Senior Power and the Medicare Trust Fund Crisis

Michael G. Housman

The elderly have levels of predominance in American politics that are unrivaled by any other group in the population. According to many policy analysts, they are the superpower of domestic politics. The elderly are more likely to vote than any other age group in the country and turn out in record numbers for national elections while comprising an even larger proportion of voters in minor elections such as primaries. Appendix A reveals the fact that while the elderly (65 and over) compromise only 17% of the total population and younger citizens (18 to 29) compromise 23%, the elderly vote in rates almost twice that of younger adults and make up approximately 20% of the total voting population, while youths make up only 15%. Additionally, the elderly exhibit unrivaled levels of political participation such as contacting their elected officials, attending public meetings, and writing letters to newspapers. Appendix B reveals the participation rates of various age groups in other types of political participation. Elderly individuals (60+) are 230% more likely to read the newspaper regularly, 75% more likely to attend public meetings, 85% more likely to have written a letter to their congressman and 67% more likely to have written a letter to a newspaper than their younger counterparts (ages 18 to 29).

The organizational capabilities of the elderly are equally unmatched due to the fact that the American Association of Retired Persons (AARP) has an extremely pervasive influence in Congress. In a Fortune magazine poll mentioned earlier, respondents were asked to rank the clout in Washington of 120 interest groups, labor unions and trade associations. The AARP ranked most powerful. With 33 million members, 200,000 new recruits monthly, 350,000 activist volunteers and a $400 million budget, the AARP can command political resources to the envy of other Washington lobbies. With a single announcement in its Newsletter, the Association can cause legislators to be flooded with more phone calls, telegrams and hand-written letters than any other orga-

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zation in the country. While it may be tempting to believe that these statistics exaggerate the political power of the AARP, most Washington insiders tend to agree that its influence cannot be overstated. Washington lobbyist Marion Hopkins refers to the AARP as “the 800-pound gorilla of Capitol Hill.” Edward Roybal (D-CA), chairman of the House select Committee on Aging, puts the matter in more political terms when he says that “the AARP is instrumental in bringing about change.” Newsweek effectively summed up the Association’s power when it wrote that “it is hard to exaggerate the awe in which politicians hold the AARP.”

Evidence of the aggregate effects of this political clout is fairly obvious. The elderly have collectively managed to protect the government benefits they receive during an era of belt-tightening within budgetary reform. In fact, when compared to America’s youth, a dramatic shift has occurred. In the past 30 years, the relative proportions of federal spending on the youth and the elderly have undergone a complete reversal, with steadily declining shares of federal spending going to the youngest Americans and increasing shares going to the oldest. As more and more money has been needed to fund senior entitlements, money has gradually been siphoned off from critical child-welfare programs. Appendix C depicts this trend and shows that it is almost certain to continue into the future unless major changes are made to these entitlement programs. Currently, Federal spending for each senior citizen, nearly $12,000, is over ten times the amount spent on each youngster under the age of 18, just over $1,000. Local, state and federal governments together spend three times more on each voter over age 65 than on each citizen under age 18. Meanwhile, as seniors have been receiving the lion’s share of benefits from the government, they remain virtually the only group that has not been forced to pay for these benefits through taxes. Since the majority of taxes raised in the US are imposed upon labor income, seniors remain relatively untaxed due to the fact that most have retired by the time that they have reached the age of 65.

As a result of this increased spending and decreased taxation upon the elderly, a remarkable shift in poverty rates has occurred over the course of the past 30 years. In 1966, when Medicare was just getting underway, poverty among the elderly was the highest of any age group. In that year, just over 10% of those aged 18-64 versus 29% of seniors lived below the poverty line. As the benefits of government entitlements have enriched the golden years, poverty among the elderly has steadily declined. Currently, 12.2% of seniors compared to 15.1% of all Americans live in poverty. Meanwhile, poverty among those under 18, at over 21%, is now the highest of any age group. Appendix D reveals how significant this shift has been over the course of the past 30 years.

While these facts are well documented and undisputed, few have examined the causes and long-term effects of this tremendous political power. What impact might this political clout have on social programs in the future? How have the elderly managed to become such a significant political force in the US? And above all, what might a theory of political equality have to say about this state of affairs? These questions guide the organization of this paper and will be considered in turn.
The Ticking Clock for the Medicare Trust Fund

No issue highlights the generational gap in political participation more than the impending insolvency of the Medicare trust fund. To offer some background on the issue, Part A of Medicare is funded on a pay-as-you-go basis, which means that the benefits received by retirees equal the payments made by current workers. If \( N_b \) is the number of retirees and \( B \) is the benefit per retiree, then total benefits are \( N_b \times B \). The taxes paid by current workers are the product of the tax rate (\( t \)), the number of workers (\( N_w \)), and the average covered wage-worker (\( w \)): \( t \times N_w \times w \). Hence, equality between benefits received and taxes paid requires that:

\[
N_b \times B = t \times N_w \times w
\]

Rearranging this equation gives us:

\[
t = \left(\frac{N_b}{N_w}\right) \times \left(\frac{B}{w}\right)
\]

The first term on the right-hand side is the dependency ratio, the ratio of retirees to the number of workers. The second term is the replacement ratio, the ratio of average benefits to average wages. The long-term problems with the Medicare system arise from the fact that the United States has an aging population, which implies that the dependency ratio is increasing over time. Currently, it is 0.29, which means that there are about 3.4 workers per retiree. By 2030 (when the baby boom generation hits normal retirement age), the ratio will be 0.5 and there will be only two workers supporting each retiree.\(^{12} \) Meanwhile, this effect is being compounded by the fact that the average benefits that retirees have been receiving from the programs have been significantly increasing in real (inflation-adjusted) terms.

While a trust fund was established for Medicare in order to save up any surpluses from years in which the revenues collected exceeded the benefits paid, this trust fund is being rapidly depleted and will soon reach bankruptcy unless fundamental changes are made to the program. Currently, the Medicare Trustees have stated that they project the Medicare trust fund will be depleted by 2025.\(^ {13} \)

A Modest Proposal from Congress

Faced with the insolvency of the Medicare trust fund, policy makers have the option of either decreasing the benefits (\( B \)) paid out to each beneficiary or increasing the tax rate (\( t \)) to generate larger revenues. Rather than pursuing either course, policy makers have instead opted for a less prudent approach. Over the course of the past few decades, Medicare expenditures have grown at a breakneck pace while the tax rate has increased only modestly. The recent expansion of prescription drug benefits to Medicare in The Prescription Drug and Medicare Improvement Act of 2003 illustrates this seemingly incongruous state of events. The program will cost more than $400 billion over the next ten years and undoubtedly accelerate the Medicare trust fund’s descent into bankruptcy.

The reason for this short-sighted approach towards Medicare undeniably results from the political power of the elder-
ly. Matthew Price sums the issue up well when he writes the following:

Everyone involved acknowledges the problem. Medicare Trustees predict bankruptcy within a generation. Virtually everyone who has studied the question has concluded that entitlement spending for the elderly must be contained if some degree of fiscal sanity is to be restored to the federal budget process. Politicians know it. The agencies for the elderly know it. Most Americans know it. The crisis is almost universally acknowledged. And we know, further, that the longer the delay before taking action, the more painful the remedy. Everyone knows, yet nothing is done. Indeed, the problem is barely addressed. Why? Because politicians cannot solve the problem of runaway entitlement spending without the consent of the elderly, and the elderly have not consented.14

Indeed, Medicare’s accelerating spending, far from being cut, cannot even be slowed down. When Alan Greenspan suggested on February 26, 2004 that Congress contemplate cuts to Medicare in response to a projected budgetary shortfall of $500 billion, Republicans and Democrats publicly decried the suggestion. Medicare continues to be what former House Majority Leader Tip O’Neill once called the “Third Rail of American Politics. Touch it and you die!”15

An interesting spin on this issue emerged from the 2000 Presidential Debates between then-Governor George W. Bush and Vice-President Al Gore. The transcripts from those debates revealed where the political priorities of each candidate lay. Each candidate made every attempt to court the elderly and ignored nearly every other demographic group. During the three debates, the candidates mentioned “Medicare” a total of 61 times, talked about “SCHIP” 5 times, and did not refer to “Medicaid” once. “Prescription drugs” were mentioned 39 times while there wasn’t a single reference to “pre-natal care,” “pregnancy” or “pregnant women.” As an aside, “mental illness” was discussed once and “substance abuse” never emerged as a point of discussion.

Towards a Theory of Political Equality

While the aforementioned factors certainly constitute a situation worthy of considerable attention, it is important to approach the question from an ethical standpoint in order to determine whether it results from political inequality. There are three reasons for this. First, our governmental institutions are often charged with the task of balancing out economic disparities within society and striving for distributive justice where there exists market failure. Second, while citizens tend to acquiesce without thinking in the moral and political conception implicit in the status quo, or leave things to be settled by how contending social and economic forces happen to work themselves out, it is the responsibility of political economy to investigate this issue.16 And third, the effects of injustices in the US political system are much more grave and long lasting than market imperfections since political power rapidly accu-
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mulates and becomes unequal. By making use of the coercive apparatus of the state and its law, those who gain the advantage can often assure themselves of a favored position.17

To address this question, it seems appropriate to first establish the definition of political equality and then move from there to determine what constitutes inequality. Rawls defines political justice as the following:

The principle of equal liberty, when applied to the political procedure defined by the constitution, I shall refer to as the principle of equal participation. It requires that all citizens are to have an equal right to take part in, and to determine the outcome of, the constitutional process that establishes the laws with which they are to comply. Justice as fairness begins with the idea that where common principles are necessary and to everyone’s advantage, they are to be worked out from the viewpoint of a suitably defined initial situation of equality in which each person is fairly represented.18

Political equality is deeply rooted in the idea that all citizens must have an equal voice in the political process and have their views represented equally to influence the outcomes of political contests. This type of equality is predicated upon the “equal right to take part in” political discussion. Stemming from this statement, if we say that the political participation of any individual depends on both the motivation and capacity to take part in political life, political equality is concerned solely with the capacity and not the motivation. In the quest to evaluate the political equality of governmental institutions in the United States, we will ask the following question: Do citizens have an equal opportunity to contribute to the decision-making process?

Upon initial observation, it would seem that the answer to this question is quite simply yes. It appears that all citizens of the United States have equal opportunity to vote, involve themselves in political campaigns, make political contributions, work informally in the community, attend meetings and contact government officials. Technically, there are no formal barriers to prevent anyone from doing so, and certainly none that exist at the institutional level. However, the answer isn’t actually as simple as this because the capability to engage in these activities requires certain resources.

Most political analysts have agreed that there are two primary inputs necessary to exercise political power: money and time.19 It is virtually impossible to contribute to a campaign or other political cause without some discretionary income. Similarly, it is just as difficult to write a letter to a public official, attend community meetings, or work in a campaign without the free time to do so. While it is certainly within the realm of possibility to do both, the availability of these resources strongly influences the opportunity that citizens have to participate in political activity. There is a great body of research that examines the effects of an unequal distribution of wealth on political power. Given this paper’s interest in the elderly, we will instead consider the distribution of time.
Time is on Their Side

What are the determinants of free time and how strongly does free time determine one’s likelihood to engage in political activities? In 1995, Sidney Verba conducted an extensive study on the causes and efforts of political participation in the US. He found that regarding the amount of free time that any individual has, whether or not one works, is the strongest predictor of this variable, followed by whether or not one has children and then by whether or not one’s spouse works. Other variables like education, job level and race had almost no effect.

Verba’s second finding of interest pertains to the effect that this free time has on the political activity of its possessors. He found that free time was a significant predictor of political participation. In addition, when the activities compromising political participation were divided into time-intensive acts, money-intensive acts and voting, free time was the most significant predictor of time-intensive acts such as becoming involved in political campaigns, working informally in the community, attending meetings, contact government officials and writing letters to newspapers. Free time was also the most significant predictor of one’s likelihood to vote. He found that an additional hour of free time per day leads to about one-third of an hour more of political activity per week.

This at least partially explains the question of how the elderly have gained such a level of predominance in American politics today. Being the largest group of non-working individuals, the elderly are quickly gaining a monopoly on free time in America. Retirement is the mechanism that has allowed them to do so. Currently, the average age of retirement in the United States is 62 and only 12 percent of those individuals over the age of 65 participate in the labor force.

As long as the elderly possess such a disproportionate share of free time, they will always be the most sought-after demographic group in American politics. While seemingly innocuous, they possess the temporal resources necessary to advance their own political agenda at the expense of future generations. The effects of this political inequality are no less troubling than that caused by the disproportionate possession of monetary resources. Yet issues like campaign finance reform and the involvement of special interests in the political process receive far more attention than inter-generational issues such as this. Perhaps this is because money is seen as having a much more corrosive influence on politics. Perhaps the distribution of money is viewed as less equitable than that of time since we all ultimately possess just 24 hours in the day. Nevertheless, the existence of political inequality in a Rawlsian sense must be a serious concern.

It is important to issue one caveat for consideration. The trends in government spending that have been discussed cannot solely be attributed to the vast political power of the elderly. Certainly, the influence of seniors has had a major effect upon the shaping of policy discussions and the governmental actions that have resulted from these discussions. However, older Americans do not maintain their government benefits merely because they are able to impose their political agenda on an unwilling public, but because the vast majority of Americans of all ages share that
agenda. While we are unlikely to change
gender, race, sexual orientation or even
occupation, we are all likely to become el-
derly at some point. It is this unique char-
acteristic that separates the elderly from all
other interest groups and has most likely
shielded them from becoming the subject
of major political conflict. As a result,
Medicare generally enjoys the highest levels
of popular support among all government
programs, as 82% of Americans oppose
any spending reductions in Medicare.\textsuperscript{23}
While it is nearly impossible to determine
how much of the expansion of this entitle-
ment program is due to the political power
of the elderly as opposed to the universally
inclusive nature of this group, we must
nonetheless bear this caveat in mind as we
consider the effects of both factors.

An Equitable Solution to
the Medicare Trust Fund
Crisis

Having explored the implications of politi-
cal inequality in our current set of institu-
tions, we now turn our attention back to
coming up with a solution for the more
practical issue at hand: the impending in-
solvency of the Medicare trust fund. Our
original equation relating benefits to tax-
es is a good place to start. One proposal
would suggest that Congress ensure that
both the dependency ratio (\(N_b/N_w\)) and
the replacement ratio (\(B/w\)) remain un-
changed in the future. According to this
proposal, as the population ages, the age
of eligibility for Medicare benefits would
gradually increase. Similarly, as benefits
were expanded and expenditures increased,
so too would taxes. The passage of a law
mandating this in the future would avoid
a situation in which politicians sacrifice
long-term financial stability for the sake of
short-term political expediency.

This solution does not fully address the
causes of political inequality that created
this situation in the first place. While it
is doubtful that any such law would ever
be passed, seniors would eventually gather
enough political power to repeal it. In-
stead, there are a few other solutions to
consider.

The first is that we eliminate incentives
for seniors to retire at earlier ages. Both
Social Security and Medicare benefits kick
in at the age of 65. Social Security benefits
are closely tied to one’s working status and
this creates a powerful incentive to retire at
the age of 65 or shortly thereafter. Instead,
the age of eligibility for Social Security
could be pushed back to accommodate the
increasing life expectancy within the US
This could mirror similar changes in the
Medicare program that would preserve the
dependency ratio and continually adjust
the age at which one becomes eligible to
participate in the program.

Another potential solution may sound
more radical but could at least serve as
food for thought. There is only one group
in society prevented from participating in
the political process: children and adoles-
cents. By making the voting age 18, we
have disenfranchised nearly 30% of the
population. As a result, children become
less of a priority in the eyes of public ser-
vants. The irony here is the fact that they
are primarily the ones who will end up
shouldering the burden of runaway spend-
ing on Medicare for many years to come.
This article would not go so far as to sug-
gest that 5-year-olds be allowed the right to
vote. However, the possibility of empowering parents with the right to wield votes on their children’s behalf would create a powerful tool for change in the political process. It is virtually assured that the nature of political debates as we know them would change almost instantaneously.

Before concluding this discussion, it is necessary to mention a few points of clarification. First and foremost, the solutions proposed here are not politically feasible. Ironically enough, our potential solution to correct this political inequality could never be passed into law since the underlying political inequality would work against it. In short, any elected official who simply mentioned this proposal in a Congressional hearing on the future of Medicare would provoke such outrage on the part of seniors that there would be serious repercussions. Second, these solutions are not necessarily desirable. What is meant here is the fact that this proposal has been crafted to reduce the levels of political inequality in the current political system. While it would do a good job at that, government policies must also take into account economic and social considerations in order to determine the best overall course for society and in crafting this solution, this has intentionally not been done. The outcome is a fascinating one that provides a clear contrast between what is fair and what is realistic.

Conclusion

The ideal of democracy in America is founded upon the belief that the government is able to respond to the interests of all citizens. In order for this to occur, individuals must be provided with equal opportunity to participate in the political process. However, this depends upon the equal distribution of the resources necessary for political participation, money and time. At least in the case of time, we have determined that this is certainly not the case. What is the result of this political inequality?

Seniors possess the time necessary to exert a disproportionate amount of influence upon our political institutions. The result is that the elderly have been able to lobby quite effectively on behalf of an increasing amount of benefits from government entitlement programs while simultaneously posing an increasingly large obstacle to any potential reforms of these programs. While this may not be a problem in and of itself, it has contributed strongly to the fact that the Medicare trust fund will soon face a solvency crisis. From the perspective of one concerned with the correction of political inequality, there are a number of fair solutions that could be considered. However, Matthew Price effectively sums up the response to this idea when he says that, “what is economically utilitarian, of course, is not always politically plausible, or even socially desirable.” Nevertheless, this article provides some insight into a relatively unexplored aspect of political inequality and highlights the distributional issues that our political institutions must begin to make an attempt to compensate for in the United States.

References

2. Maslove, 146.
4. Ibid.
9. Ibid.
10. Ibid.

Appendices

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Total Population</th>
<th>Percent of Total Population</th>
<th>Number that Voted</th>
<th>Percent that Voted</th>
<th>Percent of All Voters</th>
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<tr>
<td>18 to 24</td>
<td>24650</td>
<td>13%</td>
<td>7996</td>
<td>0.32</td>
<td>8%</td>
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<tr>
<td>25 to 34</td>
<td>40065</td>
<td>21%</td>
<td>17266</td>
<td>0.43</td>
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<td>35 to 44</td>
<td>43327</td>
<td>22%</td>
<td>23785</td>
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<td>45 to 54</td>
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<td>55 to 64</td>
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<td>14255</td>
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<td>65 to 74</td>
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<td>75 to 84</td>
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<td>85+</td>
<td>2922</td>
<td>2%</td>
<td>1461</td>
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Appendix A. Voting Rates

<table>
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<tr>
<th>Form of Civic Engagement</th>
<th>Age Brackets</th>
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<tbody>
<tr>
<td></td>
<td>18-29</td>
</tr>
<tr>
<td>Read newspaper daily</td>
<td>21%</td>
</tr>
<tr>
<td>Attend church weekly</td>
<td>25%</td>
</tr>
<tr>
<td>Signed petition</td>
<td>23%</td>
</tr>
<tr>
<td>Union member</td>
<td>5%</td>
</tr>
<tr>
<td>Attended public meeting</td>
<td>8%</td>
</tr>
<tr>
<td>Wrote congressman</td>
<td>7%</td>
</tr>
<tr>
<td>Officer of local organization</td>
<td>6%</td>
</tr>
<tr>
<td>Wrote letter to newspaper</td>
<td>3%</td>
</tr>
<tr>
<td>Worked for political party</td>
<td>2%</td>
</tr>
<tr>
<td>Ran for or held public office</td>
<td>0.3%</td>
</tr>
<tr>
<td>Took part in any of the above</td>
<td>31%</td>
</tr>
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Appendix B. Political Participation
Appendix C. Federal Spending

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<tr>
<th>Year</th>
<th>Medicare Trust Fund Balance</th>
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<tbody>
<tr>
<td>1990</td>
<td>125%</td>
</tr>
<tr>
<td>1992</td>
<td>140%</td>
</tr>
<tr>
<td>1995</td>
<td>115%</td>
</tr>
<tr>
<td>1998</td>
<td>80%</td>
</tr>
<tr>
<td>2000</td>
<td>110%</td>
</tr>
<tr>
<td>2005</td>
<td>190%</td>
</tr>
<tr>
<td>2010</td>
<td>250%</td>
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<td>2015</td>
<td>270%</td>
</tr>
<tr>
<td>2020</td>
<td>225%</td>
</tr>
<tr>
<td>2025</td>
<td>125%</td>
</tr>
<tr>
<td>2030</td>
<td>0%</td>
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Appendix D. Trust Fund Solvency