Agenda for Seniors

Senior citizens are discriminated against by a number of unwise public policies.

People on Social Security lose benefits if they earn even a modest amount of wage income. Medicare is paying doctors the way it did in the last century – long before the existence of email or iPhones. Seniors are the only people in our society who can't have a Health Savings Account – from which to pay bills not covered by health insurance.

Double taxation of senior savings is unfair. Forced withdrawal of senior citizen savings makes no economic sense. And millions of seniors lose out on Social Security and Medicare benefits they have worked and paid for because they can't navigate the complexity of programs that are supposed to have been created for their benefit.

Under the current system, seniors face unfair policies, such as double taxation, forced withdrawal of savings, and loss of Social Security and Medicare benefits.

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President and CEO
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Here is what needs to be done.

Bring Social Security into the 21st century.

Roughly 90 percent of seniors begin collecting Social Security benefits before they reach the full retirement age. Yet between age 62 and age 66, if these folks get a new job or a part-time job and earn one dollar more than $17,640, they will lose 50 cents of Social Security benefits because of the earnings penalty. For a $20-an-hour employee, the tax kicks in after you work Monday, Tuesday, and half of Wednesday.

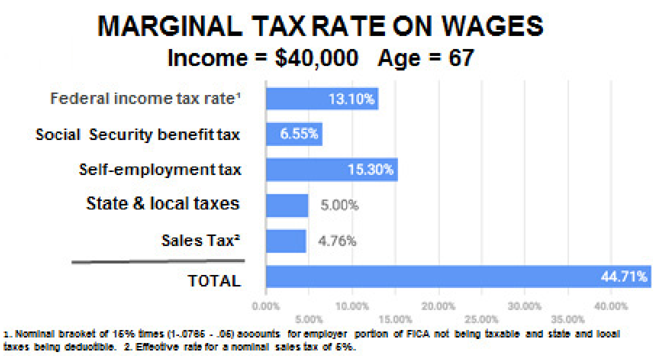
The Social Security benefits tax is actually a hidden tax on other income.

Another impediment to work is the Social Security benefits tax. Although the name suggests this is a tax on Social Security income, it really isn't. Seniors don't pay it if their only income is from Social Security. The tax is actually a hidden tax on other income. Here's how it works for wage earners:

- Beyond a certain threshold, seniors must pay income taxes on 50 cents of Social Security benefits for each dollar they earn – increasing their marginal tax rate by 50 percent.
- If they earn even more income, they will reach a point where they must pay income taxes on 85 cents of Social Security benefits for each dollar they earn – increasing their marginal tax rate by 85 percent.

When the Social Security benefits tax is added to the income tax, the payroll tax and the earnings penalty, middle-income senior workers can lose as much as 95 cents of every dollar of wages – the highest tax rate in the nation. (See Figure I)

Figure I



These nonsensical taxes are unfair. A study for the Goodman Institute estimates we could abolish the earnings penalty tomorrow without any net loss of revenue for the government.

Bring Medicare into the 21st century.

Seniors are held hostage by antiquated laws that prevent them from using modern day services and technologies. Instead of trips to the doctor's office, seniors should be able to talk to doctors by phone or email – the way many non-seniors do. Instead of trips to the emergency room at nights and on weekends, they should have access to Uber-type house calls (made possible by the use of phone apps). At $100 a month, concierge doctors have become very affordable, if only Medicare would allow it.

One way to modernize the system is to end the restrictions that prevent Medicare Advantage plans and Accountable Care Organizations from taking full advantage of telemedicine. Even, better, we should give seniors more control of their own health care dollars and make more of their own decisions. (read on)

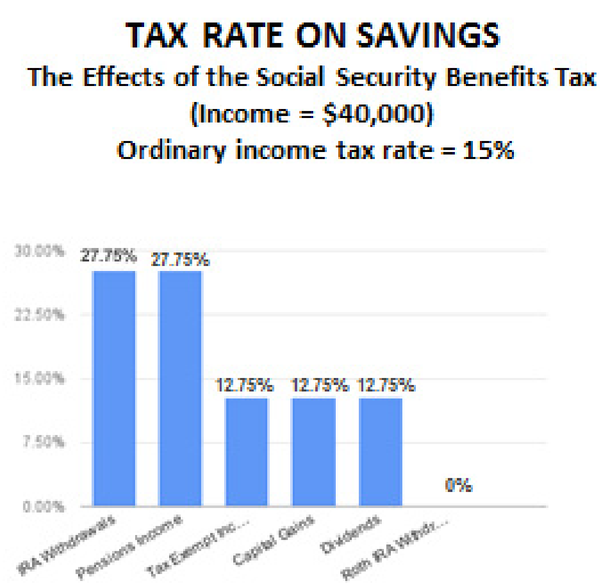
Give seniors access to Health Savings Accounts.

Seniors are the only people in our society who are not allowed to contribute to tax-free accounts, from which people pay medical expenses not covered by health insurance. Not only do we need to end this unfair discrimination, we should consider having Medicare make a deposit to the HSAs of beneficiaries who are willing to manage their own primary care dollars. Seniors could then take advantage of the best services the market has to offer.

Stop the double taxation of senior savings.

Although many seniors are unaware of it, the Social Security benefits tax is also a tax on non-wage income. That means that seniors on Social Security face double taxation. They must pay the ordinary income taxes that others pay, say on their IRA withdrawals, and then pay an additional tax just because they are on Social Security.

Figure II



As Figure II shows:

- Seniors in the 15% income tax bracket can face a tax rate of 27.8% on pension income, IRA withdrawals and 401(k) withdrawals if they are on Social Security.
- Seniors who would ordinarily pay no taxes on capital gains and dividends (because of their low incomes) can be forced to pay a 12.8% tax on that income if they are on Social Security.
- Seniors who own tax-exempt bonds may be surprised to learn that their income isn't tax exempt at all, but subject to a 12.8% tax if they are receiving Social Security.

There may be an argument for taxing some portion of Social Security benefits as ordinary income. But there is no good argument for double-taxing savings.

Stop forcing seniors to dissave.

One way seniors might avoid the double taxation of their savings is to avoid making withdrawals – leaving the funds until they are really needed, or maybe passing the assets on to their children. But beginning at age 70 ½, federal law requires mandatory withdrawals from IRAs and other tax-favored accounts – which are then subject to punitive taxation.

In a country where there is too little saving, too much borrowing, and too much debt, anti-savings measures like these make no economic sense.

End robbery by red tape.

Social Security beneficiaries are losing $10.6 billion a year because of bad choices. They make bad choices because they do not understand Social Security's complicated rules.

The Social Security System has 2,728 rules and thousands upon thousands of additional codicils in its Program Operating Manual, which supposedly clarify those rules. In the case of married couples alone, the formula for each spouse's benefit comprises 10 complex mathematical functions, one of which is in four dimensions.

Medicare rules are also a landmine full of costly penalties for the unwary. Seniors with COBRA coverage (extension of health benefits after job termination), post-retirement health care and even Obamacare (through an exchange) are often penalized because they do not enroll in Part B at the proper time. In 2017, 701,000 seniors paid a penalty that on average increased their Part B premium by 31 % – in most cases because they were confused by the rules.

Social Security and Medicare should be designed to help beneficiaries maximize benefits they have paid for and are entitled to – not trick people into making bad choices.

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