



BETTER THAN GOVERNMENT

A New Way of Managing Life's Risks

By John C. Goodman

This Policy Report is based on three ideas.

The first idea is the win/win policy change.

A typical government program is funded by taxpayers and provides goods, services, or money to a group of beneficiaries. Imagine that you could make a change in that program that reduces the cost to the taxpayers and enhances the value of the program for the beneficiaries—at the same time. Who could possibly object to that?

I think there are thousands of opportunities to make win/win policy changes in the US political system. Win/win policy changes ought to be irresistible to politicians—whether Republican or Democrat, conservative or progressive, independent or socialist. After all, win/win means that everyone comes out ahead. There are no losers. What could be more popular?

And yet win/win is just about the last thing our representatives seem disposed to talk about. It's almost as if members of Congress think they were sent there to do battle. If they don't draw blood, if someone doesn't suffer as a result of their efforts, they apparently think they aren't doing their job. Perhaps for that reason, Washington is dominated

by a zero-sum mentality: everyone's gain must be offset by someone else's loss.

Here is an example of a win/win opportunity. Many veterans see private doctors—because of the long waits to see VA doctors, because of convenience and perhaps for other reasons. Yet they frequently turn to VA pharmacies to have their prescriptions filled because of the lower cost of drugs in the VA system. Unfortunately, VA pharmacies can only fill prescriptions ordered by VA providers. So the veteran has to get in line with other patients who really need care in order to get a VA provider to give a second approval to a prescription a private doctor already has written. The same rule applies to refills.

According to one estimate, *VA waiting lists could be reduced by one-third* if VA pharmacies could do what every other pharmacy in the country can do: fill prescriptions ordered by private doctors.¹

This should be a no brainer. Right?

Well, let's play devil's advocate for a moment—if for no other reason than to understand how Capitol Hill's bean counters think about things.

Like everyone else, veterans face a tradeoff between time costs and money costs. Right now,

Note: See the forthcoming Independent Institute book *Care for America: A Better Social Safety Net*, by John C. Goodman.

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they can reduce their out-of-pocket money cost of drugs if they are willing to wait to see a VA doctor. If we get rid of the waiting, however, more veterans will likely get their prescriptions filled in VA pharmacies. To meet the greater demand, the VA might have to hire additional staff or stay open longer hours. That might increase the VA's costs. Even more important, without the prescription fillers clogging up the access lines, other veterans would find it easier to get their needs met. And meeting more real medical needs also costs more money.

Now, many readers might think these are acceptable burdens for the rest of us to bear. After all, the veterans did their part. We taxpayers should step up to the plate and do ours. But this Policy Report is not about fairness. It's also not about optimal policy. It's about making all stakeholders in all important policy changes better off.

The second idea is what I call the trial and error principle.

How can we solve problems for the veterans in a way that wins for the taxpayers as well? Veterans in the current system are able to lower their out-of-pocket costs of care if they are willing to incur waiting costs. Since we know that a tradeoff is involved, why not try something in between? That is, we could charge veterans, say, 10 percent of the money they expect to save by not waiting as long. The veteran still comes out ahead. And the new revenue the VA system collects could offset some of the other cost increases we expect to incur.

Whenever two policy extremes exist such that one kind of cost falls and another rises as we move back and forth between them, there is almost always some intermediate point where everyone gains. We can't find that point by armchair theorizing, however. We must be willing to experiment and adapt. That is, we must be willing to do the kind of experimentation that private markets do every day.

Why do I think there are thousands of opportunities for win/win public policy changes? Because

so many government programs are so visibly inefficient. They labor under archaic rules and regulations (like the one we just described)—obstacles that any private entrepreneur would jettison in a second. Further, they inevitably leave all of us with perverse incentives. When we act on those incentives we do things that make social costs higher and social benefits lower than otherwise.

Economists define inefficiency as a state of affairs in which everyone could potentially be better off by doing things differently. If government programs are inefficient, we know that in principle everyone could be better off through some sort of policy change.

Here is the third idea: win/win strategies can be used to solve our most difficult public policy problems—problems created by social insurance.

Many people incorrectly assume that the reason for the growth of government in the twentieth century, both here and abroad, was the need to take care of the poor and the unfortunate. Even the term “welfare state” suggests that way of thinking. But modern governments in developed countries are not principally focused on welfare for the poor. They are focused on benefits for the middle class.

More than one commentator has loosely characterized our federal government as an insurance company connected to an army. That insurance is “social insurance.”

THE CASE FOR CHANGE

All developed countries in the world today face a common problem: they have promised more than they can deliver. People are expecting benefits for which taxpayers are unlikely to be willing or able to pay, once the needed tax increases become evident. In addition, the benefits that government provides are all too often delivered inefficiently, impersonally, inflexibly, and in a way that encourages perverse behavior on the part of the beneficiaries.

In the United States, the national debt now equals 74 percent of gross domestic product (GDP) and it will surpass 100 percent in fewer than three decades.² With the retirement of the baby boomer generation, 78 million additional people are turning to the federal government for Social Security, Medicare, and Medicaid benefits—at a rate of 10,000 per day and at a cost of roughly \$30,000 per beneficiary per year, on the average.³ If we continue on the current course, the federal government will need to more than double the tax revenues it now collects by the time we reach the mid-21st century, according to the Congressional Budget Office.⁴ At the same time the government prepares to take more of our income, it is also making it increasingly harder to earn that income. Additional taxes and regulations are raising the cost of labor, reducing the rewards for working, and making the economy less productive than it could be.

Why are we having these problems? What can be done about them?

Origins of the Problem

There are certain risks that human beings always have faced. These include:

- The risk of growing too old and outliving one's assets
- The risk of dying too young and leaving dependent family members without resources
- The risk of becoming disabled and facing financial ruin
- The risk of facing a major health event and being unable to afford needed medical care
- The risk of becoming unemployed and finding no market for one's skills

Prior to the twentieth century, nuclear families and extended families served as the principal form of insurance against these risks. In fact, it was not uncommon for parents to view their children as a

retirement plan. As families dispersed and family ties became less reliable, however, people turned to government. The reason for the growth of government in the twentieth century was the growth of programs that provided middle class families with insurance they could not easily acquire on their own in the private marketplace.

Social Insurance

At the federal level, social insurance includes Social Security, Medicare, Medicaid, and federal survivors and disability insurance. Under the provisions of the Affordable Care Act (Obamacare), it also includes private and public health insurance for the non-elderly population. At the state level, social insurance includes the state-financed portion of Medicaid, unemployment insurance, and workers' compensation insurance.

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 subsidizing health insurance and 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 on-the-job injuries or health or disability expenses or providing for retirement income are normally not able to take advantage of that knowledge. For the most part, we are all forced to participate in monopoly insurance schemes, regardless of potentially better alternatives. Even where competition is allowed (as in health insurance) it is regulated so tightly that no

one ever sees a real premium for any health plan. Government insurance and government-regulated insurance are 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. Medicare's health insurance for the elderly and the disabled and Medicaid's long-term care insurance both 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 out of pocket, while leaving seniors exposed to 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. Obamacare is forcing millions of Americans to buy mandated packages of benefits, regardless of individual preferences.
- 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 trading some or all of their government annuity in return, say, for assisted living.
- Social insurance is often poorly designed. 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 true 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. Because insurance in the (Obamacare) health insurance exchanges is community rated, sicker enrollees are encouraged to over-insure and healthy enrollees are encouraged to under-insure.

- 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 by imposing an implicit marginal tax rate of 50 percent—on top of all the other taxes workers face.
- Our unemployment insurance and disability insurance programs literally are 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 healthcare and long-term care services.
- Obamacare's employer regulations are encouraging part-time rather than full-time work, encouraging contract labor, outsource-

ing jobs rather than making new hires, and discouraging small firms from becoming larger.

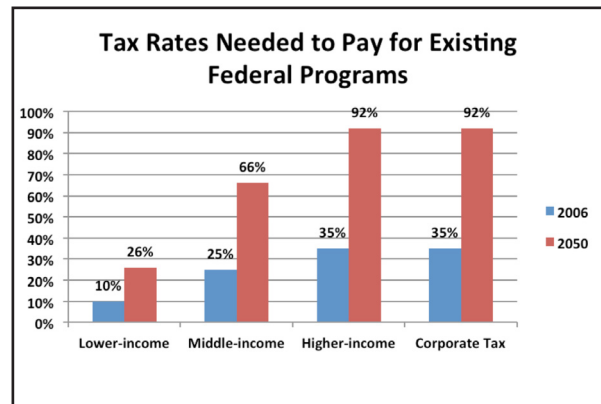
Second, social insurance arrangements that are intergenerational often inevitably adopt a chain-letter approach to finance—making promises to the current generation of beneficiaries that have to be financed by future taxpayers. Long-term social insurance is almost never properly funded. Because of the 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 almost twice that figure.⁵

The Cost of Social Insurance

Going forward, if the federal government continues to fulfill all of its current spending obligations, marginal income tax rates will have to increase dramatically for all taxpayers. According to a Congressional Budget Office estimate, by 2050 [see Figure I]:⁶

- The lowest income earners will see their marginal rates more than double from the current 10 percent to 26 percent.
- The highest income earners will face marginal tax rates of 92 percent (from the current 35 percent).

Figure I



Source: Peter Orszag, “Financing Projected Spending in the Long Run,” letter to Honorable Judd Gregg, Congressional Budget Office, July 9, 2007.

- And the U.S. corporate income tax rate, already the highest in the developed world, will skyrocket to 92 percent.

The expert who would become President Obama’s chief economist made these projections and they were completed before the passage of the Affordable Care Act that created Obamacare. As we shall see, the ACA envisions large cuts in Medicare spending as well as reductions in federal spending under Medicaid and in subsidies for private insurance. If these reductions occur, the financial picture will look better. But good reasons exist for believing they will not occur. [See the note at the end of this section on numbers, tables and graphs.]

European countries have made even more generous promises to their citizens. Although government spending there averages 40 percent of GDP today, by 2050 the average EU country will need more than 60 percent of its national income to meet its entitlement spending obligations.⁷

In fashioning better solutions, we cannot ignore why these programs were created in the first place. Government does more than offer insurance. It almost always makes the insurance compulsory. Why is that?

The Philosophy of Social Insurance

There are a great many insurance purchases that are largely ignored by government. These include life insurance, homeowners' insurance, and automobile collision insurance. Why is government involved in some of these decisions and not others? There is actually a rational reason based on economics. Most of us essentially are indifferent about whether other people insure to protect their own assets. We do care about decisions that could create external costs for the rest of us, however.

Through Social Security, we force people to pay for survivors' insurance that benefits dependent children (who could potentially become wards of the state) but not for survivors' insurance that benefits a working-age spouse. All but three states force people to have auto liability insurance (covering harm to others) but not casualty insurance (covering their own cars). We basically don't care whether people insure their own homes or automobiles, but we force them to contribute to retirement and disability schemes to prevent their accidental dependency on all the rest of us.

Here is the principle behind social insurance, then: government intervenes in those insurance markets where people's choices to insure or not insure impose potential costs on others. Because of basic human generosity, society is not going to allow people to starve or live in destitution. So when people don't insure for retirement, disability, and so forth, society is going to step in and help where help is needed. Implicitly, we have a social contract that socializes the downside of certain risks. If we allow the upside to be left to individual choice, we will have privatized the gains and socialized the losses. When people don't bear the social cost of their risk-taking, they will take more risks than they would otherwise, a behavioral response known as "moral hazard."

Another way to think about the problem is in terms of the opportunity to become a "free rider"

on other people's generosity. Consider the person who has no life insurance for dependent children, no disability insurance and no retirement savings program. Because he is not paying premiums or saving for retirement, he can consume all of his income and enjoy a higher standard of living than his cohorts. But if he bets wrong (dies too early, becomes disabled, reaches retirement with no assets), he is counting on everyone else to help him out.

Here is the upshot: In fashioning better choices for people, we must at the same time prevent them from becoming free riders on the rest of society if their choices do not turn out as well as planned.

Is There an Alternative to Social Insurance?

Social insurance programs should not be regarded as ends in themselves. They are instead a means to an end. If individuals can find better ways of protecting themselves against life's risks, they should be allowed to take advantage of those discoveries. If they are willing to take responsibility for their own needs and relieve others of that burden, they should be encouraged to do so. Wherever possible, the goal should be to maximize choices and opportunities for individuals, leaving to government the minimum role of ensuring that the needs of the most vulnerable continue to be met.

Denying the ability to make these choices leads to illogical policies. For example, why is Bill Gates paying into the Social Security system? Why is he paying into Medicare? The technical answer is that the law requires everyone to participate. But is that good public policy?

Forbes lists Gates as America's richest man, with an estimated net worth of \$79 billion. Surely no one thinks that he is in danger of becoming destitute during his retirement years. Of course, you could argue that we need his taxes to help pay benefits to other current beneficiaries. But remember: every time Gates pays a dollar in Social Security taxes, he

accumulates a claim for additional benefits during his retirement years.

Warren Buffett, Bill Gates's bridge partner, raises another set of questions. Why is Buffett collecting Social Security benefits? Why are taxpayers paying his medical bills under Medicare? Again, the technical answer is that Buffett paid into the system when he was young and, therefore, is entitled to collect benefits. But is this a good way to run a retirement system?

Forbes ranks Buffett as the second richest individual in America, with an estimated net worth of \$72 billion. Does anyone seriously believe that Buffett needs his Social Security checks? If Medicare weren't around, couldn't he pay his own medical bills?

More than 75 years ago, the argument for Social Security was that without a compulsory retirement program too many people would fail to save for their own retirement needs. They would reach retirement age destitute and impose a financial burden on everyone else. So a compulsory pension program, the argument continued, was needed in order to force people to save for their own retirement. More than 45 years ago the same argument was made about the compulsory healthcare program we call Medicare.

Of course, we know that these programs did not do what they promised. Social Security did not result in any savings. It simply took money from workers and gave it to retirees. The same thing is true of Medicare. Still, it is clear that we don't need Social Security or Medicare for people like Bill Gates and Warren Buffett—or their spouses and children and other family members. They are in no danger of ever being destitute. They can take care of their own retirement needs. So why not let them?

If we do nothing to reform our nation's entitlement programs, we will eventually be forced to adopt harsh policies. High-income individuals will be cut off, of course. They will not receive any

Social Security checks. Or if they do get them, the government will take the money back through higher taxes. Instead of getting subsidized Medicare, they will be forced to pay the full (unsubsidized) premium—and then some. Yet these changes will amount to no more than a drop in the bucket for Uncle Sam. Before it's over, most people will find that they are getting less than what was originally promised. In fact, it's likely that *everyone* will face higher taxes, smaller benefits, or both. Such a zero-sum outcome is one in which everybody loses. And because everyone will lose, these reforms will be difficult and painful to enact. They will be resisted by everyone.

Is there an alternative? Is there a way to solve our problems so that everybody comes out a winner instead of a loser? Is there a way for people to exit these systems and leave everyone better off? Is there a win/win bargain that could be struck?

A Better Way: Choice, Ownership and Responsibility

In what follows, I propose a simple idea. People of any age should have the opportunity 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 in which they are now forced to participate. In particular:

- People should be able to substitute private savings, private pensions and annuities, and private insurance for participation in Social Security.
- They should be able to substitute private insurance and private health savings for participation in Medicare and for participation in the federalized healthcare system sometimes called Obamacare.

- They should be able to substitute private disability insurance for participation in the federal disability program.
- They should be able to substitute private savings, private pensions and annuities, and private insurance for participation in Medicaid's long-term care insurance.
- At their places of work, employees and their employers should be free to choose private unemployment insurance arrangements, private disability insurance, and private alternatives to workers' compensation.

Furthermore, the choice does not have to be all or nothing. People should also be free to opt out partially and to opt out progressively over time.

Pareto Optimality

There is only one general condition that must govern these choices: They must not increase the expected burden for other taxpayers. This means that there must be (1) a reasonable expectation that the direct tax burden for others will not rise as a result of an individual's opting out and (2) a reasonable expectation that the individual will not try to return to the government program (thus creating an additional burden for everyone else) if the private option turns out to be disappointing.

This condition implies that opting out must be a win/win proposition. That is, it must be good for the individual who exercises choice as well as for everyone else. Such a change has been given a formal name by economists. A Pareto optimal change is a change that leaves at least one person better off and no one worse off. It is precisely that kind of change that is the focus of this report.⁸

At first glance, you would think that Pareto optimal changes in public policy would be a politician's delight. Most changes in laws and policies

create winners and losers. When politicians endorse such changes they have to worry that the losers might get mad enough to defeat them in the next election. But that should never be a problem if there are no losers.

Despite this almost self-evident fact, most proposals to change our social insurance programs—proposals coming from both political parties—are zero sum. For every gain they promise, someone else must bear a loss. For example, some Democrats are proposing more generous Social Security benefits. But those benefits would be paid for by imposing new burdens on the young, either in the form of higher payroll taxes or a larger public debt. Some Republicans are proposing to solve future deficit problems by reducing future benefits—a burden for the young without any corresponding gain.

From time to time both parties have considered cutting elderly entitlement benefits. They did that in 1983⁹ and they have seriously discussed doing it again.¹⁰ This, of course, is good for taxpayers but bad for seniors.

Philosophy of Reform

The reform agenda described here is based on the social goal of maximizing individual freedom and minimizing the role of government. Under these proposals, individuals would have the opportunity to choose the insurance options that best meet their individual and family needs. They would own the assets and the financial contracts that protect them without having to rely on the unreliable promises of politicians. And they would allow individuals and their families to take responsibility for their own lives. Here are the principles:

- Each generation should pay its own way.
- Each family should pay its own way.
- Each individual should pay his or her own way.

Only after passing through these three filters should anyone ever turn to government for any remaining needs.

OPPORTUNITIES FOR CHANGE

Let's be clear about what we mean by everyone else being better off. Social Security and Medicare have accumulated huge unfunded liabilities that carry with them heavy implicit burdens for future taxpayers. If Gates and Buffett could exit the system in a way that made their tax burdens smaller and at the same time created no risk that the rest of us will have to bail out a future destitute retiree named Gates or a future destitute retiree named Buffett, then that's a deal worth making.

But why limit ourselves to Gates and Buffett? Aren't there tens of thousands of high-income retirees who would do just fine without Social Security or Medicare benefits? Shouldn't we consider whether they too could find a way to exit the system and leave taxpayers with a lighter burden than they had before? And why limit ourselves to the wealthy? There is a more general principle here: Any time anyone—rich or poor—can find a way to solve the social problems Social Security and Medicare were designed to address and leave the taxpayers with a smaller burden in the process, we should welcome the change.

Why Win/Win Opportunities Exist

Different people have different attitudes toward risk. They also have different financial needs. A very common television advertisement, for example, promotes reverse mortgages. These products promise to turn the value of an elderly person's house into an income stream. Another common television advertisement offers to convert structured settlements (under which someone is receiving periodic payments of money) into upfront cash. In general, the financial world stands ready to convert an asset into an income stream or an

income stream into an asset. But remember, two people are on both sides in each of these transactions. These agreements are possible only because different people have different needs.

Our entitlement programs generate a stream of taxes and a stream of benefits. Looking forward, a young male worker can expect a steady stream of payroll tax payments for as long as he earns wages. What if he made a lump sum payment today in order to avoid all future payroll taxes? Would that be good for him? Would it be good for the rest of us? On the benefit side, what if we could offer him a lump sum amount today in return for his forgoing any future Social Security or Medicare benefits? Or, what if we allowed young workers to pay a lower lifetime payroll tax, provided they make private provision for their future retirement needs?

Are there substantial opportunities for such win/win deals to be struck? There are at least four reasons to believe so.

Differences in Discount Rates. When the Social Security and Medicare Trustees calculate the unfunded liabilities in those two programs, they discount future taxes and future benefits at a rate of interest equal to the federal government's long-term borrowing rate. Historically that has been about 3 percent. But when individuals borrow, they typically pay a much higher rate. Some people, for example, are paying double-digit rates on their credit card debt. If individuals evaluate Social Security's promised benefits at a discount rate higher than the one the government (on behalf of taxpayers) uses, then they will place a lower value on those benefits.

Take a man who has just reached the retirement age and has a life expectancy of about 20 more years. If he evaluates his expected Social Security benefits using a discount rate of, say, 6 percent, he will value a 20-year stream of expected benefits at about 60 percent of the cost to the government. If the retiree's discount rate is

9 percent, he will value the benefits at only one-third of their cost to the government.

Continuing with that last example, let's say the government offers the retiree a lump sum, upfront cash payment equal to half the present value of his expected future benefits (evaluated at a 3 percent real rate of interest). Since the offered sum is substantially more than the value the retiree places on the income stream it will replace (evaluated at 9 percent), the retiree is much better off. And the government will have cut its liability in half!

Differences in Portfolios. One reason people have different attitudes toward Social Security income streams is that the other assets they hold may be different. As noted, some people have a private annuity or a government pension. If these assets are viewed as highly secure, a rational individual might wish to trade in his Social Security income stream for investments that would round out a more diversified portfolio.

Differences in Attitudes toward Economic Risk. Looking back over a long period of time, the stock market has always generated a higher return than the bond market. For example, over the whole of the twentieth century, the stock market generated a real rate of return more than twice that of the bond market (6.4 percent versus 2.48 percent). Moreover, there has never been a 35-year period in which stocks failed to outperform bonds. In some particular years, however, investors were better off if they were invested in bonds.

Different people respond differently to this information. If you have a reasonable tolerance for risk, you will be the kind of person who wants to get out of bonds and into stocks in making long-term retirement decisions. If you have strong risk aversion, you will have the opposite preference.

One way to think about Social Security is to see it as similar to a government bond. It's not actually a bond. You can't buy or sell Social Security benefits; and future Congresses can renege on Social Security promises without creating the kind

of financial crisis that would ensue if the Treasury failed to pay interest on U.S. government debt. Still, Social Security's promises are promises of the U.S. government. In the short run, the right to receive a Social Security check is just as secure as the right to receive interest on a Treasury bill.

Now suppose we gave people the opportunity to get out of Social Security and into investments that carry a higher risk, but also promise a higher return. Some people would pay for that privilege, just as some people would pay for the opportunity to get out of an investment in government bonds and into other assets.

Of course, in the long run Social Security isn't very safe at all, because of its huge unfunded liability. But that may create another win/win opportunity.

Differences in Attitudes toward Political Risk. More than 90 percent of all lawsuits are settled without ever going to trial. The reason: most people are risk averse, especially when it comes to something as variable and hard to predict as jury verdicts. Parties to lawsuits are willing to settle for less than they think they may have gotten in court because they are willing to "pay" something to avoid uncertainty. A similar principle may apply to the looming battle over what to do about elderly entitlement programs. Interested parties may be willing to settle for less than they might have gotten simply to avoid the uncertainty over what some future Congress might do.

Clearly, we have promised what we cannot afford. But how confident are you about how you will fare when politicians are forced to change these systems? What if you received an offer to forgo future benefits in return for a cash settlement today? Just as parties to a lawsuit may find it in their self-interest to make an agreement today in order to avoid an uncertain future outcome, everyone who has a stake in our elderly entitlement systems may come to a similar conclusion.

Political risks, incidentally, can be positive or negative. For most of the history of Social Security, Congress increased benefits—beyond what was initially promised. But those were in times when payroll tax revenues exceeded expenses and politicians had money to spend. In 1983, however, a bipartisan agreement led to a substantial reduction in the expected return from Social Security—including a large increase in the payroll tax, a two-year, phased-in increase in the normal retirement age (from 65 to 67) and a tax on Social Security benefits that eventually will affect all retirees.

Achieving Minimum Social Objectives

Before considering specific opportunities for win/win reforms, it's worthwhile reconsidering what the goal of social insurance is. In 1935, very few people had a retirement pension. No one had an Individual Retirement Account (IRA) or any of the other savings vehicles that have subsequently been added to the tax law. Life expectancy fell far short of age 65 anyway. So for the vast majority of people, Social Security was seen not as a replacement for private retirement savings but as something new—an additional source of income for the minority of people who would outlive their labor market participation and grow old enough to have to rely on it. Similarly, in 1965, very few workers had an employer promise of healthcare benefits after retirement or any other kind of post-retirement healthcare plan.

Today things are different. According to the Department of Labor, almost 16 million workers are in a defined-benefit pension plan and more than 75 million are building retirement assets in 401(k), 403(b), and other defined-contribution accounts.¹¹ More than 11 million people have an IRA account and the assets in those accounts total more than \$1 trillion.¹² About 27 million workers have a promise of post-retirement healthcare ben-

efits from an employer¹³ and millions of veterans have access to VA healthcare benefits. All of these programs are potential substitutes for promises made under Social Security and Medicare.

Also, the theoretical argument for post-retirement social insurance is entirely focused on a *minimum benefit*. We don't want the elderly to live out their remaining years of life in extreme poverty. Most of us don't care very much, however, if seniors fail to live out their remaining years in luxury. That is important to remember because Social Security benefit payments are actually highly regressive.¹⁴ The largest checks are cashed by the richest senior citizens. Medicare benefits also tend to be regressive—not because of the benefit formula, but partly because of little understood features of the sociology of medical care. In addition, higher-income seniors purchase supplemental insurance and this insurance not only causes them to consume more care, it also increases the amount Medicare spends on their care. Whatever the reason, those zip codes where Medicare spending per beneficiary is highest also tend to be the zip codes where the largest Social Security checks are cashed.

In thinking about acceptable substitutes for Social Security and Medicare, therefore, our goal should not be to find alternatives that replace them entirely. Instead, we should focus on identifying acceptable alternatives that achieve a minimum level of retirement benefits.

Take the 44 million workers who have private pension plans insured by the federal Pension Benefit Guarantee Corporation (PBGC).¹⁵ The assets of these plans are invested in stocks, bonds, and other assets. However, should the investments fail to pan out or (a much greater risk) should the employers who sponsor these plans go bankrupt and become unable to keep making the required contributions, the PBGC promises a minimum benefit to the retirees. Could this minimum benefit serve as an acceptable substitute for whatever

we hope to accomplish through Social Security? If the answer is yes, then we should consider making a lump sum payment to these workers today in return for their agreement to forgo Social Security benefits in the future. Alternatively, we could consider a permanent reduction in their payroll tax rates.

Could healthcare coverage from the Veteran's Health Administration serve as an acceptable substitute for the minimum health insurance we want people to have under Medicare? Would an annuity from a major financial institution or a promise of pension or healthcare benefits from a state or local government count as acceptable alternatives? Again, if the answer is yes, then we could consider making these workers a financial offer to buy them out of their right to receive some or all of their Social Security and Medicare benefits.

What about private savings? If private savings are to serve as acceptable substitutes for benefits there would probably have to be some assurance that the funds would not be squandered or gambled away. Part of the requirement might be that the funds be held by reputable financial institutions and that they be managed according to prudent investment rules. There would also have to be rules governing the rate of withdrawal during the retirement years and a general prohibition against putting the asset up as collateral for loans or other indebtedness.

Case Study: What Is Social Security Really Worth to Young Workers?

Texas A&M University economists Thomas Saving, Andrew Rettenmaier, and Liqun Liu have produced a first-of-its kind calculation of the value of Social Security to young people in light of the political uncertainty about its future. They conclude that a 21-year-old earning an average wage with a moderate degree of risk averseness would be better off if he could completely opt out

of the system by paying a 4.5 percent payroll tax for the remainder of his work life. That means he would forgo all future Social Security benefits and avoid all future Social Security taxes, including the current 12.4 percent tax he and his employer are now paying.

The exit fee he and others would pay would be enough to keep the system solvent, and with the payroll-tax savings the worker could invest and have better privately financed benefits than under Social Security. Privatization, in other words, can be win/win. There do not have to be any losers.

The Experiences of Other Countries

The fundamental idea proposed here has some precedent. Singapore is a country that has no social security system and has also avoided adopting most other welfare state institutions of developed countries. Yet no one in Singapore is starving. It has the highest rate of home ownership in the world and the vast majority of people reach the retirement age with substantial assets. Indeed, Singapore has the highest percentage of millionaires (17 percent) in the world.¹⁶

How do they do it? In Singapore, people are required to save a substantial part of their income to meet basic needs.¹⁷ But they have considerable discretion over how the funds are invested and they have a very wide range of choices over how they use their savings to meet their needs.

Chile is another country that has been exceptionally innovative in liberating people from social insurance institutions. Chileans are required to save in individual retirement accounts. But once they have saved enough to purchase an annuity to provide a minimum retirement income, they have complete discretion over what they do with the remaining funds—even if they are only middle aged.¹⁸

Chile also has the world's most innovative disability insurance system and the world's most in-

novative unemployment insurance system.¹⁹ Both systems involve substantial individual control over resources and leave individual workers with considerable freedom to make their own decisions.

Other countries around the world have been catching up. More than 30 nations have completely or partially privatized their social security systems with individually owned accounts,²⁰ although, as we shall see below, there has been significant backsliding. There is much to be learned from these experiences.

The 10 Percent Solution

Research by scholars I have worked with suggests that if all young workers took full advantage of opportunities we could create, our entitlement spending programs could be brought under control by the time they reach the age of retirement. In particular:

- If employees and their employers set aside 4 percent of wages every pay period to be invested in a diversified portfolio and if Social Security's indexing formula were subjected to modest reform, not only would a young, average-wage worker receive all promised benefits, the Social Security payroll tax could be substantially lower than it is today.²¹
- If employees and their employers set aside an additional 4 percent of wages and if some additional modest reforms were made to Medicare, a young, average-wage worker would receive all promised post-retirement health-care benefits and the Medicare payroll tax at that time would be lower than it is today.²²
- For an additional 2 percent of wages, young workers would be able to securely replace the promises made by (Social Security's) Disability Insurance and by (Medicaid's) long-term care insurance.

In total, I believe that all these federal programs

could be replaced by an annual deposit equal to 10 percent of wages throughout a worker's work life.²³

Ten percent of wages is not a small sacrifice. It reflects three features of our current dilemma. First, providing for even a modest retirement is expensive. In fact, meeting most people's retirement expectations will probably require an additional 4 or 5 percent investment in an IRA or 401(k) account. Second, this sacrifice must be on top of taxes needed to pay the retirement expenses of the current generation of retirees, including the 15 percent payroll tax. Third, even these two sacrifices do not solve the problem of what to do about the baby boomer retirees, since current tax rates will produce revenues far short of promised benefits.

At the state and local level, replacing unemployment and workers' compensation insurance with better, cheaper alternatives will cost from 1 to 2 percent of wages. But this will not be an additional burden. These funds will replace money that is currently being spent on less efficient, dysfunctional systems.

The Trial and Error Principle

In 2011, Thomas Saving and I proposed a number of win/win improvements in Medicare and Medicaid in an article published in *Health Affairs*.²⁴ These are opportunities for the government to save money and leave beneficiaries better off—at the same time. Our list included allowing beneficiaries access to telephone and email consultations; the opportunity to add their own money to the government's fixed fees and pay market prices at walk-in clinics; allowing beneficiaries to receive a fixed sum from the government, add some of their own funds and contract with concierge doctors, etc. We will discuss these ideas more fully below.

I sent the article to Gail Wilenski and Mark McClellan, two health economists whose opinions I

respect and who have special knowledge about Medicare and Medicaid. Both individuals have been Directors of CMS, the agency in charge of the two programs. Both responded in the same way. These ideas are interesting, they said, but they may not save the government any money.

Consistent with this suspicion, a study by the RAND Corporation found that walk-in clinics actually raise overall healthcare spending, although the study did not investigate the long-term effects on health of easier access to primary care.

So these reforms may not lower costs—if we go about the changes in the normal way Washington does things. Consider a choice between policy A and policy B. Most policy options that Congress considers offer extreme choices. For example, A might allow price rationing to allocate resources and B might be a policy of rationing by waiting. Economists tend to prefer flexible prices and ordinarily think that a freely functioning price system allocates resources efficiently. Most people in health policy, however, tend to believe that the ideal price for a health service is zero and that if demand exceeds supply, the least burdensome approach—especially for low-income families—is rationing by waiting.

Neither view is entirely correct. Each policy option creates a different kind of cost. Under pure price rationing, there are no waiting costs. But in general, most of us prefer price certainty to price uncertainty, other things being equal. This is especially true where highly volatile price changes may be needed to clear the market. At the other extreme, if the price is fixed at zero, people will likely face waiting costs, and waiting times may themselves be highly variable.

In other words, price rationing makes patients bear one kind of cost. Rationing by waiting makes them bear another kind of cost. As we move between options A and B, one cost falls as the other rises.

The *trial and error principle* says that a win/win solution is likely to lie somewhere between the policy extremes. Precisely because these policy options involve two different kinds of costs and because at either extreme one of the costs is likely to be high while the other is zero, if you graphed the change in these costs as you move from A to B or vice versa, the two cost lines will almost certainly cross. We can't know where this happens by armchair reasoning. But with trial and error we should be able to find it.

The trial and error approach seems to emerge naturally in unfettered markets. If we look at real markets we find that money costs as well as waiting costs typically are part of most normal transactions. It's rarely one extreme or the other. That's also true of medical markets where Medicare and Medicaid (and most other third party insurers) are not involved at all.

Teladoc, for example, provides telephone consultations for nearly 11 million people. The cost of a typical consultation is about \$50. Patients must wait after placing a call to the company until a doctor returns the call. The company says the average call-back time is 16 minutes.²⁵ Uber-type house calls in selected cities around the country allow patients with a smart-phone app to request a doctor's visit in their home.²⁶ This involves a money cost (typically \$100) as well as a time cost (typically less than an hour). MinuteClinics in CVS pharmacies don't guarantee that you will be seen within a minute. But they will text you to let you know when the nurse is available while you shop.²⁷

Markets tend to find an optimal balance between time costs and money costs. There is no reason why public policy cannot do the same. Those who worry that money prices in healthcare place an undesirable burden on low-income families may be surprised to learn that non-market barriers to care typically are greater deterrents than money prices.

It is important to note that in choosing among policies with different kinds of costs, the ideal social objective would not be to minimize the money cost of policy choices to government. Ideally, it would minimize total social costs. But we're in such deep trouble financially that we don't have the luxury of choosing the ideal. In keeping with the desperate need to find win/win solutions, in this book we want to find policy changes for which taxpayers as well as beneficiaries both come out ahead.

Take telephone consultations. At about \$40 or less, a telephone consultation costs about one-tenth of the cost of a typical emergency room visit and nearly one-third the cost of a visit to a doctor's office.²⁸ So other things being equal, allowing Medicare patients free access to the services of a firm like Teladoc should greatly reduce the cost of a doctor consultation. But if it's easy to get access to doctors, seniors are likely to do so more often and it may be that some lonely seniors just enjoy talking on the phone. With trial and error we may find that the cost to Medicare is minimized somewhere in between—with seniors, for example, paying some portion of the money cost in order to take advantage of the convenience that telephone consultations offer.

Similarly, with walk-in clinics, Uber-type house calls and other services, the cost to Medicare and Medicaid is almost certainly minimized by allowing seniors access to the service but requiring them to pay some portion of the fee.

THE MECHANICS OF CHANGE

Ideally, we would like a system in which individuals have an alternative to government programs that are not working. How can those alternatives be created? We need a distinct strategy for each of four kinds of social insurance.

Social Insurance for Which the Benefit Is Proportional to Income and Each Age Group Is Paying Its Own Way

This essentially describes the structure of unemployment insurance, disability insurance and survivors insurance. In each of these cases, there is a straightforward remedy: instead of paying taxes to a government monopoly insurance plan, give individuals the opportunity to privately insure against these risks. People who opt out of the government's insurance program would have to demonstrate a minimum level of private provision so that neither they nor members of their families will become dependent on society as a whole.

For example, rather than pay taxes for (Social Security's) survivors insurance, people could purchase term life insurance. Rather than pay taxes for (Social Security's) disability insurance, individuals and their employers could purchase private disability policies. We probably will want to keep workers' compensation for workplace injuries, rather than revert to common law remedies. But even this can be done privately. In fact, Texas allows employers to privately insure for workers' compensation and the system is apparently superior to the experiences of other states.

Insuring against unemployment is a more complex problem. But given the opportunity, employees and their employers can find private alternatives that are much more efficient than our unemployment insurance system. For example, instead of paying unemployment insurance taxes, Chilean workers contribute a small percentage of their wages into an individual account. During a spell of unemployment, they can use the funds in these accounts to cover living expenses, pay job search expenses and pay for retraining.

Social Insurance for Which the Benefit Is Not Proportional to Income, but Each Age Group Is Paying Its Own Way

This essentially describes health insurance for the non-elderly population. Under the Affordable Care Act (Obamacare), most people are required to have health insurance. Federal and state regulations dictate what kind of insurance people must have, and they heavily influence where they can get it and how much they will pay for it.

The alternative: If all government tax subsidies and spending subsidies for health insurance were combined we believe it would sum to about \$2,500 for each adult and about \$8,000 for a family of four—and this amount would give almost everyone access to a health plan comparable to a well-managed, privately administered Medicaid plan. We propose allowing individuals and families to get this amount (in the form of a refundable tax credit) if they agree to obtain acceptable private coverage on their own. If they and their employers add additional (after-tax) dollars, they will have more options.

Social Insurance for Which the Benefit Is Proportional to Income, but for Which Each Age Group Does Not Pay Its Own Way

This essentially describes Social Security. Because of intergenerational transfers, there are two problems to be solved here, not just one. The solution to the problem of unfunded liability will require raising taxes, reducing benefits or some combination of the two. However, we can give individuals an option: They can avoid higher taxes and lower benefits, provided they can make a minimum private provision for a retirement income on their own.

The option of a private alternative to Social Security should be open to people at any age, not just young people. As noted, many opportunities for a

win/win exchange are available—for the beneficiary and for taxpayers. In theory, the government could write a check to an individual who reaches retirement age for an amount much smaller than the cost (to the government) of the annuity and still leave the individual better off. In return, the beneficiary would have to guarantee that provision has been made for a minimum income that will not leave him or her dependent on society as a whole for post-retirement financial needs.

We should also think in terms of partial privatization. That means that individuals could give up some future benefits in return for some private provision. Moreover, partial privatization translates into total privatization, given enough time. In general, a 4 percent private savings rate over an average person's work life should be sufficient to completely replace Social Security's promised benefits along the way. However, the combination of private savings and government benefit checks would have to sum to a minimum income.

After one generation of workers completes a life cycle, traditional Social Security would be needed only as a welfare program for the very lowest-income retirees.

Social Insurance for Which the Benefit Is Not Proportional to Income and for Which Each Age Group Does Not Pay Its Own Way

This essentially describes Medicare (for the elderly), long-term care for the elderly under Medicaid and healthcare for low-income seniors under Medicaid. As in the case of Social Security we have the additional problem of a large unfunded liability plus a third problem: the benefit largely is independent of income and therefore cannot easily be expressed as a percentage of payroll.

Some of the same principles apply, however. To solve the problem of the unfunded liability we need (a) fundamental health reform, (b) higher taxes and/or (c) lower benefits. Given this initial

step, there are four types of privatization to be considered.

First, the current generation of Medicare beneficiaries should have the option of receiving a “risk-adjusted” payment to be applied to private insurance premiums and deposits to Roth-type Health Savings Accounts. About one out of every three Medicare beneficiaries is doing something like this already—through the Medicare Advantage program. However, the current program is way too restrictive. Seniors should have the same private sector options currently available to non-seniors, including any plan offered to federal employees through the Federal Employee Health Benefits Program.

The same principle should apply to the Medicare disabled and to seniors covered by both Medicaid and Medicare (the “dual eligibles”). Medicaid enrollees, for example, should at least have the opportunity to enroll in any private health plan offered to state employees.

Second, people of any age should have the opportunity to opt out of long-term care under Medicaid. If they opt out completely, they should receive a tax reduction, representing the government’s expected reduced liability. If they opt out partially, they should be able to integrate private long-term care insurance with Medicaid. For example, if a family insures for \$100,000 of nursing home costs, it should be able to “shield” \$100,000 of assets and have them excluded from Medicaid’s asset threshold test. (Without the shield, the family would have to “spend down” the \$100,000 before becoming eligible for Medicaid.)

Third, individuals of any age should be able to completely opt out of traditional Medicare, so long as they are able to make adequate private health insurance provision for themselves. As in the case of Social Security, we can think of Medicare as a program that provides a stream of benefits through time. If the individual and the government evaluate their stream of benefits dif-

ferently, there will be an opportunity for a win/win exchange.

Finally, we should allow partial opting out of Medicare for people of working age. As in the case of Social Security, workers would be allowed to make deposits to an account that would grow tax free through time. As the values of the accounts grow, they would substitute for the government’s benefit promises. For the average worker, an annual deposit of about 4 percent of wages over a full work life should be sufficient to fully opt out of Medicare by the time of retirement. An amount equal to 2 percent of wages should be sufficient to completely opt out of the disability program (both the income and the medical care components) and Medicaid’s long-term care program.

The general principles governing this type of privatization are the same as they are for Social Security. Individuals could avoid higher taxes and lower benefits if they are willing to make private provisions for themselves.

The structural difficulty created by a medical benefit is that individuals will be making deposits that are a percentage of income, while the annual post-retirement benefit is largely independent of income. However, I believe that a properly structured privatization plan will—over the working lives of one generation of workers—leave the great majority of retirees with adequate private insurance.

Like Social Security, traditional Medicare would largely become a welfare program for very low-income families.

WHAT IS POLITICALLY POSSIBLE?

Think back to the mid-twentieth century when many social security systems were devised in countries around the world. What rational person would choose a system that makes promises to pay young people benefits five or six decades into the future without making any provision to save

and invest the funds needed to pay those benefits? What rational person would devise a system that encourages young people to believe they will get benefits five or six decades into the future, knowing all along that the payment of benefits depends on future taxpayers—but without knowing what the fertility rate will look like a half century later and therefore without knowing how many future taxpayers there will be? In short, what rational person would devise an entire retirement system, using the same techniques that Bernie Madoff used to scam his investors?

The short answer is that no one would do that and to my knowledge no rational person ever did. That is, wherever leaders had discretion, wherever they were not compelled by the pressures of democratic voting, they devised entirely different systems.

After World War II about 21 former British colonies were governed by individuals appointed by the crown. In these countries, the systems adopted were provident funds, in which workers were required to contribute, the funds were invested and the workers' retirement benefits were dependent on worker contributions and market returns—much like the 401(k) system today in our country.²⁹

The most notable of these systems was Singapore's, which has probably the most successful social security system in the world. The second most successful system in the world is the Chilean system, which subsequently was copied by a number of other countries including (non-democratic) Hong Kong. Although Chile was never a British colony, its system was adopted under a dictatorship.

Something here is remarkably consistent. Until the last decade or two of the twentieth century, every democracy that established a social security system set up a pay-as-you-go system with no saving, no investment and no way to assure benefit payments in the future. Every non-democratic

regime (I'm ignoring the communist countries here) set up a funded system—although it's worth noting that after British rule ended, some of these systems did not work well when politicians discovered that provident funds could be looted.

Why does democratic voting create pay-as-you-go social security? First, it meets a need. Second, politicians can appear to meet the need without really paying for it. That means they can confer benefits on some without appearing to impose costs on others. This works because of a public choice principle: Information is costly and people who bear that cost and learn about what is going on cannot use that information effectively to change anything on their own. For that reason, people tend to be rationally ignorant about how government programs work.³⁰ Along the way, government can use its money to advertise falsely (pretending that there really is money stashed away in "trust funds") in ways that would land a garden variety Wall Street fund manager in prison.

Third, pay-as-you-go social security generates revenues in the early years that are much larger than the required payouts. This means that (like a chain letter), politicians can give retirees in the early years more than what was promised. They can also spend the extra revenue on other programs that confer benefits on their constituencies. The incentives to do these things seem to be irresistible. Politicians who don't do them lose elections.

Finally, as more people are brought into the system, the taxpayer base expands. As the years go by, the beneficiary base also expands. This creates a "ratchet effect," making it harder and harder for a future group of politicians to undo what has been done. Franklin Roosevelt put it this way:³¹

We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pen-

sions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my social security program.

Why, then, do pay-as-you-go systems get privatized? Because at some point, countries realize they can't afford to fulfill the promises they have made. This realization may be reinforced by foreign creditors. Once the realization filters down to voters, the political cost-benefit calculations begin to change.

The ratchet effect locks in path dependency. Once you start down a path, it's hard to reverse yourself. But could path dependency and the ratchet effect also work to protect funded retirement systems? It appears that they can. Take our 401(k) system. These accounts were created almost by accident.³² There was no hearing at which members of Congress decided it would be a good thing to replace defined benefit pensions with defined contribution accounts. But now that the accounts have spread and millions of workers have acquired them it would be inconceivable for serious politicians to suggest that government abolish them.

All the suggestions in this Policy Report are based on three ideas: (1) political entrepreneurship, (2) path dependency, and (3) the ratchet effect. We need political entrepreneurs to discover and take advantage of what I believe are literally thousands of opportunities to make Pareto improving changes. Those changes will take us down a new path. Moreover, once you make a change that makes everybody better off, it's hard to reverse that decision. The longer the new policy remains in place, the more people benefit from it and the more their benefits grow—making reversal harder and harder, as time passes.

But first a word of caution. At the end of the twentieth century, a worldwide revolution was under way. Countries almost everywhere were privatizing, deregulating, lowering marginal tax

rates, and turning to free markets. The climate was right for many of the ideas discussed in this Policy Report and it was in that climate that more than 30 countries either completely or partially privatized their social security systems.³³

Yet in recent years a counter-revolution has set in. Governments have seized, “temporally seized” or threatened to seize private pension funds in France, Ireland, Hungary,³⁴ Poland, Cyprus,³⁵ Russia,³⁶ Argentina, and other countries. In many cases the pensions are individual accounts, set up as an effort to create a funded alternative to pay-as-you-go social security. In fact, a 2011 report by the Adam Smith Institute, published in the *Christian Science Monitor*, notes that at least 11 countries have rolled back or abandoned efforts to privatize their retirement systems:

The most striking example is Hungary, where last month the government made the citizens an offer they could not refuse. They could either remit their individual retirement savings to the state, or lose the right to the basic state pension (but still have an obligation to pay contributions for it). In this extortionate way, the government wants to gain control over \$14bn of individual retirement savings.

The Bulgarian government has come up with a similar idea. \$300m of private early retirement savings was supposed to be transferred to the state pension scheme. The government gave way after trade unions protested and finally only about 20% of the original plans were implemented.

A slightly less drastic situation is developing in Poland. The government wants to transfer 1/3 of future contributions from individual retirement accounts to the state-run social security system.³⁷

It's not clear what makes these seizures possible. As noted, I cannot imagine a situation in which the US government could ever seize IRA or 401(k) accounts successfully. The political resistance would be overwhelming. The same would be true in Singapore, Chile, Britain, and other places. Where backsliding is occurring, what makes it politically possible?

It may be that the ratchet effect is somewhat weak in countries without a strong tradition of individual investments in financial markets. Perhaps the idea of ownership of investment funds has to be sold as part of a marketing campaign to the general public—just as pay-as-you-go social security had to be sold to voters by Roosevelt and other leaders. In any event, these developments are a clear warning that non-reversibility cannot be taken for granted.

Even if a privatized system cannot be reversed, the old pay-as-you-go mentality and the political rewards it promises will never be far from the minds of elected officials. For example, in Chile a left-of-center government has managed to expand the number of participants by including more people in lower-paying jobs and workers in rural areas, while at the same time raising the minimum retirement pension guaranteed by the state.

Today, more than one out of ten participating Chilean retirees is receiving a minimum pension guarantee benefit. In the future that figure will rise to 30 percent. That means that almost one-third of the workers will know that their retirement pension is ultimately coming from the government, no matter how much they save or don't save in private accounts.³⁸

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