

## Heritage Foundation Suggests Means-Testing for Social Security, Medicare

By Editor Test      Wed, Jun 1, 2011

*Under the conservative think-tank's proposal, a new optional, auto-enrolled savings plan would start in 2014. Under this plan, 6% of each worker's income would go in a retirement savings plan that the worker owns and controls.*

The Heritage Foundation has released a white paper, [Saving the American Dream](#), that contains a proposal to reduce federal debt to 30% of Gross Domestic Product by 2035 and to convert both Social Security and Medicare to means-tested programs whose benefits are gradually phased out for individual retirees earning \$55,000 to \$110,000 and couples earning \$110,000 to \$165,000. According to the proposal:

- Social Security benefits will evolve over time into a flat payment to those who work more than 35 years—a payment sufficient to keep them out of poverty throughout their retirement.
- Workers born after 1985 will come under the new flat Social Security benefit system when they retire.
- Retirees with high incomes from sources other than Social Security will receive a smaller check, and very affluent seniors will receive no check.
- Income-adjusted benefits start in 2012; individual retirees with non-Social Security incomes above \$55,000 start to see a slight reduction in benefit payments.
- Individuals with more than \$110,000 in non-Social Security income will receive no Social Security payments. Benefits for married couples who file taxes jointly would phase out slowly between \$110,000 and \$165,000. The income thresholds will be indexed for inflation.
- The Heritage approach, when fully phased in, would income-adjust benefits transparently and not tax the benefits a senior receives. It also would start income-adjusting at a much higher income than today.
- Under the Heritage plan, only about 9% of seniors would see their checks reduced and only just over 3.5% of seniors would receive no check.
- The annual cost of living adjustment (COLA) for Social Security will be based on the Chained Consumer Price Index (C-CPI-U), a measure of inflation that is more accurate than the index used currently.
- Over the next 10 years, the age for full benefits rises to 68 for workers born in or after 1959. Over the next 18 years, the early retirement age rises to 65 for workers born in or after 1964. After that, both early and normal retirement ages will be indexed to longevity, adding about one month every two years.
- The plan includes an improved disability system to protect the small proportion of workers who will be physically unable to work until these ages.
- Starting immediately, those who work past their full-benefit age will receive a special annual tax deduction of \$10,000, regardless of income level.
- Once the program is fully implemented, Social Security payments would see a \$200 per month increase in spendable income.
- Beginning in 2014, a new savings plan will be introduced over two years. Under this plan, 6% of each worker's income is placed in a retirement savings plan that the worker owns and controls unless he

or she explicitly declines to have such an account.

### **Means-testing Medicare**

Five years after enactment, all new retirees receive a contribution (premium support) from the government, just as federal employees and retirees do today. They can use this contribution to choose Medicare's premium-based FFS plan or one of the other health plans. After one year of operation, Medicare enrollees in the traditional Medicare FFS program are free to join the new Medicare premium-support program. They can then choose a premium-based FFS plan or an alternative.

During the first five years of the premium-support program, the government's contribution is based on the weighted average premium of the regional bids of competing health plans. After the first five years, the government contribution is based on the lowest bid of competing plans in a region. The bidding system will be phased in and will include the bids of the competing managed care plans, other private plans, and the Medicare premium-based FFS plans offering an approved range and quality of services.

Under the Heritage plan, low-income enrollees receive the full Medicare defined contribution. The amount of the defined contribution starts to phase out for Medicare enrollees with annual non-Social Security incomes between \$55,000 and \$110,000 and couples with incomes between \$110,000 and \$165,000. Enrollees with incomes over \$110,000 and couples with incomes over \$165,000 receive no government contribution and pay full, unsubsidized premiums.

As with Social Security, married couples can decide whether they want to qualify for benefits as individuals or jointly as a couple. The phase-out income levels will be inflation-indexed. However, Medicare remains a valuable program for higher-income seniors because they retain access to a guaranteed-issue and community-rated insurance program.

Under the Heritage plan over 90% of seniors would receive the full defined contribution. Only about 3.5% have such high incomes that they would pay the entire premium without any contribution from the government.