

Date of Hearing: March 19, 2013

ASSEMBLY COMMITTEE ON AGING AND LONG-TERM CARE
Mariko Yamada, Chair
AJR 7 (Bonta) – As Introduced: January 30, 2013

SUBJECT: Social security, Medicare and Medicaid

SUMMARY: Memorializes the President and the United States Congress to exclude social security, Medicare, and Medicaid from being a part of any legislation to reduce the federal deficit. Specifically, this bill makes the following findings and declarations:

- 1) Social Security, Medicare and Medicaid are fundamental protections against risks that all Californians face.
- 2) Five million Californians, including 3.4 million retirees and 700,000 disabled workers, rely upon Social Security and Medicare as the foundations of their health and financial security.
- 3) Social Security is the primary source of life insurance protection for 370,000 California children.
- 4) Social Security lifts over 1.1 million Californians out of poverty; contributes nearly \$67 billion in economic activity; and benefits 9 million veterans nationwide.
- 5) Social Security funding is independent of the federal government, does not and by law never will contribute to the federal deficit.
- 6) Social Security currently enjoys a surplus which is expected to grow to \$3.1 *trillion* by 2020, and is currently projected as solvent through 2032, and that shortfalls thereafter could be mitigated by restoration of taxes cut in 2001 and 2003.
- 7) If necessary, various strategies have been identified to address any potential future shortfall by eliminating the cap on earnings subject to the payroll tax, raising the payroll tax rate by 7/10 of 1% each year for twenty years.
- 8) Social Security is critical to the economic well-being of beneficiaries.
- 9) Losses of pensions, 401(k)'s, home equity, and earnings have greatly diminished the retirement incomes of Californians.
- 10) Social Security has already been cut by up to 25% back in 1983.
- 11) The physical demands of work differ by industry and longevity varies by industry according to level of income, education, race, and access to health care.
- 12) Social Security belongs to the people who have worked hard and contributed to the program, and is based on the premise that those who contribute may also benefit through retirement, disability, or death.

- 13) Forty-seven percent of elderly Californians struggle to meet monthly obligations, and one-half of all working Californians will not have enough to maintain their current standard of living in retirement.
- 14) Medicare insures 4 million older Californians and has controlled costs better than private insurance, particularly administrative costs.
- 15) Increasing the eligibility age for Medicare would save the federal government funds, though it would add to the overall amount that the nation spends on healthcare by shifting costs to other governmental entities, businesses, and many individuals.
- 16) Medicaid supports the health care needs of 11 million low-income children, adults, elders and disabled individuals in need of long-term services and supports.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's purpose: According to background provided by the author, AJR 7 requests the President and the United States Congress to exclude Social Security, Medicare, and Medicaid from being a part of any federal legislation to reduce the federal deficit. The measure expresses the Legislature's opposition to cuts to Social Security, Medicare, and Medicaid (Medi-Cal in California), and calls upon California's congressional representatives to vote against cuts to Social Security, Medicare, and Medicaid and to consider improving those systems in ways that would strengthen their protections.
- 2) Medicare: Medicare is a national social insurance program, administered since 1965, that guarantees access to health care for Americans ages 65 and older, as well as younger people with disabilities, or end stage renal disease. Hospital care is covered under Part A and outpatient medical services are covered under Part B. Medicare offers a choice between an open-network single payer health care plan (traditional Medicare) and a network plan (Medicare Advantage, or Medicare Part C), where the federal government pays for private health coverage. Medicare Part D covers outpatient prescription drugs exclusively through private plans or through Medicare Advantage plans that offer prescription drugs. In 2011, Medicare provided health insurance to 48.7 million —40.4 million people age 65 and older and 8.3 million younger people with disabilities (roughly 4.2 million older individuals and 700,000 disabled individuals in California). On average, Medicare covers about half (48 %) of health care costs for enrollees. Medicare enrollees must cover the rest of the cost. They include uncovered services such as long-term services and supports, dental services, hearing, and vision care. Medicare is funded through payroll taxes paid by most employees, employers, and people who are self-employed. Other sources, like income taxes paid on Social Security benefits, interest earned on the trust fund investments, and Medicare Part A premiums from people who aren't eligible for premium-free Part A also support the program.
- 3) Medicaid: Medicaid is the U.S. health insurance program for certain people and families with low incomes and resources. Medicaid was enacted in 1965 through amendments to the Social Security Act. Medicaid is a health and long-term care coverage program that is jointly financed by states and the federal government. Each state establishes and

administers its own Medicaid program and determines the type, amount, duration, and scope of services covered within broad federal guidelines. In California, this is known as Medi-Cal (7,505,841 enrollees as of 1.1.11). States must cover certain mandatory benefits and may choose to provide other optional benefits. Federal law also requires states to cover certain mandatory eligibility groups, including qualified parents, children, and pregnant women with low income, as well as older adults and people with disabilities with low income. States have the flexibility to cover other optional eligibility groups and set eligibility criteria within the federal standards. The Affordable Care Act of 2010 creates a new national Medicaid minimum eligibility level that covers most Americans with household income up to 133 % of the federal poverty level. This new eligibility requirement is effective January 1, 2014, but states may choose to expand coverage before this date. Medicaid is funded through general revenues and other special financing structures that create revenue to support services and benefits.

- 4) Social Security: Social Security, a social insurance program consisting of retirement, disability, and survivors' benefits. To qualify for these benefits, most American workers pay Social Security taxes on their earnings; future benefits are based on the employees' contributions. Social Security is the basis of economic security for millions of Americans—retirees, disabled persons, and families of retired, disabled or deceased workers. About 157 million Americans pay Social Security taxes and 56 million collect monthly benefits in 2012. About one household in four receives income from Social Security. Social Security is largely a pay-as-you-go program. This means that today's workers pay Social Security taxes into the program and money flows back out as a monthly benefit. As a pay-as-you-go system, Social Security differs from company pensions, which are “pre-funded.” According to the author, Social Security lifts 1,148,000 older Californians out of poverty, and about 100,000 children. The author also notes that according to the Center on Budget and Policy using U.S. Census Bureau data, between 2006 and 2008, the poverty rate for older Californians was roughly 8.1%; without Social Security, the figure would likely have been 37.4%. Social Security is financed through a dedicated payroll tax. Employers and employees each pay 6.2 % of wages up to the taxable maximum of \$113,700 (in 2013), while the self-employed pay 12.4 percent.

The average Social Security benefit in January 2012 was:

- a) \$1,230 a month for retired workers;
 - b) \$1,185 a month for widows or widowers over the age of 60;
 - c) \$1,110 a month for disabled workers;
 - d) \$1,878 a month for a disabled worker, spouse and one or more young children;
 - e) \$2,487 a month for a widowed mother and two children.
 - f) The maximum Social Security benefit for a worker retiring at the 2012 full retirement age (66) is \$2,366 a month.
- 5) U.S. Budget, Debt, and Deficit: According to the President's Office of Management and Budget, public debt increases or decreases as a result of the annual unified budget deficit or surplus. The federal government budget deficit or surplus is the difference between government receipts and spending, not including governmental transfers. Since 1972, the U.S. annual unified budget has been balanced, or generated a surplus, four times, between 1998 and 2001. Historically, the U.S. public debt as a share of the Gross Domestic Product (GDP) increased during wars and recessions, and subsequently declined. For example,

debt held by the public as a share of the GDP peaked just after World War II (113% of the GDP in 1945), but then fell over the following 30 years. According to the Government Accounting Office, in recent decades, large budget deficits and the resulting increases in debt have led to concern about the long-term sustainability of the federal government's fiscal policies. However, according to the Bureau of Public Debt, except for a short period in the 1830's, the U.S. has held a public debt since the Constitution legally went into effect on March 4, 1789.

According to the Congressional Budget Office report: "Historical Data on the Federal Debt" (August 5, 2010), debt held by the public reached 49.5% of the GDP at the beginning of President Clinton's first term. It fell to 34.5% of the GDP by the end of Clinton's presidency due in part to decreased military spending, increased taxes (in 1990, 1993 and 1997), and increased tax revenue resulting from the Dot-com bubble.

In the early 21st century, debt relative to the GDP rose again due to the Bush tax cuts and increased military spending caused by the wars in the Middle-East and the new Medicare Part D program. During the presidency of George W. Bush, debt held by the public increased from \$3.339 trillion in September 2001 to \$6.369 trillion by the end of 2008. In the aftermath of the Global Financial Crisis and related significant revenue declines and spending increases, the debt held by the public increased to \$11 trillion by the end of July 2012.

On March 11, 2013, in an editorial published by the Wall Street Journal, Congressman Paul Ryan declared the national debt at \$16 trillion, as he introduced a federal budget proposal which will achieve a 'balanced' budget in 10 years through various reductions in expenditures in Medicare and Medicaid, among other things.

- 6) Support: Proponents argue that the real solution to the U.S. deficit "problem" is to create the jobs necessary to grow the economy. Cuts in social insurance program benefits would have the opposite effect by removing economic stimulation from the economy.
- 7) Author's Statement: "I am proud to author AJR 7 and stand in support of strengthening the three core pillars of our social services safety net—Social Security, Medicare, and Medicaid. Congress and our President should exclude these vital social programs from discussions on reducing the federal deficit and instead act to strengthen these programs which provide health care and retirement security for our most vulnerable populations.

"Despite continuing rhetoric to the contrary, the fact is Social Security does not contribute to the federal deficit. Funded by payroll taxes, the trust fund is secure and will continue to provide full levels of benefits until 2033, at which point benefits would be reduced to 75%. However, a few simple fixes with broad public support—such as phasing in an increase in the earnings taxable under Social Security—can help strengthen the program and avert this far-off crisis.

"Medicare and Medicaid—known in California as Medi-Cal—are two more government success stories. These systems consistently deliver quality care to difficult and expensive populations—in effect providing a public subsidy to insurance companies by taking “loss-leading patients”—with lower overhead and consistently smaller growth in costs than their private-sector counterparts.

"We need to make sure that we have a social service system that protects and serves the most vulnerable in our system when they need it most, including the sick, the elderly, the poor, and the children. AJR 7 stands up for the health and economic security of the more than 15 million Californians combined who benefit from Social Security, Medicare, and Medicaid.

REGISTERED SUPPORT / OPPOSITION:

Support

California Alliance for Retired Americans (CARA) – **sponsor**

American Federation of State, County and Municipal Employees (AFSCME)
California Commission on Aging
California Labor Federation
California Nurses Association
California School Employees Association
United Domestic Workers of America

Opposition

None on file.

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