as a group, they will live longer and spend significantly more time in their retirement, driving up the costs of entitlement programs. It won't be long before one-third of Americans will be retired and will spend one-third of their lives in retirement. If people were to live in retirement for the same number of years as they did when benefits were first paid in 1940, a person would retire at age 76 today.

In addition to longer life spans, a change in demographics has caused the ratio of workers to retirees to fall dramatically.

In Social Security's early years, the ratio of workers to retired beneficiaries was high—16 to 1. And, on average, individuals died about three years before they were due to collect benefits. Thus, tax revenue generally exceeded benefit payments. By 2035, the ratio of workers to retired beneficiaries is projected to drop to 2-to-1.

During this decade and the next, the number of Americans 65 or over will jump by 75%, while those of working age will nudge up by just 7%. During the next 17 years, 77 million workers will retire—that's 10,000 people a day. Thirty-six million Americans are already retired.

Social Security and Medicare as currently structured and financed can't come close to meeting the demand.

Truth No. 5: Not a single major entitlement program is projected to be financially solvent 20 years from now.

Some pointed to the recent reports by the Medicare and Social Security trustees showing the solvency of Medicare had been extended by two years as proof that we were out of the woods on entitlements and no action is needed.

The truth is that the reports prove nothing of the kind.

The trust fund for the Social Security Disability Insurance program will be exhausted in just three years. At that point, beneficiaries will experience an immediate across-the-board 20% reduction in benefits.

The trust fund for Medicare Part A, which pays for hospital services, will go bankrupt in 13 years. That projection is based on a "rosy scenario" where Congress will do something it has refused to do time and time again—cut payments to doctors.

Social Security will be unable to pay full benefits beginning in 2033. That may seem far off into the future, but it really isn't. Tomorrow will be here before we know it. Absent legislative action, all Social Security beneficiaries will face an immediate 23% benefit cut at that time.

Truth No. 6: The cost to make these programs financially solvent for the next 75 years is almost \$40 trillion.

This is a very, very big hole. Does anyone here have an extra \$40 trillion lying around?

Paying such a price would bankrupt the country, cripple our economy, and rob new generations of young people of the promise of the American Dream. Absent reform, the situation will soon require either economy-crushing new taxes or painful benefit cuts in the programs—or both.

We can and we must find a better way, while still keeping our commitment to the sick and the elderly.

Truth No. 7: Mandatory spending—entitlement programs and interest on the debt—are already squeezing out important investments in other essential programs.

In fact, mandatory spending already exceeds all federal income tax revenues collected. We have to borrow money and increase debt to pay for everything else.

In 2012, mandatory spending represented 65% of outlays. In 10 years, it will represent about 75%.

Robbing from other parts of the budget to fill the hole is hurting other priorities. It leaves little left over to provide for defense, infrastructure, education, science and research, and other investments needed for the future prosperity of our country.

In the mid-1960s, federal spending for important, yet discretionary, programs outpaced entitlements by 3-to-1. Last year, it was flipped—one dollar for investments for every three in entitlements. In 10 years, the ratio will be 1-to-5.

Truth No. 8: We have nothing to fear from carefully crafted, phased-in adjustments to our entitlement programs.

America's entitlement programs have been adjusted and modernized many times over the years to keep up with changes in the economy and society.

For example, automatic cost-of-living increases did not even exist in Social Security until 1972. A gradual increase in the retirement age was enacted in 1983 and is being given 44 years to fully take effect. In 2006, a prescription drug benefit was made available from Medicare. It has come in under budget, features ample consumer choice based on a premium support system, and is very popular with seniors.

Strengthening and improving entitlements in the face of compelling financial and demographic realities are reasonable and achievable.

Truth No. 9: We can reform entitlements without baseline cuts and without breaking our commitment to the nation's seniors, people with disabilities, and the poor.

No one in our mainstream political system today is talking about actually cutting the amount of money spent on entitlement programs. What's being discussed are ways to restrain the increases and make the programs sustainable. In other words, we know we're going to be spending more every year for the reasons I have stated. No one's questioning that.

But what we must do is slow the explosive rate of growth before it drives the nation into insolvency, squeezes out funding for every other important national priority, or forces massive tax hikes or benefit cuts on the American people.

The good news is that there are many reform options available for consideration—relatively small adjustments in payments, benefits, eligibility, administration and overhead, coverage options, and program efficiencies.

It's a big menu. And if we choose wisely and soon, we can achieve large savings over time while having a very small impact on individual beneficiaries. In fact, we can exempt current beneficiaries and those nearing beneficiary age from any new changes at all and still fix the programs.

The sooner we make these changes, the less severe they will have to be.

Truth No. 10: The biggest threat imaginable to Medicare or Social Security as we know them will be if we do nothing at all.

To do nothing will set into motion the most harsh, extreme, and burdensome entitlement changes of them all—the massive benefit cuts and tax hikes that would have to be imposed when the programs' funding just flat runs out.

The challenge for political leaders, stakeholders, and citizens is to settle on the right menu of options and to find the right mix of adjustments on payouts and pay-ins. That's what's necessary to preserve the programs for future generations and keep our commitments to program recipients.

Setting the Stage for Solutions

Those are the 10 key truths on entitlement programs. Can we handle the truth? More important, can we come together as a nation to act on them appropriately?

Real reform must include adjustments, fixes, and efficiencies to these programs. They cannot remain exactly as they are. There's no getting around that. In addition, any solution will depend in large part on how effectively this nation deals with three other critical challenges.

First, we must do a better job containing health care costs, whether they are paid for by government programs, private insurance, or the patients themselves.

This means a much bigger focus on preventative care, wellness, and vastly improved management of chronic conditions like obesity, diabetes, and high blood pressure. These conditions add hundreds of billions of dollars to our national health care bill each year. And it means building more incentives into the system so that providers and patients alike focus on—and are awarded for—good health outcomes, rather than a race to see who can order and use the most health services.

Until health insurance is consumer oriented —requiring price, quantity, and quality information—we will be unable to truly restrain costs.

Second, we must preserve and enhance the role of private savings in America so that individuals and families can do what most want to do, which is to make their own choices and not simply turn themselves over to the mercy of government when they get old or sick.

Government should always be there with a back stop, but it cannot and should not do this job alone. If Americans want to live literally one-third of their lives in retirement with good medical care and a comfortable quality of life, then they must take more of the responsibility into their own hands. And our tax, medical insurance, and entitlement policies should be geared toward offering more choices and more incentives for private retirement and health care savings.

Third, we must understand the critical role that economic growth plays in supporting the nation's social safety net. Entitlements are one of the few problems that growth alone cannot solve. But it sure would help.

Without faster, stronger, and sustained economic growth and job creation, none of the fixes we can consider could ever work.

Seen in this larger context, a vigorous growth agenda to lift the American economy out of the doldrums—with aggressive action on energy development, trade expansion, education and infrastructure investments, an immigration overhaul, and tax and regulatory reform—is essential to the sound maintenance of America's social safety net.

Now, you may be wondering why after talking about this menu of options the Chamber doesn't just spell out what we think are the right choices. After all, we are known for our strong opinions!

And, in fact, we have supported a number of specific entitlement reforms, upgrades, and modernizations over the years. For example, we recently voiced support for budget proposals that would make significant and effective reforms to Medicare.

But we've also been around this track enough times to know that until we can get the public and the politicians to agree that there is a problem, there's no sense in endorsing specific solutions. Our support for any particular combination of fixes will be based on an evaluation of the entire package—and not on the inclusion or exclusion of a particular provision.

Entitlement reform will not succeed as long as the conversation is dominated by the overbearing voices of denial and distortion.

With reason, facts, common sense, and quiet urgency, we aim to change that conversation by telling the American people the truth.

The real challenges surrounding entitlements is an ill-informed public, organizations that have existed for decades that oppose entitlement reform, and the absence of real national leadership. These will be tough hurdles to overcome, but we must try. We must educate the public and fill the leadership void.

Building the Case

To achieve that, we need a national conversation—a conversation based on truth and reality.

That's why the U.S. Chamber is launching a comprehensive communications and outreach campaign underscoring the urgent and imminent need for entitlement reform. We're going to urge everyone in the Chamber Federation—our associations, our state and local chambers, our regional offices, and our friends and allies—to rev up the call for reform. We're going to provide a comprehensive online tool kit with all the information needed to make the case—in speeches, in social media, at town hall meetings, with civic groups, and in the mainstream media.

Chamber officials will soon be fanning out across the country to get the facts out in speeches and media appearances. So we need your support. We need your involvement. We need you to be a voice in your communities and organizations on the need to reform and strengthen entitlement programs. I hope that we can count on you stepping up to the plate.

Conclusion

Strengthening and improving the nation's core social insurance programs are not insurmountable problems—they are achievable goals. America is a can-do nation, and we can do this. We need to make the responsible commonsense choices now, even if they are hard, to guarantee the promise of these programs to the next generation.

The business community wants to use its skills and expertise to help the country find smart solutions to the many issues these programs face. We are speaking out—we are Americans, too, and the success of these programs impacts our families, friends, and employees.

We need a national conversation, not a filibuster—a conversation that leads to understanding and drives us toward swift action.

But reform is not going to happen until we agree on these 10 truths. So let's get the truth out there. Let's start the debate. Let's find the right solutions.

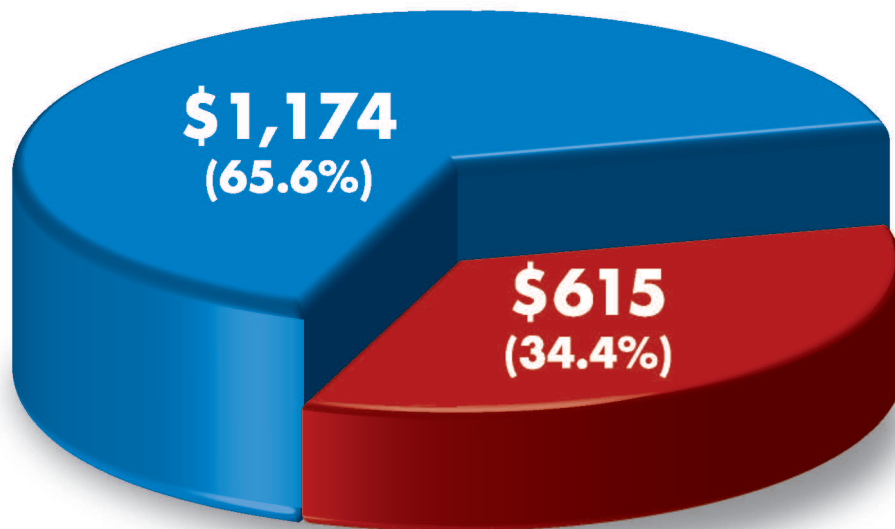
And the best time to act is right now.

Thank you.

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Government Outlays

FY 2000 (\$ billions; Share of Total)



Total Outlays: \$1.8 trillion

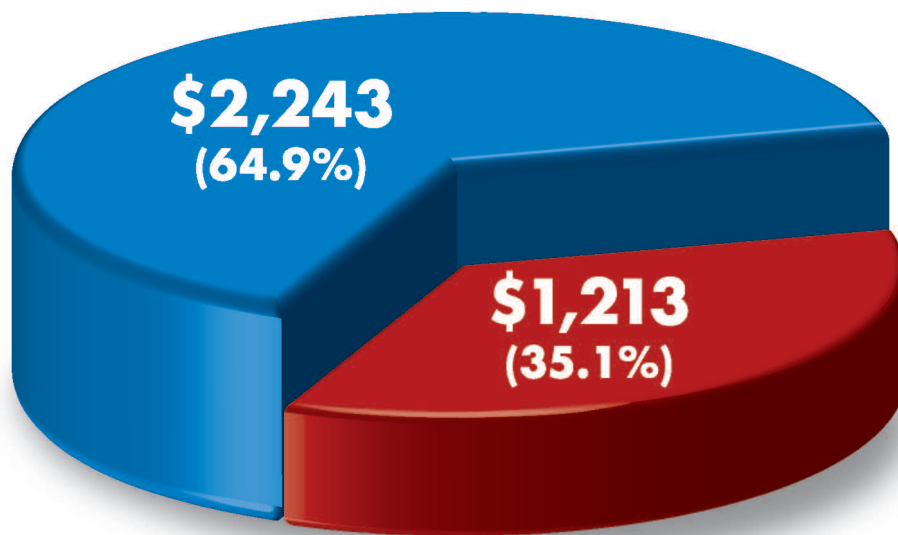
- Discretionary
- Mandatory (entitlements and net interest)

Source: CBO



Government Outlays

FY 2013 (\$ billions; Share of Total)



Total Outlays: \$3.5 trillion

- Discretionary
- Mandatory (entitlements and net interest)

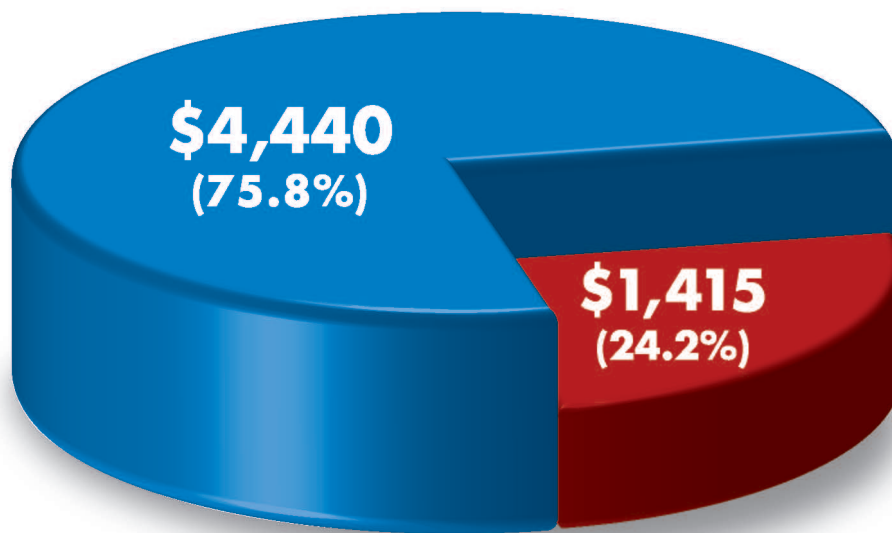
Source: CBO



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Government Outlays

FY 2023 (\$ billions; Share of Total)



Total Outlays: \$5.9 trillion

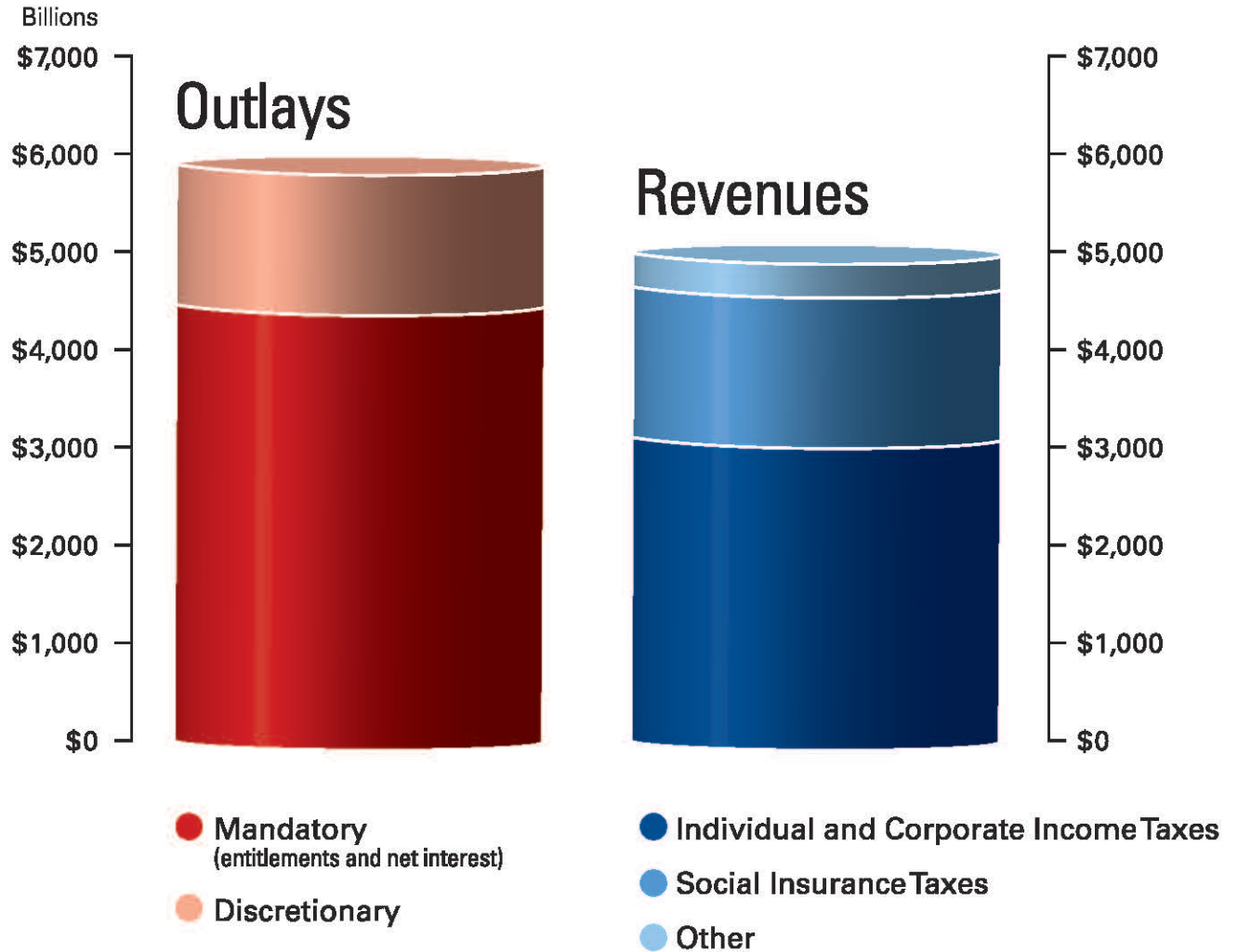
- Discretionary
- Mandatory (entitlements and net interest)

Source: CBO



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FY 2023 Revenues and Outlays





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1615 H Street, NW
Washington, DC 20062-2000
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