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## Entitlements 'Crisis'

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The latest projected shortfalls in financing Medicare and Social Security have brought the usual sober warnings that neither program is sustainable over the long run. The Social Security trustees reported this week that the fund would be exhausted in 2042, the same date projected last year, while Medicare trustees projected that their hospital insurance trust fund would be empty in 2019, seven years earlier than forecast last year. But don't jump off a bridge just yet. The financing problems are clearly manageable if political leaders will only address them, the sooner the better.

Although the challenges facing Social Security as the baby boomers reach retirement age are routinely described as a crisis, that characterization seems overblown. The 75-year projections give Social Security another 38 years during which the full promised benefits can be paid; even after the trust fund disappears, the annual Social Security tax revenue would be enough to finance some 70 percent of the benefits until 2078. Those worried that Social Security will not be there for them when they retire are simply mistaken.

No one should be complacent with a long-term projection that winds up with Social Security falling 30 percent short of the money it needs to pay for promised benefits. Fortunately, there is time to cope with this problem. The fixes that are needed appear modest, and they can be kept modest by making the changes sooner rather than later so the savings have time to accumulate.

The prognosis for Medicare is far more worrisome. Its hospital insurance trust fund is now projected to run dry by 2019, and the parts of Medicare that pay for doctors' services and the new prescription drug coverage, which are financed mostly by general revenues rather than by the trust fund, are also expected to increase rapidly in cost.

What makes Medicare a tougher problem than Social Security is the inexorable rise in health care costs. The very long-term projections are stunning. The study estimated that Medicare expenditures would rise from 2.6 percent of gross domestic product today to 13.8 percent in 2078, roughly the percentage of G.N.P. that has historically been paid in federal income taxes. Such long-term projections must be taken with a huge dose of salt. Who really thinks that a prognosticator consulting a crystal ball 75 years ago, on the eve of the Depression, could have foreseen today's high-tech medicine?

Nevertheless, there's a big problem here, and it reaches far beyond Medicare. There are few domestic policy issues more urgent than the need to get some kind of handle on the rising cost of medical care. Unless that underlying problem is solved, Medicare will inevitably require higher taxes or be forced to reduce benefits.

Congress can certainly take a first step in dealing with the looming entitlement shortfalls by rebuffing the administration's efforts to extend its tax cuts for wealthy Americans. The Center on Budget and Policy Priorities, a liberal analytical group, estimates that if most of the 2001 and 2003 tax cuts are made permanent, the revenue lost to the federal government in the next 75 years would roughly equal the combined Social Security and Medicare trust fund shortfalls over that period. It would be irresponsible for lawmakers to wring their hands over entitlements and yet deny the government the revenue that could ease the problem.


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