**New Book: Why Social Insurance Needs Reforming**

In a [New Way to Care: Social Protections That Put Families First](https://www.independent.org/store/book.asp?id=135), John Goodman argues that our most important social insurance institutions are in desperate need of reform.

In the United States, the federal government provides an income, pays medical bills and covers a large part of the cost of long-term care for people during their retirement years. For people of working age, the federal government is insuring against disability and unemployment. State governments are also involved — insuring workers for injury, death and disability on the job.

Although many of these programs include the word "insurance" in their names, they are very different from traditional indemnity insurance. In many respects, they are not insurance at all, but merely thinly disguised vehicles for redistributing income.

These programs have been insulated from private-sector competition. People who find a better way of insuring for health or disability expenses or providing for retirement income are not able to take advantage of that knowledge. Basically, we are all forced to participate in monopoly insurance schemes, regardless of potentially better alternatives. Government insurance is also subject to special interest political pressures that undermine its rational provision. As a result:

* Social insurance is almost always more expensive than it needs to be. Disability insurance in the United States and Europe, for example, is twice as expensive as private disability insurance in Chile. Both Medicare’s health insurance for the elderly and the disabled and Medicaid’s long-term care insurance cost about twice as much as well-designed private insurance should cost.
* Social insurance is impervious to consumer needs. Medicare, for example, covers many small expenses that the elderly could easily afford to pay for out of pocket, while leaving seniors exposed for thousands of dollars in catastrophic costs. Both Medicare and Medicaid prevent patients from adding out-of-pocket expenses to the government’s fees in order to purchase timelier, higher quality care.
* Social insurance is almost always one-size-fits-all, ignoring important differences in individual needs. Social Security, for example, completely ignores other sources of retirement income and prevents seniors from using their government annuity, say, to purchase assisted living.
* Social insurance often provides benefits that are of poor quality. Many seniors, for example, pay three separate premiums to three separate health plans and yet still lack the comprehensive coverage that many non-seniors take for granted.
* Social insurance is almost never accurately priced. Because unemployment insurance premiums fail to reflect the real probability of unemployment, the program actually encourages employers to provide seasonal, rather than year-round, jobs. Because workers' compensation insurance is not accurately priced, employers face highly imperfect incentives to make their workplaces safer.
* Overall, poorly designed social insurance programs are making the cost of hiring labor higher and the take home pay of workers smaller than what could have been.

There are two additional problems that are even more disconcerting.

First, in the United States and in most other countries around the world social insurance schemes almost always leave individuals with perverse incentives. For example:

* Social Security’s early retirement program and its survivorship benefits discourage work through an implicit marginal tax rate of 50 percent — on top of all the other taxes workers face.
* Our unemployment insurance and disability insurance programs are literally paying people not to work.
* Both Social Security and Medicare have substantially altered the lifetime consumption and saving behavior of most people.
* Both Medicare and Medicaid encourage the over-use of health care and long-term care services.

Second, social insurance arrangements that are intergenerational inevitably began to adopt a chain-letter approach to finance — making promises to the current generation of beneficiaries that would have to be paid for by future taxpayers. Long term social insurance is almost never properly funded. Because of the temptation to spend payroll tax revenues that are not needed to pay social insurance benefits on other politically popular programs, social insurance is almost always operated on a pay-as-you-go basis.

This has resulted in huge unfunded liabilities both in this country and abroad. These unfunded promises have created enormous implicit liabilities for governments around the world. According to a Social Security trustees report, the unfunded liability in Social Security and Medicare is $107 trillion, or more than six-and-a-half times the size of the entire U.S. economy. If the implicit, unfunded promises in Medicaid, Obamacare and other programs are included, the government’s total implicit debt is twice that figure.

Goodman proposes a simple idea. People of any age should have the choice to opt out of social insurance in favor of alternatives that better meet their individual and family needs. In particular, they should be able to substitute assets and arrangements they have voluntarily chosen, and that they own and control, for the government systems they are now forced to be part of.