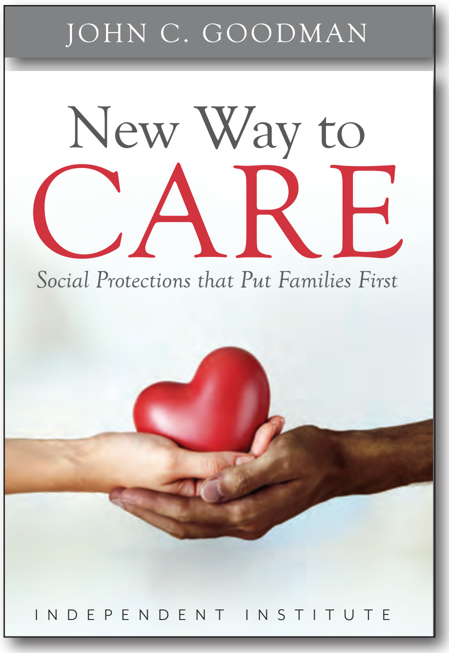
New Way to Care:

Social Protections that Put Families First

BY JOHN C. GOODMAN



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Book Highlights

- **The global COVID-19 pandemic has exposed several flaws with America's approach to managing life's major risks via government safety-net programs and federal regulatory agencies.** Although President Trump and Congress enacted important changes, many more reforms must be undertaken to enable families to deal effectively with various health, financial, and economic hardships.

- **Unless major reforms are enacted, America's families will face the same vulnerabilities they faced before the coronavirus outbreaks.** Risks include the often-overlapping problems of (1) coping with myriad facets of a pandemic; (2) inadequate resources for dealing with a major health problem; (3) becoming disabled; (4) experiencing prolonged unemployment; (5) losing income from the death of a breadwinner; and (6) outliving one's assets. In ***New Way to Care***, economist and policy entrepreneur **John C. Goodman** ("The Father of Health Savings Accounts"—*The Wall Street Journal*) offers detailed reforms for each of these major risks.

- **Too many government safety-net programs are riddled with disincentives that discourage families from doing what would be in everyone's best interests.** They penalize people who go back to work, even though getting people working again is our only way out of a recession. Often these programs make access to healthcare—for those who've recently lost coverage—contingent on income and assets in unfair and arbitrary ways.

- **Seniors are particularly harmed by holes in America's social safety net.** Ill-conceived programs and provisions impose huge penalties when seniors—whose lives have been disrupted—are forced to take a part-time job or draw down their savings in order to make ends meet. The flaws also encourage the warehousing of the elderly in risky senior facilities when safer, less-expensive alternatives are available. In addition, Social Security and Medicare, the nation's largest safety-net protections, will face shortfalls years earlier than previously forecast.

- **The "win/win" approach of *New Way to Care* should appeal to policymakers across the political spectrum—provided it gets the public hearing it so urgently deserves.** More than this, it holds the key to winning the long-elusive public-policy "trifecta": making families more secure, repairing the holes in numerous safety-net programs, and stanching the fiscal bleeding that threatens future generations with higher taxes and slower economic growth. Promoting the principles of flexibility, choice, innovation, and responsibility, it would make most people better off without making anyone else worse off.

- **To become a true public-policy innovator, America must also take additional bold steps.** The U.S. government could lead the way by retiring its massive and unsustainable $26.5 trillion national debt by liquidating federal assets, which could generate an estimated $25 trillion to $36 trillion in revenue. This approach would avoid the burden that future generations otherwise face through likely massive tax hikes and/or destructive inflationary debt financing.

Contents

Synopsis

The COVID-19 pandemic. The Great Recession. The dot-com bust. The early '90s recession. Every decade or so a disaster hits the United States and reminds us that the vast majority of American families are financially unprepared for an economic calamity. Even in good years, too few people save enough money for unexpected medical bills, for periods of unanticipated loss of income, and for a comfortable retirement. Nor are federal, state, and local safety nets up to the task. At all levels, government has made promises that American taxpayers seem either unable or unwilling to fund.

But what if there were a better way to help families protect themselves from life's risks? And what if it also allowed families to avoid relying on rigid, budget-busting government bureaucracies?

Fortunately, author and Independent Institute Senior Fellow **John C. Goodman, Ph.D.**—the economist and policy entrepreneur the *Wall Street Journal* calls the "Father of Health Savings Accounts"—has forged just such a path.

In ***New Way to Care: Social Protections That Put Families First***, Goodman offers a bold strategy for giving Americans more control over their destiny while still promoting the important social goals that gave rise to government safety-net programs in the first place. This strategy would not only give families more options for dealing with life's risks, but it would also reduce the risk of future tax hikes to fund an inefficient, ineffective, and often counter-productive government safety net.

Goodman applies his win-win strategy to the design of real solutions for the leading risks of modern life: growing too old and outliving one's assets; dying too young and leaving dependent family members without resources; becoming disabled and facing financial ruin; suffering a major health event and being unable to afford needed medical care; and becoming unemployed and finding no market for one's skills. In doing so, he creates a blueprint for positive change that can appeal to voters and policymakers across the partisan divide.

With the publication of ***New Way to Care***, Goodman invites readers to envision a future in which smartly crafted social protections better serve families, harmonize individual and societal interests, foster personal responsibility and government accountability, bridge the partisan divide over social spending, and eliminate the risk that America's safety-net expenditures will drive the economy over a fiscal cliff.

A Better Way to Manage Life's Risks

The key to Goodman's win-win strategy is to identify and eliminate the inefficiencies that plague so many government programs (the list of which is practically endless) and to dismantle the roadblocks that prevent ordinary families from accessing the kinds of financial products that would deliver real economic security. Before we can create a flexible genuine safety net, however, we must first understand the initial reasons for government involvement.

The underlying rationale, Goodman explains, is that individuals can suffer problems that end up imposing costs on others. Whether caused by misfortune or mismanagement, undesirable events can lead individuals to become a "free rider" on the generosity of their families, neighbors, and community. Social insurance, the thinking goes, minimizes this burden.

Unfortunately, precisely because social insurance is unlike traditional indemnity insurance, it is prone to various problems. It's insulated from private-sector competition. It's almost always more expensive than necessary. It ignores differences in individual needs. And it almost always leaves individuals with perverse incentives. Rather than funded by existing resources, social insurance is almost always operated on a pay-as-you-go basis, with no money saved for the future.

A better strategy would be financially sound. It would learn from the principle of trial-and-error as markets routinely do. It would also leverage individual choice. And it would be applicable to all of the risks of modern life that social insurance is meant to address.

Life's Risks—and How They're Mismanaged

For most of human history, the family has been the main protection against life's major risks. In the modern world, that role has been largely assumed by government social insurance, but poorly designed policies have created new problems.

Plagues, Pandemics, and Public Health Threats. The public health movement arose to curb easily spread infections, which economists justified for reducing "negative externalities" (a concept that early 20th century Progressives used to justify forced sterilization). The movement also birthed regulatory agencies that enacted barriers that hindered a more entrepreneurial approach to health care, such as restrictions that harmed efforts to combat outbreaks of the novel coronavirus.

Growing Too Old and Outliving One's Assets. Because Social Security and Medicare benefits for baby boomers are unfunded, the huge cash flow deficit grows larger with each passing day. These programs (along with Medicaid, the largest provider of long-term care) are inflexible and create perverse incentives. A better safety net would, for example, allow seniors to convert any benefits to help them pay for assisted living. It would also avoid creating a cottage industry to help seniors shelter their assets so they can qualify for Medicaid's long-term care program.

Dying Too Young and Leaving Dependents without Resources. Social Security Survivors' Benefits program has the same flaws as many other government insurance plans: premiums are unrelated to risks, benefits are unrelated to needs, there are no viable alternatives for those who rely on it, and it can disincentivize working. A surviving spouse (usually a woman) faces penalties for earning wages: $1 of benefits is lost for every $2 earned above $17,640 (the threshold for 2019). And if the widow is in the 10 percent income tax bracket, she faces a total marginal tax rate of 75 percent on earnings, not counting state and local income taxes.

Becoming Disabled and Facing Financial Ruin. Due to design flaws, inefficiencies and perverse incentives plague the federal and state systems dealing with workers unable to work due to sickness or injury. This explains why disability claims have soared in recent decades for Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), disability benefits for veterans, and state-based Worker's Compensation.

Being Unable to Afford Needed Medical Care for Major Health Event. The Patient Protection and Affordable Care Act (a.k.a. Obamacare) has succeeded in insuring additional people, but its side-effects are significant. It encourages public insurance over private insurance. It tries to force employers to provide more nonportable insurance. It restricts the availability of self-insurance. And it creates even more perverse incentives in the market for health insurance. The number of people who buy individual insurance and don't receive an Obamacare subsidy has dropped substantially, putting pressure on premiums to rise for those who continue to purchase unsubsidized coverage in the individual market.

Becoming Unemployed and Finding No Market for One's Skills. The federal government created the unemployment insurance system in 1935 to pay benefits to laid-off workers. States administer the system by collecting their own payroll taxes, maintaining a trust fund, and disbursing cash benefits to the unemployment. The federal government collects an additional tax from employers and loans money to states if their trust fund runs low. Benefits to low-wage workers are typically 50 to 70 percent of their previous wages, lasting usually for 26 weeks. Unfortunately, unemployment insurance has encouraged layoffs, discouraged job search, increased long-term unemployment, and treated workers unfairly.

Social Protections That Put Families First

Fortunately, adopting Goodman's win-win approach can improve not just individual government programs, but also entire social insurance systems.

Combatting the Coronavirus. Although critics have characterized the Trump administration's response to the outbreaks as disorganized and slapdash, many executive actions taken in early 2020 reflected a new approach to health policy, such as promoting telemedicine, enabling chronically ill patients to have access to free diagnoses and treatments without losing access to Health Savings Accounts, and encouraging employers to provide workers with individually owned policies. Goodman notes have far we've come, and how much further we need to go, such as by making emergency health reforms permanent.

Addressing the Risks of Old Age. To eliminate its long-run unfunded liabilities without cutting benefits, the Social Security system would require an immediate and permanent payroll tax hike of 3.6 percentage points. To avoid the need for such a tax hike, Goodman proposes allowing employees to drop out of the program and fund their own retirement by saving and investing 4 percent of their wages throughout their working lives. At retirement, a worker's account balance would be used to buy an inflation-protected lifetime annuity providing monthly income. The government would guarantee each retiree a pension income no less than what Social Security would have promised.

Opting Out of Survivor Insurance. Family dependents can be left financially devastated after the death of the household's breadwinner. Unfortunately, Social Security Survivor Insurance has problems that impair dealing with the risk. One alternative is to pre-fund survivor insurance with a small percentage of workers' accounts (about 1 percent) for the purchase of group life insurance through a pension fund provider. Workers could be allowed to opt out of the purchase requirement once their pension account balances can cover 70 percent of their wages at retirement. As with many social protections, Chile's system offers positive lessons.

Opting Out of Disability Insurance. The leading federal disability program serves families poorly, especially with its rigid work prohibitions. Moving to a private system of disability insurance is relatively simple. Many firms already offer free or low-priced short-term disability coverage (six months or less), and many workers have the option of purchasing employer-provided long-term disability plans at a reasonable price. A personal account system would be similar (costing about 1 percent of payroll), offering more flexibility whether or not it allowed opting out. Texas offers positive lessons for making state workers' compensations more flexible and efficient.

Addressing the Risk of Ill Health. Health policy in general and Obamacare in particular offer numerous opportunities for win-win changes. The insurance exchanges could be turned into real markets, without artificial prices, without government risk adjustment, without limited enrollment periods, and without the perverse incentives to underserve the chronically ill patient pool. It's even possible to ensure real protections for individuals with pre-existing conditions.

Opting Out of Unemployment Insurance. If the United States were to enact a system of individual unemployment-insurance accounts, this change would eliminate the incentive for employers to lay off workers. And workers with unstable employment would no longer disproportionately bear the burden. Instead, they would demand a higher wage premium that makes up for the smaller account balances expected at retirement. The safety net for workers new to the labor force or frequently are unemployed could be funded by experience-adjusted tax rates. Workers would then have a strong incentive to find new jobs quickly, so that they will have more money in their accounts at retirement. Again, Chile offers valuable lessons.

As ***New Way to Care*** shows, families would have their needs better met if they were allowed to opt out of rigid, inefficient, and counterproductive government programs and to enroll in alternatives that offered greater choice and flexibility. The sign on the path to the promised land, however, need not say "Take It or Leave It." Allowing individuals to opt out partially and progressively over time would reduce people's concerns and make Goodman's win-win strategy even more politically attractive.

About the Author

JOHN C. GOODMAN is Senior Fellow at the Independent Institute, President of the Goodman Institute for Public Policy Research, and author of the widely acclaimed Independent books, *A Better Choice: Healthcare Solutions for America*, and the award-winning, *Priceless: Curing the Healthcare Crisis*. The *Wall Street Journal* and the *National Journal*, among other media, have called him the "Father of Health Savings Accounts."

Dr. Goodman is frequently invited to testify before Congress on health care reform, and he is the author of more than fifty studies on health policy, retirement reform and tax issues plus ten books, including *Living with Obamacare: A Consumer's Guide*; *Lives at Risk: Single Payer National Health Insurance Around the World* (with Gerald Musgrave and Devon Herrick); *Leaving Women Behind: Modern Families, Outdated Laws* (with Kimberley A. Strassel and Celeste Colgan); and the trailblazing *Patient Power: Solving America's Health Care Crisis*, that sold more than 300,000 copies.

Dr. Goodman regularly appears on television and radio news programs, including those on Fox News Channel, CNN, PBS, Fox Business Network and CNBC, and his articles appear in *The Wall Street Journal*, *Investor's Business Daily*, *USA Today*, *Forbes*, *National Review*, *Health Affairs*, *Kaiser Health News* and other national publications.

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