

TAX LETTER

Medicare - Facts and Fictions

Dear Clients and Friend,

Recently (May 24, 2011) Kathy Hochul was elected to serve as a member in the House of Representatives from the conservative Congressional district in the State of New York primarily by attacking Paul Ryan's position regarding **Medicare** and linked it to her opponent. So what are the surrounding facts.

Historical Facts

First, let us review the historical facts. Medicare was created in 1965 by amending the "Old Age, Survivors, and Disability **INSURANCE** Act (**OASDI**), commonly referred to as "Social Security" Act. Since then, Medicare is a part of Social Security and can not be separated from Social Security. Remember, Social Security is **INSURANCE**. By law, the participants (or the insured) **must prepaid** their insurance premium for many years before they can enjoy any benefits covered by such insurance. The Federal Government chose to rename the prepaid insurance premium for OASDI and Medicare as **taxes**, i.e. Social Security & Medicare taxes and/or payroll taxes. By renaming the prepaid premium as taxes, the Federal Government can grab the "premium money" and spent them as part of general tax revenue. By regarding the benefits paid to satisfy insurance obligations as "entitlement", the Government can put them on the budget as any other budgetary items and not as "insurance obligations".

Nearly all the wage earners and self-employed individuals in this Country prepaid their OASDI and Medicare Insurance premium right from the start of their working life for more than 40 years before they are eligible to claim any benefits from this Federally run insurance scheme. By referring the insured benefits as "entitlement" is an act to degrade and to demean the entire working population who are mandated by law to buy and prepaid this Federal insurance. Should they have other choices such as what are offered to members of Congress and government employees, most of them may want to opt out.

Statistical Facts

Second, let us examine the statistical facts. The chart below is a summary of the statistical and historical data reported by the Social Security Administration in their "Annual Statistical Supplement Report" for 2010. Although it is a 2010 report, the 2010 data are not available.

The following chart summarized the past 10 years from 2000 to 2009 statistical facts regarding total receipts/collection as taxes and the related payments for benefits for Old Age, Disability and Medicare Parts A and B. As you can see, nearly every year there was an annual "surplus", including years during the 2001-2002 recession. There were annual "deficits" for 2008 and 2009. It is understandable and acceptable due to the 2008 & 2009 depression style recession, and unemployment was at around 10%. As soon as our

economy truly turn around and real employment rebound, we will return to annual surpluses again.

Year	TOTAL Tax Receipts and Participant paid (in Million \$)	Benefit Payment Social Security OASDI (in Million \$)	Benefit Payment Medicare Part A (in Million \$)	Benefit Payment Medicare Part B (in Million \$)	ANNUAL SURPLUS (SHORTAGE) (in Million \$)
-	-	-	-	-	-
2000	664,206	352,652	128,458	88,893	94,203
2001	700,391	372,312	141,183	99,663	87,233
2002	825,382	388,119	149,944	110,969	176,350
2003	728,773	399,845	152,084	123,825	53,019
2004	762,884	415,034	167,554	135,418	44,878
2005	822,369	435,383	180,013	150,326	56,647
2006	880,271	454,496	188,989	213,045	23,741
2007	928,030	489,074	200,151	225,228	13,577
2008	961,110	509,337	232,299	229,287	(9,813)
2009	963,798	557,166	239,260	263,038	(95,666)
Total Surplus					<u>444,169</u>

Source: **SSA:** Annual Supplement Report Tables 4.A1 and Tables 8.A1 & 8.A2

Based on the above statistical summary, everyone can see that there is no imminent danger for both Social Security and Medicare. In fact, there was a cumulative surplus in the magnitude of 444+ Billion Dollars. It can more than enough to off-set any further annual “deficit” in amounts of 100+ Billion Dollars for 4 more years. By then, we should be well in the way of real recovery. Therefore, we can conclude that in ordinary time, Social Security and Medicare combine will be able to have annual “surpluses”. As long as the Government can leave them alone and let the “surpluses” grow and accumulate, we will not have any Social Security and Medicare problem for a long, long, long time.

Conclusion

If there is any Social Security and Medicare problem, it is a problem that we allow our Federal Government to take and spent all the surplus money as part of general tax revenue. If any change or reform is needed, we should require our Government to act prudently and responsibly. The real problem lies with the welfare type payments of **SSI** (not Social Security) and **Medicaid** (not Medicare), because the recipients of such benefits have not and will not contribute to the system neither as taxes nor as premium.

Have a nice day

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