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Despite Warnings, Reid Hails 'Sound' Social Security System

By Susan Jones

(CNSNews.com) - Medicare's trust fund will be exhausted in 12 years, two years sooner than an earlier forecast projected; and Social Security's trust fund will dry up in 34 years, one year sooner than projected, trustees for the programs said in an annual report released Monday.

According to USA Today, the trustees' report shows that both programs are in "serious financial trouble," but that's not what one Democrat leader is saying.

In a statement released Monday, Senate Minority Leader Harry Reid (D-Nev.) said the trustees' report "confirms that, despite White House scare tactics, Social Security remains sound for decades to come."

According to Reid, "The real threat to Social Security comes from Republicans, most of whom support and voted for privatizing Social Security."

President Bush wants to let younger workers divert part of their payroll taxes into private investment accounts that they would manage, within certain guidelines. But congressional

Democrats and some Republicans opposed the plan - which frightened senior citizens -- and it went nowhere.

For several years, Democrats have accused President Bush of trying to "dismantle" Social Security, and Reid did it again on Monday: "Instead of working to dismantle Social Security," Reid said, "we should join together to strengthen both Social Security and Medicare to build a secure retirement for all Americans."

President Bush also has urged Democrats and Republicans to work together, but Democrats refused to discuss Social Security reform as long as private investment accounts were on the table.

In his statement on Monday, Reid did not comment on the 12-year time horizon for the depletion of the Medicare trust fund.

'Looming fiscal crisis'

Labor Secretary Elaine Chao warned that as the Baby Boom generation begins to retire, the system faces increasing strain: "What we continue to see is a

looming fiscal crisis facing these two programs," Chao said in a statement.

It's not just Social Security, she said, adding that defined-benefit pension plans in the private sector also are underfunded.

President Bush has proposed "comprehensive pension funding reform" to make sure that workers, retirees and their families receive the benefits to which they are entitled, Chao said. "Congress must act quickly to pass strong pension reform legislation based on the president's proposal, she added.

A conservative think tank called the trustees' report "chilling."

"Social Security's future has gotten worse, and each year we delay reform adds to the cost we are pushing off onto our children," said John Goodman, president of the National Center for Policy Analysis (NCPA).

The Bush administration was right to attempt Social Security reform, Goodman said - but he said the

administration was wrong to push a Medicare drug benefit, which "made the situation much worse."

Goodman noted that even before the Social Security and Medicare trust funds are exhausted, they will start paying more in benefits than they collect. That will happen to Social Security in 2017; and Medicare benefits will exceed revenues starting this year.

When that happens, the government will have to take money from somewhere else in the federal budget," the NCPA said.

Such transfers already are happening, the group noted:

-- Right now, the federal government uses about 5 percent of general revenue to pay the combined benefits for Social Security and all of Medicare; that's in addition to the payroll tax dollars already collected for these programs.

-- By 2020, Social Security and Medicare's funding shortfalls will equal about 27 percent of all federal income tax dollars.

-- By 2041, the year the Social Security Trust Fund no longer contains any obligation bonds, the two programs will require 64.3

percent of all federal income tax dollars.

-- By 2080, the two programs will require more than the government is scheduled to collect in federal income taxes.

"The choices for saving both systems are going to be tough," said Goodman, "but they only get tougher the longer we wait, and they pale in comparison to the future if we do nothing."

'Time to prepare'

AARP Policy Director John Rother said the purpose of the trustees' annual report "is to give the nation time to prepare."

Rother found some good news in the report: He said Americans approaching retirement age should be reassured that the Social Security system "remains strong."

"The trustees' report on Social Security underscores the fundamental truth that Social Security can pay full benefits well into the boomers' retirement years and about 70 percent thereafter," Rother said.

"As the trustees remind us, the fact that Social Security is solvent until 2040 gives us the opportunity to get serious

about strengthening Social Security for the future.

"We need to work together to honor that commitment and we should start by putting aside polarizing ideas that won't work," Rother said. He considers private investment accounts "a bad idea" because they "drain money out of Social Security, cut benefits and pass the bill to future generations."

Rother said the trustees' report on Medicare "signals an even greater need to bring system-wide health care spending under control."

Affordable health insurance is central to retirement security, Rother said. He said the "unabated" rise in health care costs is impacting Medicare as well as other public and private health insurance programs.

"Congress should heed the early warning signal of the trustees' report and begin to take action on broader reforms of the nation's health care system," he said.

Health and Human Services Secretary Mike Leavitt on Monday said Medicare points to "the great dilemma of health care -- the things that are priceless are not price free."

Leavitt said the Bush administration is addressing long-term solvency while

providing better care and sustainable coverage.

"We need to build on those steps by taking further actions like accelerating the adoption of health information technology, increasing the focus on prevention and creating more transparency in the program," he said. "These steps will improve Medicare for current and future generations."

Leavitt spelled out President Bush's proposed reforms and initiatives to improve Medicare's financial condition, as follows:

-- Quality and efficiency measures to ensure better results rather than more services;

-- Competitive bidding for health care delivery;

-- Continuing to expand access to Medicare Advantage plans, which save beneficiaries around \$100 a month and help reduce overall health care costs by coordinating care and prevention;

-- Promoting the adoption of interoperable health information technology;

-- Making Health Savings Accounts available in Medicare in 2007;

-- Modest reductions in market basket rates of growth, including a proposed 0.4 percent reduction in the growth rate of Medicare payments if Congress does not pass a specific alternative proposal to achieve needed improvements in sustainability; and

-- Gradually increasing the share of program costs paid by the highest-income beneficiaries.