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MEANS-TESTING SOCIAL SECURITY RETIREMENT

Edward J. O'Boyle, Ph.D.
Mayo Research Institute

In 1935 the Social Security Act addressed three sources of unmet need: (1) growing old and no longer being able to work; (2) becoming orphaned and being too young to support oneself; and (3) losing one's job and being cut off from a regular paycheck. Our principal interest in the following is with the retirement program established to help meet the needs of the elderly.

SSA set up a single federal program for the retired with its own trust fund into which matching contributions are made by employers and employees and out of which benefits are paid. To qualify for full benefits a person must be 65 years of age (66 for anyone born in 1943 or later) and have worked and made contributions into the trust fund for at least 40 quarters. The fund operates on a pay-as-you-go basis. The monies paid in benefits to the current generation of beneficiaries come from the contributions made by the current generation of employers and employees.

In general there is a correspondence between wages, contributions, and benefits. The more one earns and contributes, the larger the benefits. The program operates on the *presumption* that every elderly person who is eligible for retirement benefits is needy. No one is required to *demonstrate* need. The program, in other words, is *not means tested*. In addition, benefits are paid until death and are adjusted every year according to changes in national wages.

At times the SSA trust fund has had more money flowing in through contributions than flowing out through benefit payments. This surplus has been used to purchase U.S. government securities creating a third stream of moneys – the interest paid on those securities – into the fund. However, in the years ahead the trust fund will be severely strained to pay benefits to a retired population which due to the baby boom of 1946-1960 will bring much larger numbers of persons to age 66 beginning in 2012. A further strain will be added by the increased life expectancy of the elderly which means that the typical retired person will receive retirement benefits for a longer period of time. At the same time there will be fewer workers contributing to the fund. These dynamics set up the conditions for the depletion of the surplus in the trust fund, according to the trustees, by 2037.

In 1965 the SSA was amended to extend protection to the elderly in need of health care through the Medicare program that operates with its own trust fund supported by contributions from workers, employers, and the elderly. Payments are made to health-care providers to reimburse them for the cost of services rendered to the elderly. This trust fund is even more severely strained due to the high cost of modern medicine and the fact that

most health care costs occur in a person's last year of life. One way this strain is being handled is through low reimbursement to which some physicians have responded by refusing to accept persons on Medicare especially when the cost of providing the service is greater than the reimbursement. Federal law makes it difficult and costly for hospitals to refuse service to anyone including Medicare patients, so the cost of treating Medicare patients that is not fully reimbursed often is shifted to other paying patients. As with SSA retirement, Medicare is based on *presumed* need. *No means test* is applied.

The elderly who receive monthly SSA retirement checks have their Medicare premiums deducted automatically every month. The amount they are charged for Medicare protection depends on their annual income as declared on their federal income tax return. The higher the income, the higher the premium. The SSA website states that seven percent of SSA beneficiaries are not protected from paying a higher Medicare Part B premium and therefore are vulnerable to having their retirement benefit reduced. Those who are not protected include higher income beneficiaries, persons newly entitled to Part B in 2010, and everyone under Parts C and D. The Medicare Hospital Insurance trust fund will be depleted by 2017.

As a consequence, SSA retirement has become less a social insurance program and more a social assistance program. The higher the declared income, the lower the retirement benefit. Mayo Research Institute knows of at least one retired person whose Medicare premium in 2010 is greater than his retirement benefit and who is billed by SSA for the difference. His SSA retirement benefit has been reduced to zero. This is the beginning of *means-testing* SSA retirement through the back door of a stealth-like Medicare tax.

Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute. He completed his doctorate in economics at Saint Louis University in 1972.

Mayo Research Institute
Offices in New Orleans, Lake Charles, and West Monroe
www.mayoresearch.org   318-381-4002   edoboyle@earthlink.net
