

RETHINKING SOCIAL INSURANCE

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The single greatest threat to the fiscal health of the United States is the runaway growth of the nation's major retirement and health care entitlement programs. Social Security and Medicare are projected to grow from 7.5 percent of GDP today to almost 13 percent of GDP by 2030. Already, the two programs consume over a third of the federal budget. The total present value of costs that will exceed earmarked revenues of Social Security and Medicare over the next 75 years is \$41 trillion, or, as the Government Accountability Office points out, a debt burden of \$135,000 for every man, woman, and child in America. If nothing is done to check the growth of spending on social insurance, federal spending as a share of the economy will increase by half, from about 20 percent to almost 30 percent, over the next 30 years.

Meanwhile, absent a significant rise in revenue beyond the historical level of GDP, spending on Social Security, Medicare, and interest on the debt could squeeze out all other areas of the budget. Taxes could, in principle, be increased to cover these costs, but the unprecedented tax levels required would have an extremely negative impact on employment, wage growth, and our ability to compete internationally. Borrowing to pay for the programs, on the other hand, would lead to such high deficits that the debt would be unsustainable.

Social Security and Medicare are universal in design. That is, nearly all Americans participate in the programs, with workers financing them and retirees at all income levels collecting benefits. Their universality enhances their popularity, but it also means that resources are directed to the affluent, leaving less than is adequate for those in need. Bill Gates will qualify for subsidized benefits under Medicare, while other future retirees will be unable to afford the program's deductibles and co-payments. Meanwhile, tens of millions of workers today go without any health insurance at all.

Given the fiscal imbalances caused by Social Security and Medicare, we will have to make some major changes in our social insurance system if we are to address other pressing needs. Mandating giant tax increases or gutting spending in other areas are not viable options. Moreover, our economy has undergone vast changes since these programs were designed. A fundamental redesign of our social insurance programs is necessary if we are to deal successfully and fairly with the new economic conditions, risks, and opportunities we face.

ENTITLEMENTS AS A MORAL RIGHT: WHY CHANGE IS DIFFICULT

The fact that Social Security and Medicare are entitlement programs means that they are extremely difficult to change. A major reason for that is that, to many Americans, the term “entitlement” implies something to which they have a moral right. When they think of Social Security and Medicare in particular, this claim is strengthened by the belief that they have paid for their benefits through payroll taxes. Those drawing benefits view them as earned payments and services rather than as subsidies or welfare.

Moreover, the system includes all income classes as beneficiaries, and this universality links all citizens in a bond of social solidarity—a social contract between themselves and the wider community. And the direct benefits that individuals receive under Social Security and Medicare in the form of cash payments and medical care mean that these programs—unlike those that provide nonrival, nondivisible “public goods”—have large numbers of influential and vocal supporters.

Finally, the treatment of entitlements under the budgetary process favors them over all other programs. While other programs are budgeted for annually and are constrained by that budget; entitlements are effectively on “auto pilot” and are treated as first claimant on government resources, leaving programs intended to further other goals, such as national security or housing, to compete for what is left. The automatic growth that is built into these programs stacks the deck against other budgetary needs and has been steadily squeezing them.

SOCIAL INSURANCE: PERCEPTION VS. REALITY

While Social Security and Medicare beneficiaries may believe that they have a “right” to their promised benefits, legally they do not. Benefits can be changed—and they regularly are, though often upwards in the case of middle-class benefits. Moreover, it is neither possible nor desirable politically for Congress to commit future governments to specific programs without affording them the flexibility to make changes as needed over time.

Also contrary to popular perceptions, the link between “contributions” and benefits is tenuous at best. The taxes paid into these programs are commingled with all other government revenues and are regularly used to finance other programs, just as general revenues are used in part to pay for social insurance programs. There are also many hidden subsidies within the programs. Many individual beneficiaries now receive huge windfalls that amount to hundreds of thousands of dollars more than they paid in, but future generations will not fare nearly so well. There is also a significant amount of redistribution, with many recipients receiving large subsidies. Quite often, those subsidies go from the poor to the rich rather than the reverse.

Due to the growth and popularity of these programs, we have seen a gradual and persistent decline in the proportion of federal funding for basic research, infrastructure development, and programs for the poor. This should trouble those who believe that the role of government should be limited to the provision of public goods, public investments, and a safety net as well as those who favor progressive, redistributive government programs. Put plainly, the cost of providing benefits to those who do not need them should offend conservatives and liberals alike, the former because it leads to excess and inappropriate spending and the latter because it squeezes out spending on other social programs. While the tension between liberals and conservatives over spending and taxes will always persist, the underpinnings of a broad coalition in favor of changing our social insurance system may exist in the recognition that universality works against the beliefs of both sides and our goals as a nation.

CHANGING THE EMPHASIS FROM “SOCIAL” TO “INSURANCE”

If we are to meet the economic challenges presented by the aging of the population, skyrocketing health care costs, and a globalized economy, we would be wise to scale back benefits given to those who don’t need them in order to help those who do while leaving some flexibility in the budget for new needs that arise.

Accordingly, we recommend changing the emphasis in social insurance from “social” to “insurance.” The result would be a system in which the government spreads risk and protects people against unexpected and potentially devastating occurrences rather than providing subsidized retirement income and health services to everyone, regardless of need.

We need to modernize our system of social insurance to require individuals to take greater responsibility for their basic health care costs and save for retirement rather than relying so heavily on the wider community via the government. But to do this we need to offer protections against random, unaffordable, and potentially catastrophic events. Americans have come to expect a certain level of health care and income in retirement as a right without giving much thought to how we as a society are to pay for those benefits and who is to foot the bill. However, we can no longer afford such attitudes. We believe that it is legitimate to

encourage—indeed, to require—members of our society, to the extent that they are able, to save for adequate retirement and insure themselves for the cost of basic health care. At the same time, we will need a true and adequate safety net to protect against serious risks. And to do this fairly and economically, we need to put social insurance programs on the same budgetary footing as other government programs so as to increase transparency and achieve balance in financing our national goals.

HOW A MODERN SYSTEM OF SOCIAL INSURANCE WOULD WORK

We recommend that Americans, to the extent that they can reasonably be expected to do so, be obligated to save for an adequate level of retirement and insure themselves against ordinary risks, with three caveats. First, if needed, individuals should receive help in meeting the costs of such an obligation through tax relief and/or direct financial assistance. Second, government should help to spread large insurance risks widely so that insurance would be practical and affordable. Finally, existing social insurance programs should be revamped to provide a strong safety net.

Replacing Part of Social Insurance with Mandatory Saving

Under the proposed system, individuals would be required to save for a reasonable level of predictable events, many of which are now covered by some form of social insurance. Most Americans are regular consumers of basic health care throughout their lives, and most retire at the end of their working careers. Insuring against these events is, to put it simply, like buying insurance for the routine cleaning of the gutters on your house: Either your premium will end up costing as much as or more than the cleaning due to administrative costs, or others will have to subsidize your costs. While it makes sense to buy insurance against the risk that your house might burn down, because others will also want such insurance and the risk can be spread communally, it makes no sense to pay a high premium for the cleaning of your gutters.

Accordingly, when it comes to events that we know are likely to occur, such as spending on routine and affordable health care, individuals who could reasonably afford to do so should be required to set aside resources to cover these costs as they arise. A mandatory saving system in place of at least part of today's social insurance system has numerous advantages. First, it would increase transparency regarding costs, thereby removing the "moral hazard" problem that arises when individuals overuse insurance because they are not responsible for the true costs of the services they seek. This general problem is compounded by the tendency of the political process to expand politically popular programs, collectivizing costs that could be handled far more efficiently and appropriately by those individuals with adequate means and systematically transferring costs from powerful demographic constituencies (e.g., middle-class

and middle-aged adults) to weaker ones (e.g., the young). A mandatory saving system would also relieve some of the pressure on the federal budget to provide costly goods to the affluent. And it would be beneficial for the economy, both because individual saving is more efficient than taxation and because it would lead to a much-needed increase in national saving to spur economic growth.

There has been keen interest in recent years in voluntary accounts for Social Security, health care saving accounts, and other forms of pension-like saving systems. Proponents have argued that such accounts, which would replace a portion of the existing social insurance system, would make that system more efficient and fairer. Opponents have seen such plans as a backdoor attack on the concept of universality by allowing people to opt out of the system. By making saving mandatory, we would reaffirm our commitment to universality of coverage as well as personal responsibility while updating the system to reflect current economic and budgetary conditions.

The new health care and retirement savings accounts would grow only slowly for people at the low end of the income spectrum, and many such individuals would not be able save enough to cover basic health care and retirement costs. In order to address this problem, our society through the government should provide some assistance. One way might be through progressive matches. Those falling below the poverty line might receive 2-to-1 matches for their contributions; those with incomes between 100 percent and 200 percent of the poverty line might receive 1-to-1 matches; and those with incomes up to 300 percent of the poverty line might have half of their contribution matched by the federal government. Another form of assistance for some modest-income Americans could be through the tax system.

In addition to augmenting the accounts of lower-income workers, the government would play a role in regulating the accounts. Take retirement accounts for example. In the absence of regulation, individuals might overspend in the early years of retirement and outlive their savings, making them unnecessarily dependent on the government safety net. Therefore, it would be wise to place restrictions on the structure and use of such savings accounts, at least until the balance was sufficient for basic retirement needs. It would also be wise to require that some portion of such accounts be converted into a basic annuity upon retirement so that retirees could be assured of a steady monthly income however long they lived.

Replacing Part of Social Insurance by Requiring Real Insurance

While saving for predictable events is a good idea, it is not an effective way to spread financial risk. Therefore, in addition to requiring individuals of working age to save for their own health care and retirement to the extent that they are able to do so, we should also require individuals to carry reasonable levels of insurance against unpredictable, more traumatic events that otherwise would have to be paid for by government or society.

Many Americans buy life insurance to protect a surviving spouse against the death of the family's breadwinner, long-term care insurance to protect against the costs of a prolonged period of illness that might drain a family's resources, and disability insurance to protect against loss of income due to the inability to work. But many Americans with the means to pay for such insurance decide instead to rely on overstretched social insurance programs, adding to the underfunded obligations of these programs. If we are to get the costs of those programs under control and do so fairly, those who can afford to insure themselves against such eventualities should be required to do so.

At the same time, the government will have an important role to play in making sure that insurance is affordable and available to everyone. If, for example, individuals with chronic medical conditions are to be able to buy coverage, the insurance risk may have to be spread very widely and premiums cross-subsidized through reinsurance and risk-adjustment mechanisms. To a large extent, this can be accomplished within the normal insurance process. But to be sure this happens, government may have to require all insurers to take part in a reinsurance pool with a system of cross-subsidies and direct premium subsidies for some individuals. Those who could not afford to insure themselves would participate in the same insurance programs with subsidies from the government to help cover some or all of the insurance premiums.

Reforming Entitlements to Provide a Strong Safety Net

If we continue on our current path, entitlement programs will absorb a steadily increasing share of the budget, hobbling our ability to meet other pressing needs and placing huge burdens on our children and grandchildren. There is no solution to this problem except to make significant reductions in the growth of promised benefits of both Social Security and Medicare. And here we have two choices. We can reduce the growth of expected benefits for everybody, or we can trim them more for people who rely on the programs less. We believe that it is preferable to reduce benefits through means testing for those who do not need them in order to ensure the economic security of those who do.

There is certain to be resistance to means testing on the part of those who believe that universality is essential for maintaining popular support for social insurance programs. However, it is important to recognize that while universal benefits may engender social solidarity, they are also obstacles to the progressive and conservative goal of assuring that available funds go primarily to those in need. Rather than being seen as breaking the web of mutual obligations that bind us together as a community, means testing should be seen as enabling us to strengthen the safety net so that no one falls through.

It would not only allow us to focus our limited resources on those who need help the most, but also allow us to begin to transform Medicare and Social Security into true retirement insurance programs to protect Americans against health care and retirement costs that exceed their means. In short, by calibrating the resources provided to the elderly to their actual needs, we would have greater resources with which to meet our societal obligations to our children, to modernize our infrastructure, and to maintain our national security.

There are many ways to structure a means test for government retirement benefits so long as we adhere to the basic principle that benefits should be tied to need rather than to a preset formula with scant regard to need. Either postretirement income or lifetime income could be used to determine an individual's eligibility. And the benefit itself could be designed in any number of ways. For instance, income replacement rates in Social Security might be reduced for high-income earners (who would still receive higher benefits than lower earners); or all participants might receive a uniform flat-rate benefit; or high-income earners might receive little or no benefit at all. Medicare premiums and co-payments could be adjusted to reflect the ability to pay. We would recommend determining eligibility based on lifetime earnings in order to avoid the perverse incentives on saving that accompany simple means testing (though this would be less of a problem under a mandatory saving system) and providing the highest income retirees with no benefits at all in order to preserve and redirect scarce resources.

Changing the Budgetary Nature of Entitlements

If we are to change the nature of the social contract so as to promote fairness and efficiency while balancing competing social and economic goals, we will have to change the legislative rules governing the way federal funds are allocated. Currently, social insurance entitlement programs guarantee promises made to one set of Americans by automatically preempting budgetary resources from programs serving other Americans. Moreover, the solvency of our nation is jeopardized because of the natural tendency of politicians to create or expand popular entitlements whose long-term costs are not fully reflected in the budget. We need a budget process that presents the full range of budget choices in a transparent manner, with everything on the table, so that Congress can allocate funds according to our values and within the constraints of our resources.

This will necessitate two broad reforms. First, budget rules should be changed to require the long-term costs of programs to be identified and weighed in a meaningful way against other budget choices in the annual budget process. Under the current system, lawmakers can ignore those long-term costs and create obligations that will place huge burdens on our children and grandchildren. Second, we should modify or end the distinction between "entitlement" programs like Medicare and Social Security and "discretionary" programs like defense and housing assistance.

We should create a complete and accurate budget that clearly shows the government's financial obligations with respect to entitlements. To bring the true costs of Social Security, Medicare, and other entitlements into focus and prompt serious priority setting, the budget process should include a measure of the future obligations associated with these programs. Thus, in order to increase transparency, the budget, instead of merely showing spending projections over the next five or ten years, should also show the estimated "present value" cost of unfunded obligations over both a multi-decade period and an infinite horizon, much as private corporations are required to provide retiree costs to stockholders and as state and city governments are increasingly required to disclose the total cost of their pension obligations. In this way, during each annual budget cycle, lawmakers would be required to disclose and budget for any projected changes in the future cost of an entitlement. And to force lawmakers to take changes to these obligations seriously, any significant change in the present value of total unfunded obligations should require a separate up-or-down vote.

In addition to disclosing the obligations associated with entitlements, we need a real long-term budget for today's entitlements if we are to get these obligations under control. At the same time, it is important to recognize that such programs by their very nature involve extended time horizons and require planning for the long term. Capital budgets in the private sector and in parts of the public sector recognize this. Likewise, an individual planning for retirement requires a degree of certainty about Social Security or Medicare. Such concerns can be addressed within the framework of an adjustable long-term budget, one that would be reassessed periodically by Congress to ensure that our spending on entitlements is sustainable.

One way to do this would be to convert all spending on entitlements into 30-year "discretionary" budgeted programs that would have to be reviewed and reauthorized every five years. This is essentially what many other countries do to manage their long-term obligations. To keep the programs within the approved budget, Congress could create budget rules to limit the unfettered growth of long-term promises. For instance, it might create "triggers" that would automatically make adjustments to the programs if spending were projected to move above budgeted levels. The eligibility age for receiving Medicare benefits, or payments to providers, might be subject to such a trigger. Congress could always make other changes in the programs (by raising taxes or cutting other spending programs) with the built-in triggers serving as a backstop for inaction. To avoid the political fallout from legislating benefit cuts, it might also consider creating a standing commission to recommend to Congress for expedited review a package of changes in the programs to bring costs into alignment with funding.

QUESTIONS AND ANSWERS

Recognizing that our suggestions for reforming social insurance will naturally raise some serious concerns, we have attempted to anticipate and provide answers to some of the questions that are likely to arise.

- *If we end the entitlement status of certain programs, won't we be breaking a solemn promise to the American people?*

The current social insurance entitlement system commits us—and future generations—to deliver benefits without regard for their impact on society, on the economy, or on our ability to maintain our other obligations, such as to provide for the national defense or to help the needy. Consequently, the promises made in these other obligations are diluted. Altering the entitlement status of social insurance programs would not so much break a promise as replace an unsustainable promise with one that is affordable and fair, and one that recognizes other priorities and promises made.

However, we also recognize that today's aging workers are concerned about the viability of Social Security and Medicare and need to have some certainty in their planning. That is why we argue that Congress should develop multi-decade budgets for programs that are now essentially on automatic pilot. That step would allow us to address the needs of baby boomers approaching retirement while moderating our future commitments. With a firm budget in place of a mere forecast of costs, we would be able to limit our commitment to provide social insurance relative to our other needs. And the required regular revisions of that budget would ensure that the promised benefits were adjusted from time to time in response to changed economic conditions, changing priorities, and competing promises.

But we cannot continue to make promises that entail an unlimited financial obligation to certain sectors of the population without considering their impact on society as a whole. Other countries seem to understand this better than we do. In Britain, for instance, the National Health Service provides health care to all Britons. But the NHS does not automatically preempt financial resources as our entitlement programs do. Parliament allocates funds for the health service in the budget in line with a long-term funding plan and periodically makes significant changes in the NHS's spending authority, weighing health care needs against other priorities and occasionally fine-tuning the funding plan. It is left to the NHS to determine the best way to achieve the program's promise with the funds it is given.

Britain made a promise about health care that is clearer and more comprehensive than we have made in the United States, but a promise that recognizes competing interests and available resources. We, on the other hand, have made an open-ended commitment to provide medical

care to retirees while increasing numbers of other Americans lack basic health care coverage. Our promise with respect to health care is fragmented and uneven, in part because Congress does not deal with the cost of open-ended entitlement commitments.

● *Will liberals object to our proposal in the belief that it would cause the social insurance coalition to collapse?*

For decades the assumption among many politicians and analysts has been that universality is the key to preserving the interests of the less well-off because it builds solidarity between rich and poor. Because all income groups benefit from our social insurance programs, the argument goes, middle-class and even upper-income Americans fight for them politically. The concern is that although changing those programs to focus more on lower-income Americans would help those in need in the short term, it would erode that solidarity, support for the programs would dwindle, and funds would be cut.

There are four reasons why this concern is outdated and misplaced. First, the obligation to help those in need is an ingrained American value. It is not the result of a coalition of convenience. In particular, Americans support programs to assure basic health care for the needy. That is why there is broad and enduring support for programs like the Earned Income Tax Credit and Medicaid. There is no need for us to give generous benefits to people who don't need them in order to "buy" their political support for programs for those who do.

Second, even well-off working Americans worry that they might not have enough resources when they retire or if they were to hit hard times, so there is deep and strong support for a reasonable and affordable social safety net.

Third, purchasing middle-class support for universal programs has come at a very heavy price for weaker groups in our society. Increasingly, the politically powerful, aging middle class has come to dominate the politics of entitlements. Rather than the social insurance coalition protecting the interests of the poor and the young, benefits for the middle-class elderly have risen while those for younger and more vulnerable groups have been squeezed.

Fourth, even if one does take the view that a broad coalition is needed to preserve assistance to the less well-off, our approach meets that test. What we envision is a modified coalition of supporters. Our proposed reforms would strengthen progressive support by making a greater commitment to needier individuals. And although our entitlement reforms would reduce or eliminate the benefits paid to middle-class and especially upper-income Americans, the spending control and fiscal improvements resulting from the reforms would likely win their strong and lasting support by improving the long-term economic climate and by reducing the huge unfunded obligations facing their children and grandchildren. Thus, a broad-based coalition of support would be maintained.

- *Will conservatives oppose mandated savings and insurance as the equivalent of taxes?*

While conservatives typically oppose government mandates as well as most taxes, substituting a mandate for an existing tax or benefit program is a different issue. For example, when conservatives strongly supported proposals to permit working Americans to dedicate part of the Social Security payroll tax to individual retirement accounts in recent reform proposals, they were also accepting a mandate to make private provision for retirement. Many conservatives also support a mandate on families to buy basic health insurance coverage to shield the community from having the obligation to pay for expensive emergency room care for the uninsured under the terms of current law. In each case, the substitution of a mandate in place of the traditional social insurance program is seen as a step toward a fairer and more affordable system of financial protection and more choice and control for families. Mandated saving is also more efficient than imposing taxes because individuals see a direct link between what they save and their own assets and future benefits. Furthermore, while conservatives may still think of mandates as a form of taxation, they typically see them as more tolerable because mandates permit choice and are more consistent with personal responsibility.

Still, conservatives would be wary of “creeping mandates” that go beyond a substitute for existing taxes. They are likely to worry that the government might start ratcheting up the size and scope of mandates on individuals to save or to insure themselves against certain risks. This is not a meaningless worry because, to politicians, a mandate is a “free” program in contrast to programs that must be paid for by raising taxes. A related concern is that the steadily increasing regulation associated with mandates can wring out any semblance of personal choice, making the requirement merely the means of privately financing government-determined services.

In order to solidify conservative support for a structural reform of entitlements that combined a retirement insurance safety net with a mandate, it would be wise to limit the mandate explicitly to financing alternatives to current programs. An important question would be whether the level should be what the existing program can finance (the level most Republicans would opt for) or what the program has promised (the level Democrats would likely want to see). That needs to be debated and discussed with the American people.

- *Will there be unacceptable risk to individuals?*

Some critics of a restructured social insurance system argue that limiting entitlements would unfairly increase the financial risks Americans face, but this overlooks the distribution of financial risk today, as well as the reasonable protections included in our proposed reforms.

Under today's system there is actually enormous financial risk, but it is hidden and unfairly distributed. Middle- and upper-income beneficiaries of retirement programs enjoy considerable protection (especially under Medicare) from the potential costs of services they can actually afford, but many poorer retirees still face insurmountable costs because they are not adequately protected. And while current retirees enjoy less financial risk due to social insurance, the growing unfunded obligations related to these programs mean that younger Americans and future generations face huge financial risks related to having to finance huge payments to preceding generations while their own expected benefits are not assured yet their ability to save is reduced. Further, the ability of legislators to make sensible budget decisions is undermined because the very design of our social insurance programs makes it politically attractive to continually expand and yet underfund benefits.

Our proposed reforms seek to contain financial risk and distribute it more fairly. Under our proposal, middle-income and affluent Americans would shoulder more of the predictable costs of aging or sickness because they are better placed to do so. Poorer Americans would receive government assistance to save for these life occurrences. All Americans would be insured and protected against major illness, disability, and the death of the family breadwinner. And there would be a final layer of universal protection with an affordable safety net in place. The balance of risk between generations would also be made more equitable. Finally, by limiting the scale of social insurance and transforming it into real insurance with a stronger safety net, the costly expansion of programs would be curbed, thereby reducing the financial risk for all taxpayers.

● *How should retirement health insurance be structured? Would private insurance lead to risk segmentation?*

Proposals to substitute individual insurance for part of an existing social insurance program invariably raise concerns about adverse selection in the case of health care. The concern is that if the collective feature of Medicare is reduced and replaced with private insurance, healthier people will be able to buy relatively inexpensive insurance, while sicker individuals will face much higher costs or be unable to purchase coverage.

This is a legitimate concern that has to be addressed. To be fair and viable, the reform we propose must maintain a degree of social solidarity with private coverage that is affordable and available to all (which will require risk pooling and reinsurance arrangements to spread the insurance risk). This is also an issue with respect to all efforts to expand private health insurance coverage. Fortunately, the states and the federal government are exploring ways to structure pools and reinsurance systems to address adverse selection. We envision private insurance reforms of this nature accompanying the social insurance and budget process reforms we propose.

- *How do we get from here to there?*

The transition from the current social insurance system to the future we envision will require the phasing in of the new system and the phasing out of the old one. The first step will be to determine precisely what purposes the saving mandate will cover, how much individuals will have to save for each of these purposes, and what basic required insurance packages will be included. We envision requirements to save for retirement and basic health care spending and to purchase unemployment, disability, catastrophic health, and long-term care insurance.

At the same time, the government should change its budgetary rules so that the costs of our long-term commitments are apparent and can be controlled. Thirty-year budgets and trigger mechanisms for our current entitlement programs should be put in place immediately. These budget steps will spur Congress to balance the long and short terms more openly and sensibly. In so doing, it will have more incentive and opportunity to plan for the transition costs required to achieve long-term savings. In addition, new infrastructure—including automatic-enrollment savings systems in the workplace, mechanisms to ensure that all have access to financial institutions, and systems that will allow the federal government, the states, and the private sector to work together to devise methods to spread large insurance risks more effectively—will also have to be put in place.

As quickly as possible, we should phase in a means test for premiums and benefits for Medicare and Social Security. The sooner the scaling back of unnecessary benefits is phased in, the less other programs will have to be cut. We support including current and near-retirees in this change since these demographic groups have fared disproportionately well under our social insurance programs and because the more widely the benefit reductions are spread, the smaller they will have to be—though the political process may not allow for such a bold change.

We also support speeding up the increase in, and further increasing, the retirement age. Under current law, the normal retirement age is scheduled to rise from 66 to 67 between 2017 and 2022. This increase in the retirement age should be accelerated, increased further, and indexed to longevity to reflect the growing life expectancy of the population. This change would generate savings both by allowing individuals more years to accumulate personal savings and by allowing for fewer years of collecting benefits from social insurance programs.

During the transition period, individuals should be required to begin saving and purchasing the required insurance coverage immediately to replace part of today's benefits. The level of required saving would increase gradually as we are able to reduce the payroll tax due to other reforms in entitlement programs. Then benefits could be curbed more steeply for younger generations once their private savings had built up. The "transition generations" would receive some benefits from the old system to help augment their private savings at retirement.

CONCLUSION

Our proposed restructuring of social insurance requires a complete rethinking of existing programs. As the cost of providing social insurance for all Americans—whether they need it or not—becomes prohibitive, our commitment to provide real insurance for unanticipated or unaffordable events and to help lower-income individuals must be maintained and strengthened.

Our society can and should be committed to protecting people from unanticipated events that could prove devastating to their economic well-being. However, it is too costly, economically inefficient, and utterly unnecessary to provide benefits that serve more of a political purpose than an economic or moral one. The purpose of a just social contract should be to balance security and personal responsibility. We believe this is best accomplished by protecting people from unforeseen disruptions in their lives while encouraging them to prepare themselves for probable eventualities, including retirement and medical costs late in life.

Under our proposal, Americans would have to take more personal responsibility for their future, but they could rest easy in the knowledge that a secure income-related safety net was in place to protect them against catastrophic occurrences. Americans of every age group also would have the assurance that their needs and priorities would be given fair consideration in the budget process. And while some middle- and upper-income working Americans would have to accept lower Medicare and Social Security benefits than they once anticipated, they would have access to affordable private insurance and personal savings to offset the decreases.

We believe that this approach lends itself to bipartisan support because it better reflects both progressive and conservative principles than our current social insurance system does. Our proposal would result in a more progressive approach to assistance for the needy, a better balance between expectations and responsibility on the part of citizens, and a budget process that truly reflects the nation's priorities and values.

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