BY TOM WILDER

Doing the Math

THE ELECTION IS OVER, AND THE VOTES HAVE BEEN COUNTED AND RECOUNTED. After a long wait, we have a new resident of the White House. There are narrow majorities in both the House of Representatives and the Senate. The impact of the election is being felt all across Washington, D.C., as departing politicians and their staffs clean out offices, making ready for their successors. The real question, of course, is the ultimate effect the election results will have on the rest of the country.

JOHN PACK

Elections are usually about "sound bites" and slogans rather than ideas and issues. To be sure, all the candidates for public office talked about the concerns expressed by voters. The politicians debated Social Security reform, providing prescription drugs for seniors, better access to health care, lower taxes, and a host of other questions they identified as important to their constituents. But one got the sense from listening to the rhetoric that the discussion of key issues was limited to what would fit within the short attention span of the news media.

As Congress and the president get down to business, they'll have to deal with a number of long-term problems facing our nation as we enter the 21st century. Two of the most important issues are very familiar to the actuarial profession — Medicare and Social Security.

The fate of those programs is linked to several key demographic and economic trends. One of the primary changes is the aging of our population. According to the U.S. Census Bureau, there are currently 34 million Americans age 65 or older, and by 2025 there will be 53 million Americans classified as "elderly." The share of seniors will grow from 12 percent of the total population today to more than 18 percent of Americans in 2025.

There are also a growing number of people without some type of health insurance coverage. In 1989 there were 34 million uninsured Americans, and by 1998 this figure had risen to 44 million. The latest estimates show a slight decline in the uninsured, but they still constitute more than 15 percent of the total U.S. population. This decline in coverage includes a decrease in the number of employers offering benefits to retired employees.

Health care costs also continue to rise. Many analysts expect employers to face significant rate increases for health insurance over the next decade, fueled in part by the rising cost and growing use of prescription drugs.

These developments are important because seniors generally consume more health care dollars than the population as a whole. A recent study done for Families USA estimates that in 2000, the health care expenditures for seniors averaged $12,028 per year. This amount is expected to rise to $21,149 by the year 2010.

The trends put increasing pressure on Medicare, which provides health care for almost 98 percent of seniors. According to the Medicare board of trustees, disbursements from the Hospital Insurance and Supplementary Medical Insurance (Medicare Part A and Part B) will grow from 2.33 percent of Gross Domestic Product (GDP) in 2000 to almost 4 percent of GDP in 2025. In fact, based on the trustees' intermediate assumptions, the Part A trust fund (Hospital Insurance) is expected to be exhausted by 2025.

Another major government program impacted by these trends is Social Security. The surplus in the Social Security trust fund is expected to run out in 2037, according to the best-case projections of the fund actuaries. At that point, the payroll taxes funding the program will not equal the benefits being paid out.

So what do we know about the views of the new president and Congress on these two important is-

TOM WILDER IS THE DIRECTOR OF PUBLIC POLICY FOR THE AMERICAN ACADEMY OF ACTUARIES IN WASHINGTON.

sues? To his credit, Governor George Bush was willing to raise the issue of Social Security reform during the election—previously seen as an untouchable "third rail" for politicians. There was considerable debate in the presidential election about ways to deal with the solvency of the trust fund. Both presidential candidates also focused attention on Medicare, although on the more limited issue of providing prescription drug coverage for seniors. Social Security and Medicare reform were also central themes of the congressional elections.

The problem with many of the reform proposals put forward by Governor Bush and Vice President Gore and by those running for Congress, however, is that they rely on continuing budget surpluses. The availability of budget surpluses is based on economic assumptions that may not materialize and on Congress not spending money in other ways. While we've had good news on the budget over the past few years, any potential surpluses will not be sufficient to fund the anticipated shortfalls in Medicare and Social Security.

The proposed solutions are also based, in part, on changes that may not maintain current benefit levels (e.g., individual Social Security accounts) or on administrative adjustments that will have limited impact on the overall budget shortfalls (e.g., Medicare managed care). While all of the proposals put forth have merit and are worth considering, they fail to deal with the fundamental issues leading to the eventual insolvency of Medicare and Social Security.

As actuaries will recognize, it's a simple matter of math. The beneficiaries of Social Security and Medicare are primarily supported by today's workers. We'll soon reach a point where there will be too few paying into the system to fund the expected demand for benefits. The only practical solution to the imbalances facing Social Security and Medicare is to either cut benefits or raise the amount of money coming into the two programs. What Congress and the president have to decide is how best to address this simple equation.

As a general rule, the public and its elected representatives tend to focus on a problem only when it becomes a crisis. Since the insolvency of both Medicare and Social Security is projected 15 to 30 years in the future, Congress and the president have little incentive to deal with the issue right now.

Actuaries understand the long-term changes affecting Medicare and Social Security. Actuaries also know that it's far easier to deal with those problems now than it would be to wait until insolvency occurs.

What the profession needs to do is help educate the public and policy-makers on the extent of the crises facing Medicare and Social Security. In addition, actuaries can provide guidance on the impact of reform proposals put forth by Congress and the president.

The Academy has undertaken a number of efforts in this regard. Last year, several monographs and issue briefs were published outlining the future of Medicare and Social Security. The Academy also helped educate consumers through contacts with the news media and on-line tools such as the Social Security interactive game published on our website. Academy members helped brief congressional staff members on Medicare and Social Security issues and testified before Congress on several occasions about the impact of various reform proposals.

Much more work remains to be done. The actuarial profession has a unique perspective on the problems facing Medicare and Social Security. In the end, it's a simple matter of addition and subtraction that leads to the eventual insolvency of the two programs. Actuaries have a good appreciation for the numbers; it's now up to the profession to help the public and the politicians understand them better. ●