Rodney's Take

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Another Trillion-Dollar Problem… and Your Taxes

The pandemic and economic shutdowns have pushed many problems out of the spotlight, but that doesn't mean they've gone away. In some cases, they've worsened.

As recently as last year, Social Security was expected to run dry by the mid-2030s, but that estimate was based on a steadily growing economy and tax money flowing into the trust fund. With unemployment presently almost twice what it was at the start of the year, funds are flowing into the trust a bit slower than anticipated and the trust will run out of cash a bit earlier than expected. Even after the fund dries up, Social Security will still receive about 75% of what it needs in tax revenue to pay its bills, so it's not like we won't be sending out checks. And we'll fix it before then… right?

Maybe. Maybe not.

Consider Medicare, for which the problem is more immediate and, instead of fixing it, we're making it worse. In April, the committee that oversees Medicare estimated that the fund would run dry by 2026, but they were quick to point out that their analysis didn't include any effects of the pandemic. Obviously, we've used our healthcare system more than usual over the last nine months, so we've used up more of the fund than we expected to this year, but we've also paid less into it, for the same reason that there's less money in Social Security.

With less money coming in and more going out, the date that Medicare goes bust has moved up. Several groups that have reviewed the present state of Medicare now estimate that the trust fund could go broke as early as 2022 or as late as 2024. Either way, Medicare will go broke during the next presidential term.

That's bad enough, but for reasons that only make sense to politicians, we also borrowed $60 billion from the Medicare trust fund to help pay for the CARES Act, which will just make the fund go under that much faster.

Now, in a nod to a public healthcare options, a Biden administration is likely to push to make Medicare available to Americans at age 60, five years sooner than the current age of eligibility, 65. This will be a godsend to pensions across the nation, but it will add another layer of burden onto a program that's already on the road to bankruptcy.

I often write about underfunded pensions in state and local governments, a situation that eventually will require federal bailouts. There's no path short of asset confiscation or bankruptcy for Illinois and Chicago to make good on their debts. But the pensions aren't the only issue. Other postemployment benefits (OPEB), or retiree health care, are often forgotten or left out of the conversation, because, unlike a pension, such benefits are not guaranteed. Typically, states are free to change or to end retiree healthcare benefits any time they want, although that might come as a shock to most of the people who rely on the benefits.

Cumulatively, state OPEB funds are underfunded by roughly $1 trillion. Many states put away exactly zero dollars for this cost, instead funding the benefits on a pay-as-you-go basis. As healthcare costs escalate, states are being forced to use more of their scarce resources to pay the bills. To keep their costs under control as much as possible, states often require retirees to sign up for Medicare as soon as they become eligible.

You can see where the lines will cross.

When the eligibility age drops from 65 to 60, state and local employees who retired before age 65 but are at least 60 years old immediately will be moved off of state OPEB rolls and onto the federal Medicare program, even though there are zero dollars in the system to pay for them.

The election is still a mess, but the earth still revolves around the sun, so the days are going by. Both December 14, when electoral votes will be cast, and January 20, when the next president will be sworn in, are getting closer. We won't go a day without a president, and it's likely that Joe Biden will be sworn in.

Joe Biden has long favored a public healthcare option. Medicare's already failing. And now it's likely we're making this program bigger, which means it will require more tax dollars.

When Biden takes office, he'll likely face high COVID-19 infection rates, hospitalizations, and deaths, as well as an economy partially shutdown by governors and mayors.

Our taxes are going higher. It's just a question of when and by how much.

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Got a question or comment? You can contact us at info@hsdent.com.