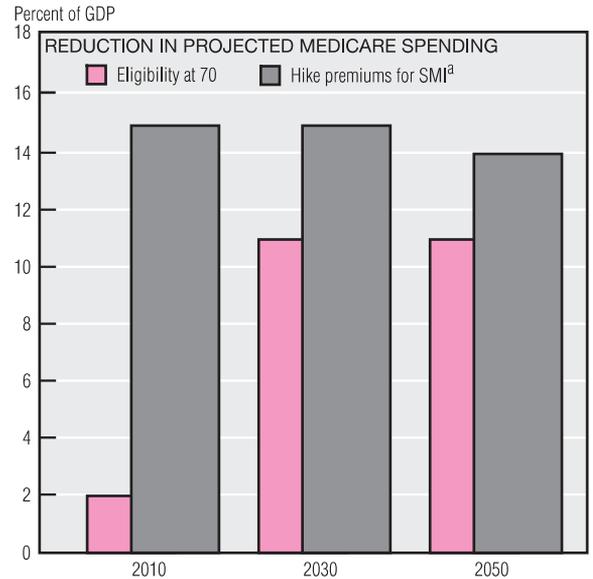
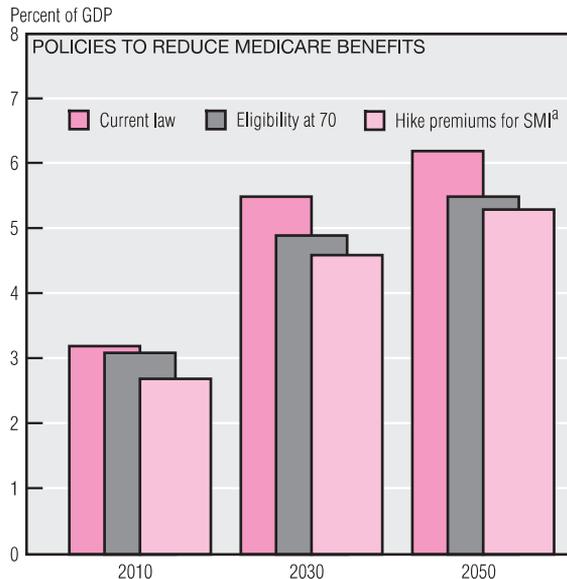
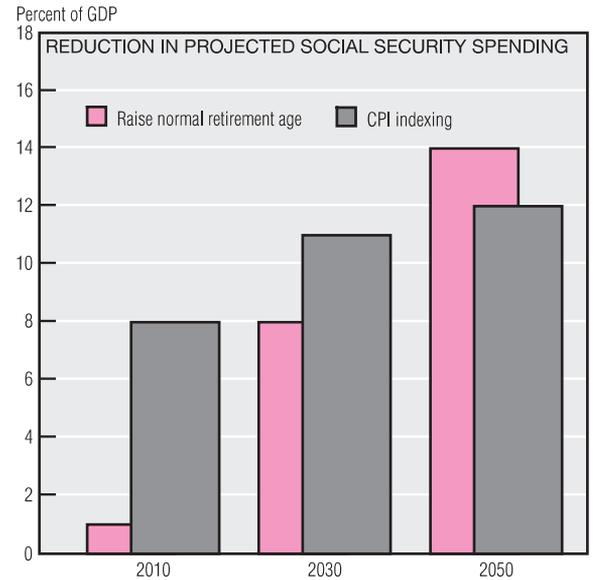
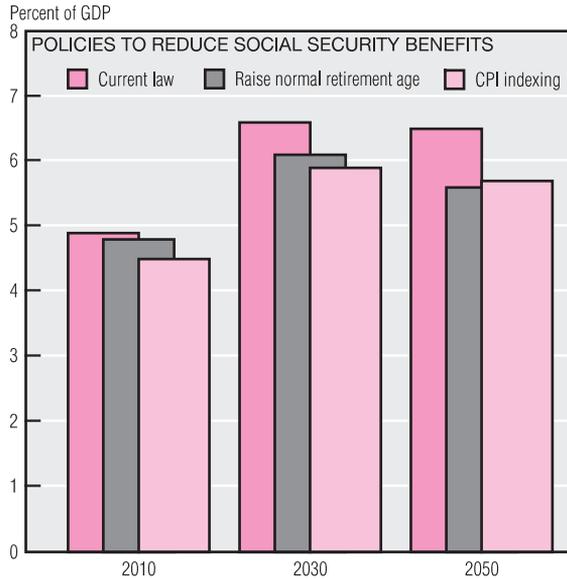


Policies to Reduce Entitlement Spending



a. Supplementary Medical Insurance.
SOURCE: Congressional Budget Office.

Four frequently cited methods to trim federal entitlements are: increasing the normal retirement age for Social Security (SS); adjusting the inflation indexing of SS benefits; raising the age for Medicare eligibility; and hiking Medicare premiums. These proposals differ in both the magnitude and the timing of their impacts.

One proposal would complete the scheduled transition to 67 as the normal SS retirement age by 2011, instead of by 2025, and increase it gradually to 70 by 2029. After that, the retirement age would rise with

life expectancy. This approach would cut SS outlays to 5.6% of GDP in 2050 from 6.5% under current law, which equals a reduction of 14% in SS outlays for that year.

Cutting the inflation adjustment for benefits by one percentage point would also lower total outlays, but only to 5.7% of GDP. Because it would affect all benefits immediately, however, this method would have a more immediate impact on SS outlays than increasing the retirement age.

A policy of gradually raising the

eligibility age for benefits from 65 to 70 by 2032 could trim Medicare outlays to 5.5% of GDP in 2050 from 6.2% under current law, which equals a savings of 11% in that year. Alternatively, hiking the premium for Supplementary Medical Insurance (SMI), widely known as Medicare Part B, to cover 50% of its costs by the year 2000 could reduce Medicare spending to 5.3% of GDP in 2050. Because this policy would affect all Medicare beneficiaries, not just new ones, it could trim outlays by 15% as early as 2010.