Goodman Institute Quarterly
Turning Ideas Into Policy
First Quarter 2023

How Much Do We Really Owe?

For the last two decades, economists associated with the Goodman Institute have regularly reported on and analyzed the unfunded liability in our entitlement programs. We are the only think tank that does this.

The raw numbers appear annually in the Social Security and Medicare Trustees reports. They are there thanks to the efforts of Goodman Institute Senior Fellow Thomas Saving, who served as a Trustee in the Clinton/Bush administrations. Yet they are buried several hundred pages into the Trustees documents, are never mentioned by any administration, have never been the subject of a congressional hearing, and are completely ignored by the mainstream media and even the public policy community.

Writing at *Forbes*, John Goodman says the official federal debt is about $31.4 trillion. Subtracting the amount the government owes to itself (bonds held by federal agencies), the debt nets to roughly $24.5 trillion—close to the nation's entire annual output of goods and services.

While those are eye-popping numbers, they omit unfunded promises made under such entitlement programs as Social Security and Medicare. "Unfunded" is the amount by which future promises to pay benefits exceed the tax revenues that are supposed to pay for those benefits. For Social Security, for example, it is the difference between promised benefits and expected payroll taxes.

Those obligations to pay benefits are not enforceable in a court of law—Congress can always rescind them. But as President Biden reminded us in his State of the Union address, we have a social and moral obligation to keep those promises that is just as strong as any written contract.

The accompanying table shows the value of the unfunded obligations we have already committed to under current law—without any of the new benefits that Congress seems to be eager to add.

Estimated Present Value of Medicare and Social Security Unfunded Obligations
($ trillions)

	Medicare: Part A	Medicare: Part B	Medicare: Part D	Total Medicare	Social Security	Total
Through 2095	$5.1	$35.5	$7.7	$48.3	$19.8	$68.1
Infinite Horizon	$10.3	$87.6	$26.1	$103.4	$59.8	$163.2

Source: Congressional Research Service, "Medicare Financial Status: In Brief," October 21, 2021. Based on the 2021 Report of the Medicare Trustees, Tables V.F2, V.G1, V.G3, V.G5

Looking indefinitely into the future, we have already promised future retirees an unfunded amount that is almost seven times the size of our entire economy—in current dollars.

In a sound retirement system, we would have $163.2 trillion in the bank earning interest—so that the funds would be there to pay the bills as they arise. In fact, we have no money in the bank for future expenses and there is no serious proposal to change that.

What's Wrong with Social Security?

At the Goodman Institute, we believe that entitlement reform will be difficult (if not impossible) unless it is combined with reform that benefits the current generation of retirees.

Senior Fellow Laurence Kotlikoff and his colleagues have done pioneering work identifying opportunities for such reforms. Here are some examples.

Problem: Robbery by Red Tape

Acting Social Security Commissioner Kilolo Kijakazi admits that seniors face extraordinary delays when they try to contact SS by phone. When they finally get through, the advice is often incorrect. When seniors claim benefits by acting on that bad advice, they are not allowed to correct the mistakes. But if Social Security makes a mistake and overpays, it demands its money back. If the senior can't pay, Social Security stops sending monthly checks.

Poor administration by Social Security personnel is undoubtedly a major reason why:

- The typical retiree is leaving $182,370 (in present-value terms) on the table by claiming benefits too soon.
- 13,000 plus widow(er)s collectively have lost $130 million in Social Security benefits because of mistakes in claiming spousal benefits. (Estimate of SS's own Inspector General.)
- Married couples also lose thousands of dollars because they make mistakes in claiming spousal benefits.

It is not surprising that Social Security personnel make so many mistakes. The system has 2728 rules and hundreds of thousands of pages explaining the rules, governing just 13 basic benefits.

Retirees and potential retirees should have access to an online computer program that responds to all relevant questions with accurate information. Thanks to Prof. Kotlikoff, a very accurate and easy-to-use private sector Social Security Calculator already exists. His book, *Get What's Yours: The Secrets to Maxing Out Your Social Security* is must reading.

Prof. Laurence Kotlikoff is the nation's number one authority on Social Security

Problem: Penalties for Working

The Social Security earnings limit for people who have not yet reached the normal retirement age is $21,240. Above that limit, beneficiaries lose $1 in benefits for every $2 of earnings. During the year of their normal retirement age, they lose $1 in benefits for every $2 of earnings above $56,520.

When this tax on earnings is added to income, payroll, and Social Security benefit taxes, middle-income seniors can face a 90% marginal tax rate.

At a very minimum, we need to abolish the earnings test – allowing early retirees to return to the labor market without loss of benefits.

The Case Against Medicaid Expansion

Eleven states have still refused to expand their Medicaid programs, despite the incentives created under Obamacare. The argument for expansion rests on two assumptions: (1) the newly insured will get more care and better care and (2) providers will provide that care.

Yet, economics teaches there is no free lunch. With no change on the supply side, if some people get more care, others will get less. You might suppose that people who get more care will become healthier and people who get less care will become less healthy. But the health policy literature gives us reasons to doubt that.

Gov. Sarah Huckabee Sanders and Dr. Goodman

After the enactment of Medicare and Medicaid, a surge in demand with no increase in supply caused health care spending to rise from 6 percent of GDP to 10 percent. Surprisingly, this increased spending did not result in better health for seniors, as measured by mortality.

Under Obamacare Medicaid expansion, there has been no significant shift of resources to low-income families from the rest of the population. Per capita doctor visits for the population as a whole has actually gone down over the last decade.

In a new Goodman Institute study, health economist Linda Gorman makes these additional points:

- The most carefully constructed study ever done (in Oregon) finds that enrollment in Medicaid does not lead to better physical health.
- The Medicaid population values Medicaid enrollment as little as 20 cents on the dollar. (Theoretically, they would sell their Medicaid enrollment for as little as one fifth of what it actually costs.)
- States lose control of their budgets – during the pandemic the federal government made them keep millions of ineligibles on their Medicaid rolls.
- Crowd out happens when states are encouraged to shift resources to healthy adults while thousands of intellectually and developmentally disabled patients (including many children) languish on Medicaid waiting lists.
- Medicaid expansion turns out not to reduce the hospital burden of "unreimbursed care."

The reason for this last point is that when people have the opportunity to enroll in Medicaid, they drop their private insurance and stop paying for care out of pocket – changes that reduce hospital revenue. These reductions turn out to be larger than the increase of Medicaid funds.

Linda Gorman is a leading expert on state heath care programs.

Why Do Banks Fail?

The real question is not, why did Silicon Valley Bank fail? It's, why don't we see even more failures? As Goodman Institute economist Lawrence Kotlikoff explains, a financial system in which credit market institutions borrow short and lend long has built-in instability. As long as depositors think their demand deposit funds are available at the drop of a hat, when in fact they are tied up in mortgages and other long-term loans, bank runs will always be a risk.

More than a decade ago Professor Kotlikoff and Dr. Goodman proposed "limited purpose banking" in *The New Republic* and in *Investment News*. The idea is that credit market institutions should be intermediaries between savers and investors and should not themselves use depositors' money to make risky investments. The idea is elaborated in Kotlikoff's book, *Jimmy Stewart Is Dead*.

Testimony on Drug Shortages.

Dr. Goodman Testifies before Congress on Drug Shortages.

In March, Dr. Goodman testified before the U.S. Senate Committee on Homeland Security and Governmental Affairs on drug shortages. This is a nationwide problem that has been persistent for well over a decade. It includes such lifesaving generics as saline solutions. Between 186 and 308 drugs have shortages.

Dr. Goodman said shortages are caused by unwise output regulations, price controls on Part D drugs administered by doctors and hospitals and in the 340B program, and by an inability of drug manufacturers to compete on any product dimension other than price.

These problems have been addressed by Goodman Institute Senior Fellows David Henderson and Charles Hooper in the Goodman Institute Brief Analysis, *Are Some Drug Prices Too Low?*

Outreach

Gov. Ron DeSantis and Dr. Goodman

The Goodman Institute has been interacting with members of Congress and potential presidential candidates. Our focus has been on bread-and-butter, kitchen-table issues that resonate with working families. We believe this is the only way to be successful in reforming such difficult institutions as our health care system and such elderly entitlement programs as Social Security and Medicare.

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