

“The Government Can’t Keep Its Promises” – America’s Egalitarian Crisis

It’s been said that Democracy is the worst form of government except all those other forms that have been tried from time to time.”
Winston Churchill

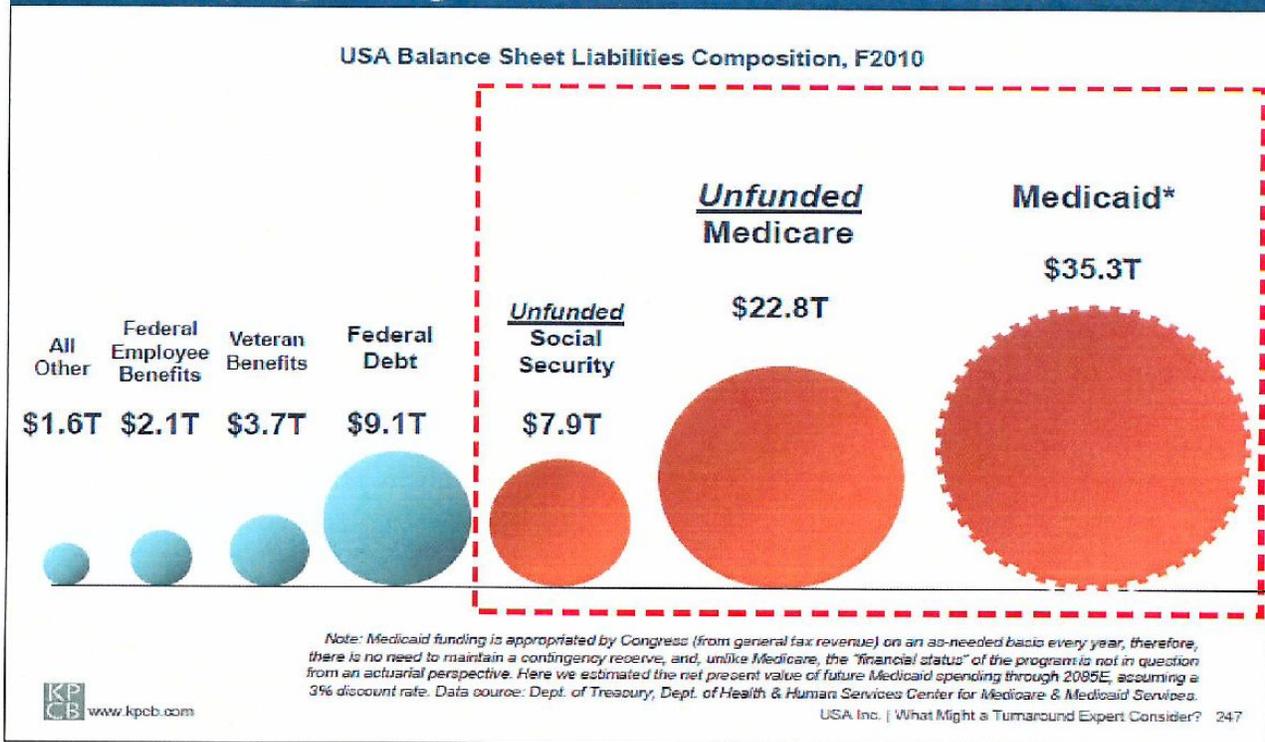
“There’s no trick to being a humorist when you have the whole government working for you.”
Will Rogers

At a 2016 Beaver Creek, Colorado firm retreat, keynote speaker Brian Wesbury, 1st Trust Portfolios’ Chief Economist and a highly regarded market analyst, was asked “...*what can our clients expect from Social Security, Medicare, or Medicaid in retirement?*” Brian’s response: “*The government won’t keep its promises. I tell my own kids not to rely on social programs. Period.*”

What’s your expectation? Who is your key *financial and social benefits partner*? Based on the taxes you pay, it’s probably various government safety net programs. In 2018, a family with \$150,000 taxable income would have a total IRS tax burden (income tax employer+employee FICA¹ taxes) of @\$47,000. Yet Social Security and Medicare, as well as Medicaid, will be unable to meet their future obligations:

¹ The total 2018 Federal Insurance Contributions Act (“FICA”) Social Security tax is 12.4% (6.2% paid by employee and 6.2% by employer) and total Medicare tax of 2.9% (1.45% paid by both employee and employer) on W-2 up to \$128,400 of income. For W-2 income above \$200,000, the employee pays an additional 0.9% Medicare tax.
Source: <https://www.investopedia.com/terms/p/payrolltax.asp>

Unfunded Entitlement (Medicare + Social Security) + Underfunded Entitlement Expenditures (Medicaid) =
Among Largest Long-Term Liabilities on USA Inc.'s Balance Sheet



The chart above reflects 2010 liabilities - as of 2018, Social Security liabilities are estimated to be of @\$17T, and Medicare @\$28T². This is Washington's hidden "entitlement secret," also known as the "fiscal gap." For all Americans it is a full-blown ***egalitarian crisis***.

How did we get here? The 19th century industrial and urban revolutions, which moved masses of Americans into unregulated factories and over-crowded cities, eventually spurred the creation of a social safety net – first railroad pensions leading to FDR's 1939 Social Security Act and urban health programs which eventually created LBJ's 1965 Medicare. Programs with the noblest of intentions.

However, public policy leaders from both sides of the aisle, as well as the finance profession in general, all avoid or defer honest discussion of the under-funding problem. Some even propose larger entitlement programs.

All generations are impacted. Social Security represents @40% of elderly income, yet its trust fund is expected to be depleted by @2035 – payroll taxes will then cover only 79% of scheduled payments

² Source: <http://www.usdebtclock.org/>

from 2034 and beyond.³ Younger generations may expect little or no benefits yet may be unaware that they will be on the hook for these liabilities after their parents and grandparents have passed on.

How to plan? We believe you and your advisors must be proactive. **First**, discuss these issues with your family and your advisors. **Second**, expect some reform measures: higher payroll taxes; expect normal retirement age to be shifted from the present ages 62-70 to 70-75; expect benefits to be limited for higher income and net worth retirees. **Third**, start as early as possible to create secure private retirement and medical fund reserves, ideally plans where investment principal can be accessed for medical costs not covered by government programs.

In summary, start early, get younger generations aware and involved, and be proactive to make your family as free as possible from entitlement dependence.

³ Source: https://en.wikipedia.org/wiki/Social_Security_debate_in_the_United_States