

The Nightmare in Our Future

**Presentation to
The LBJ Centennial Conference:
Medicare - Past, Present and Future**

by

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April 28, 2008



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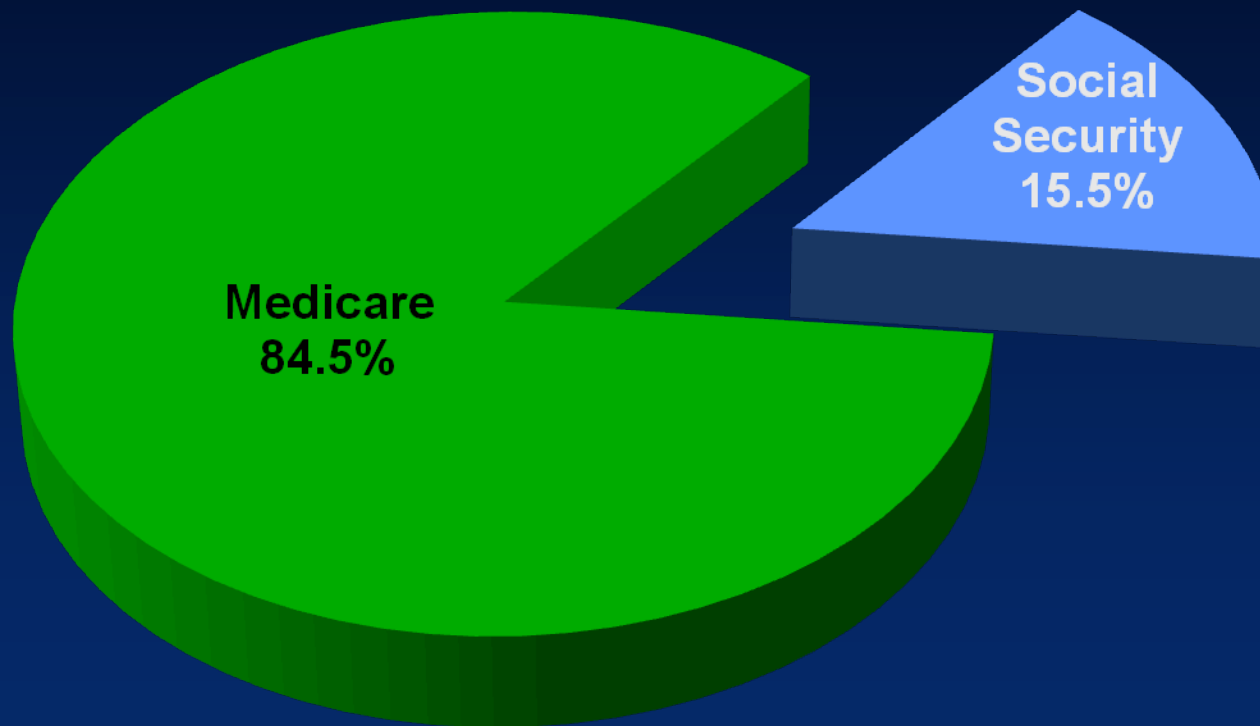
Unfunded Liability: Social Security + Medicare

\$101.7 Trillion



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Social Security and Medicare Unfunded Liabilities



What Do We Owe As Of Today?

\$57 Trillion



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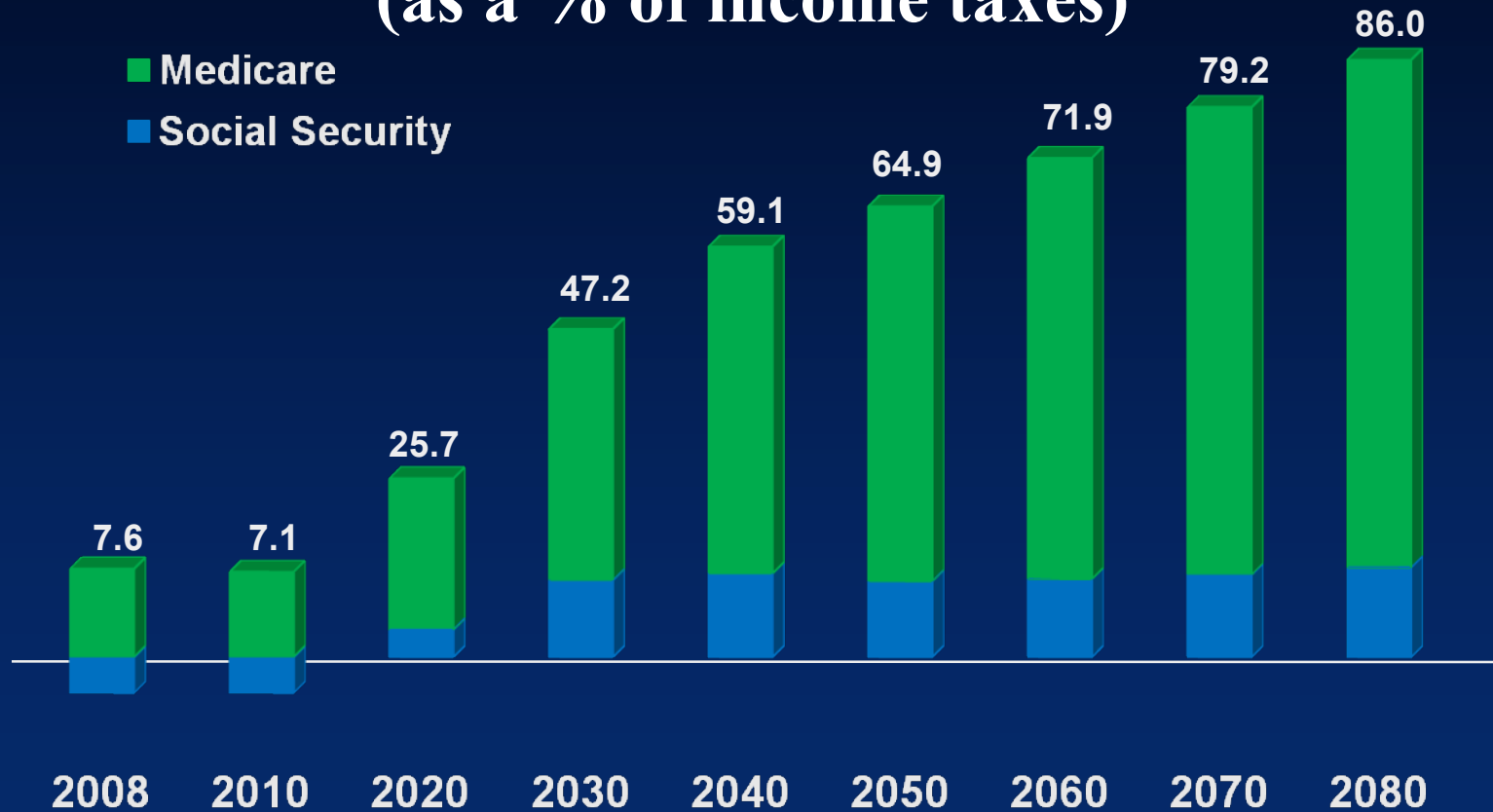
How Will This Problem Affect You and Me?



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General Revenue Transfers to Social Security and Medicare (as a % of income taxes)

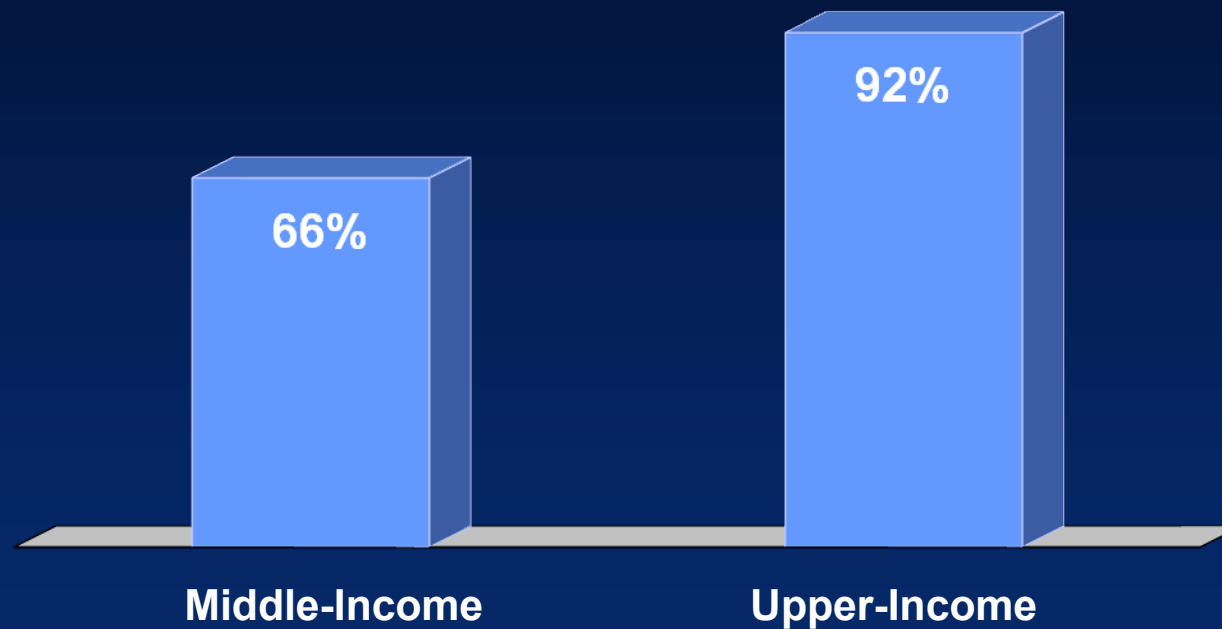
■ Medicare
■ Social Security



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Source: Social Security Trustees.

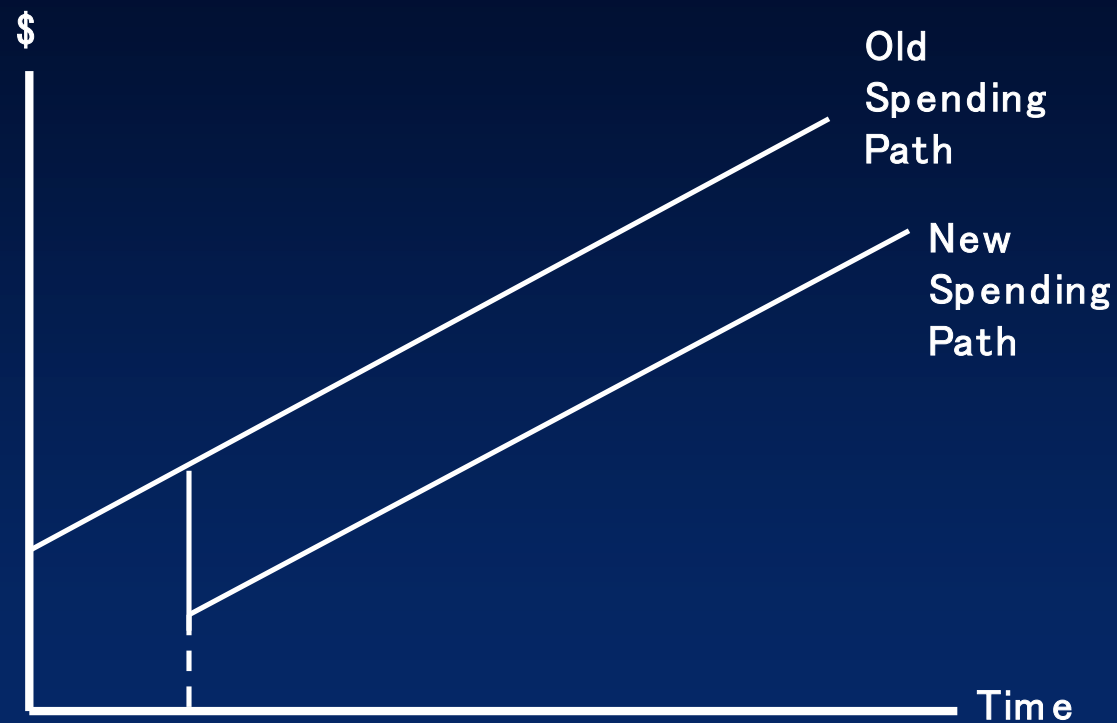
Marginal Federal Income Tax Rates Needed to Fund Current Federal Programs in 2050



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Source: Congressional Budget Office.

Health Care Spending



One Time
Policy Change

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Two Problems

- **Health Care Spending Growth is Twice Income Growth**
- **Pay-As-You-Go Finance for Elderly Benefits**



Two Solutions

- **Choose Between Health Care and Nonhealth Care**
- **Prefund Post-Retirement Health Care**

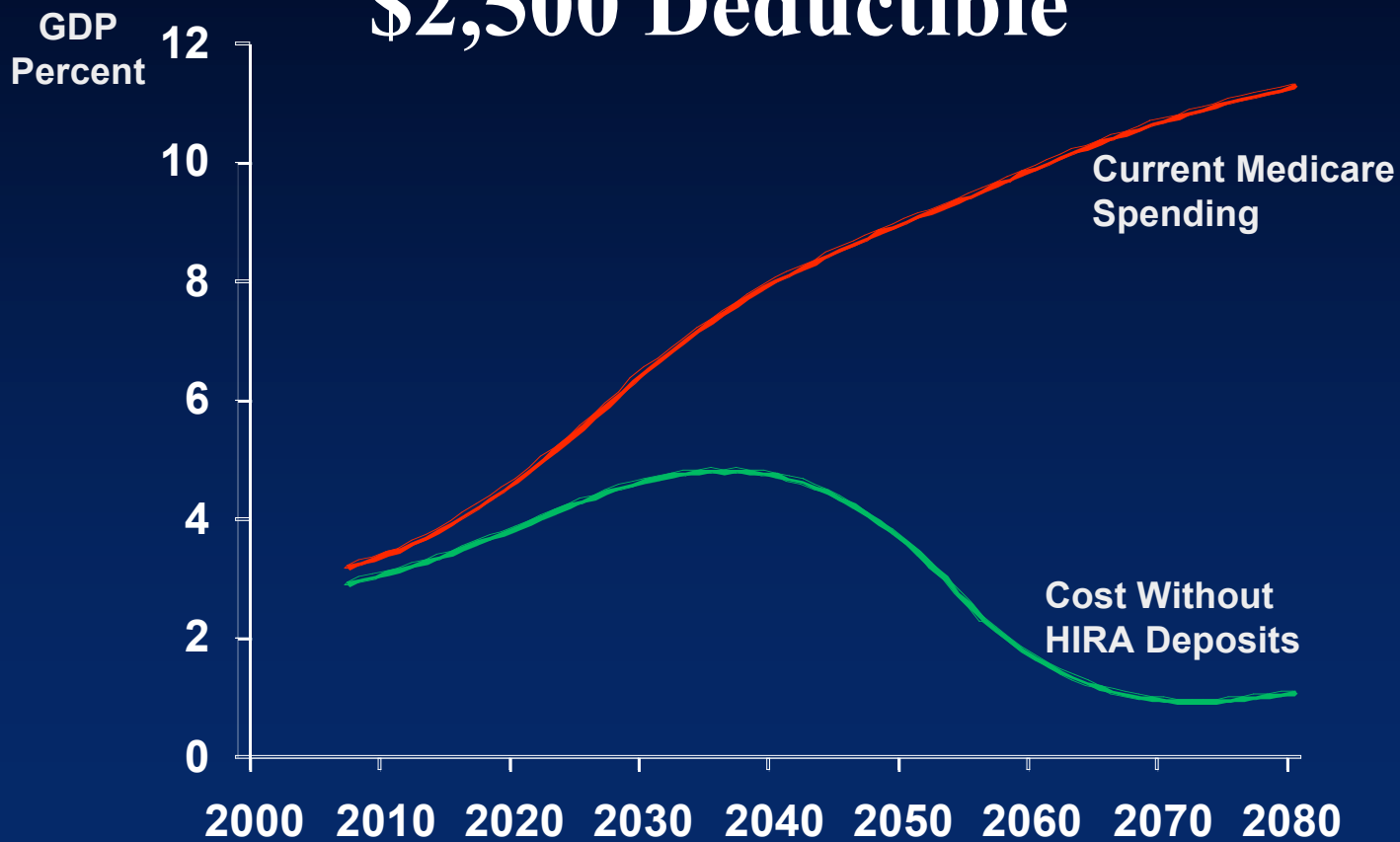


Plan

- **\$2,500 Medicare Deductible**
- **Roth HSAs**
- **4% Payroll Saving**



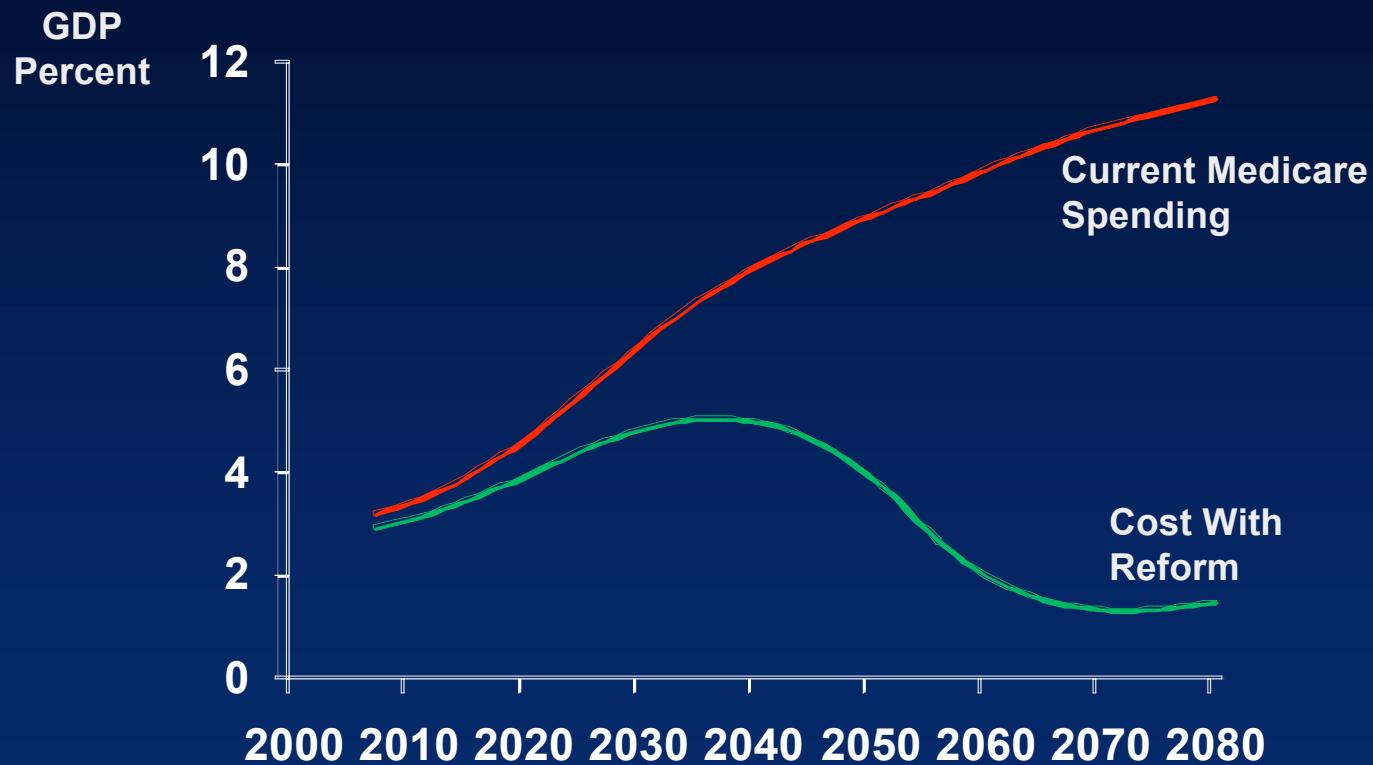
Spending and Costs as a Percent of GDP \$2,500 Deductible



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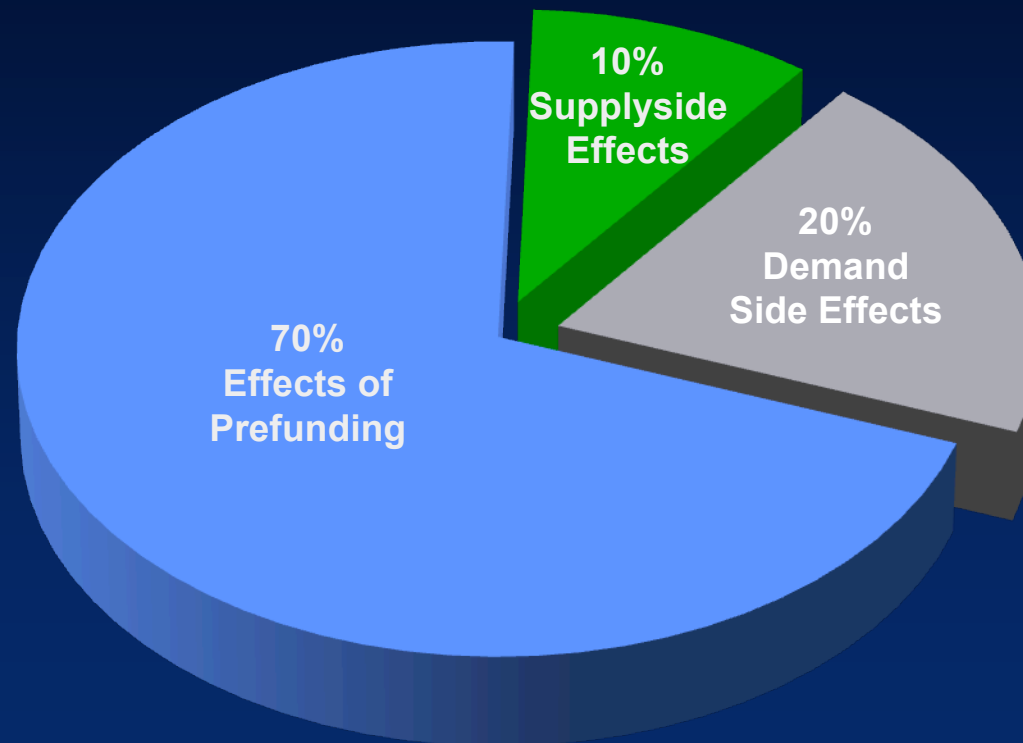


Spending and Costs as a Percent of GDP \$5,000 Deductible



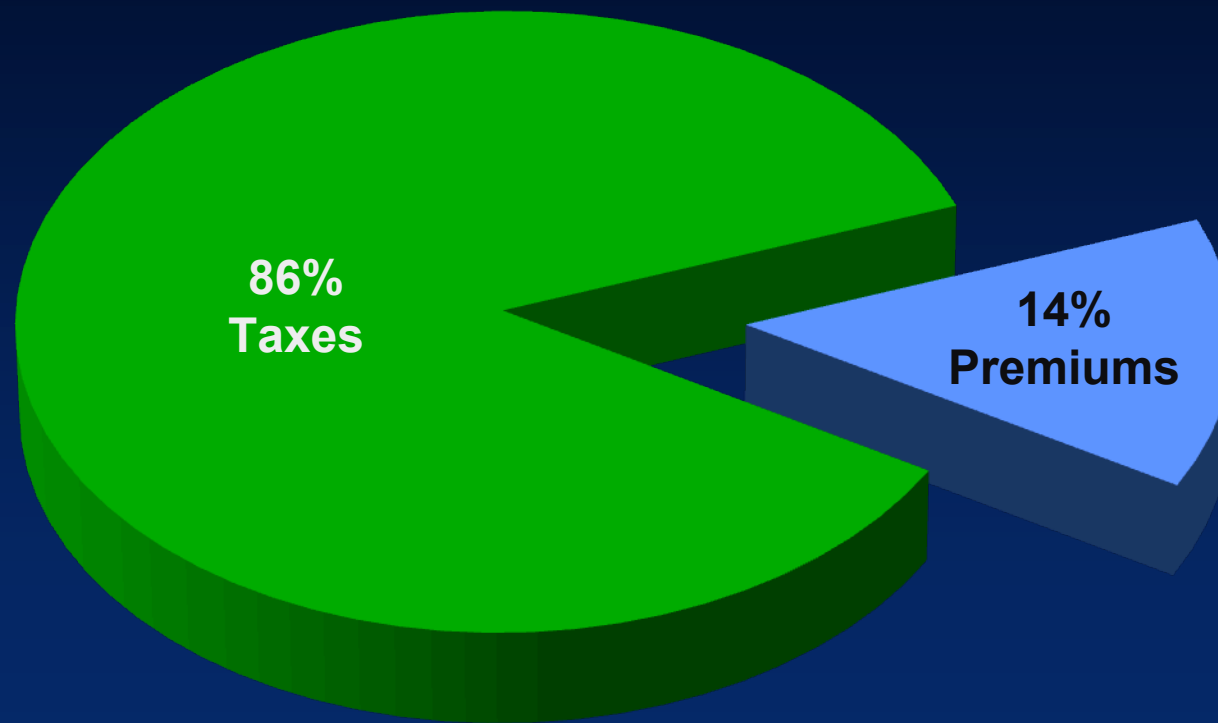
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Reasons for the Reduction in Taxes Needed to Fund Medicare From 2007 to 2080*



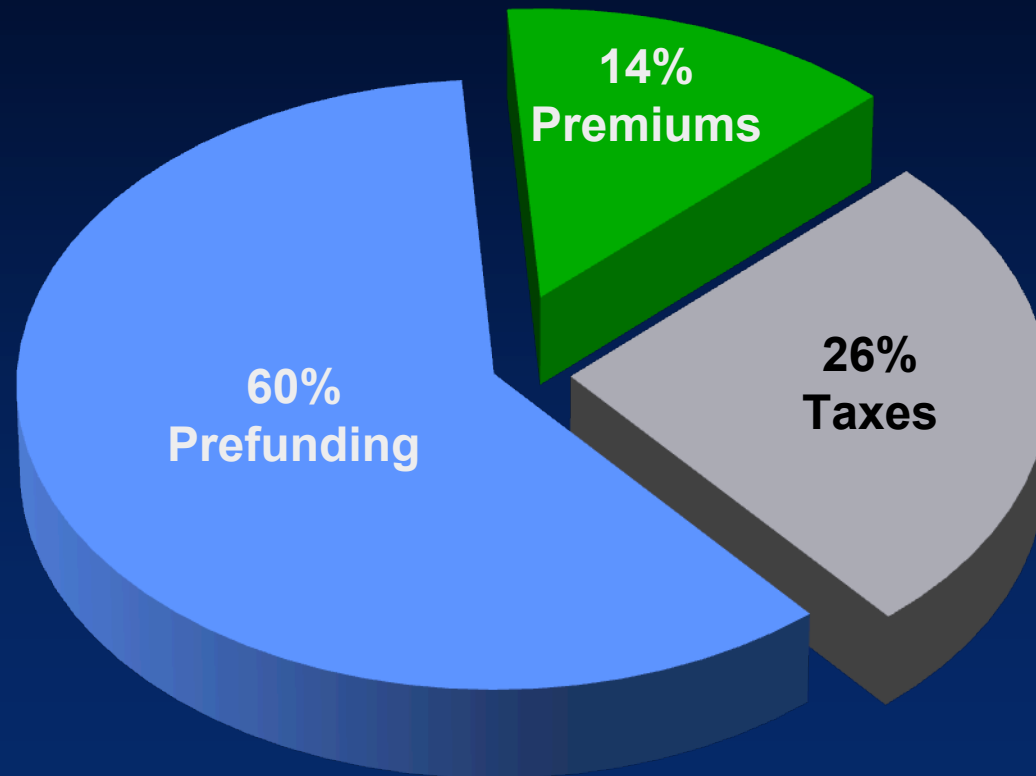
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Sources of Funds for Medicare (2007)



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Sources of Funds for Medicare (2080)



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We Are Not Ready for The Baby Boomers

Social Security

Medicare

Medicaid

Employer Pensions

Employer Retiree Health Care

State and Local Pensions

State and Local Retiree Health Care

401(k) Saving



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What Would It Take To Reform Our Retirement System

Program	Savings Rate
Social Security	4%
Medicare	4%
Medicaid	2%
Total Mandated	10%
401(k)	5%
	15%



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Baby Boomer Years 2030 - 2040

Forced Saving	10%
Private Saving	5%
Baby Boomer Surtax	10%
	25%



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