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State of the Union: Opportunity to Refocus on Sustainability Reforms, Not Just Budget Cuts

WASHINGTON – Feb. 11, 2013 – When President Obama talks about avoiding sequesters and reducing federal budget deficits during his State of the Union on Tuesday night, the American Academy of Actuaries believes he should refocus on reforming major direct-spending programs.

While lumped together in the category of “entitlements,” Social Security, Medicare and Medicaid are distinct programs with different funding mechanisms, eligibility requirements, and payout methods. Thus, the business-as-usual trade-offs that result from budget battles could do far more harm than good if it pits decisions on sustaining these programs for future generations of beneficiaries against discretionary spending growth and tax reform.

“Simply cutting budgets without making meaningful reforms is a wasted opportunity,” said Cecil Bykerk, president of the American Academy of Actuaries. “By the same token, the Academy favors the catalyst that breaks the legislative logjam and brings the parties together to tackle the challenges facing the long-term financial health of these programs.”

Opportunities for Reform

Social Security and Medicare face long-term financial challenges, but the Academy believes that policymakers have time to develop solutions if they begin their work now. The Academy has published reports on [options](#) put forward by policymakers and others to improve Medicare sustainability, including: setting overall spending targets, raising the Medicare eligibility age, reducing spending for prescription drugs, [shifting to a premium support system](#) or revising the program’s [benefit design and cost-sharing features](#). When considering these options, the Obama administration and Congress should consider whether and how such options would better control costs and improve quality. Further delays in making tough decisions will only lead to more drastic choices required later to shore up the programs’ financial solvency and sustainability.

With respect to Social Security, the Academy [recommends](#) that policymakers start their work to restore financial balance to the program by increasing the retirement age. Americans are living much longer than expected when Social Security was created in 1935 and this has raised the program’s costs substantially. Other possibilities to help [bring Social Security into actuarial balance](#) include: adding means testing to limit benefits to wealthy retirees, raising the payroll tax rate or cap, or changing the tax on Social Security benefits.

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1 of 2

The Academy recognizes that public programs are only part of the public policy challenges facing Washington policymakers in areas of retirement security and health care. The President and Congress need to roll up their sleeves and get to work on:

-- **retirement income.** As private pension-plan sponsors have transitioned away from traditional defined-benefit plans, responsibilities for managing these retirement risks have shifted from employers to individuals and their families. This trend requires new public policies to better enable employees and retirees to understand and manage these risks. Policy principles are needed to establish a new framework designed to increase lifetime income options that will aid Americans in managing these retirement risks.

-- **curbing health care costs over the long term,** which could help slow the growing costs of Medicare and Medicaid. Health-reform efforts provide an important role to begin shifting the health care payment and delivery systems to focus on cost-effective and high quality care, which can potentially reduce long-term spending growth. Policymakers need to ensure that such approaches continue to be pursued and that promising approaches and successful demonstration projects are adopted on a broad scale in a timely manner. The Academy will continue to stress the need for policymakers to maintain a focus on efforts to [reduce the growth of health care spending](#), not only in Medicare and Medicaid, but in the health care system overall.

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The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.